

CAUTIOUS MANAGED FUND

At a glance

Performance*

The Fund returned -1.46%, the Index returned -0.18% and the Peer Group returned 0.51%.

Contributors/detractors

Duration positioning within the fixed income portfolio detracted over the month, although the fund's sector allocation in the equity portfolio contributed positively.

Outlook

We are taking a balanced approach, with a cautious position in credit, while beginning to take on more risk in the UK equity portfolio, where we feel valuations are compelling.

Portfolio management



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Investment environment

- Global equities made positive progress over the month, boosted by solid corporate earnings results in the US and macroeconomic data releases which further evidenced economic resilience. The Chinese market rebounded from a five-year low at the beginning of the month, following the announcement of new stimulus measures designed to revive the struggling property sector.
- Conversely, the UK equity market was broadly flat. It was revealed that the economy slipped into a technical recession after shrinking by 0.3% in the last quarter of 2023, following a contraction of 0.1% over the previous three months. The Bank of England (BoE) kept interest rates on hold in February but acknowledged that inflation was moving in the right direction.
- Later in the month it was revealed that UK inflation, as measured by the Consumer Price Index (CPI), rose by 4.0% in the 12 months to January. While this was unchanged from the previous month, and is double the BoE's 2.0% target, it undershot expectations for a slight increase.
- UK equity sectors delivered divergent performances over the month. The heterogeneous industrials sector outperformed, boosted by the performance of aerospace and defence, following expectation-beating results from Rolls Royce. Technology and financials also finished the month ahead of the broader index.
- By contrast, basic materials was the worst performing sector, dragged down by mining shares which suffered due to weaker copper and iron ore prices. Interest rate-sensitive real estate and utilities firms were also negative.
- Bond markets also recorded mixed returns. Government bond prices fell as better-than-expected economic data, combined with central bank messaging, led investors to push out interest rate cut expectations to the second half of 2024.
- The 10-year gilt yield rose by 33 basis points (bps) to 4.12% (meaning prices fell), while in the US, the yield on 10-year Treasuries rose by 34 bps to 4.25%.
- UK investment grade credit also delivered a negative performance, but outperformed gilts as spreads (the difference between the yield of a corporate bond over the equivalent government bond) tightened due to hopes that the current recession remains mild.
- In the main, shorter-dated maturities - particularly 1-3-year paper - outperformed their longer-dated counterparts. Sub-investment grade bonds outperformed investment grade issuance.
- Within sterling investment grade credit, there was little difference between the performance from financials

Marketing communication

Past performance does not predict future returns.

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*For benchmark/usage and peer group, if applicable, refer to Fund details on page 4. For relevant descriptions, risks and the Fund's investment policy statement, refer to Additional fund information on page 5.

and non-financials. However, subordinated debt spreads tightened ahead of senior issuance. Within financials, insurance was the clear outperformer while banks lagged. Technology outpaced other most other sectors within non-financials, with health care being the key laggard.

Portfolio review

The fund's equity exposure delivered a negative return in February, finishing behind the FTSE All-Share Index, mainly due to stock selection. Sector allocation was constructive for relative returns, due largely to the underweight position in the weakly-performing basic materials sector and the overweight exposure to the strongly performing industrials complex. By contrast, above-market allocations to consumer staples and real estate detracted.

Stock selection was negative for relative returns. The overweight position in Close Brothers continued to detract from performance as its shares fell sharply following the news that its next dividend would be cancelled due to the financial uncertainty following the Financial Conduct Authority's (FCA) investigation into motor finance - an area to which the bank has significant exposure. The fund's zero weight to Rolls Royce also weighed on relative returns as the stock rallied after announcing that last year's profits had more than doubled, along with an upbeat outlook for 2024.

Conversely, the lack of exposure to Glencore, the miner and commodity trader, was among the largest positive contributors to relative performance as its shares weakened following Glencore's announcement that it was slashing its dividend to manage its debt burden, amid softening metal prices. Elsewhere, the fund's overweight position in Beazley was one of the largest positive contributors to performance following the specialist insurer's pledge to return surplus balance sheet monies to shareholders.

The portfolio's fixed income allocation recorded a negative return, finishing behind its ICE BofA Sterling Non-Gilt Index benchmark. The fund's long exposure to interest rate risk (duration) relative to the benchmark was the main detractor as relatively strong economic data prompted investors to further scale back expectations of imminent interest rate cuts. This led to a retracement of some of the strong performance enjoyed by the more interest rate-sensitive bonds at the end of last year.

Sector allocation was neutral for overall performance. Relative gains from the above-benchmark allocation to real estate and the underweight position in housing associations were offset by impact from the overweight allocation to banks and underweight exposure to insurers. Meanwhile, the portfolio's small overweight exposure to credit beta was positive as investors generally continued to embrace credit risk.

