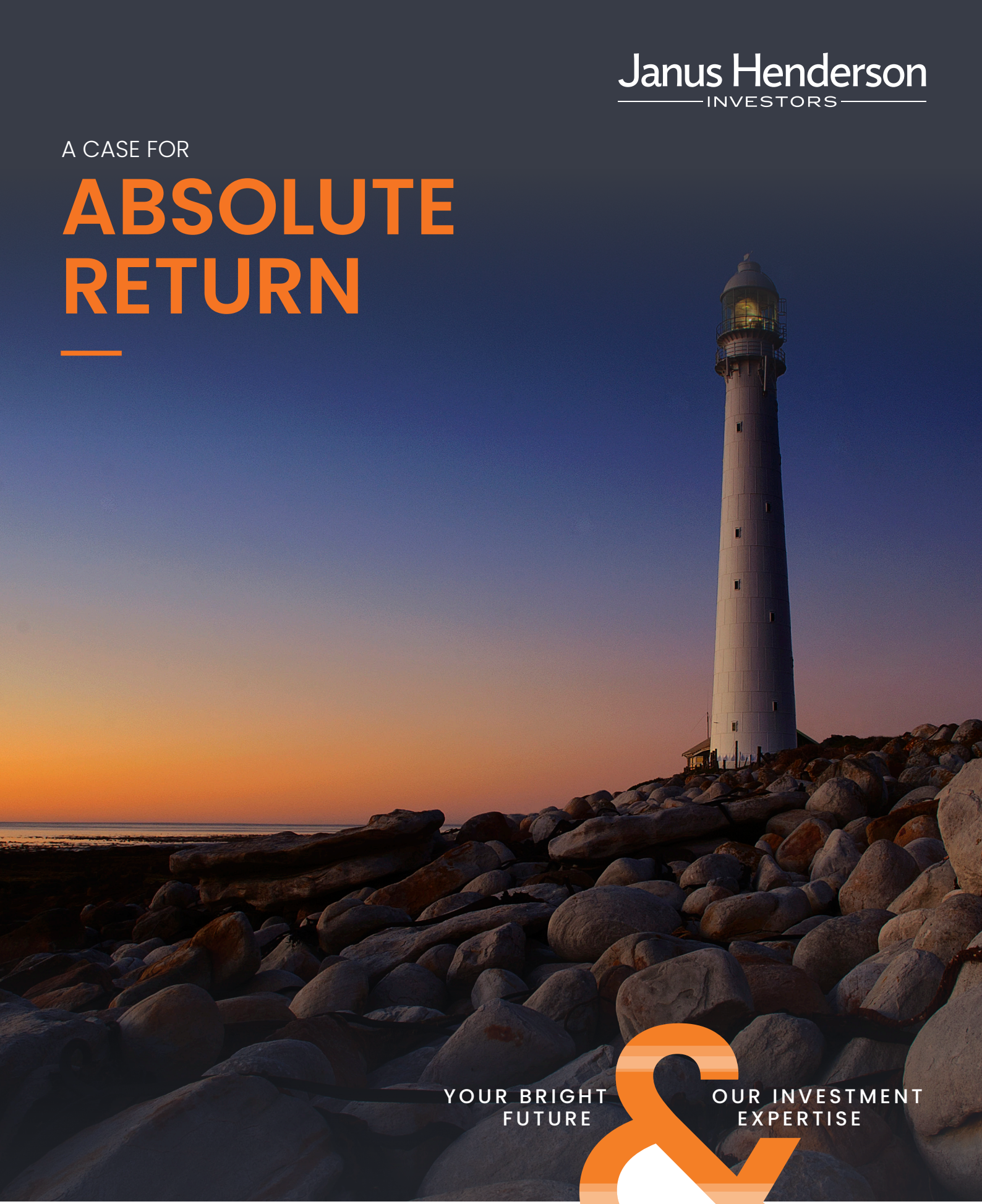
Janus Henderson
INVESTORS

A CASE FOR

ABSOLUTE RETURN



Marketing communication

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.

