Janus Henderson INVESTORS

STRATEGIC BOND FUND

January 2021

Jenna Barnard, CFA
Co-Head of Strategic Fixed Income

John Pattullo
Co-Head of Strategic Fixed Income

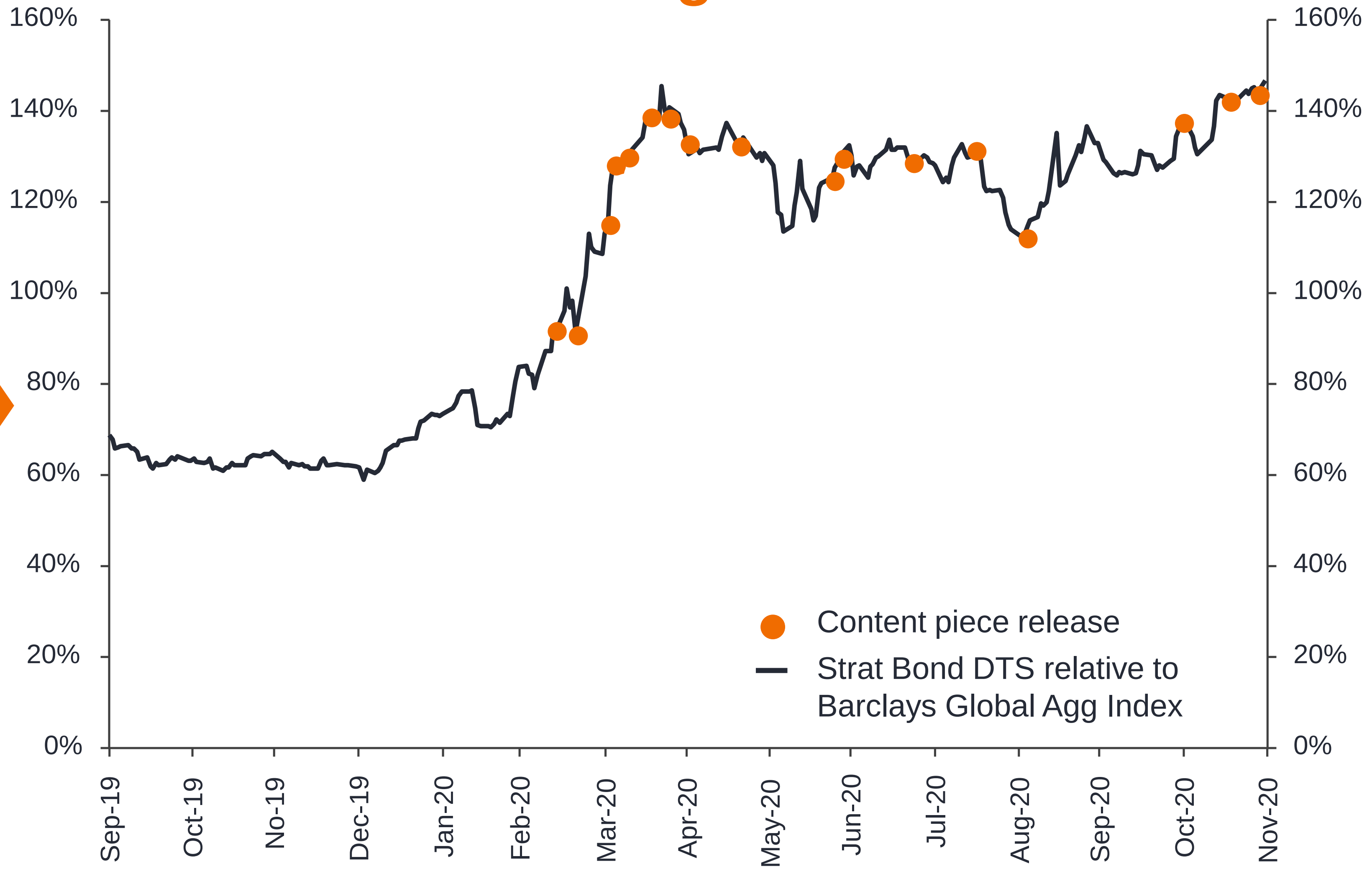
Janus Henderson INVESTORS

CRISIS RESPONSE;

ACTIVE MANAGEMENT, ACTIVE COMMUNICATION

March 12th	Thoughts From the Desk	Article
March 23rd	Corporate Bonds; From Reassuringly Expensive to Scary Cheap	Video
April 1st	Liquidity Crisis Begins to Heal	Video
April 3rd	Coupons Over Dividends	Article
April 8th	Disruption Simply Exaggerating Existing Structural Trends	Video
April 16th	Credit Has Been The Place To Be	Video
April 23rd	Credit Spreads… Now Just Cheap?	Video
April 30th	Bridging the Gap: Credit Markets in the Covid Crisis	Article
May 19th	Credit Resilience but Confusion Surrounds Longer-term Inflation Outlook	Video
June 23rd	So... What About Inflation?	Article
June 26th	Breaking the Link; GDP Declines and Default Rates	Article
July 22nd	From Bond Glut to Bond Drought	Article
August 14th	Strategic Fixed Income Thinking	Podcast
September 2nd	Japanification… Europe and Now US	Video
October 30th	Is There a Solvency Crisis Looming in Credit	Article
November 16th	Lightness in the Dark: Credit Market in the Sweet Spot!	Video
November 27th	Are We in a Sweet spot for Credit Investing	Podcast
December 17th	Inflation: Is This the Real Thing? Is This Just Fantasy?...	Article

Added significant credit beta during March 2020



Source: Janus Henderson Investors, as at 30 November 2020

Note: Dots displayed on chart correspond with timing of portfolio manager insight communications and market perspectives.

October

August

July

April

March

12 March

OUR CORONAVIRUS FRAMEWORK

"The Coronavirus incident **provides us an opportunity** to add back suitable credits (which fit our style) at an **attractive yield** for the first time in a number of years"

"**This is not 2008** – there is a not an apparent endogenous sickness in economies or markets which will leave scar tissue and take years to fix like the banks or TMT debt in previous cycles"

"As a result [of the Covid crisis we] would not be surprised to see even **lower yields on quality corporate bonds by the end of the year** than where we started'

"In my view that the future need for **sensible income** will be more severe than ever"

2020

October
August
July
April
March

23 March

CREDIT: FROM REASSURINGLY EXPENSIVE TO SCARY CHEAP?

"We are excited because we can see some **fantastic valuation opportunities**, we are cautious on some of redemptions that we are seeing across market. And if anything we're **adding risk into peak panic** if you like; there are great opportunities here."

2020

CREDIT: FROM REASSURINGLY EXPENSIVE TO SCARY CHEAP?

23 March

October

August

July

April

March

2020

"We are actually scared but we are also really excited because we know **policy makers get it**"

"We are excited because we can see some **fantastic valuation opportunities**, we are cautious on some of redemptions that we are seeing across market. And if anything we're **adding risk into peak panic** if you like; there are great opportunities here."

"Markets are more than pricing in a recession here and we can take good risk-adjusted returns at these levels"

COUPONS OVER DIVIDENDS

1 April

October
August
July
April

1 For income investors, credit looks like a far more fertile hunting ground than equity markets at present.

2 Corporate bonds may be more illiquid than equities when trading but they are fundamentally less risky given their holders' seniority in a company's capital structure.

3 At this stage of the crisis, as well as the business cycle, this presents a plethora of opportunities for credit investors.

4 Recent case studies

March
2020

1 April

October

August

July

April

4 Recent case studies

LOXAM	TUI	Carnival
European rental company	**German travel company**	**Cruise Line Operator**
Liquidity extended from three to nine months through bank facilities and state aid	EU commission regulations suspended for a 2bn state bank bailout	Able to access capital markets to extend liquidity from four to 13 months

March

2020

Note: References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase, and neither should be assumed profitable.

BREAKING THE LINK: GDP DECLINES AND DEFAULT RATES

1

Since late March, a confluence of factors has conspired to put credit (corporate bond) markets in a **sweet spot for returns**; we discuss the growing realisation of just **how low default rates may prove to be** relative to the size of the economic shock.

26 June

October

August

July

April

March

2020

From bond glut to bond drought

2

The steps that companies have taken so far to **shore up their credit rating** will not fully offset the impact of weaker earnings due to the crisis, but it should set them up nicely for 2021. In addition**, lower issuance for the remainder of 2020**, could help support the asset class.

22 July

JAPANIFICATION – EUROPE FIRST AND NOW THE US

October

August

14 August

1

With the collapse of the sovereign yield curve in the US, there have been **large inflows into the US corporate bond markets** in recent months, with overseas buyers as the major participants.

2

Given the unending search for yield, quality, well-known **investment grade names are now almost the new sovereign bonds** or the new benchmark rates.

July

April

March

2020

3 March

Consistency from March to August

"As a result [of the Covid crisis we] would not be surprised to see even **lower yields on quality corporate bonds by the end of the year** than where we started"

LIQUIDITY NOT SOLVENCY CRISIS

October

Companies have had little trouble accessing capital markets, both bond and equity, which together with self-help tactics is allowing companies to weather the crisis; problems are predictably in areas that were structurally pressured pre-crisis.

High yield **defaults are estimated to peak well below typical recessionary** levels as the ample liquidity and stimulus packages put in place have bought time for companies to counter the problems brought on by COVID.

While credit metrics have deteriorated, much of the cash raised is sitting on balance sheets and an expected episode of deleveraging and recovery in earnings could see the deterioration reversed in 2021-22.

