Janus Henderson INVESTORS

STRATEGIC BOND FUND

At a glance

Performance*
The Fund returned 2.13%, the Peer Group returned 1.57%

Contributors/detractors
The fund's duration overweight position was a positive contributor, especially in the UK (which materially outperformed).

Outlook
All eyes seem to be on the employment markets as central banks are poised to cut rates when they feel justified in doing so.

Portfolio management

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Investment environment

- March was a strong month and rounded off a decent first quarter for riskier assets. Investors embraced the narrative of an economic 'soft landing' (versus a recession) and the notion of 'immaculate disinflation' (the idea that inflation, primarily driven by supply-side shocks, would subside without a corresponding rise in unemployment).
- A number of equity indices hit record highs. The S&P 500 Index rose over 10% during the quarter, marking the first time in over a decade that it has achieved back-to-back quarterly double-digit gains.
- Against this, bond yields generally drifted flat to lower (higher prices), with the UK and Europe performing well on the back of lower inflation and a softening in the stance of central banks. However, in the words of the Chairman of the US Federal Reserve (Fed), US inflation data has been "bumpy". US economic growth has been stronger than expected, and the good news is that the employment market is "more balanced".
- Optimists for a 'soft landing' point to a fading fiscal boost, productivity gains from artificial intelligence (AI) and favourable immigration dynamics easing worker shortages and wage inflation. Pessimists focus on the long lags of monetary policy and the inverted yield curve, which has historically signalled a recession.
- On 20 March, Fed Chairman Powell acknowledged that "January CPI and PCE numbers were quite high". He also said that there is reason to think that there could be seasonal effects involved, and that "the February number was higher than expectations, although not terribly high". However, the oil price (always crucial to the inflation outlook) rose significantly, as did implied inflation from the inflation-linked markets.
- We broadly believe that the global interest rate-cutting cycle remains on track - possibly slightly delayed in the US and slightly sooner in Europe. Inflation continued to rise at a slower rate and has been experiencing some quite dramatic falls, not least in the UK, among other countries (including Canada and Switzerland).
- While there might be some seasonal noise in the US data, the only niggle is the oil price, which is always hard to call, especially with persistent OPEC production cuts and ongoing Middle East tensions.
- European economic growth - especially in the core - looks recessionary. The European Central Bank (ECB) has teed up a June interest rate cut with more to follow. Meanwhile, the Swiss set the ball rolling with a surprise rate cut in March.
- While it would be unusual for the ECB to cut rates ahead of the Fed, the Fed was slow to raise rates and the growth differential is significant. The ECB meeting is on 6 June, which is before the Fed meeting on 12 June (Canada is on 5 June and the UK on 20 June).

*For benchmark/usage and peer group, if applicable, refer to Fund details on page 3. For relevant descriptions, risks and the Fund's investment policy statement, refer to Additional fund information on page 4.

Portfolio review

Credit (corporate bond) spreads started the month tight and became even tighter. Both investment grade and high yield bonds performed better than the underlying reference sovereign bonds in America. This was not the case in the UK, where gilts stretched ahead of a firm corporate bond market given the changing inflation dynamics.

Investors seem to be moving money out of overnight deposit towards fixed income (and equities), and even if credit spreads are close to record tights the all-in yield level remains very attractive. We did see a few known over-levered structures start to suffer, in issuers such as Altice Europe (telecoms), Intrum (debt collector), Ardagh (packaging) and Thames Water in the UK. These are all large capital structures in the market. We expect to see an increased dispersion in performing issuers (from very low levels) going forward.

Bond volatility has been usually high this cycle. But as the direction of travel has become more transparent, this has started to fall, especially in Europe. Lower bond volatility is particularly helpful for our mortgage-backed securities (MBS) holdings, which have performed better of late.

Lower volatility also supports mainstream credit spreads while the credit markets remain resilient. The growth of the private credit markets often enables the re-financing of some marginal credits off market, which is a fairly new technical support. This, as well as many amend and extend re-financings, has kept defaults muted.

Over the month we kept the fund's duration position long, in predominately quality sovereign and investment grade bonds. We have moved some of the duration out of the US and into Europe, the UK, Australia and Canada (among others). Given the similar pricing of future cuts, but less growth and inflation risk outside the US market, this seems a good risk-adjusted trade to us. We continue to believe risk markets are priced for perfection. We also modestly increased the investment grade bond weighting by buying predominately select new issues in the middle- and shorter-end of the curve.