KEY TAKEAWAYS

- Absolute return strategies seek to generate positive returns regardless of market trends, utilising a diverse range of tools and sophisticated risk management techniques to help mitigate the impact of market volatility, potentially improving risk-adjusted returns.
- By being uncorrelated with traditional equities and bonds, absolute return strategies can help to enhance diversification, offering a smoother return path in balanced portfolios, especially when traditional asset correlations weaken.
- Absolute return strategies differ in objectives and management, with variations in asset class focus and geographical scope, providing diverse investment avenues tailored to different risk and return profiles.

In today's complex and unpredictable market environment, absolute return strategies play a crucial role in navigating uncertainty. Recent years have been marked by heightened volatility and shifting economic conditions, underscoring the need for approaches that offer genuine diversification and drawdown preservation. These strategies are designed to deliver positive returns over time, regardless of market direction - participating in equity market upside while mitigating the impact of downturns.

We believe that we have entered a new era where disruption - both geopolitical and economic - is the norm. Building portfolios that are resilient to these challenges requires appropriate diversification and risk management. A well-managed absolute return strategy provides investors with an additional tool to achieve this resilience, helping them navigate uncertainty and preserve capital in volatile markets.

In this paper, we give an introduction to some of the factors supporting the case for absolute return in the current market environment.

Equity long/short strategies, commonly known as 'absolute return' strategies, focus on exploiting market inefficiencies to generate absolute returns (ie. a return greater than zero) in various market conditions.

Traditional 'long' investing involves putting your money into assets (stocks, bonds, property, etc) in the expectation that their value can appreciate over time.

Short investing is an investment strategy that seeks to profit when the price of an underlying asset declines. The most common technique is to borrow and asset, for a fee and then sell it, with the intention of buying it back at a lower price, before returning it to its original owner by an agreed date. If the price falls as anticipated, the strategy can make a profit, but they can lose money if the underlying asset increases in value.

Why allocate to absolute return now?

Absolute return strategies differ equity strategies, not only in their objectives, but also in the drivers of performance over time. The case for absolute return strategies is arguably stronger than ever and this can be summarised by the following characteristics.

1. Risk Management and adaptability

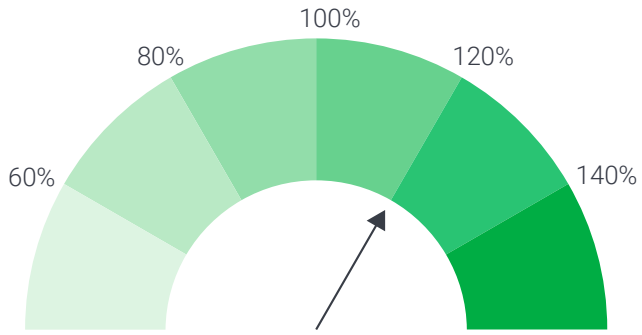
Absolute return investing allows for a flexible approach, utilising a wide range of instruments and strategies, combining long and short investments and derivatives, to capitalise on market inefficiencies. These strategies often incorporate sophisticated risk management techniques, such as hedging and dynamic asset allocation, which can help to mitigate downside risk and preserve capital in volatile markets. The flexibility to go long or short at a stock or sector level, depending on market conditions, can be a powerful tool during periods of high volatility.

Actively managed absolute return strategies have the flexibility to adjust both gross and net exposure, and can employ leverage to increase or reduce market participation, depending on the level of conviction.

In an environment where investors are focused on drawdown preservation, absolute return strategies can cut gross exposure to mitigate volatility and adjust net exposure to take advantage of any downside opportunities. In a return-generating environment, characterised by a benign macroeconomic backdrop, there is the potential to increase gross exposure, and dial up net exposure to make the portfolio more sensitive to market movements (Exhibit 1).

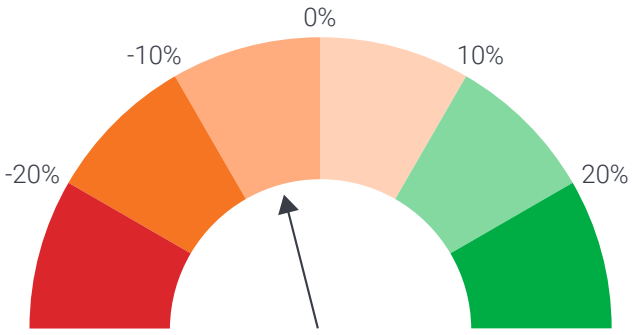
Exhibit 1: Absolute return strategies are highly adjustable to market conditions