30 October

August

July

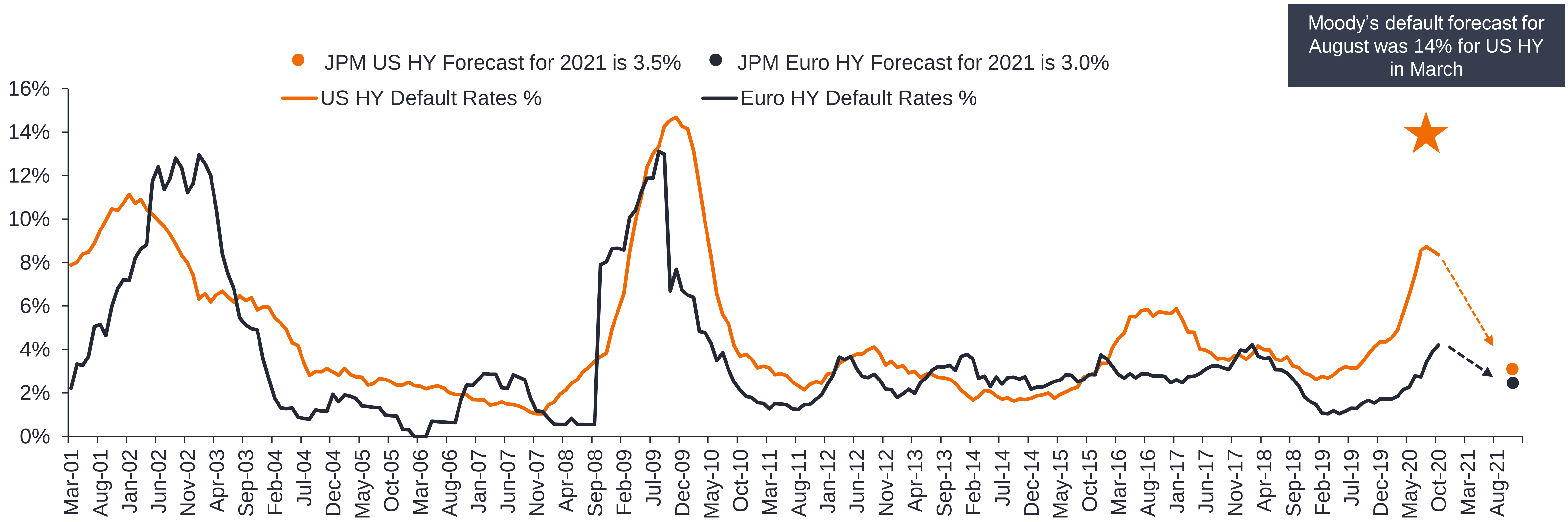
April

March

2020

2020 = BENIGN DEFAULT CYCLE FOR HIGH YIELD

Passing the peak in default rates

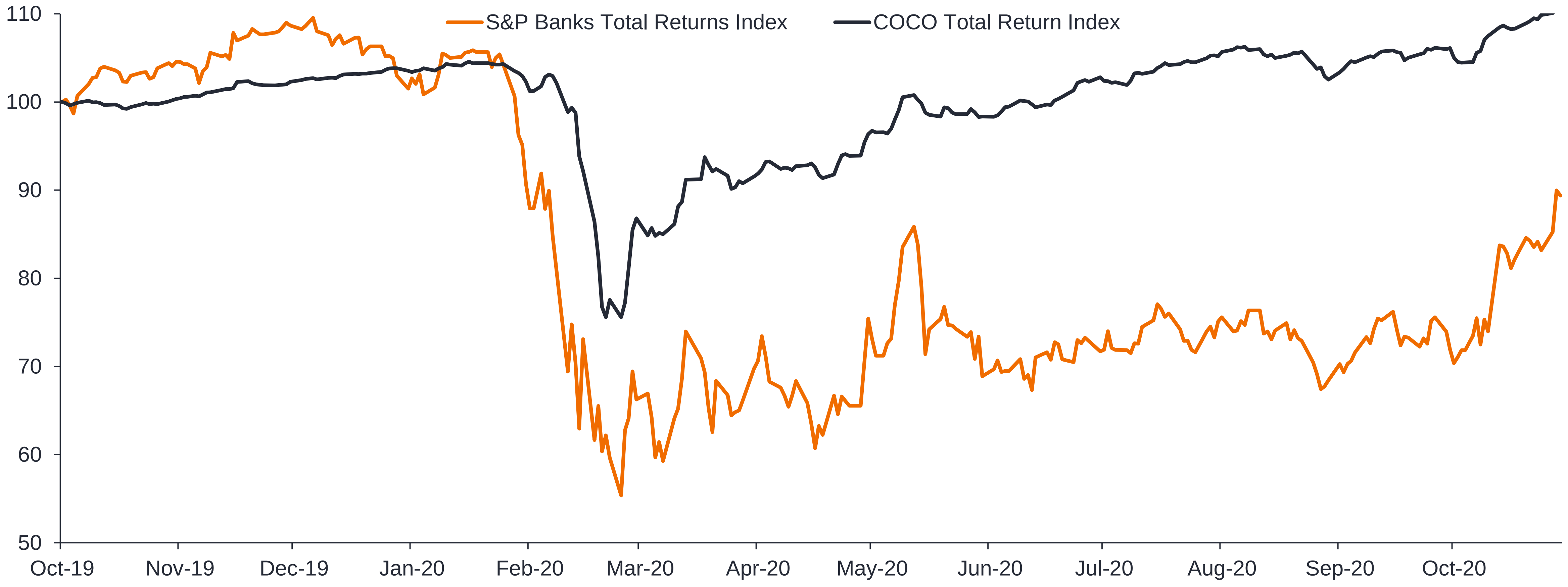


US High Yield default rates ex Energy & Retail are 2.6%

Source: Moody's, as of 31 October 2020.
Note: For illustrative purposes.

BENIGN CYCLE FOR BANK CREDIT INVESTORS

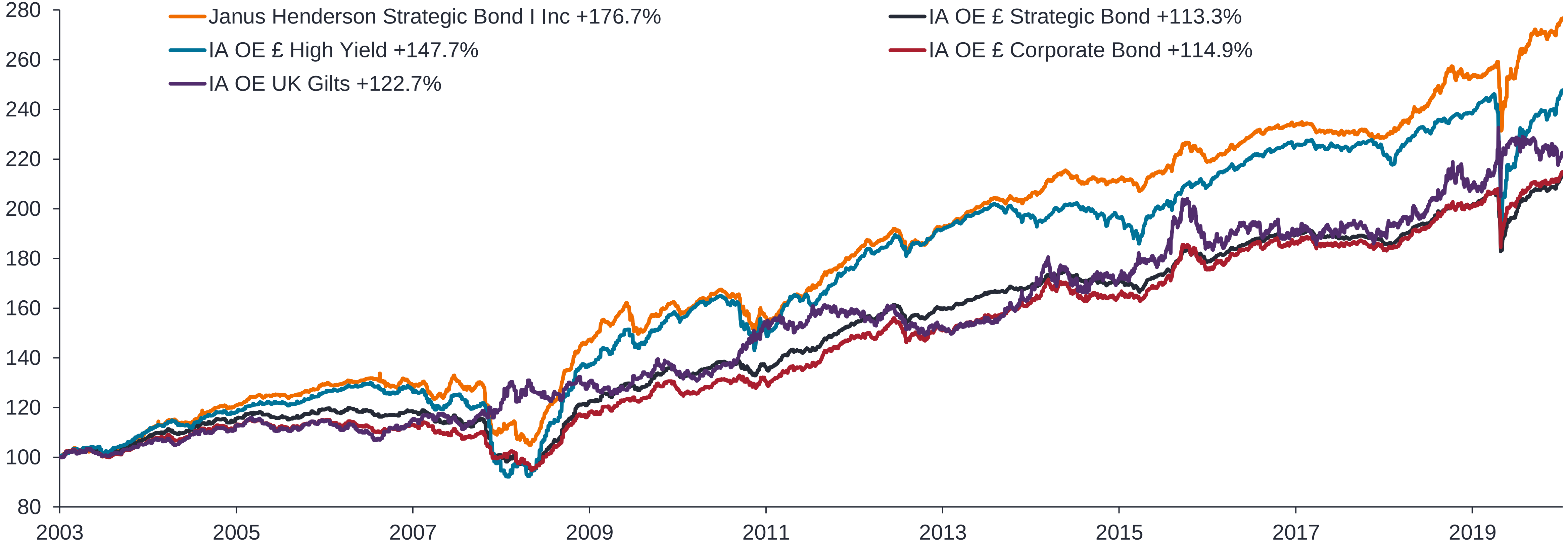
Vs. wasteland for equity dividends



Source: Bloomberg & ICE Data Indices, as at 25 November 2020.

