INVESTMENT FOCUS

Janus Henderson
INVESTORS

The magazine for investors with Janus Henderson

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Inside: Changing times – investing when politics and markets are in flux

WELCOME

Simon Hillenbrand
Head of UK Retail

'It was the best of times, it was the worst of times'; began Charles Dickens in his novel *A Tale of Two Cities*. This phrase could apply to today as equity markets record fresh highs, yet policymakers struggle to respond to low growth and an uncertain political backdrop.

Towards the end of last year, central bankers were supposed to be lifting interest rates and returning to more normal monetary policy, yet six months later and there has been an almighty U-turn. The clock appears to be winding back towards interest rate cuts and yet more unconventional policy. The causes are numerous: deteriorating business and consumer sentiment surveys, US-China trade tensions and a structurally challenged retail and car industry.

This issue of Investment Focus looks at some of the key developments facing investors. On pages 8-11 we interview Charlie Awdry and Richard Clode, respectively portfolio managers from our China Equity and Global Technology teams to hear their candid views on the geopolitical tension building between the US and China. On page 11, Stephen Payne, UK equities manager, explains why he believes the uncertainty surrounding Brexit is creating value within the share prices of UK companies.

History repeating

Global economic rivalry, low inflation, and the challenge of finding income in a low yield world – some might contend it was ever thus. On pages 12-13, Jenna Barnard, Co-Head of Strategic Fixed Income, reveals the parallels between the late 1800s and the present day and their implications for bond investors – all prompted by a chance birthday present. Elsewhere, we look at the structural changes taking place within commercial property and the characteristics of infrastructure as an investment. Meanwhile, in a sobering article on child labour, members of our sustainable and responsible investment team remind us that how we invest has the power to shape the world – hopefully for the better.

I do hope you find this issue of the magazine timely and informative. Finally, I would like to take this opportunity to thank you for your ongoing investments with us.

Simon Hillenbrand
Head of UK Retail
Janus Henderson Investors

NEWS IN BRIEF

Five-star rating

We are pleased to announce that our responsible investment funds were each given an ethical fund five star rating in 2019 by Moneyfacts, the personal finance data group. The rating is based on several criteria: a fund's characteristics, avoidance of negative areas, promotion of positive investing, and the level of engagement with companies in which the fund invests.

Month of Service

Janus Henderson employees stepped away from their desks and into the community to help others in need through our Month of Service Campaign. From a charity Sing-A-Thon that raised £51,284 for Great Ormond Street Hospital, to gardening for Share Horticulture and preparing meals for Acton Homeless Concern, there was plenty of enthusiasm.

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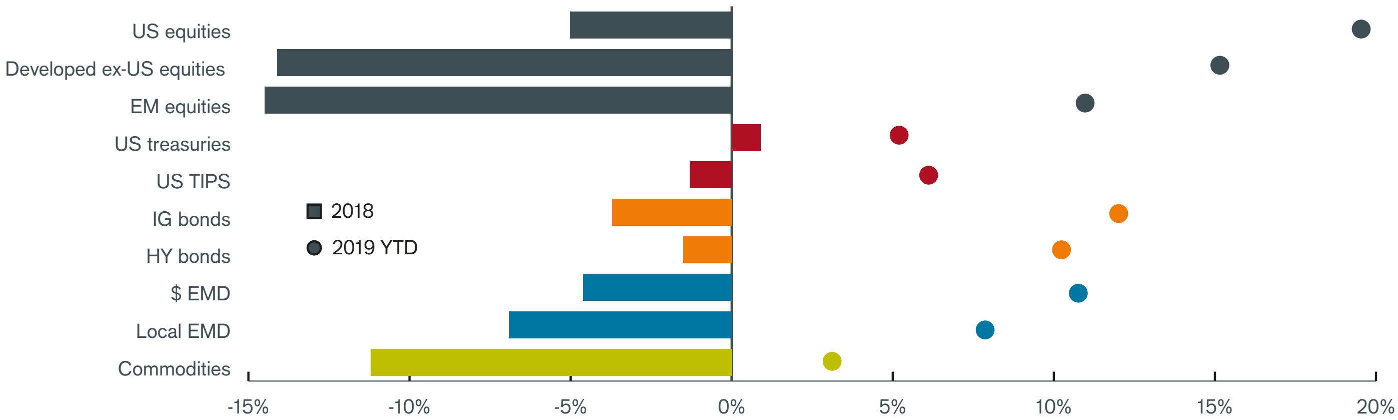
MULTI-ASSET OUTLOOK - GREEN SHOOTS, DARK CLOUDS

While the first half of 2019 was very rewarding for multi-asset investors, the gains in many assets were only compensation for losses incurred last year. In equities, for example, many of the major markets outside the US have actually delivered negative returns since the end of 2017. Despite this year's broad-based bounce, the big picture remains one of an ageing bull market in equities and other risk assets.