GROSS EXPOSURE



Gross exposure is the total sum of long positions AND short positions. A figure above 100% indicates that the fund is using leverage to amplify the impact of its positions on performance

NET EXPOSURE



Net exposure is the total sum of long positions MINUS short positions. A figure of 0% means a fund is market neutral, with stock selection (rather than market direction) driving performance

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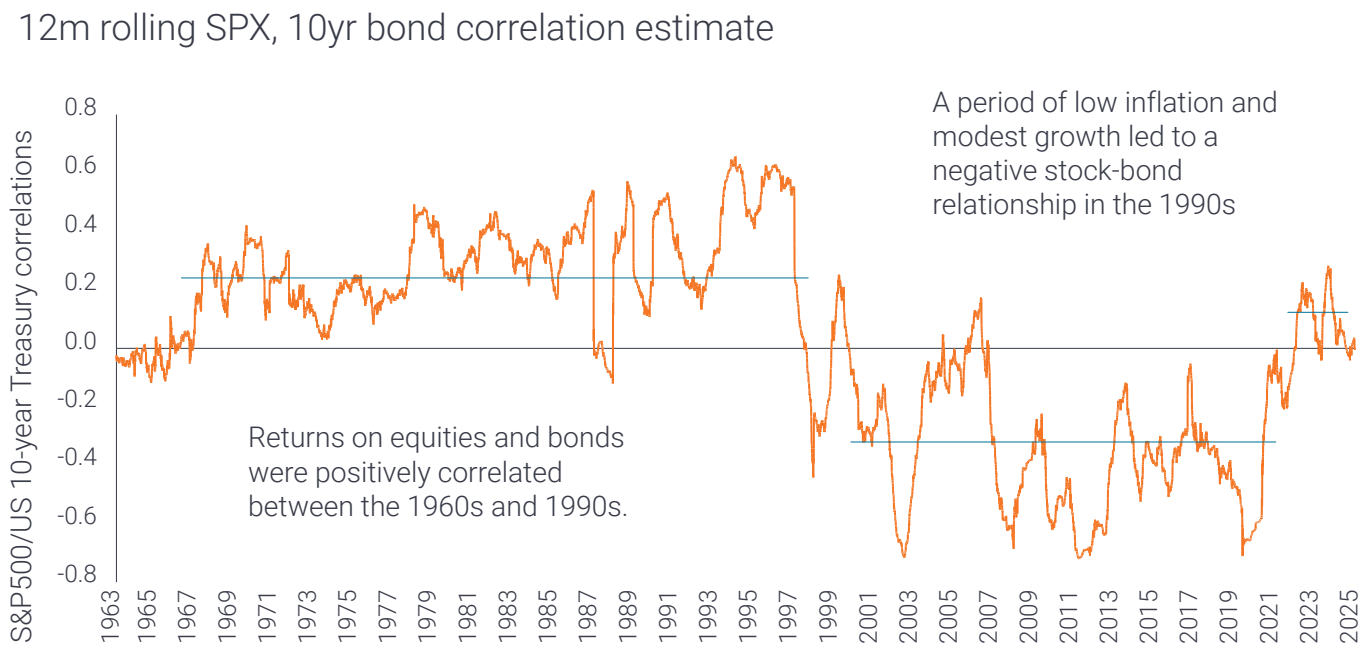
2. Portfolio diversification

Absolute return strategies offer truly diversified return streams, by targeting minimal correlation to equity markets, reducing reliance on overall market gains. This uncorrelated profile enhances portfolio resilience, bolstering a portfolio's stability and helping to offset equity market risk.

This concept has been the foundation for 'off the shelf' multi-asset solutions for most of the past three decades, built around a core portfolio of equities, bonds (and cash). Throughout most of this period, returns from equities and bonds have been negatively correlated, helping to 'smooth' the effects of market volatility across a portfolio. Since late 2022, however, this relationship has broken down (Exhibit 2), suggesting that a simple allocation to equities and bonds might be less effective at diversifying portfolios in future.

This is where an allocation to absolute return can help to improve diversification across a balanced portfolio, offering a return path that is uncorrelated with either equities or bonds over time.

Exhibit 2: Are equities and bonds still a reliable diversifier?