LONG-TERM OUTPERFORMANCE

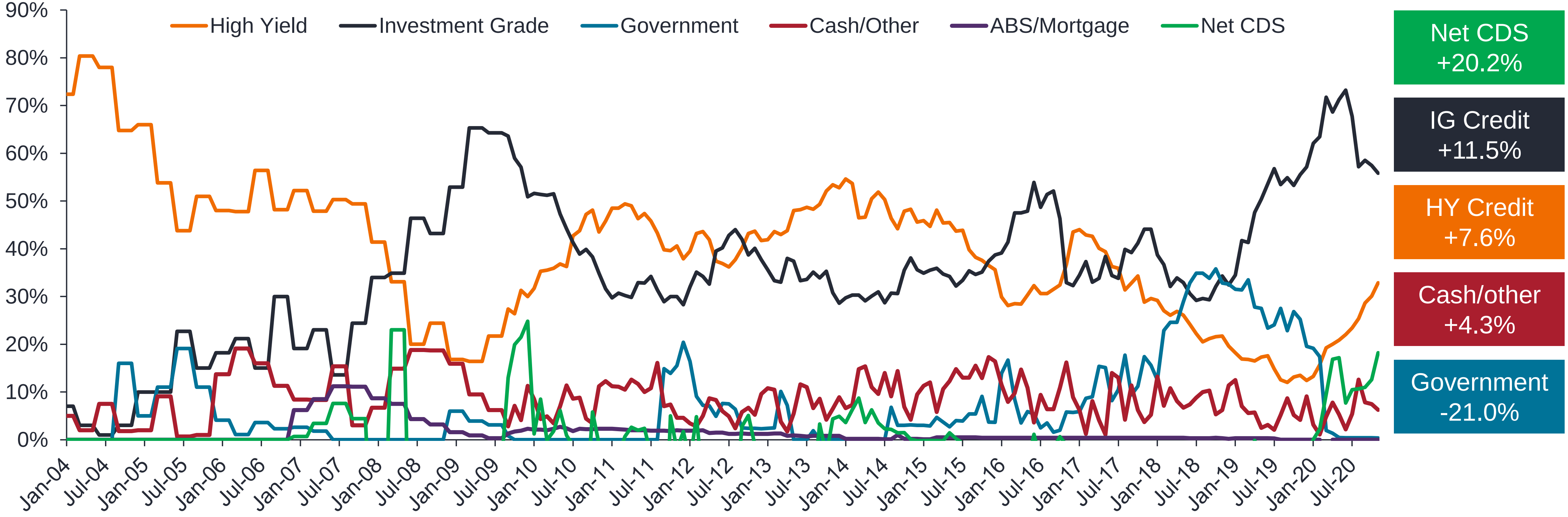
Active management needs to earn clients' loyalty



Source: Morningstar, as at 30 November 2020.
Note: All performance presented net of fees. Based on cumulative GBP midday pricing, nav-nav, net income reinvested.
Past performance is not a guide to future performance.

ASSET ALLOCATION

Changes in asset allocation from December 2019 to April 2020 highlighted in the boxes

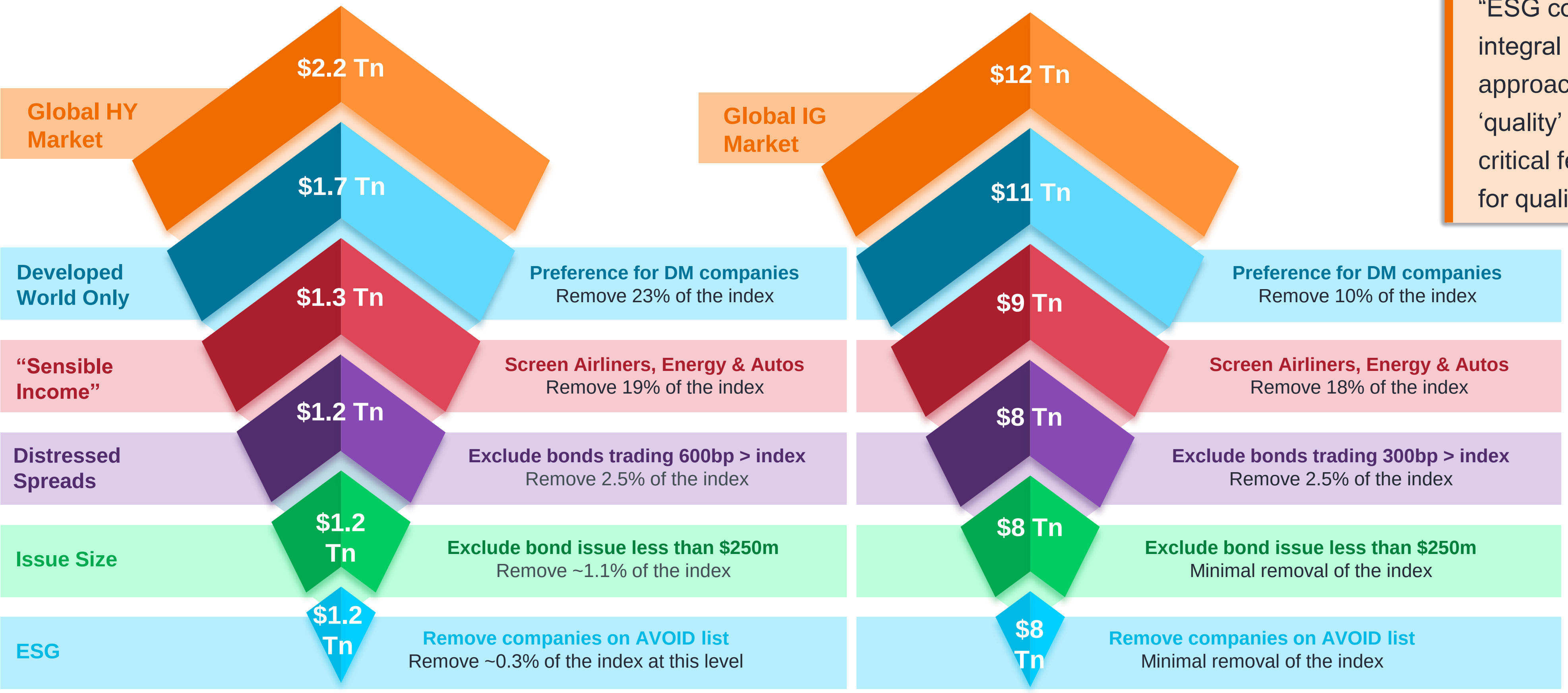


Source: Janus Henderson Investors, desk classifications, as at 30 November 2020.
Note: Quarterly data points up to September 2009, monthly data points thereafter. Figures in boxes highlight the change in asset allocation from December 2019 to April 2020. We have also added significant beta through CDX overlay.

BOND MANAGEMENT WITH A DISTINCTIVE STYLE

We reject large parts of the credit market as too low quality

> "ESG considerations are integral to our 'sensible income' approach, which is in effect a 'quality' style bias, with ESG a critical feature when screening for quality credit."



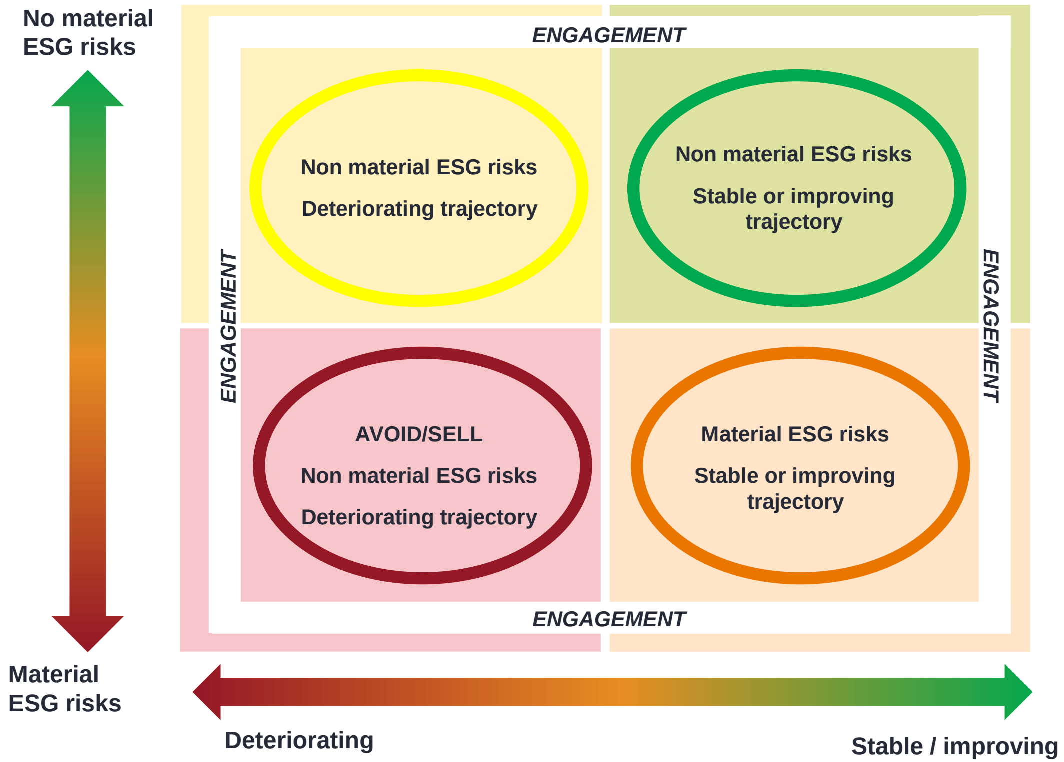
45% of Global HY market is uninvestable

33% of Global IG Market is uninvestable

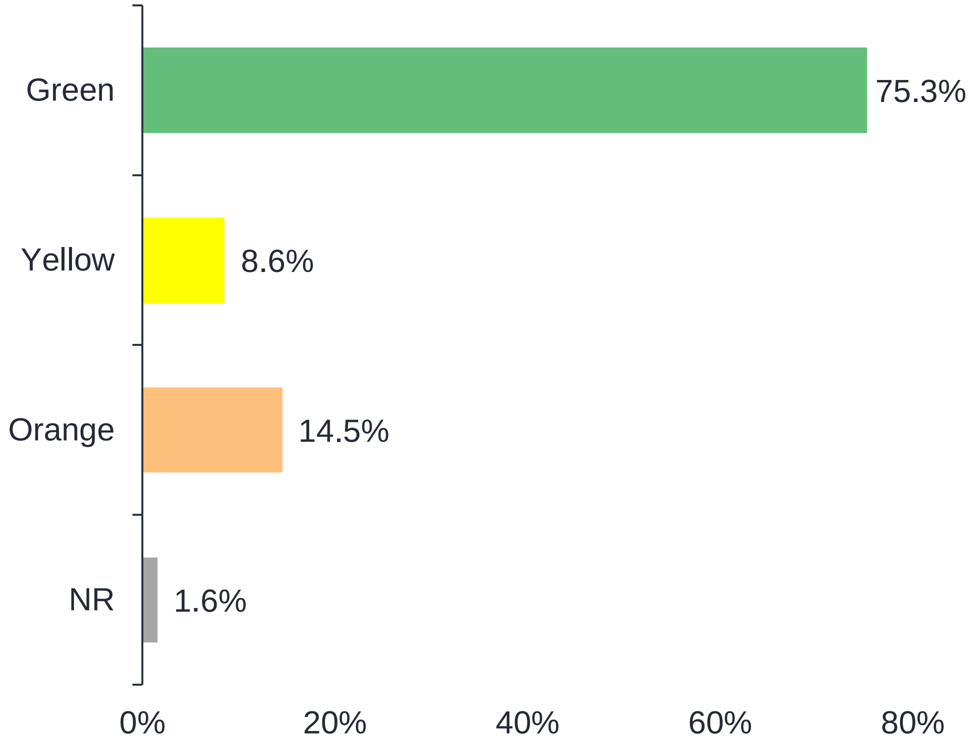
Source: Janus Henderson Investors as at 30 June 2020.