Paul O'Connor
Head of the UK-based Janus Henderson Multi-Asset Team

Multi-asset returns in 2018 and 2019



Source: Janus Henderson Investors, Refinitiv Datastream, Bloomberg, 31 December 2017 to 30 June 2019. Total returns US dollars
Indices: MSCI USA, World ex USA, Emerging Markets Indices; Bloomberg Barclays US Treasury & TIPS Indices, Markit iBoxx US Investment Grade & High Yield Indices, JP Morgan EMBI Plus Index, JP Morgan GBI-EM Index, Bloomberg Commodities Index
If you are investing in a different currency than shown, this may cause figures to differ from those shown.

It is no coincidence that the equity bull market began to lose momentum in 2018, just as the multi-year stimulus from central bank quantitative easing (QE) came to an end. As the thrust from QE has receded, financial markets have naturally become more closely connected to underlying fundamentals. After well over a year of downgrades to global growth, we are, at last, seeing some green shoots of recovery beginning to emerge. Still, the evidence is pretty tentative and our willingness to embrace the recovery scenario is tempered by a concern that some features of the current macro environment argue against expecting a meaningful lift in economic momentum in the months ahead.

One general concern here is that the scale of global policy easing expected in 2019 is a long way from the energetic interventions of the past that triggered recoveries from similar declines in business confidence. Furthermore, even if global growth does steady, it is not obvious that this will be enough to revive core inflation and inflation expectations. China remains a specific concern – the economy continues to slow, with the scale of policy stimulus being constrained by the conflicting objective of deleveraging (reducing debt levels). Some troubling signs of financial stress are emerging in the financial sector, impacting the access to credit of small and medium-sized companies and threatening further spillovers beyond that.

The balance of evidence points towards a stabilisation of growth in the months ahead but questions remain about the strength of the cyclical upswing beyond that. Our base case scenario is growth, inflation and interest rates remaining lower than historic norms for some time but, in some way, being compensated for by an economic expansion that is unusually elongated. It is important to recognise that many of the idiosyncratic features of the current macroeconomic environment make historical precedent a questionable guide now and make forecasting more difficult than usual. Accordingly, we remain flexible in our views, diversified in our fund positioning and vigilant for anything that might shift the probabilities on the key outlook scenarios.

Past performance is not a guide to future performance.

MAKING THE WORLD GO ROUND: WHY WE INVEST IN INFRASTRUCTURE

James de Bunsen
Portfolio Manager

James de Bunsen, Portfolio Manager on the UK-based Multi-Asset team, discusses the solid attractions of infrastructure investment.

Infrastructure investment was previously the preserve of institutional investors, who prized the sector for its steady and uncorrelated, if sometimes unspectacular, returns in relation to other asset classes. While the long-term and potentially illiquid nature of infrastructure may have historically made it more suited to pension funds, the growing range of investment opportunities is attracting retail investors.

Any operation or system in the modern, ultra-connected world relies on the infrastructure on which, in turn, global economic growth depends.

As with many 'alternative' investments, the era of ultra-low interest rates has led to retail investors becoming increasingly interested in a new breed of infrastructure funds, a broad and diverse grouping that invests in everything from transport, utilities and renewable energy (economic infrastructure) to schools, healthcare, prisons and stadiums (social infrastructure).

We include infrastructure within many of our multi-asset portfolios, primarily because the asset class has the potential to generate attractive real (above inflation) returns. Historically, total returns from UK-listed infrastructure funds have shown they are capable of producing relatively attractive returns in comparison to current UK investment grade bond yields, for example, which yield around 2%*. Moreover, infrastructure can also add attractive diversification benefits, especially within social infrastructure, where revenues from assets such as schools and hospitals are inherently non-cyclical.

London City Airport, sold to a Canadian-led consortium of pension funds for c. £2bn in 2016.

Strong and stable: not all alternatives are the same

When investing in infrastructure funds we look for quality of assets and management that can demonstrate a lengthy and relevant track record. This seems obvious but the world of alternatives is full of financiers with clever ideas but not, necessarily, hands-on experience. Meanwhile, the underlying assets must have specific attractive features; for extra diversification benefits we favour social infrastructure projects, given their lack of sensitivity to the economic cycle and implicit government backing.

