COMMENTARY

Janus Henderson Flexible Income Fund

May 2020

For promotional purposes
For professional investors only

Fund manager names: Greg Wilensky and Michael Keough

Investment Environment

Data on the spread of COVID-19 was generally stable across the US and materially improved in some states. This, together with increased optimism around the timing of possible vaccines, resulted in diminished uncertainty and worst-case scenarios were deemed less likely. The recovery in US corporate bond markets continued over the month, bolstered by a gradual reopening of the US economy and the implementation of the various Federal Reserve (Fed) bond buying programs announced in prior months. The Fed's commitment to purchase corporate bonds and structured securities supported spread tightening and encouraged new issuance. The primary market remained vibrant, extending the record-setting issuance begun during the crisis and surging to over $1.1 billion year-to-date by the end of May. The generally successful new issuance market helped to improve secondary market liquidity in many – but not all – sectors and industries.

Improving market sentiment reduced demand for safe-haven buying, but Fed purchases kept yields from rising. The yield on the 10-year Treasury rose one basis point to end the month at 0.65%, and the yield curve was similarly stable, with the spread between the 2-year and 10-year Treasury steepening five basis points.

Portfolio Attribution

The fund (I US dollar accumulation share class) returned 1.3%, while the Bloomberg Barclays US Aggregate Bond Index returned 0.5%.

The fund's investment grade corporate bond allocation drove outperformance, with both our overweight position and strong security selection contributing to relative results. As credit spreads generally tightened over the period, our allocations to mortgage-backed securities and high yield corporate bonds further added to returns. At the sector level, exposure to the technology and aerospace and defence sectors contributed to the fund's outperformance. Boeing – which raised substantial new capital last month – added to returns, as did our position in General Motors as its securities saw a strong recovery over the period.

Our lack of exposure to government-related securities, which include government agency debt as well as debt issued by state-owned firms, detracted. Our zero weight in certain emerging market bonds that performed well in this category hindered returns. At the sector level, positioning in cable and satellite underperformed, with an overweight position in Charter Communications weighing on results.

Market Outlook & Investment Approach

Market sentiment has improved significantly since the apex of the crisis in March. Fed purchases have helped improve bond market liquidity and the slow reopening of the US economy – so far without a corresponding surge in new cases of COVID-19 – has helped reduce volatility. Nevertheless, the economic impact has been substantial, and the path of recovery remains unclear. We have already seen a significant migration of A-rated companies downgraded to BBB, and we expect in excess of $250 billion in fallen angels before early next year as companies face weaker cash flows and lower profitability.

In our view, volatile environments like this create opportunities for active managers, but in-depth security analysis is paramount. Where we have added to corporate bond exposure, it has primarily been focused on defensive, higher quality companies. While we did increase our high yield allocation as the period progressed, we were highly selective, focusing on the high quality spectrum of that market and credits that we believe are better positioned should the recession persist longer than the market assumes. We remain equally selective in the structured securities market, focusing on specific issuers or issues in various mortgage-backed and asset-backed securities.

We continue to expect the Fed will hold interest rates steady for the foreseeable future, resulting in relatively range-bound Treasury yields. The magnitude of recent stimulus measures may eventually spark concerns about the size of the deficit and rising inflation, causing interest rates to rise and the yield curve to steepen, but in the months ahead, this will likely be largely offset by uncertainty around the economic outlook and the sheer volume of securities the Fed is buying.

While we do not assume markets will return to pre-crisis levels anytime soon, wider credit spreads in aggregate increase the probability of higher future returns in our view. We will continue to adhere to our philosophy and process that have allowed us to navigate these and other turbulent conditions. That is, constructing diversified portfolios driven by bottom-up fundamental research and actively managing through the evolving environment with a disciplined risk management overlay.

Source: Janus Henderson Investors, as at 31 May 2020

Janus Henderson Flexible Income Fund

Fund information

Index Bloomberg Barclays U.S. Aggregate Bond
Morningstar sector Morningstar Europe OE USD Diversified Bond
Objective The Fund aims to provide a return, from a combination of income and capital growth, while seeking to limit losses to capital (although not guaranteed) over the long term.
Performance target To outperform the Bloomberg Barclays US Aggregate Bond Index by 1.25% per annum, before the deduction of charges, over any 5 year period.

Performance %	I Acc (Net)	Index	Sector	Quartile ranking	I Acc (Gross)	Target (Gross)
1 month	1.3	0.5	0.3	1st	-	-
YTD	5.2	5.5	2.2	1st	-	-
1 year	10.0	9.4	5.7	1st	-	-
3 years (annualised)	4.7	5.1	3.2	1st	-	-
5 years (annualised)	3.5	3.9	2.7	2nd	4.3	5.2
10 years (annualised)	-	-	-	-	-	-
Since inception (annualised)	3.4	3.3	2.4	-	4.1	4.6

Source: at 31 May 2020. performance is with gross income reinvested.

Discrete year performance %	I Acc (Net)	Index	Sector	I Acc (Gross)	Target (Gross)
31 Mar 2019 to 31 Mar 2020	6.3	8.9	4.2	7.2	10.3
31 Mar 2018 to 31 Mar 2019	3.7	4.5	2.8	4.5	5.8
31 Mar 2017 to 31 Mar 2018	0.7	1.2	1.6	1.5	2.5
31 Mar 2016 to 31 Mar 2017	1.1	0.4	0.9	1.8	1.7
31 Mar 2015 to 31 Mar 2016	0.5	2.0	0.6	1.2	3.2

Source: at 31 Mar 2020. 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.

Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period.

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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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.

Janus Henderson Flexible Income Fund

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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