STRATEGIC BOND PROPRIETARY ESG RATINGS

Bottom Up Framework For Assessing Each Issuer



Portfolio Breakdown By ESG Rating

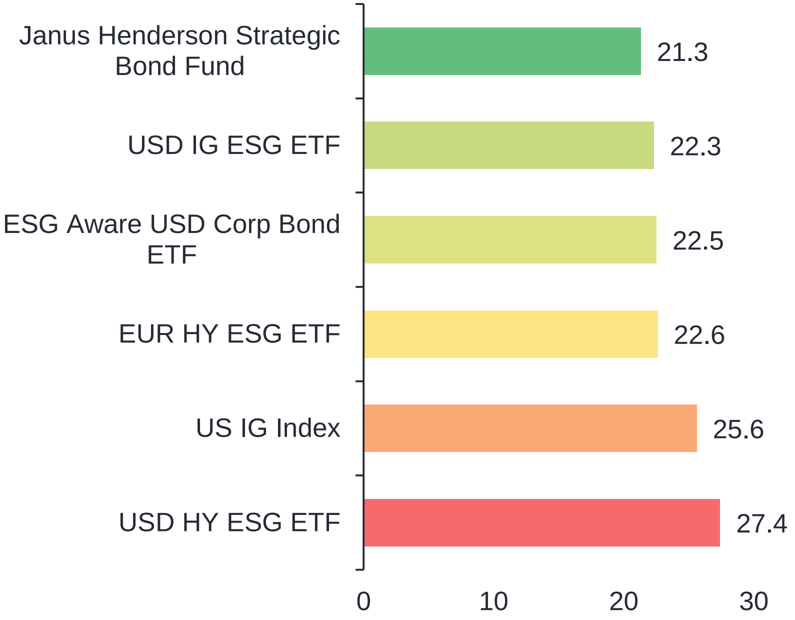


Source: Janus Henderson Investors, as at 30 November 2020.

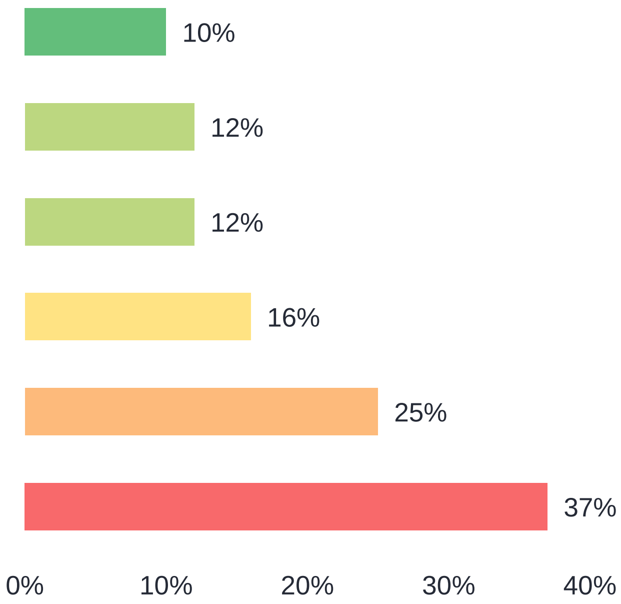
STRATEGIC BOND ESG RISK RATINGS vs ESG ETF’s

Third party ratings per Sustainalytics

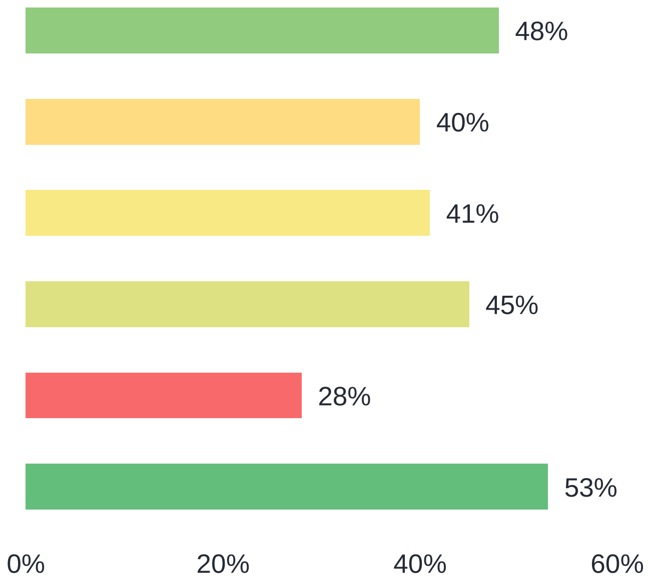
ESG Risk Rating (Low score = good)[1]



High/Severe ESG Risk Category %[2]



Negligible/Low ESG Risk Category %[3]



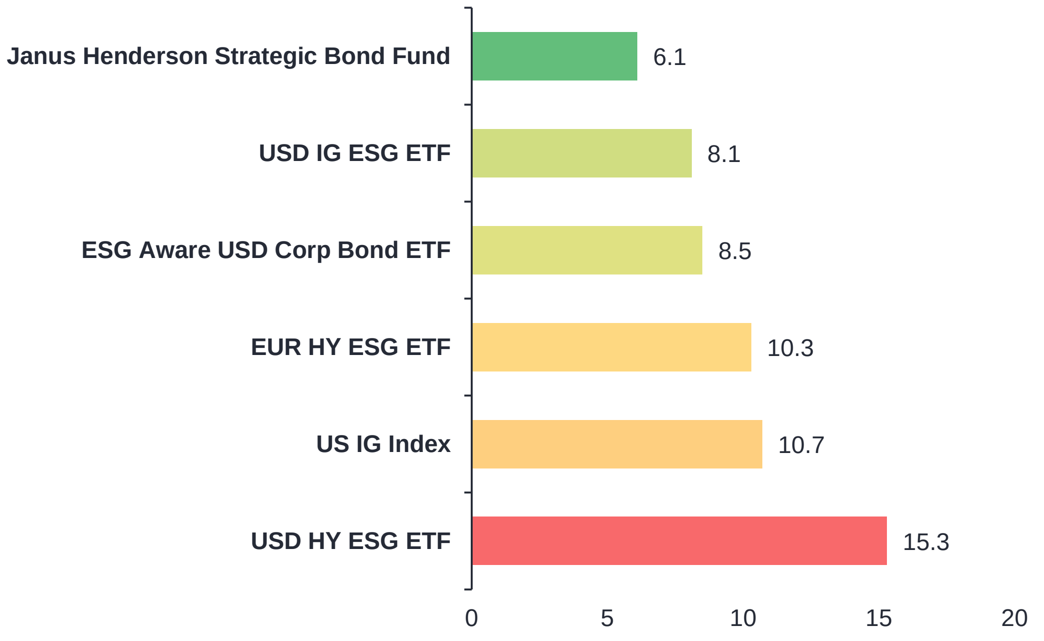
Source: Indices per ICE Bank of America, iShares, ESG metrics per Sustainanalytics, as at 30 November 2020.