Source: Bloomberg, Janus Henderson Investors analysis, as at 17 October 2025. Rolling 12-month correlations between the S&P 500 Index and US 10-year Treasury bonds, based on daily data.



3. Performance consistency

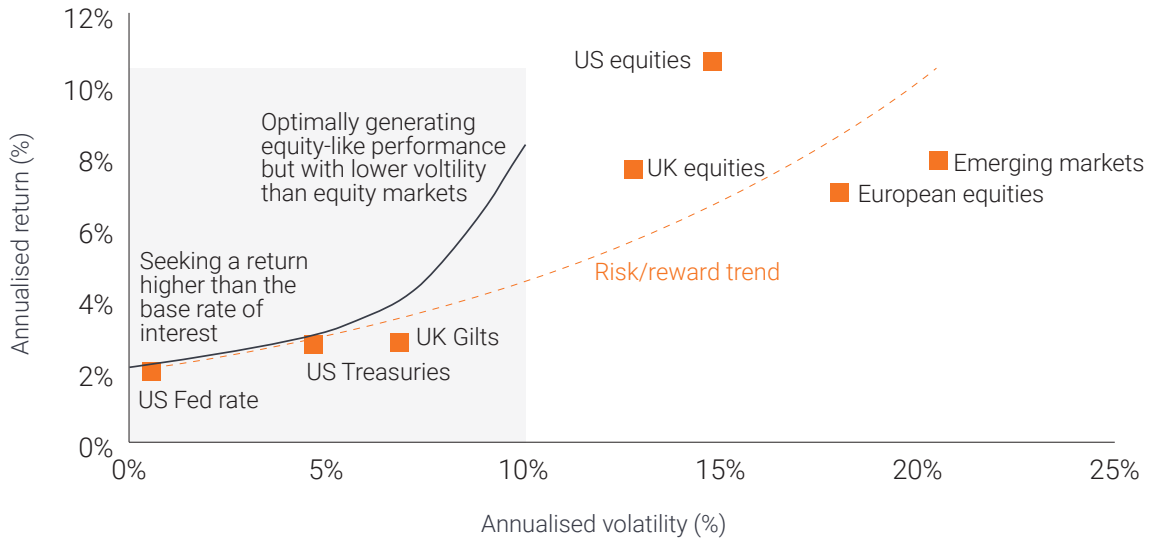
Absolute return equities strategies aim to generate positive returns regardless of market direction. If managed well, they can help to protect capital in volatile or negative markets, whilst still benefiting from some of the upside when market conditions improve.

This is not a guarantee of positive returns, but rather a type of investment strategy that has the potential to deliver more consistent performance over time, utilising exposure to equities in a more dynamic form. They should offer smoother performance, with lower volatility, than more traditional 'long' equities strategies, which can be an attractive characteristic for investors uncomfortable with large market swings.

These kinds of funds are also often benchmarked against the returns available on cash, given their absolute return objective (ie. a return of greater than 0% over time). Comparison with these two factors, equity markets and cash, can provide an illustration of the kind of volatility that absolute return funds might be expected to display.

Overall, a typical equities absolute return strategy might expect to see equity-like returns over the longer term, while exhibiting around half the volatility of the market, although this can vary. It would not be surprising to see these funds lag during particularly strong periods for equity markets, but consequently mitigate some of the falls during more volatile environments. Please note that past performance does not predict future returns. 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.

Exhibit 3: Targeting higher returns than a benchmark, with lower volatility than equities



Source: Janus Henderson Investors, 1 March 2004 to 31 August 2025. Chart shows returns and volatility for a number of equity and fixed income indices to demonstrate relative historical performance across a range of asset classes.

For illustrative purposes and not indicative an of any actual investment. **Past performance does not predict future returns**



Luke Newman
Portfolio Manager

> "A well-managed absolute return strategy can offer an attractive risk-adjusted profile, with a relatively low level of sensitivity to equity markets and the potential for drawdown preservation in risk-off environments."