We believe future prospects for infrastructure investment are also good, despite some negative sentiment stemming from the Labour Party's proposed nationalisation plans, which would include many regulated and infrastructure assets. We believe this eventuality remains a very low probability because were Labour able to command a majority in Parliament, it would require several hundred billion pounds to carry out all their nationalisation plans. Borrowing might be cheap now but with that level of spending on the cards, we doubt lenders in the gilt market would be so accommodating. In summary, beyond some seemingly remote political risk, we believe that the outlook for infrastructure investments generally appears positive, with strong yields and high quality, more predictable revenue streams. Moreover, its low correlation to equities makes it a great portfolio diversifier.

* Source: Bloomberg as at 14 June 2019 ICE BofAML Sterling Non-Gilt Index.

Glossary:

Correlation: A measure of the strength of relationship between two variables. Negatively correlated assets would tend to move in opposite directions, uncorrelated or low correlated assets would have a weak relationship while strongly positively correlated assets would move closely in the same direction.

Cyclical businesses: These companies generally do well in periods of economic prosperity and expansion and less well in periods of economic downturn and contraction.

Quantitative easing: An unconventional monetary policy used by central banks to stimulate the economy by boosting the amount of overall money in the banking system.

COBALT: SAYING 'NO'

Hamish Chamberlayne
Portfolio Manager

Ama Seery
ESG Analyst

Ama Seery, analyst within the global Sustainable and Responsible Investment (SRI) Team headed by Hamish Chamberlayne, examines the explosive demand for cobalt to power the batteries of mobile devices and the many risks associated with its supply.

TO CHILD LABOUR

If you have a mobile device, it is more than likely that it will be powered with a battery containing cobalt. It is used in everything from automotive vehicles to medical implants. With the rise in electric vehicles, it is predicted that in 2025, the global demand for cobalt in batteries will amount to 117,000 tons[1]. This has transformed the demand for this metal and increased the price considerably.

Technological innovation is often a common feature of sustainability, which is why we invest in renewables and electric vehicles. These are all seen as solutions to combating climate change; however, many of these technologies use cobalt, and companies can expose themselves to serious risks.

The majority of the world's cobalt is located in the Democratic Republic of Congo (DRC). Since the mid-1990s the country has seen continued violence and conflict, which has led to a very poor human rights record. It is not uncommon to find children working in and around cobalt mines, in particular extracting the mineral by hand (also known as artisanal mining). Children are denied an education, and their health is put at risk by exposure to dust and increased levels of cobalt in their bloodstream, which, at high doses, can be hazardous to human health.

Our approach

Our strategy, as per the UN PRI's recommendations[2], is to address the risk by engaging with companies that have cobalt in their supply chain. We used the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas as a basis of engagement. This document details a five-step framework for ensuring due diligence within a mineral supply chain.

1. Establish strong company management systems
2. Identify and assess risk in the supply chain
3. Design and implement a strategy to respond to identified risks
4. Carry out independent third party audit of supply chain due diligence at identified points in the supply chain
5. Report on supply chain due diligence

We also consulted with a charity worker from the DRC to gain insight into the challenges of implementing the five steps. They mentioned concerns relating to the quality of the auditing, in particular children being removed from sites when auditors approach. However, the key concern highlighted was the lack of an alternative for the children working in the mines. While children under 18 cannot legally work in the mines, the law is not widely observed for several economic and societal reasons. Their recommendation was that companies partnered with charities that would provide day care and schools, and the means for families to send their children there without financial consequences.

Microsoft

Microsoft is one of the world's leading cloud computing providers and its Azure cloud platform, which is hosted on carbon neutral datacentres, can be used in many different ways for the benefit of the environment and society. With its partners, Microsoft has developed solutions spanning energy, water, buildings, infrastructure, and transportation to help modernise cities in sustainable ways that will minimise their resource use and environmental impact.

When we first started engaging with Microsoft on this topic, the company had not traced the cobalt used in its supply chain to the original mines. As a result, the five-step framework was not being implemented for cobalt.

Towards the end of 2018, Microsoft's Senior Director, Responsible Sourcing and Certifications, discussed changes Microsoft had made to its supply chain. The meeting announced and explained the new report, *Devices Sustainability at Microsoft for 2018*. Microsoft has made efforts to increase the transparency of cobalt within the company's supply chain by improving the traceability and supply chain due diligence in line with the OECD's guidance.

Microsoft supports Pact (an NGO that provides a process and tool for companies to address child labour in their mineral supply chains) to eliminate child labour at mining sites in the DRC, specifically in the Manono and Kolwezi regions. The programme received international recognition and reduced the number of children working at Manono mines by 77–97% during the course of the project to date. Microsoft is still on a journey regarding cobalt, and we will continue to engage with the company regarding its progress.

Microsoft's actions are reducing the risk of brand damage, negative impact operations, strikes, and disruptions. Microsoft is also working ahead of regulation because while there is not yet any binding regulation around cobalt, given the regulatory developments around conflict minerals, it is likely that policymakers, particularly in the European Union, will fill this regulatory gap.