Note: [1] Measures the degree to which a company’s economic value is at risk driven by ESG factors, as assessed through the calculation of unmanaged ESG risks. Unmanaged risk is defined as material ESG risk that has not been managed by a company, and includes unmanageable risk, as well as risks that could be managed by a company through suitable initiatives but which may not yet be managed.
[2] High or Severe risk of material financial impacts driven by ESG factors.
[3] Negligible or Low risk of material financial impacts driven by ESG factors.
Powered by Sustainalytics.
Sustainanalytics coverage (weight %): Strategic Bond (78%), - USD Investment grade index (90%), ESG Aware USD Corp Bond ETF (90%), USD IG ESG ETF (96%) , EUR HY ESG ETF (88%), USD HY ESG ETF (76%)

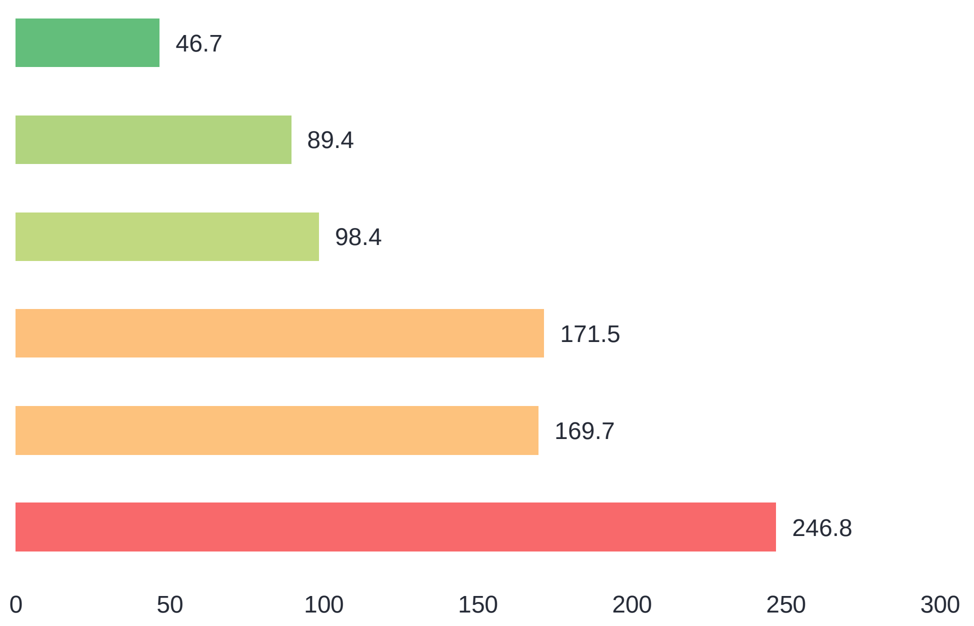
STRATEGIC BOND CARBON METRICS vs ESG ETF's

Third party metrics per Sustainalytics

Carbon Risk Rating (Low score = good)[1]



Carbon Intensity (tC02e/Mil USD)[2]

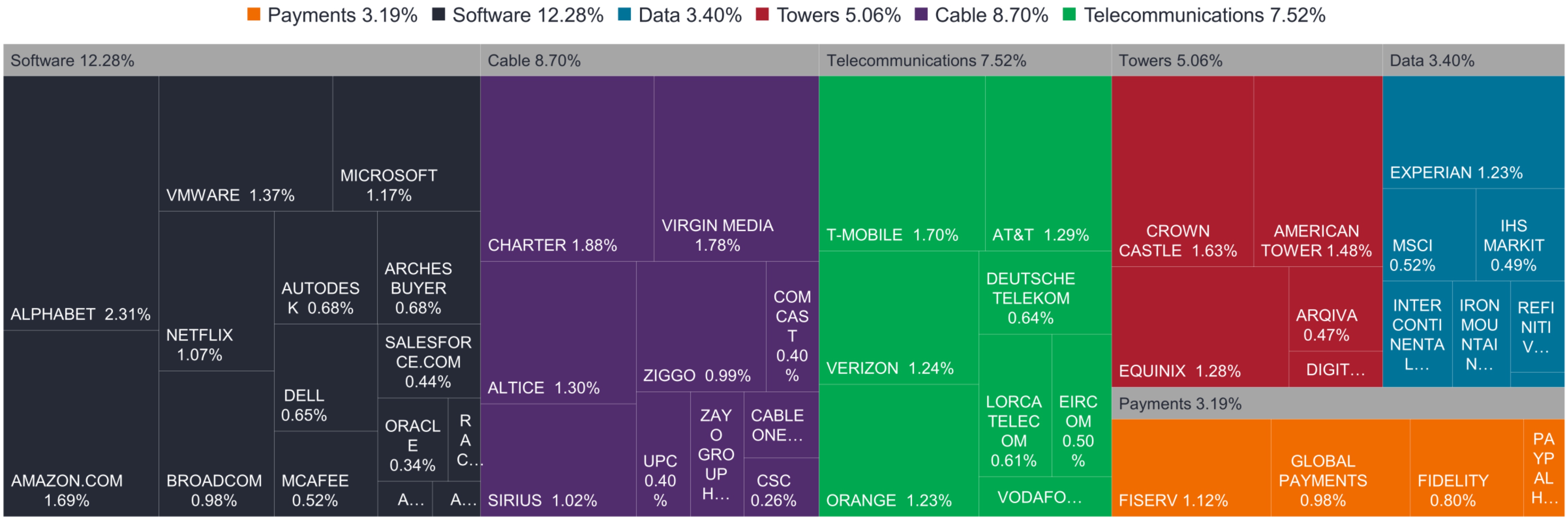


Source: Indices per ICE Bank of America ,iShares, ESG metrics per Sustainanalytics, as at 30 November 2020.

Note: [1] Quantifies the company's exposure and management of material carbon issues in its own operations as well as its products and services.
[2] Divides the absolute emissions by total revenue (tonnes of carbon dioxide equivalent per million USD of total revenue).
Powered by Sustainalytics.
Sustainanalytics coverage (weight %): Strategic Bond (63%), - USD Investment grade index (71%), ESG Aware USD Corp Bond ETF (78%), USD IG ESG ETF (86%) , EUR HY ESG ETF (62%), USD HY ESG ETF (36%).

PORTFOLIO THEMES

‘Modern Economy’

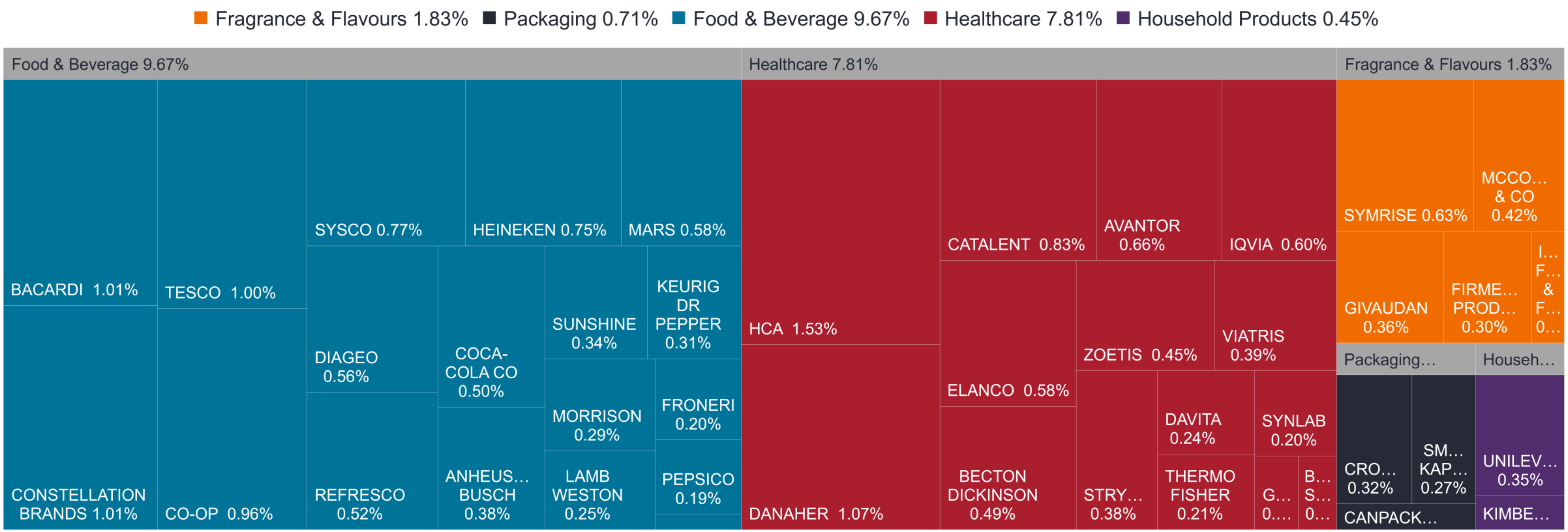


More modern, technologically driven businesses account for 40.2% of our credit allocation

Source: Janus Henderson Investors, as at 30 November 2020.

PORTFOLIO THEMES

‘Solid and sustainable earnings’



Companies with very stable earnings and typically high excess capital returns account for another 20.5% of our credit allocation

Source: Janus Henderson Investors, as at 30 November 2020.

STRESSED BONDS IN THE FUND VS THE MARKET

Due to our ‘sensible income’ philosophy we have avoided the sectors most impacted by Covid-19

Asset	Percentage of Bonds <83
Janus Henderson Strategic Bond Fund	**0.69%**
Euro Investment Grade	**1.39%**
US Investment Grade	**2.92%**
US High Yield	**16.69%**
Euro High Yield	**24.09%**

Source: Janus Henderson Investors , BofAML as at 31 March 2020.
Notes: Euro High Yield is the ICE BofA Euro High Yield Index (HE00), US High Yield is the ICE BofA US High Yield Index (H0A0), US Investment Grade is the ICE BofA US Corporate Bond Index (C0A0), Euro Investment. Grade is the ICE, BofA Euro Corporate Index (ER00).

Percentage of bonds trading below 83 vs major indices

OUTLOOK FOR INTEREST RATES

Central Bank	No Hikes For…?
$ Federal Reserve	5 YRS
€ European Central Bank	6 YRS
£ Bank of England	7 YRS

Source: Bloomberg, as at 26 October 2020.
Note: For illustrative purposes.