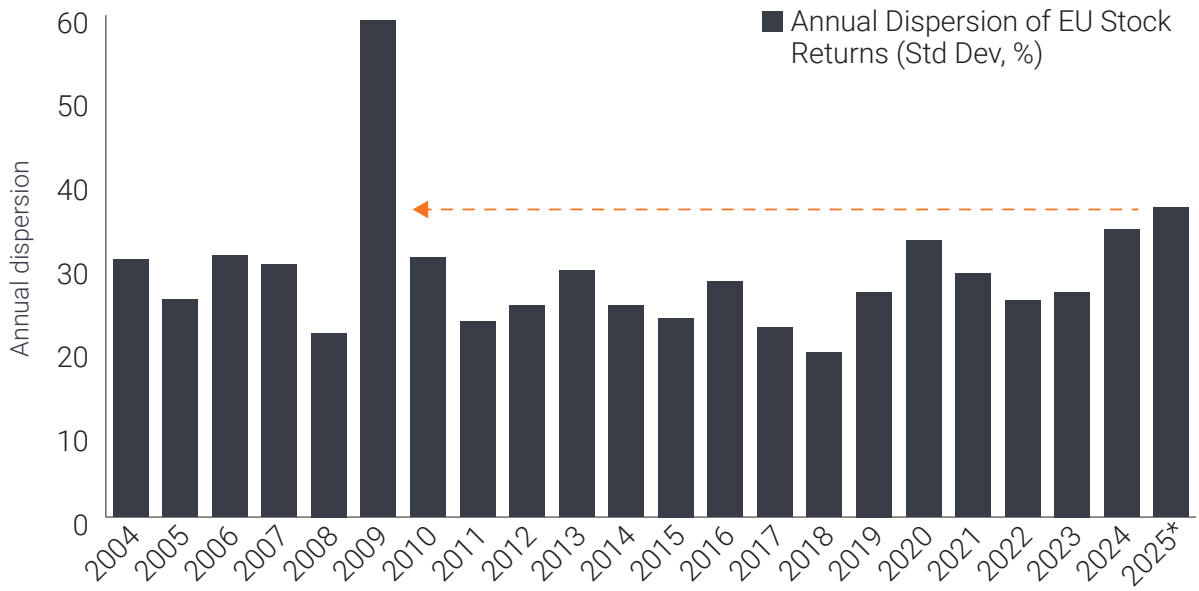
4. Stock price dispersion

Stock pricing dispersion has been picking up over the past couple of years. In 2024, we saw annual dispersion in stock returns reach its highest level since 2009.

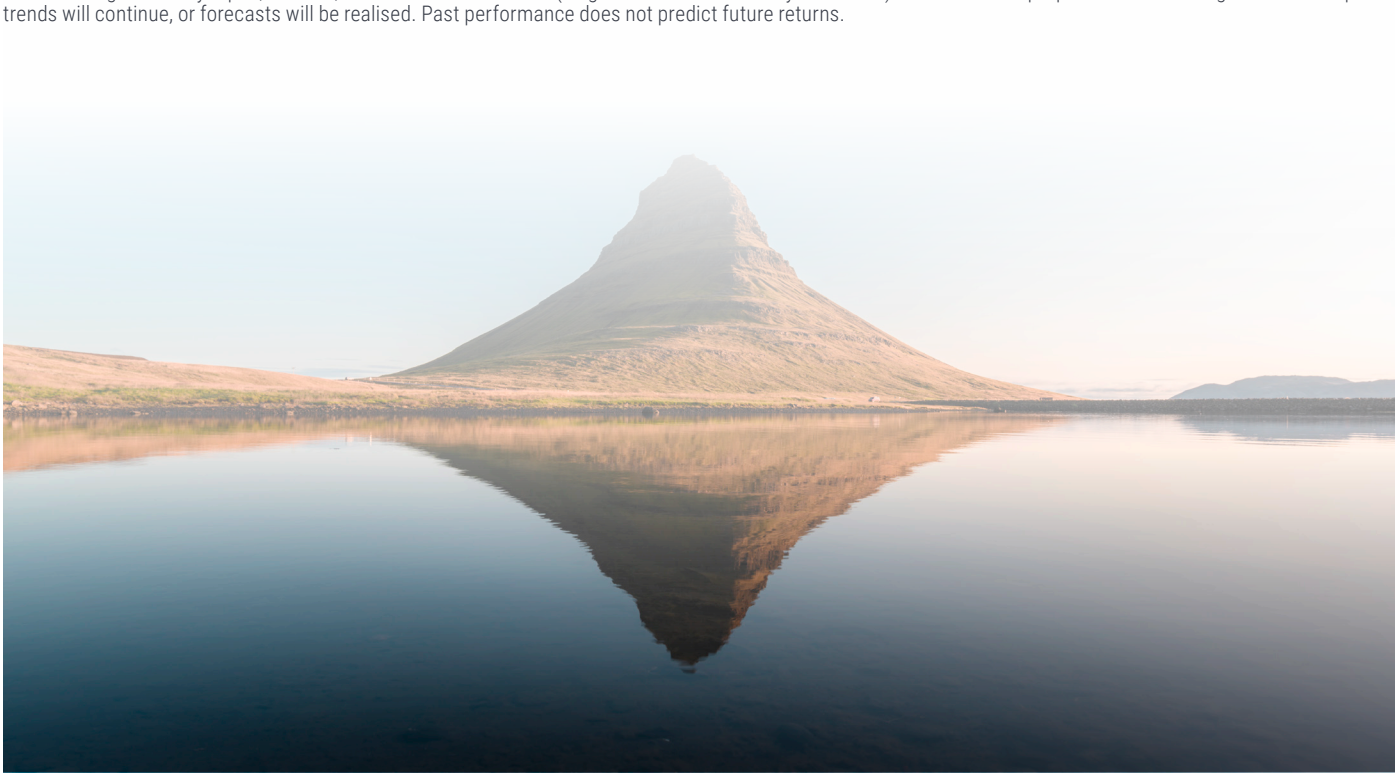
Absolute return strategies are designed to perform in all market conditions, but there are environments where that can be more of a challenge than others. In markets where prices move in tandem, where the correlation between stock price moves is high, and markets tend to be more macro-driven, alpha opportunities for absolute return strategies tend to be more limited.