[1] Statistica, 2019 https://www.statista.com/statistics/877648/global-demand-for-cobalt-in-batteries/

[2] United Nations-supported Principles for Responsible Investment (UN PRI), Drilling down into the cobalt supply chain: how investors can promote responsible sourcing practices, 2018.

References made to individual securities do not qualify as investment recommendations and are not advice.

POWERPLAY: GEOPOLITICAL MANOEUVRES AND THEIR CORPORATE IMPACT

Geopolitical risk continues to be top of mind for investors, particularly the shifting global balance of power from west to east as showcased by the escalating trade friction between China and the US. Charlie Awdry, China equities portfolio manager and Richard Clode, Global Technology portfolio manager, provide candid views on this evolving issue and its significance on how they invest.

Q. WHICH GEOPOLITICAL RISKS CONCERN YOU THE MOST?

CA There's only one major geopolitical risk dominating China at the moment and that's the US-China relationship. The focus is on trade but that's just one element of this deteriorating relationship. Before, there was constructive engagement, now there's strategic rivalry.

We've got friction, both at a trade level, but also at the geopolitical level of trying to influence politics in Asia and globally. The one area that I'm most concerned about is where China has a non-negotiable stance: Taiwan.

China sees Taiwan as part of China, but the Taiwanese see themselves as an independent nation with a strong political and diplomatic relationship with the US from which it buys much military equipment.

And Hong Kong (HK) where both Richard and I invest is at the fault line of it. HK is dealing with an existential issue of becoming part of China. From a financial/stock market point of view, HK is an avenue for foreign capital, both in and out of China, so on that basis we have to hope it maintains its role.

From an investment point of view, we should recognise that Hong Kong offers a lot of offshore capital, Chinese corporates have taken advantage of this and have balance sheets that are multi-currency. So as an investor based in the UK there's a currency risk should the yuan depreciate.

RC This superpower supremacy rivalry is going to be multi-generational. At the centre of it is technology, the control of it and the national security implications, which is President Trump's main concern. We saw this with the blacklisting of Huawei (in May 2019 US companies were forbidden from supplying components to the Chinese telecoms giant – a month later it was announced the ban would be eased).

If you don't control your own artificial intelligence (AI), that has huge implications across national security, defence, productivity of your country, surveillance, you name it. Trade is just the battle, the war is this wider jostling for supremacy.

Q: CAN THERE BE A RESOLUTION TO THE TRADE WAR?

RC Even if there is a trade resolution and China allows foreign technology companies into China, and removes subsidies for local companies to end unfair competition – the enforcement of that will be challenging because ultimately both countries are diametrically opposed when it comes to their goals – the US wants to maintain its current hegemony of power while China thinks that they should be 'number one'. The two are not going to settle.

CA I agree. The US and China have different philosophies, different systems. Interestingly in the tech space, there is the development of almost two tech worlds, the US world and the China world. We already have that in the internet. In China, Google doesn't work. Google Maps won't get you anywhere; you have to use Baidu. That kind of ecosystem is something we have to start thinking about beyond just the internet.

Q. TO WHAT DEGREE IS THE US-CHINA TRADE WAR AFFECTING YOUR INVESTMENTS?

RC It's clear that China has been unfair in terms of companies coming to play on a level playing field. Luckily for the Global Technology Team, this hasn't had much impact on the companies we invest in.

This is because the silver lining to that unfair competition is that most of the tech giants like Google, Netflix, or Amazon effectively don't have a business in China. What we've seen with the blacklisting of Huawei is still how dependent Chinese technology companies are on US technology and US components, particularly semiconductors. Huawei's entire 5G build is dependent on two US companies, Altera, which is part of Intel, and predominantly, Xilinx. Being self-reliant is a core part of China's longer-term strategic plans. The negotiating position for the US today is as strong as it's ever going to be. I think China will get more aggressive when they start to become more self-sufficient.

And when it comes to semiconductors, Taiwan supplies major clients like Apple, Qualcomm, NVIDIA and HiSilicon (Huawei's semiconductor division). There are limited alternative suppliers. The Chinese see Taiwan as part of China; as an investor in the semiconductor industry that is a key risk albeit the global ramifications would extend well beyond that.

CA The bigger picture here is that this strategic rivalry could create slower growth in China because there's less trade. However, China is quite a domestic economy already with consumerism, and there's also a lot of investment.

We monitor the currency to see if the government lets it weaken to try and boost the economy. Because obviously that's a headwind for us as we're sterling-based investors buying yuan-denominated assets and profits.