Manager outlook

All eyes seem to be on the employment markets as central banks are poised to cut rates when they feel justified in doing so. As Fed Chairman Powell recently said, "Fed officials are committed to both sides of our dual mandate, and an unexpected weakening in the labour market could also warrant a policy response". We expect Europe to lead the Fed in cutting rates this cycle, as recent European inflation data continued to be encouraging. This is also true in the UK and Australia (and elsewhere).

Performance (%)

Returns	Cumulative 1 Month	Cumulative 3 Month	Cumulative YTD	Cumulative 1 Year	Annualised 3 Year	Annualised 5 Year	Annualised 10 Year	Annualised Since inception (25/11/03)
I Acc (Net)	2.13	-1.85	-1.85	-0.48	-4.50	-0.37	1.71	4.31
Peer Group	1.57	0.97	0.97	7.27	-0.60	1.67	2.51	3.70

12 month rolling	Mar 2023-Mar 2024	Mar 2022-Mar 2023	Mar 2021-Mar 2022	Mar 2020-Mar 2021	Mar 2019-Mar 2020
I Acc (Net)	-0.48	-9.66	-3.12	11.96	0.67
Peer Group	7.27	-6.20	-2.39	13.04	-2.13

Performance is on a net of fees basis, with gross income reinvested. Source: at 31/03/24. **Past performance does not predict future returns.** Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period. **The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.** Source for target returns (where applicable) - Janus Henderson Investors. This is a representative share class for the fund, other share classes are available and may be more suitable for your investment needs.

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 IA Sterling Strategic Bond sector average, after the deduction of charges, over any 5 year period.

For the fund’s investment policy, refer to the Additional fund information on page 4.
Past performance does not predict future returns.

Fund details

Inception date	11 October 1986
Total net assets	2.45bn
Asset class	Fixed Income
Domicile	United Kingdom
Structure	OEIC
Base currency	GBP
Peer group	IA Sterling Strategic Bond sector

For benchmark/usage description, refer to Additional fund information on page 4.

Additional fund information

Tax assumptions and reliefs depend upon an investor’s particular circumstances and may be subject to change. 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. Since inception performance relates to the period from Nov 2003. Performance achieved prior to this date is not representative of the fund’s current strategy. 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 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) forms the basis of the Fund's performance target and can be a useful performance comparison against other funds with similar aims.

Investment policy

The Fund invests in a global portfolio of bonds of any quality, including high yield (non-investment grade) bonds, issued by governments or companies. Where investments are made in assets in currencies other than the base currency of the Fund, the Fund will seek to hedge those assets back to the base currency to remove the risk of currency exchange rate movements. The Fund may also hold other assets including bonds of other types from any issuer, preference shares, cash and money market instruments. In certain market conditions, the Fund may invest more than 35% of its assets in government bonds issued by any one body. The Investment Manager may use derivatives (complex financial instruments), including total return swaps, with the aim of making investment gains in line with the Fund's objective, to reduce risk or to manage the Fund more efficiently. The Fund is actively managed with reference to the IA Sterling Strategic Bond sector average, which is based on a peer group of broadly similar funds, as this forms the basis of the Fund's performance target. The Investment Manager has complete freedom to choose individual investments for the Fund and to vary allocations between different types of bonds.

Investment strategy

The Investment Manager follows a flexible strategy that seeks to deliver total returns (capital appreciation and income) from investments across the entire spectrum of fixed income assets. Using careful macroeconomic research and credit analysis, the portfolio managers actively vary the allocation to different types of bonds to suit the prevailing economic environment.

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. 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. CoCos can fall sharply in value if the financial strength of an issuer weakens and a predetermined trigger event causes the bonds to be converted into shares/units of the issuer or to be partly or wholly written off. 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. The Fund invests in high yield (non-investment grade) bonds and while these generally offer higher rates of interest than investment grade bonds, they are more speculative and more sensitive to adverse changes in market conditions. 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 to help achieve its investment objective. This can result in leverage (higher levels of debt), which can magnify an investment outcome. Gains or losses to the Fund may therefore be greater than the cost of the derivative. Derivatives also introduce 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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