Security selection was positive for relative returns. The overweight positions in Southern Gas Networks and Thames Water were among the best positive contributors, as was the holding in Tesco which performed well due to the news it would be selling the majority of its banking operations to Barclays. By contrast the overweight position

in EDF detracted given the French utility's expectations that its operating profit for the year ahead will moderate due to falling electricity prices. This also sparked concerns around EDF's debt pile and its ability to service ageing nuclear plants. The overweight allocation to BMW also hurt relative returns following news of a vehicle recall, due to brake-related issues, in the US.

We added some cyclical exposure into the portfolio over the month given there are signs that the de-stocking cycle is coming to an end and the upcoming interest rate cuts we expect, should improve sentiment. Valuations and forecasts amongst cyclical names in the UK equity market are implicitly not assuming any recovery, an interesting contrast to relatively tight credit spreads.

We bought DS Smith, the paper and packaging business and started to build positions in Elementis, a specialty chemicals company and International Distribution Services (Royal Mail). We booked our profits in Hikma Pharmaceuticals after another good set of results, as in our view the shares have now re-rated back up to a fair multiple and the outlook is limited going forward. Within the banking sector, we consolidated our holdings by selling out of Lloyds and using the proceeds to add to our Barclays and HSBC positions.

Activity over the month was largely skewed towards participation in attractively priced new issuance in names that we are favourable on from a credit fundamentals perspective. This included issuers such as Booking Holidays, Heathrow and Anglian Water. We also added selectively into a number of issuers within the financial sector, including ING Groep, and Direct Line Insurance Group, where there has been supportive news flow.

Finally, we continued to increase the fund's exposure to real estate at the margin, adding to Castellum Helsinki, one of our favoured names in this space. Against these purchases, we exited a number of positions that had performed well and we felt no longer provided an attractive spread pick-up relative to other opportunities. This included Diageo and Enel, as well as a recent new issue from Places for People. We also dialled back the positions in EDF and Orsted.

Manager outlook

Markets now expect the US Federal Reserve (Fed) to start cutting interest rates in the summer rather than the spring and this has been reflected in bond yields drifting upwards a little in the opening months of the year. This move has been particularly pronounced in gilts, as the BoE has pushed back against the expectation of imminent rate cuts.

We still anticipate moribund economic growth and inflation continuing to moderate, due to the lagged impact of previous monetary tightening, so we expect the downtrend in bond yields to resume. Hence, we are comfortable with the fund's moderate overweight duration position, while being cautious around excessive credit risk, given still tight spreads.

On the equity side of the portfolio, we are mindful of the risk of earnings downgrades from companies, given the tough economic backdrop. However, in the UK market the technical recession had been priced in within cyclical

sectors, and the broader market appears attractively valued to us by historical standards (and relative to most other equity markets and the credit market).

We are in effect being paid to take on risk in the equity market, in contrast to the credit market at present. Thus, our approach is to discriminate on stock selection, focusing

on high-quality companies in typically more resilient sectors, while selectively beginning to dip our toe into more cyclical waters. We are conscious of potentially exceptional value opportunities on offer in the UK for the longer term, given current trading levels.

Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since inception (03/02/03)
I Acc (Net)	-1.46	1.47	-2.92	1.16	2.15	2.72	2.79	5.52
Index	-0.18	3.04	-1.33	3.13	1.88	2.52	3.89	6.20
Peer Group	0.51	3.94	0.12	4.69	1.04	2.83	3.46	4.85
I Acc (Gross)	—	—	—	—	—	3.47	3.53	6.27
Target	—	—	—	—	—	4.06	5.45	7.79

12 month rolling

	Dec 2022- Dec 2023	Dec 2021- Dec 2022	Dec 2020- Dec 2021	Dec 2019- Dec 2020	Dec 2018- Dec 2019
I Acc (Net)	8.39	-6.80	8.61	-1.17	13.22
Index	8.37	-9.06	7.27	-1.18	14.33
Peer Group	6.86	-9.63	6.28	3.49	12.08

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Fund charges will impact the value of your investment. In particular, the ongoing charges applicable to each fund will dilute investment performance, particularly over time. For further explanation of charges please visit our Fund Charges page at www.janushenderson.com.

Note that any differences among portfolio securities currencies, share class currencies and costs to be paid or represented in currencies other than your home currency will expose you to currency risk. Costs and returns may increase or decrease as a result of currency and exchange rate fluctuations.

Investment objective

The Fund aims to provide a return, from a combination of income and capital growth over the long term. Performance target: To outperform the 50% FTSE All Share + 50% ICE Bank of America Sterling Non Gilt Index by 1.5% per annum, before the deduction of charges, over any 5 year period.