But in the technology space, companies like Tencent, Alibaba, NetEase, they're not really cyclical. Most people think that China is a trading market, but I think these stocks over the years have been good buy and hold companies. Because we are domestic focused, our China portfolios are invested more in the Chinese internet ecosystem than the hardware global supply chain.

Q. RICHARD, IS THERE A DISTINCTION BETWEEN TECHNOLOGY SECTORS?

RC Not that many major global tech companies have big businesses in China. There are no software companies that sell much into China, the global internet companies aren't there. So it's really only the more cyclical areas that are affected, such as hardware and semiconductors. We've reduced our semiconductor holdings materially in the Global Technology Strategy mainly because in addition to the trade war concerns, the macroeconomic backdrop is deteriorating and inventory levels are high.

But the rest, as Charlie said, are mainly domestic-focused businesses. Alibaba (China's Amazon) is often unfairly used as a proxy for consumer and trade sentiment in China; they're quite comfortable with their long-term (secular) growth trends.

When we talk to global companies like Microsoft we're told it doesn't impact them much. It's not really slowing the secular growth trends of technology, in fact it may even be accelerating some of the technology disruption we're seeing. What's exciting is that this desire for self-sufficiency in China may result in many more interesting Chinese technology companies coming to market.

Q. SO WITH UNCERTAINTY YOU ARE FINDING OPPORTUNITY?

CA In recent years we've seen that most valid macroeconomic concerns tend to get priced into all equities. So even if we are cautious on certain sectors of the market, at the individual stock level we can often find some attractive companies. I think the opportunity in China is for active management, but it's because the environment from the top down is quite challenging, especially when it comes to geopolitical issues.

RC I would concur with Charlie on the need for active management. With geopolitics dominating the headlines these days we have a much more volatile investment environment. That's where I believe an active investment manager with expertise and experience can really add some value. For example, the blacklisting of Huawei was a well-flagged risk and we were able to, in advance, reduce our allocation to semiconductors, a sector that would be affected by the ban. We know there are pockets of the market that are much more exposed to potential risk factors than others.

When there's unquantifiable or unjustified reactions in stocks and markets then you can use that opportunity to buy. We did that at the end of 2018, when cyclical stocks were very weak.

Active management allows you to take action in advance of these trends, unlike as a passive investor where you're simply waiting for things to change.

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.

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Has the 'Brexit effect' left the UK just too unloved?

Stephen Payne
Portfolio Manager

Is there such a thing as irresistible value? In this article, Stephen Payne, UK equities and bonds manager, gives his view on the potential value in UK equities at present, in the face of ongoing Brexit uncertainty.

I feel like a child in a sweet shop at the moment; there are so many appealing value opportunities in the UK equity market. Value stocks are the cheapest they have been compared to growth stocks for many years.

It has undoubtedly been a challenging period for value investors. The 'value' style of investing in the UK has lagged 'growth' for more than a decade, in part due to the impact of central banks' unprecedented stimulative measures, such as quantitative easing, and Brexit anxiety. But no market trend goes on forever. Some of us are old enough to remember the 1980s, 90s and early noughties, a sustained period where value consistently outperformed growth.

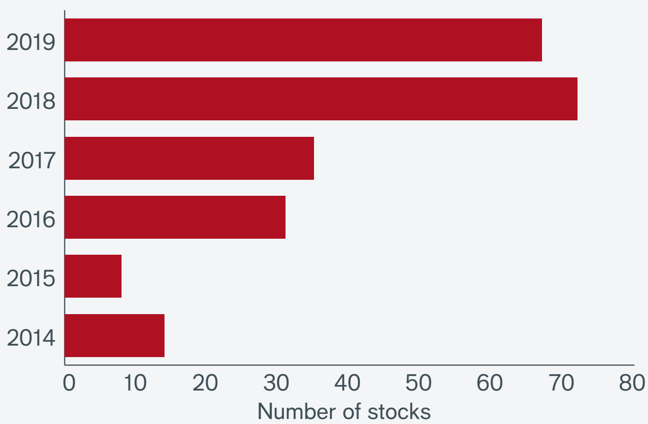
Is there currently unprecedented relative value in UK equities?

The price-to-earnings (P/E) ratio is a popular ratio used to value a company's shares, calculated by dividing the current share price by its earnings per share. In general, a high P/E ratio indicates that investors expect strong earnings growth in the future, with exceptions. A relatively low P/E ratio may indicate that a company is undervalued, given its assets and prospective revenues, although not all cheap stocks are good value. P/E is not an absolute measure; rather it can be used as a helpful indicator of value relative to the market, as part of a more detailed analysis.

The number of stocks now trading on single-digit P/E ratios in the UK has ballooned in the last few years. In 2015 there were only eight such value opportunities; as at the end of May 2019, there were 67, as chart 1 shows.

