COMMENTARY

# Janus Henderson Absolute Return Income Fund

October 2020

**For promotional purposes**
**For US Financial Professionals servicing non-US persons**

## Fund Managers Names

Nick Maroutsos, Daniel Siluk, Jason England

## Market environment

Global bond markets generated largely flat returns during the month, with some developed markets gaining ground while others -particularly the US - modestly fell. In all cases, however, bonds were buoyed by the narrowing of the difference between corporate bond yields and those on their risk-free government benchmarks. An increase in risk appetite in the early part of the month drove this, although the rally stalled later in the period. Investors took notice of improving economic data but were equally aware of an autumn surge in COVID-19 cases along with the looming US presidential election.

## Performance summary

The fund (A2 US dollar share class) outperformed its benchmark, the FTSE 3-month US Treasury Bill Index.

## Portfolio discussion

We seek to generate consistent returns by focusing on higher quality, shorter-dated credits that tend to offer attractive carry as they near maturity. Most of the fund's returns were attributable to its core of shorter-duration investment grade corporate credit with both narrowing spreads and the income generated from these securities contributing to performance. A late-month position aimed at hedging against corporate defaults as credit spreads inched wider also contributed. A position aimed at capitalising on dislocations in foreign currency markets modestly detracted, however.

We continue to closely monitor markets for signs of additional volatility. With central banks' commitment to accommodation and scant evidence of inflation, we maintained the fund's overall duration at roughly 1.80 years. We believe this is sufficiently conservative to account for our concerns surrounding long-term growth, corporate profitability and the effects of continued pandemic-related shutdowns.

## Manager outlook

We remain concerned over continued market turmoil and political divisiveness and, therefore, expect to maintain conservative risk exposure. Penalty rates for holding cash have become painful, thus we have made use of select short-term commercial paper in an attempt to maintain a relatively strong portfolio yield, while still providing a level of protection against market volatility. We have reduced - but still maintain - a degree of credit default protection and continue to keep interest rate duration in the 1.6 to 2.0 year range. We remain concerned that a longer than anticipated lockdown could stress corporate solvencies. This has driven us to be highly selective in deploying cash into new opportunities.

While we remain biased toward lower short-term interest rates, it seems these have already been priced into markets and we have little conviction in the overall direction of interest rates or equities from where we stand today. While talk of negative rates in the US might be premature, we believe low short-term rates are a given for at least the next 12 to 18 months. We are not believers in the consensus view that a steeper yield curve is inevitable as massive deficits fuel record Treasury bond issuance. Lessons from Japan and Europe demonstrate that longer-term deflation risks combined with central bank purchases are likely to override supply concerns.

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We remain strongly in favour of investment grade issuers, biased toward shorter-dated securities, and continue to avoid more volatile or higher beta sectors such as commodities, energy, gaming, tourism and autos, as well as the regions worst affected by COVID-19. That said, we see wide dispersion within certain sectors. This should create pricing anomalies that we hope to exploit. We maintain only a modest exposure to China (and only in US dollar-denominated quasi-sovereign issuers) and otherwise nothing in emerging markets. Our portfolio can be simply split across three major areas which are financials (around 40%), corporates (around 30%) and mortgage-backed securities (around 20%) with the remainder in cash.

Geographically, we continue to maintain a roughly two-thirds bias to Australian issuers, notably given they still offer better relative value compared to international peers. Over time, if the relative value position moderates, we would look for opportunities to reduce this. We have no greater concern with default risk across any portfolios we manage than we did before the market turmoil began.

For the coming period our main goal is to protect the portfolio from another surprise sell-off in risk assets and a widening of corporate bond spreads.

Source: Janus Henderson Investors, as at 31 October 2020

# Janus Henderson Absolute Return Income Fund

## Fund information

| | |
|---|---|
| **Index** | FTSE 3-Month US Treasury Bill Index |
| **Morningstar sector** | EAA OE Alt - Long/Short Credit |
| **Objective** | The Fund aims to provide positive, consistent returns (although not guaranteed) above those that would be earned on cash deposits over time. |
| **Performance target** | To outperform the FTSE 3-Month US Treasury Bill Index by at least 2% per annum, before the deduction of charges, over any 5 year period. |

## Performance in (USD)

| Performance % | A2 (Net) | Index | A2 (Gross) | Target (Gross) |
|---|---|---|---|---|
| 1 month | 0.1 | 0.0 | - | - |
| YTD | 1.5 | 0.6 | - | - |
| 1 year | 1.8 | 0.9 | - | - |
| 3 years (annualised) | 2.1 | 1.6 | - | - |
| 5 years (annualised) | - | - | - | - |
| 10 years (annualised) | - | - | - | - |
| Since inception 04 May 2016 (annualised) | 1.8 | 1.2 | - | - |

Source: at 31 Oct 2020. © 2020 Morningstar. All rights reserved, performance is with gross income reinvested. Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period.

| Calendar year returns % | A2 (Net) | Index | A2 (Gross) | Target (Gross) |
|---|---|---|---|---|
| 2019 | 3.9 | 2.3 | 5.1 | 4.3 |
| 2018 | 0.8 | 1.7 | 2.0 | 3.7 |
| 2017 | 1.7 | 0.8 | 3.0 | 2.9 |
| 2016 | - | - | - | - |
| 2015 | - | - | - | - |

Source: at 30 Sep 2020. © 2020 Morningstar. All rights reserved, performance is with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

Source for target returns (where applicable) – Janus Henderson. Where quartiles are shown, 1st quartile means the share class is ranked in the top 25% of share classes in its sector.

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

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**For further information on the Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com.**

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**The information in this commentary does not qualify as an investment recommendation.**



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