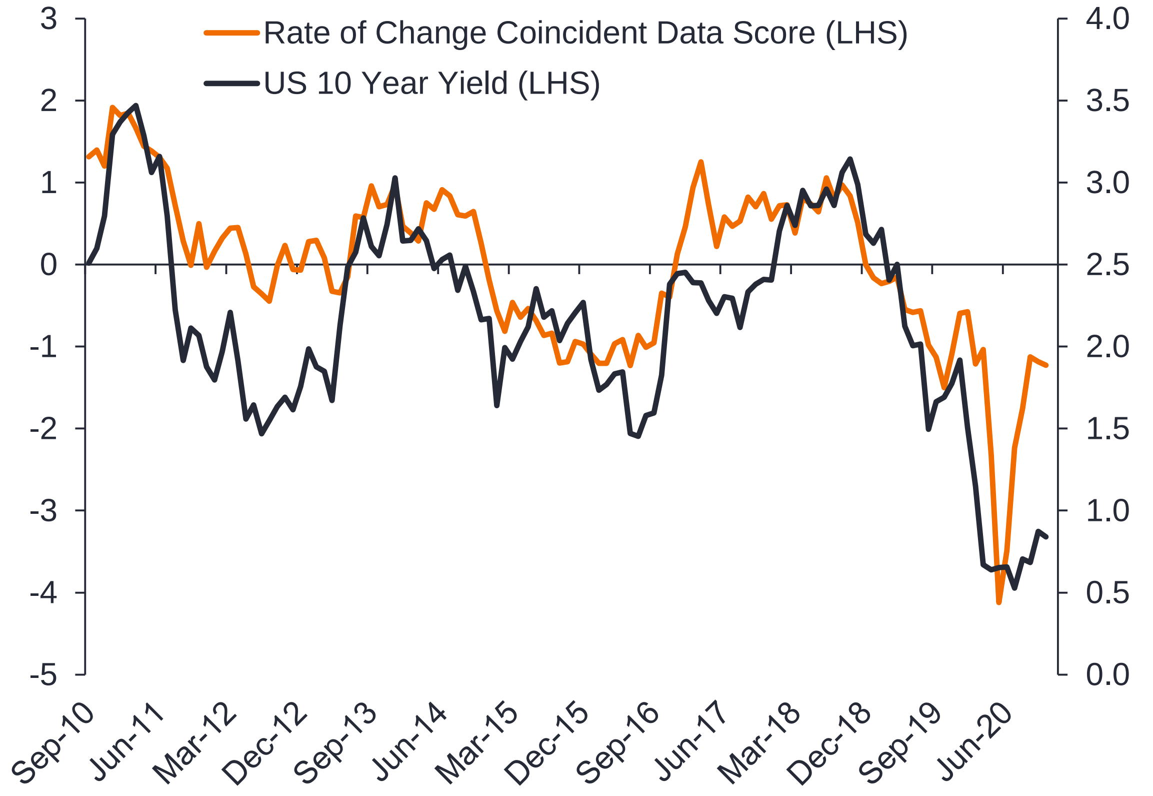
ACTIVE DURATION MANAGEMENT

Duration management process

- Short-term changes in bond yields primarily reflect rates of change in economic data
- Ignore the false narratives about bonds (eg, selling off because of deficits etc.)
- Bonds have performed as expected based on the economic data and hence provide genuine diversification when growth and inflation slows
- This is a key part of our process in determining a change in the cycle

Bond yields follow the rate of change in growth and inflation

YoY Change US Economic Data vs US 10-year Yield



Source: Janus Henderson Investors desk estimates, as at 31 October 2020.

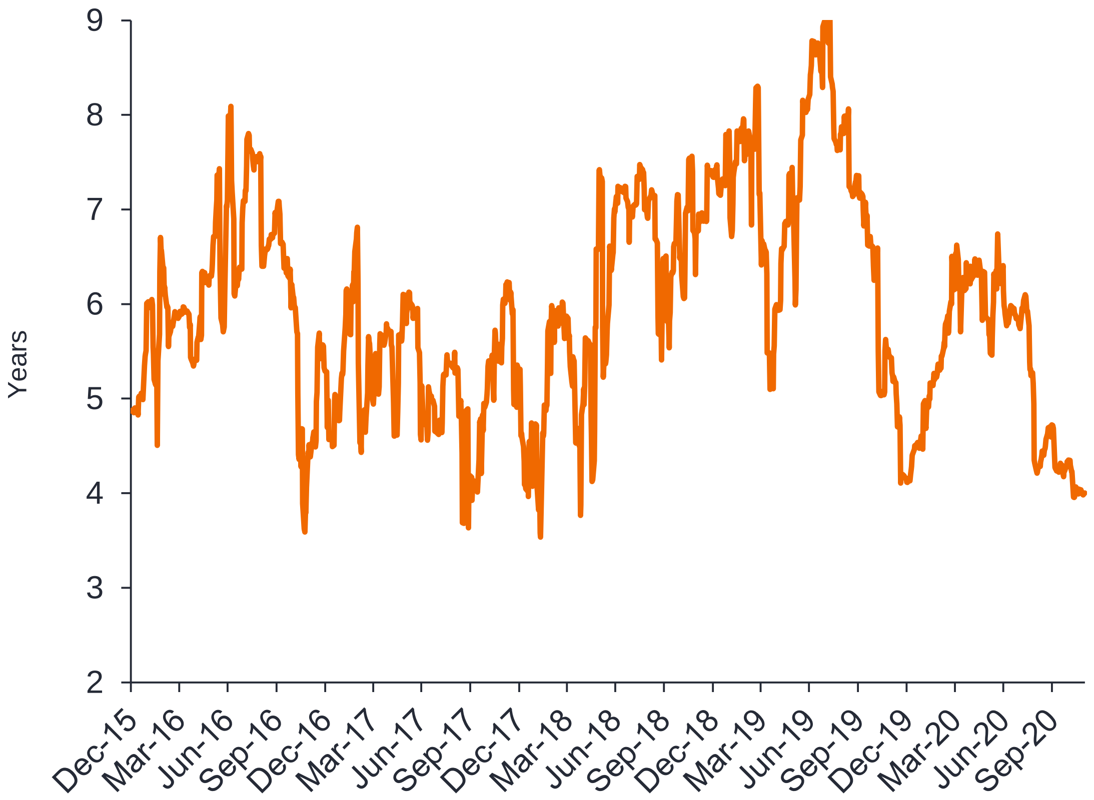
ACTIVE DURATION MANAGEMENT

- Opportunities around duration management are often driven by the ***emotion of investors*** rather than actual changes in inflation or growth regimes
- Tactical duration management allows us to profit from these opportunities
- Bond managers should not fear duration

Cumulative Performance	2016	2017	2018	2019	2020 YTD
Government bonds	59.7	20.5	110.6	241.4	53.8
Long interest rate futures	16.9	18.9	40.7	105.7	0
Short interest rate futures	19.8	4.2	11.2	-11.4	-44.0
Total	**96.4**	**43.6**	**162.5**	**335.7**	**9.8**

Contrast to the short duration group think among many bond managers

Portfolio Duration Since 2015



Source: Janus Henderson Investors desk estimates, as at 31 October 2020.

CONCLUSION

Credit markets have experienced a benign COVID crisis, supported by policy response from governments and central banks alike

Sectors adversely affected were largely existing problem areas / value areas of the market and hence easy to avoid

We are passing the peak in default rates and downgrades

Locking in a sensible income is likely to remain a challenge for years to come

Note: The above are the Portfolio Managers’ views and should not be construed as advice and may not reflect other opinions in the organisation.

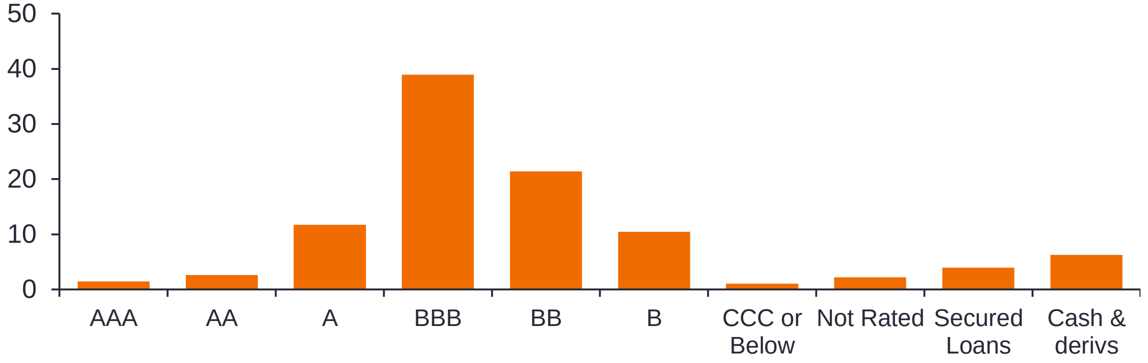
STRATEGIC BOND FUND POSITIONING

JANUS HENDERSON STRATEGIC BOND FUND

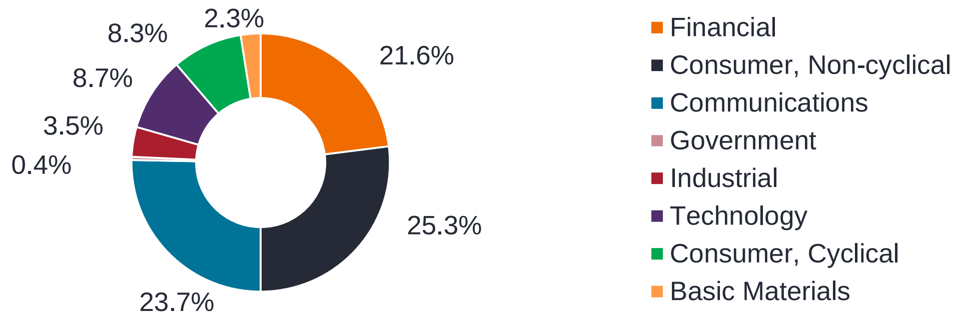
Current positioning

Performance	Fund
Market value, £bn	3.30
Distribution Yield	3.9%
Effective modified duration	4.0yrs
Average bond rating	BBB
Number bond holdings	287
Average position size	0.3%