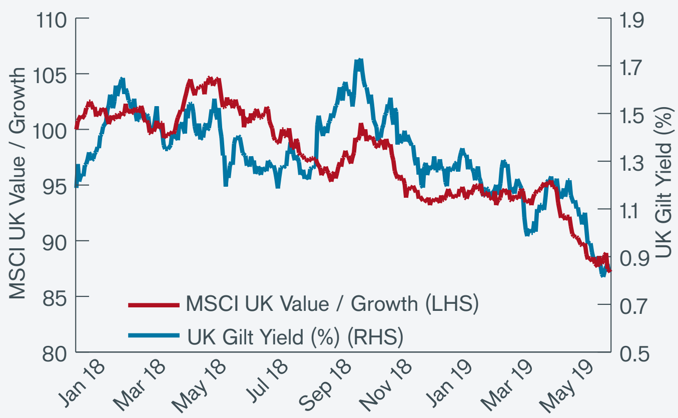
The question that investors frequently ask is what it might take to challenge the dominance of growth, given where we are. In my experience a catalyst often only becomes obvious after the event, once share prices have already moved. However, we are able to consider factors that may be relevant. There is a clear correlation, for example, between the relative underperformance of value and falling bond yields (chart 2). Given how low bond yields are, the likely direction must be biased to the upside, which could be a boon for value investors.

Chart 1: The number of UK stocks priced at crisis lows has ballooned



Source: FTSE 350, Janus Henderson Investors, based on the number of stocks among the largest 350 listed companies in the UK trading on single-digit P/E ratios, as at 30 May 2019.

Chart 2: Could higher bond yields be good for UK value?



Source: Refinitiv DataStream, 1 January 2018 to 16 June 2019. Performance of the MSCI UK Value Index versus the MSCI UK Growth Index. UK Government Benchmark Bid Yield 10 Years (sterling).

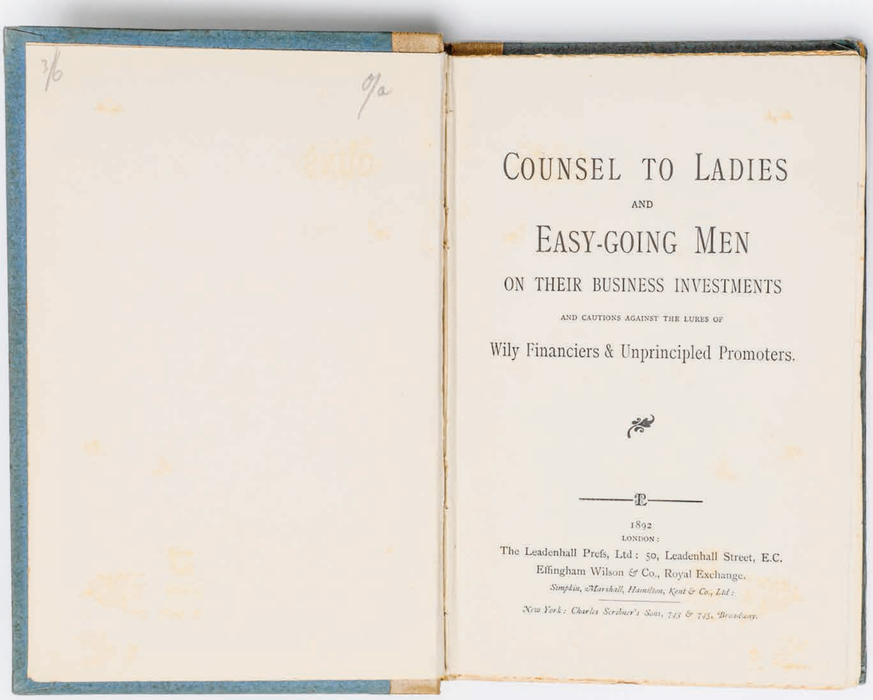
Glossary:
Growth investing: Growth investors search for companies they believe have strong growth potential. Their earnings are expected to grow at an above-average rate compared to the rest of the market.
Value investing: Value investors search for companies that they believe are undervalued by the market, and therefore expect their share price to increase.
Bond yield: The level of income on a security, typically expressed as a percentage rate.

Jenna Barnard, Co-Head of Strategic Fixed Income, explores how a book written by an anonymous woman on investing in 1892 proved an invaluable birthday gift and has parallels with the bond market of today.

Jenna Barnard
Portfolio Manager

USING THE 1890S AS A GUIDE TO BOND INVESTING (NOT THE 1980S)

In April I received a birthday present of a little book dating from 1892, which was found by chance in a second-hand book dealer[1]. It turned out to be a personal guide to bond investing written by an anonymous woman based on her own investment experience in the late 1800s. Understandably, this might not appeal to everyone, but from my perspective it turned out to be a rare birthday present gem.