However, the lower the correlation in share price movements, the greater the opportunity to find stocks capable of generating higher or lower returns than the market average. This is the kind of environment where bottom-up analysis and stock picking really matters, giving room for independent stock characteristics to play a bigger role, providing more opportunities to generate profits from long and short stock-picking ideas.

Exhibit 4: Stock price dispersion is at its highest level since 2009



Source: Morgan Stanley Alpha, FactSet, as at 30 November 2025 (* figure shown for 2025 is year to date). For illustrative purposes. There is no guarantee that past trends will continue, or forecasts will be realised. Past performance does not predict future returns.



5. The pairs trading opportunity – making a market neutral position work harder:

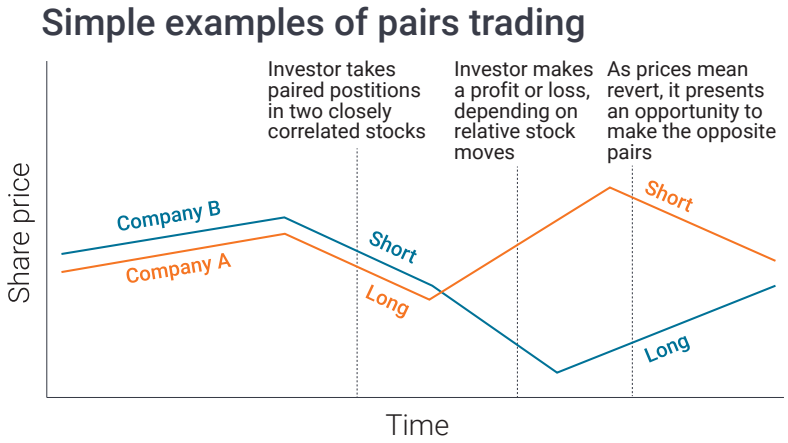
Long/short investing is not just a question of which call to make about going long or short on a stock, industry or sector. There are distinct characteristics to this asset class that provide investors with a broader tool set to generate performance.

One such tool is pairs trading, which involves taking a long position (buying) and a short position (selling) in two closely two similar (sometimes highly correlated) companies operating in the same industry. The purpose is to profit from any relative price movement between these two stocks, without adjusting exposure to a specific sector or industry (a so-called 'market neutral' position).

Example 5: How does pairs trading work?

Company A has an outsourcing beverages-focused strategy and syrups to independent bottlers.