Rating Exposure



Sector Breakdown



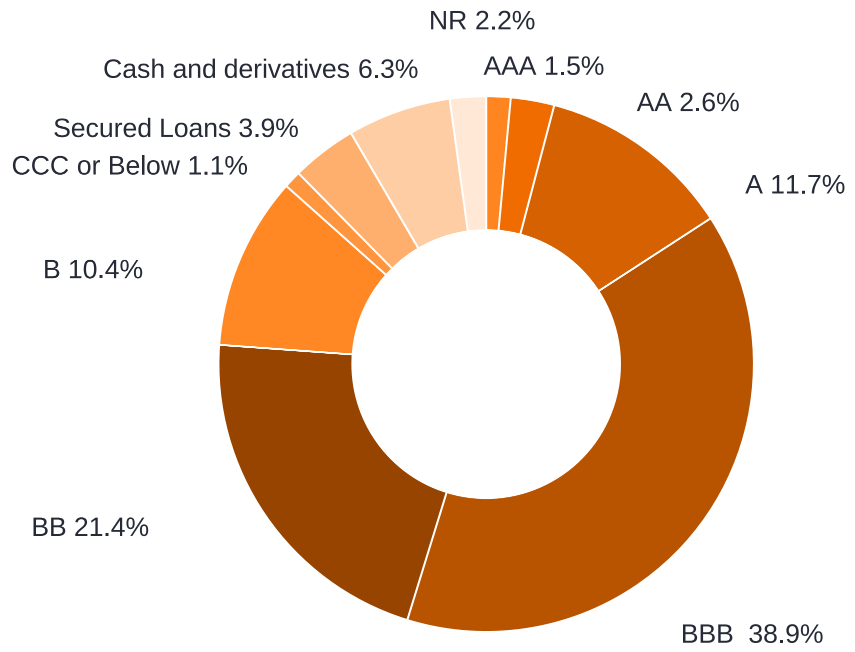
Regional Exposure	Fund
UK	20.40%
Europe	16.1%
North America	57.2%

Source: Janus Henderson Investors, as at 30 November 2020.
Note: **Past performance is not a guide to future performance.**

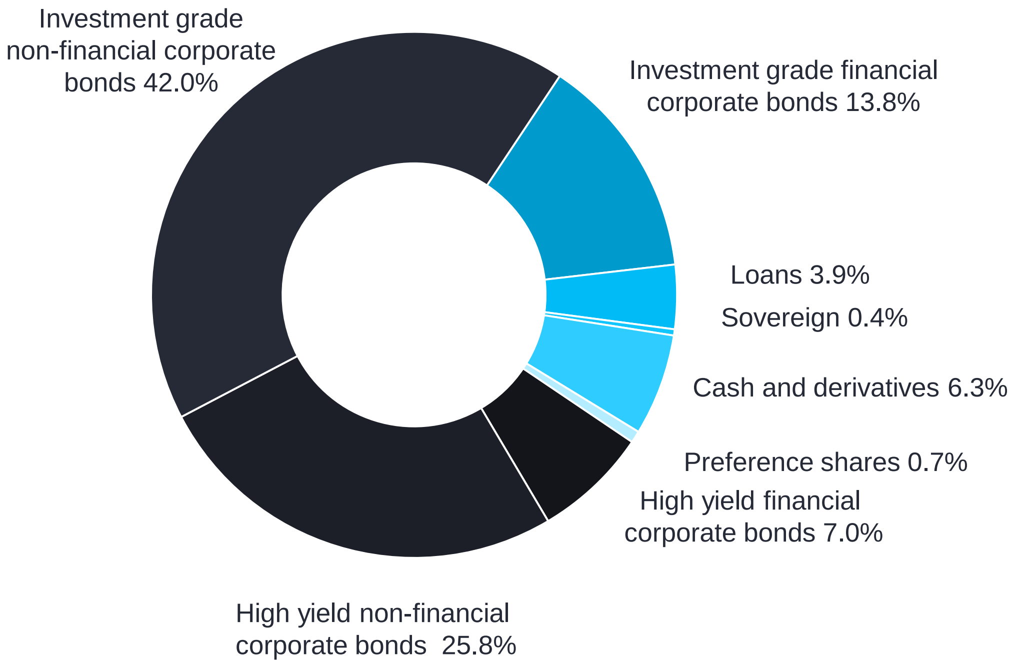
JANUS HENDERSON STRATEGIC BOND FUND

Current positioning

Credit Breakdown



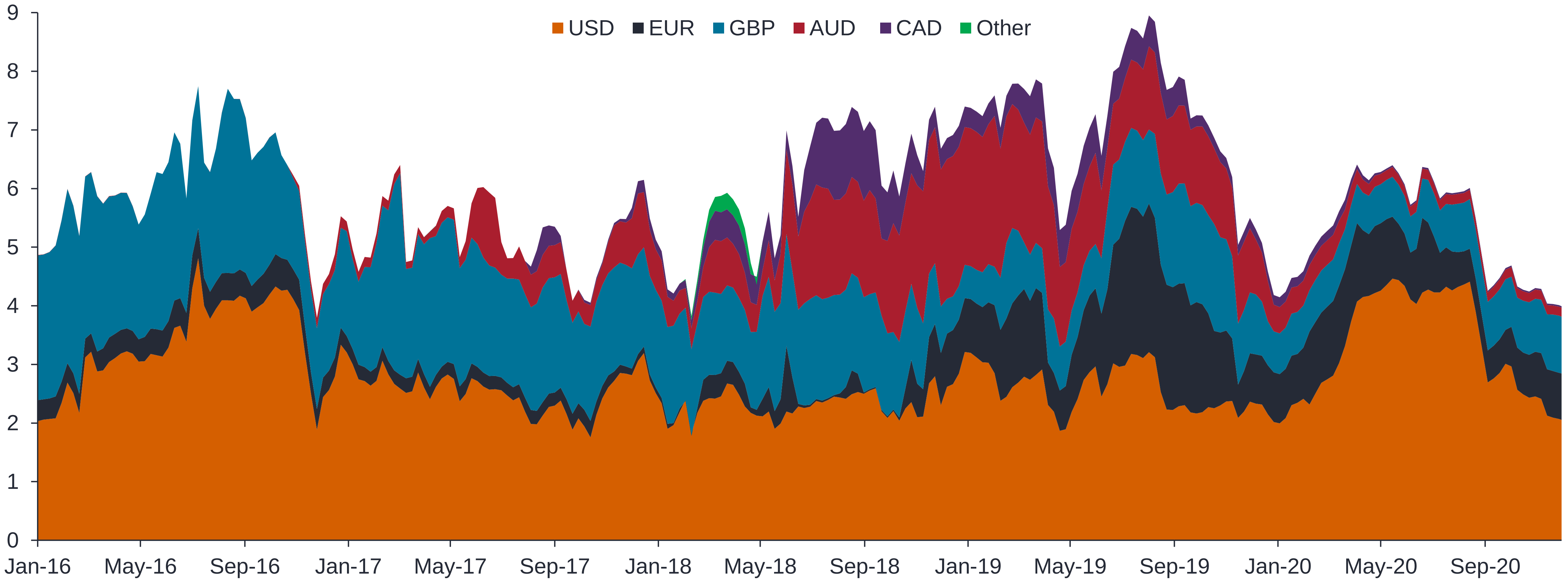
Asset Allocation



Source: Janus Henderson Investors, as at 30 November 2020.
Note: Totals may not add up to 100 due to rounding.

DURATION BREAKDOWN BY CURRENCY

Strategic Bond Fund Duration Through Time

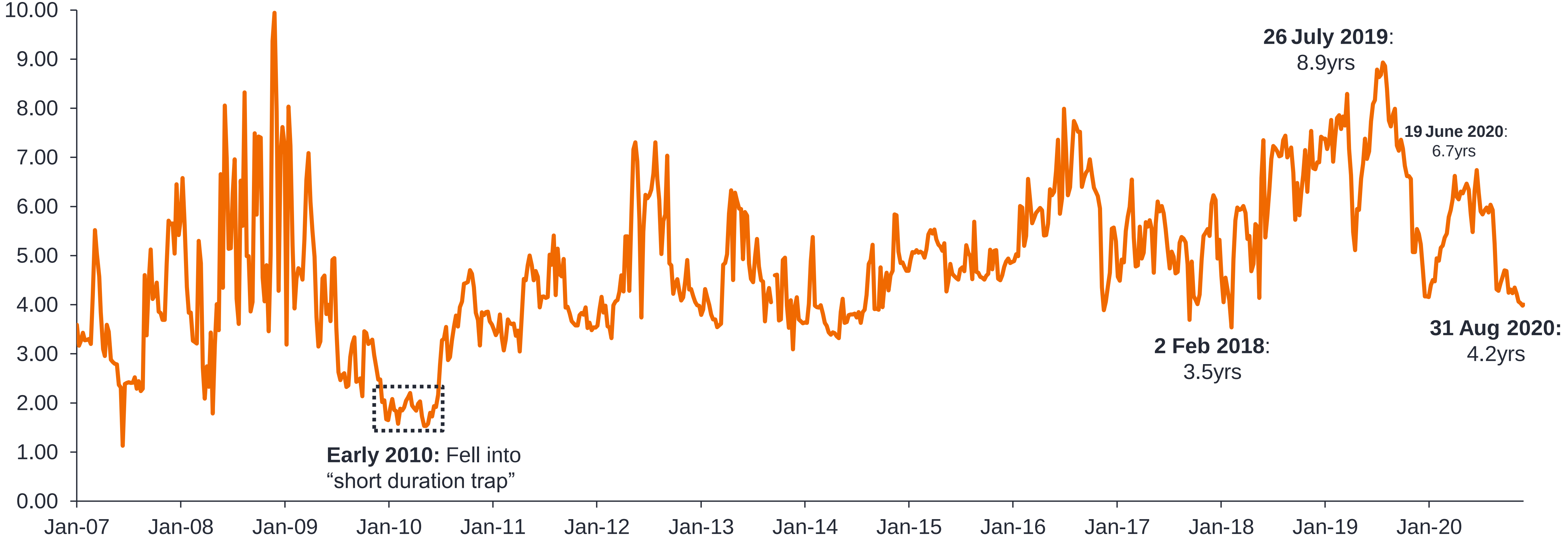


Source: Janus Henderson Investors desk estimates, as at 30 November 2020.