Its contents are not only instructive but bring illumination to the predicament facing bond investors more than a century later. It is worth noting that the book was written in the UK in 1892 in the midst of what was known as "The Long Depression". This period has many parallels to our own but hit the UK particularly hard as it became a pursued economy with its industrial hegemony eroded by the emergence of the US as a competitor. Globally, the 1870s, 1880s, and 1890s were a period of falling price levels and rates of economic growth significantly below the periods preceding and following. Triggered by financial crises (railroad bonds in the US, a silver crisis in Europe) and stagnant real wages there are many parallels to the current global malaise.

The book contains timeless investment precepts that have a healthy overlap with our own style of bond management, which we have termed "Sensible Income". This style reflects the needs of our clients, who in our view, do not want to be unsettled or stressed by the bond allocation in their portfolios. Ideally, the bond allocation should provide diversification against risk assets (eg equities) and hence a focus on more reliable income generation can be very useful in turbulent times. This approach is neatly summarised in the book:

"Never expect to make money by a great coup; moderate risks and moderate profits from time to time are the only solid basis of permanent success."

In what follows I've chosen a few choice quotes from the book to reflect on.

Recurring troublemakers and government bond investing in Europe

"Securities of good Continental Governments, such as Germany, Prussia, Holland and Scandinavia are too dear as a rule... South of Europe, Spain, Portugal, and Greece are dangerous as permanent investments..."

The relevance of these statements is obvious given the experience of Europe in recent years. 'Hot' markets, where demand heavily outstrips supply can lead to investors overpaying. A classic case in point was the almost farcical Argentinian 100-year bond issued in 2018, which saw ludicrously strong demand at the time of its issue but then the reality of Argentina's troubled economy and politics set in. The bond had traded down to 67 cents on the dollar by 1 May[2].

Corporate bond investing

"No investments are more dangerous for a lady than new banks and new insurance companies."

This point is not lost on anyone who might have invested in bonds from Metro Bank, a UK challenger bank that was launched a few years ago — the bond (highlighted in the chart) is trading well below its 100 issue price.

Metro Bank 5.5% 26 June 2028 bond price

Source: Bloomberg, 20 June 2018 to 28 June 2019, GBP

"Loans of small states and the securities of companies with small capital... are difficult of sale... Moderate stakes in large companies are the best."

We have also found the bonds of smaller companies to have higher default rates on average and lower recovery rates. Lending to a company with less than $100 million in EBITDA (earnings before interest, tax, depreciation and amortisation) is, in our view, best avoided.

Short duration bond strategies

"Bonds ... at par in a few years are not very desirable... buy at a premium... incur a loss at the end... the trouble of finding a new investment..."

The issue of reinvestment rates is particularly pertinent today if, as we believe, the US Federal Reserve has signalled that rates in the US have peaked and, in much of the developed world, will likely not rise by much, if at all, this cycle. Thinking through where rates may go in the next recession is sobering and makes longer-dated investment grade bonds attractive.

Sensible income

"... where low rates of interest rule, a security offering 5 or 6 per cent would properly be looked at with suspicion."

In conclusion, this little book is a useful reminder of the importance of style and discipline in bond investment. It also emphasises that anchoring to the high interest rate and inflation regime of the 1980s when many started their career is neither useful nor rewarding as a mental starting point. Periods of low inflation, low interest rates and speculative manias are many and varied through history. Sensible bond investing can help investors navigate through these environments with capital intact.

It is fitting to end on some final wise counsel from the book:

"It is the common experience that fortunes tend steadily to increase in the ratio that losses are avoided."

Notes

[1]Anon (1892): 'Counsel to Ladies and Easy-Going Men on their Business Investments and Cautions Against the Lures of Wily Financiers & Unprincipled Promoters', London, The Leadenhall Press.

[2]Bloomberg, Argentina 7.125% 28 June 2117, as at 1 May 2019.

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MANAGING PROPERTY FOR THE LONG TERM

Ainslie McLennan and Marcus Langlands Pearse, Co-Managers of the Janus Henderson UK Property PAIF, look back at 10 years of managing the fund together and ahead at the changing dynamics of the UK commercial property market.

Marcus Langlands Pearse
Fund Manager

Ainslie McLennan
Fund Manager

What have been the biggest changes in the asset class?

During the last 10 years we have experienced a shift from balanced commercial property portfolios just comprising office, industrial and retail assets to now including the alternatives sector. This area of the market includes student accommodation, residential, leisure-based assets, such as gyms, cinemas and hotels, data centres, private healthcare, care homes, and garden centres.