Company B pursues a more diversified drinks and snacks strategy, with in-house production that gives it greater control over supply and distribution.



These are two similar consumer product businesses that might be expected to be affected by many of the same market factors. But depending on where an investigator sees the opportunity, in terms of pricing, profitability and market opportunity, they take a long position in the company they believe is undervalued, and a short position in the stock that they believe is overvalued.

Greater stock dispersion is creating significant opportunities for pairs trading. As divergences between individual stocks widen and occur more frequently, the range of returns expands, leading to more pronounced pricing inefficiencies.

The investment rationale for pairs trading can vary. It could be two stocks that have historically closely correlated, but where the investor has identified a factor that could lead to a divergence in how they perform in future. Or it could be two stocks that have fallen out of their historical correlation, but where the investor believes there is a strong case for mean reversion.

Profit or loss from this paired position depends on the direction in which these stocks move, with various combinations of outcome that could lead to profiting, or making a loss, from the trade – emphasising the importance of a disciplined stock selection process.

Conclusion

Uncertainty brings opportunity for investment strategies capable of operating on both the long and short sides of the market. An allocation to absolute return can potentially play a useful role in improving diversification across a balanced portfolio. The potential to participate in strong equity market performance, or to focus on capital preservation (reducing the impact of stock market uncertainty), where appropriate, might be worth consideration for those investors looking to chart a smoother path through uncertain times.

As a non-correlated asset class, absolute return strategies offer investors a flexible and resilient approach to navigating today's unpredictable financial landscape. Their adaptability, and access to a range of diverse tools and sophisticated risk management techniques can help them to capitalise on stock price dispersion and offer the potential to generate performance throughout the market cycle, making them a valuable component within a balanced portfolio, enhancing overall portfolio resilience and potentially improving risk-adjusted returns.

Glossary:

Alpha: Market alpha is a measure of the difference between the return on a stock (security) relative to a benchmark index or its industry peers after adjusting for the level of risk taken. Positive alpha indicates that the investment has outperformed.

Correlation: How far the price movements of two variables (e.g., equity or fund returns) move in relation to each other. A correlation of +1.0 means that both variables have a strong association in the direction they move. If they have a correlation of –1.0, they move in opposite directions. A figure near zero suggests a weak or non-existent relationship between the two variables.

Equity long/short investing: An investment strategy that uses both long and short positions. The intention is to profit from combining long positions in assets in the expectation that they will rise in value, with short positions in assets expected to fall in value. This type of investment strategy has the potential to generate returns regardless of moves in the wider market, although returns are not guaranteed.

Inflation: The rate at which the prices of goods and services are rising in an economy. The consumer price index (CPI) and retail price index (RPI) are two common measures.

Leverage: This can mean borrowing used to increase exposure to an asset/market, either in the form of cash, or by using financial instruments such as derivatives to simulate the effect of borrowing for further investment in assets. Leverage is also an interchangeable term for gearing - the ratio of a company's debt to the value of its ordinary shares. Higher leverage equates to higher debt levels.

Long position: A security that is bought with the intention of holding over a long period in the expectation that it will rise in value.

Market neutral investing: A strategy that seeks to offset different positions in similar companies, by taking long or short positions, thereby minimising or removing any change in exposure to market risk. This approach focuses on stock selection, rather than seeking to benefit from broad market movements.

Pairs trade: A trade that matches a long position with a short position in two highly correlated securities (or assets) with the aim of profiting from an identified deviation (or reversion) in that correlation.

Risk-adjusted return: A calculation of an investment's return or potential return that takes into account the amount of risk required to achieve it. By improving risk-adjusted return, an investor seeks to reduce the amount of risk taken to achieve the same (or similar) return.

Short position (shorting): Fund managers use this technique to borrow then sell what they believe are overvalued assets, with the intention of buying them back for less when the price falls. The position profits if the security falls in value. Within UCITS funds, derivatives—such as CFDs—can be used to simulate a short position.

Stock pricing dispersion: How much the returns of each variable (eg. stocks in a benchmark) differ from the average return of the benchmark.

Volatility: The rate and extent at which the price of a portfolio, security, or index, moves up and down. If the price swings up and down with large movements, it has high volatility. If the price moves more slowly and to a lesser extent, it has lower volatility. The higher the volatility, the higher the risk of the investment.

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