For the fund's investment policy, refer to the Additional fund information on page 5. **Past performance does not predict future returns.**

Fund details

Inception date	01 February 2003
Total net assets	753.31m
Asset class	Mixed Asset
Domicile	United Kingdom
Structure	OEIC
Base currency	GBP
Index	50% FTSE All Share/50% ICE Bank of America Sterling Non-Gilt Index
Peer group	IA Mixed Investment 20-60% Shares sector

For benchmark/usage description, refer to Additional fund information on page 5.

Additional fund information

Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change. Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective. Availability of share classes shown may be limited by law in certain jurisdictions. Performance records are detailed on the specific KIID, fees and charges may vary and further information can be found in the fund's prospectus and KIID which must be reviewed before investing. Please consult your local sales representative if you have any further queries. From 1 July 2020, the benchmark changed from 50% FTSE All Share/50% ICE Bank of America ML 5-15 Year Sterling Non Gilt Index to 50% FTSE All Share/50% ICE Bank of America Sterling Non Gilt Index. Past performance before 1 July 2020 is shown for the previous benchmark. 100% of the Annual Management Charge is taken from capital. These are the views of the author at the time of publication and may differ from the views of other individuals/teams at Janus Henderson Investors. Any securities, funds, sectors or indices mentioned within this article do not constitute or form part of any offer or solicitation to buy or sell them. The information in this commentary does not qualify as an investment recommendation. Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund. Cash balances and exposures are based on settled and unsettled trades as at the reporting date.

The 50% FTSE All Share + 50% ICE Bank of America Sterling Non Gilt Index is a composite index reflecting 50% exposure to shares listed on the London Stock Exchange and 50% exposure to corporate bonds. It forms the basis of the Fund's performance target and provides a useful comparison against which the Fund's performance can be assessed over time.

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.

Investment policy

The Fund invests in shares (also known as equities) and bonds of governments, companies or any other type of issuer, in any country. At all times the investment in equities will be limited to a maximum of 60% of the value of the Fund's portfolio and the Fund will normally have a strong bias towards UK companies and bonds. Companies and bond issuers may be of any size, in any industry. The Fund may also invest in other assets including cash and money market instruments. The Investment Manager may use derivatives (complex financial instruments) to reduce risk or to manage the Fund more efficiently. The Fund is actively managed with reference to the 50% FTSE All Share + 50% ICE Bank of America Sterling Non Gilt Index, which is broadly representative of the securities in which it may invest, as this forms the basis of the Fund's performance target. The Investment Manager has a high degree of freedom to choose individual investments for the Fund. As an additional means of assessing the performance of the Fund, the IA Mixed Investment 20-60% Shares sector average, which is based on a peer group of broadly similar funds, may also provide a useful comparator. Investors should note that many funds in the sector peer group have a more global focus than the Fund.

Investment strategy

The Investment Manager looks to balance the long-term growth and income potential of equities with the more stable returns offered by bonds and cash. The strategy has the flexibility to adjust to changing market conditions by altering the level of exposure to the different asset classes. In managing the equity portion of the portfolio, the Investment Manager will typically follow a value investment style, seeking companies it believes to be undervalued by the market that may be more resilient in periods of economic uncertainty.

Fund specific risks

When the Fund, or a share/unit class, seeks to mitigate exchange rate movements of a currency relative to the base currency (hedge), the hedging strategy itself may positively or negatively impact the value of the Fund due to differences in short-term interest rates between the currencies. In respect of the equities portfolio within the Fund, this follows a value investment style that creates a bias towards certain types of companies. This may result in the Fund significantly underperforming or outperforming the wider market. The Fund could lose money if a counterparty with which the Fund trades becomes unwilling or unable to meet its obligations, or as a result of failure or delay in operational processes or the failure of a third party provider. Shares/Units can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result. An issuer of a bond (or money market instrument) may become unable or unwilling to pay interest or repay capital to the Fund. If this happens or the market perceives this may happen, the value of the bond will fall. When interest rates rise (or fall), the prices of different securities will be affected differently. In particular, bond values generally fall when interest rates rise (or are expected to rise). This risk is typically greater the longer the maturity of a bond investment. If a Fund has a high exposure to a particular country or geographical region it carries a higher level of risk than a Fund which is more broadly diversified. The Fund may use derivatives with the aim of reducing risk or managing the portfolio more efficiently. However this introduces other risks, in particular, that a derivative counterparty may not meet its contractual obligations. Securities within the Fund could become hard to value or to sell at a desired time and price, especially in extreme market conditions when asset prices may be falling, increasing the risk of investment losses. Some or all of the ongoing charges may be taken from capital, which may erode capital or reduce potential for capital growth.

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Source: Janus Henderson Investors, as at 29 February 2024, unless otherwise noted.

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