These 'alternative' assets have become increasingly popular and sensible diversifiers within funds because they are well placed to benefit from long-term demographic and technological trends. They also tend to attract tenants on long leases with rental income that is often linked to inflation or with periodic fixed increases. We invested into this segment early, which has served the fund well, and continue to have a significant weighting.

Technology is making the industry ever more dynamic and efficient. Take the office sector as an example. Working from home is now accessible for most employees, meetings can take place with colleagues located on the other side of the world and shared 'flexible' office space has become popularised amongst the freelancing community. Alongside advancements in smart building technology, health and wellbeing are also quite rightly areas of focus.

How have the changes in the retail sector affected your approach?

The expected shift in the way we shop in the UK has finally come to pass with winners and losers at a company level. Our long-held view has been that the retail sector, particularly regional high street assets and department stores, would come under pressure. As a result, early on we started diversifying away from traditional areas of the market to maintain an appropriate, broad mix of assets that we believe to be best suited to the conditions ahead.

On the flip side of the retail restructuring, investors have enjoyed the benefits of owning high-specification and well-positioned logistical and distribution units. Demand for this type of asset has grown as retailers and consumers look for efficiency in how they acquire or deliver goods. We expect this trend to continue as the shift to online shopping takes hold.

What have been your main successes and challenges?

We think that our long-standing approach of focussing on owning property assets that offer an attractive and reliable rental income stream, with some long-term income and capital growth potential, has been very supportive for investors. While markets have risen, we also see our investment decisions to buy and sell have added significant value. Recent examples include selling a single-let office in Southwark, South London, crystallising significant outperformance and buying a vacant industrial unit, which we subsequently let to Amazon. We have tried to be very front foot about actively selling or buying assets where we see opportunities to benefit investors.

The other main success has been growing and enjoying working with such a stellar team who are all extremely dynamic and talented individuals and are crucial to implementing our investment strategy.

Challenges include the elusive and much discussed topic of Brexit, which has felt like planning for nobody knows what! It has, however, led us to adopt a more defensive strategy that we believe should be able to sustain itself through any upheaval that comes to the fore when the UK leaves the European Union.

Have you ever revised your investment philosophy?

We regularly challenge ourselves on the approach but have had the view from the beginning that a daily-traded fund should aim to have a very large amount of its assets in core, well-located, well-connected, well-let, energy-efficient property that is relevant for the businesses of today and that the disruptors forming tomorrow's enterprises would wish to occupy. We define core assets as being top class in at least three of the following five criteria: location, quality of tenant, lease duration, lease structure, and building specification.

Hardwick Street, London. Office building in an up and coming location, which was recently refurbished with an extra floor and solar panels added on the roof. The rents doubled as a result.

Has sustainability become an increasing focus?

Sustainability has always been an important element of our investment approach. In our view it is just the right thing to do and helps mitigate depreciation, lowers operational costs and helps to prevent building obsolescence.

We strive to improve on absolutely every level with regards to responsible property investing.

For example, we have installed photovoltaics (solar panels) on the roofs of many of our assets and are considering installing them in car parks too. We have electric vehicle charging points in car parks, 4d boxes in buildings providing live-time data that shows where energy is being wasted and where efficiency could be improved. More recently, for instance, we have focussed in on the living wage for staff that provide security or cleaning services associated with buildings owned by the fund.

What is your outlook for the asset class?

We believe the fundamentals are relatively stable for the sub markets that we choose to have exposure to. It's such a dynamic and interesting time to be in the industry and we have the opportunity to help maintain, improve and create excellent buildings and spaces for businesses to occupy and investors to benefit from.

Our expectation is for steady returns from the asset class dominated over the medium term by income, with potential 'wins' from asset management – delivering longer or more favourable lease terms and refurbishments – to add income and capital growth wherever possible.

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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.

Janus Henderson
INVESTORS

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Please read all scheme documents before investing. Before entering into an investment agreement in respect of an investment referred to in this document, you should consult your own professional and/or investment adviser. Past performance is not a guide to future performance. 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. Tax assumptions and reliefs depend upon an investor's particular circumstances and may change if those circumstances or the law change. If you invest through a third party provider you are advised to consult them directly as charges, performance and terms and conditions may differ materially. Nothing in this document is intended to or should be construed as advice. This document is not a recommendation to sell or purchase any investment. It does not form part of any contract for the sale or purchase of any investment. Any investment application will be made solely on the basis of the information contained in the Prospectus (including all relevant covering documents), which will contain investment restrictions. This document is intended as a summary only and potential investors must read the prospectus, and where relevant, the key investor information document before investing. We may record telephone calls for our mutual protection, to improve customer service and for regulatory record keeping purposes.

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