APPENDIX

LONG-TERM DURATION MANAGEMENT

Janus Henderson Strategic Bond Fund effective modified duration over time

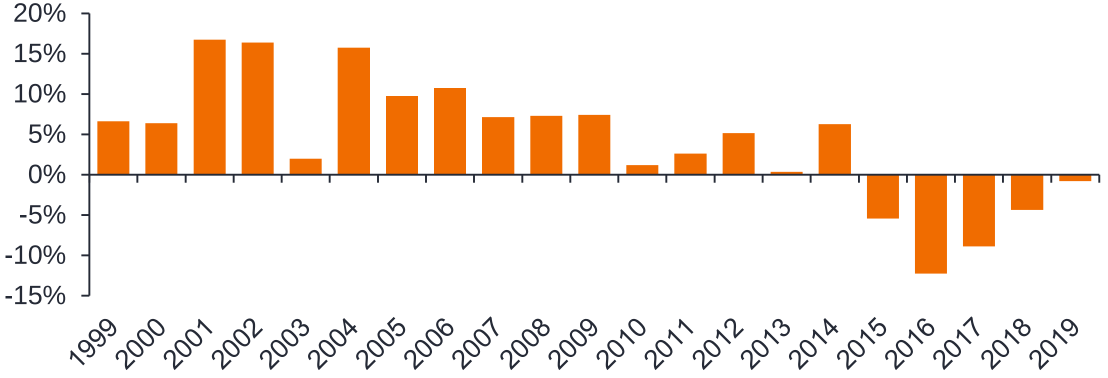


Source: Janus Henderson Investors, as at 30 November 2020.

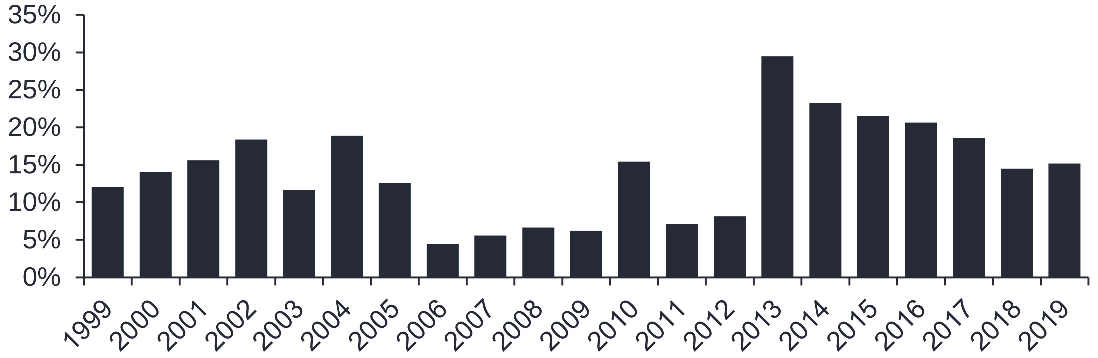
RETURN ON INVESTED CAPITAL

Sectors we like

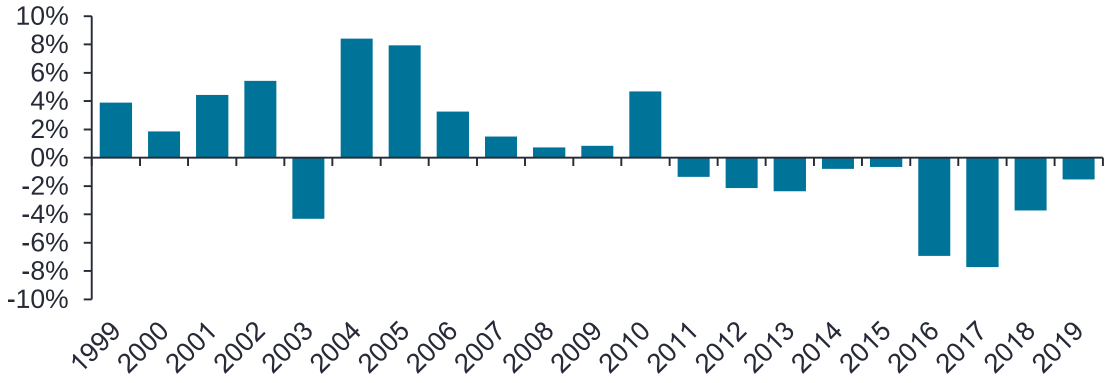
Energy



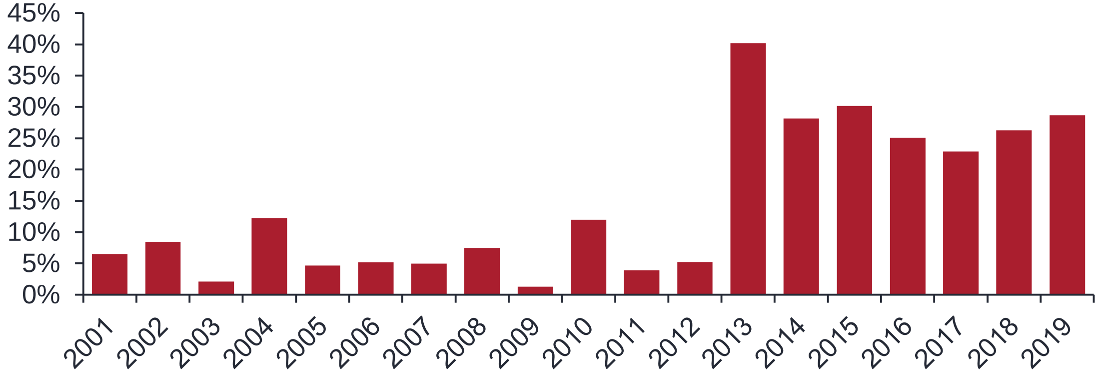
Household Products



Shipbuilding



Information Services



Source: Janus Henderson Investors, as at 30 November 2020.

BIOGRAPHIES

Jenna Barnard, CFA

Co-Head of Strategic Fixed Income

Jenna Barnard is Co-Head of Strategic Fixed Income at Janus Henderson Investors, a position she has held since 2015. She manages and co-manages a range of strategic fixed income strategies and funds meeting different client needs globally. Jenna joined Henderson in 2002 as a credit analyst and was promoted to portfolio manager in 2004. Prior to this, she worked as an investment analyst with Orbitex Investments.

Jenna graduated with a first class BA degree (Hons) in politics, philosophy, and economics from Oxford University. She holds the Chartered Financial Analyst designation, is a member of the Society of Technical Analysts, and is an Affiliate Member of the UK Society of Investment Professionals. She has 20 years of financial industry experience.

John Pattullo

Co-Head of Strategic Fixed Income

John Pattullo is Co-Head of Strategic Fixed Income at Janus Henderson Investors. He manages and co-manages a range of strategic fixed income strategies and funds meeting different client needs globally. Mr. Pattullo joined Henderson in 1997 as a trainee manager in corporate bonds and was head of the Strategic Fixed Income Team from 2009 until 2015 when he became Co-Head with Jenna Barnard. Prior to Henderson, he spent four years as a chartered accountant at PricewaterhouseCoopers.

Mr. Pattullo has an MA (Hons) in economics from the University of St. Andrews. He is a member of the Institute of Chartered Accountants of Scotland (CA) and an associate member of the Society of Investment Professionals (ASIP). He has 28 years of financial industry experience.

Source: Janus Henderson, as at 31 December 2020.

STRATEGIC BOND FUND

Annualised Performance (%)	5 Year	10 Year	Since Inception
Fund – I Acc (Net)	5.46	5.72	6.16
Peer Group Benchmark	4.53	4.85	4.55

Discrete Performance (%)	I Acc (Net)	Peer Group
30 Sep 2019 – 30 Sep 2020	5.73	3.07
30 Sep 2018 – 30 Sep 2019	10.70	6.86
30 Sep 2017 – 30 Sep 2018	-1.18	-0.06
30 Sep 2016 – 30 Sep 2017	3.25	3.05
30 Sep 2015 – 30 Sep 2016	7.50	8.20

Peer group benchmark

IA Â£ Strategic Bond

Peer group benchmark usage: Comparator

The Investment Association (IA) groups funds with similar geographic and/or investment remit into sectors. The Fund's ranking within the sector (as calculated by a number of data providers) can be a useful performance comparison against other funds with similar aims.

Source: Janus Henderson Investors, annualised performance as at 30 November 2020. Discrete performance as at 30 September 2020.

Note: Since inception date: 25 November 2003

Performance target: To outperform the IA Sterling Strategic Bond sector average, after the deduction of charges, over any 5 year period.

Performance/performance target related data will display only when relevant to the fund/share class inception date and the annualised target time period.

Please note the performance target is to be achieved over a specific annualised time period.

Performance fees may be charged before the Fund’s outperformance target is reached.

The Fund aims to provide a return, from a combination of capital growth and income over the long term (5 years or more).

Past performance is not a guide to future performance.

Contact us

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