

Janus Henderson High Yield Fund

Q2 2020

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For professional investors only

Fund manager names: Seth Meyer CFA and Brent Olson

Investment Environment

The Bloomberg Barclays US Corporate High Yield Bond Index generated a strong return during the second quarter as high yield spreads (the additional yield offered over a comparable US Treasury) retraced much of the widening that occurred in the first quarter. In April, the Federal Reserve (Fed) committed to buying high-yield bond exchange-traded funds (ETFs) and securities recently downgraded from investment grade. The announcement provided support to a number of recent fallen angels and ignited strong performance across the high-yield market. Market sentiment was further buoyed by initial progress in containing COVID-19, signs of a bottoming in the US economy as states began to reopen and a recovery in oil prices. Energy names led the index higher.

Portfolio Attribution

The fund returned 9.7% compared with a 10.2% return for the fund's benchmark, the Bloomberg Barclays US Corporate High Yield Bond Index.

When the Fed announced its support for the high yield bond market – a first for the world's central banks – valuations adjusted quickly. The restoration of liquidity to the market that finances the lowest credit rating tiers of the corporate bond universe required a reassessment of the expected default rate priced in during the previous quarter. Spreads collapsed commensurately as prices rose, initially in the largest and highest-quality companies in the market and then in lower-quality and lower-rated securities as the quarter progressed and the market gained confidence.

We began adding risk early in the quarter and increased our pace amid the reopening of economies and positive developments in COVID-19 treatments. We sought out opportunities in sectors and securities that were more challenged, but, in our view, could still navigate the uncertain economic landscape. With spreads in many high yield bonds at their widest levels in a decade, we identified what was, in our view, an abundance of attractive relative-value opportunities.

While our security selection was a strong positive contributor for the period, we did not anticipate the Fed would lend support to the high yield market and were slow to establish positions in some of the first quarter's fallen angels, such as Occidental Petroleum and Western Midstream Partners. This hesitation held the portfolio back after the Fed's announcement that it would support companies downgraded from investment grade. Our general underweight position across energy names further weighed on results as oil prices recovered from April's negative low. An out-of-index allocation to investment grade securities, which in aggregate underperformed high yield, also detracted on a relative basis.

Exposure to midstream energy, including positions in NGL Energy Partners and Tallgrass Energy Partners, benefited from the recovery in oil prices. Positioning in the more defensive food and beverage sector also aided relative results, with Dole Food Company among the fund's top single-name contributors.

Market Outlook

We are comforted by the Fed's commitment to support bond markets and anticipate fiscal authorities will continue intervening as needed. With this support, we expect US economic growth to accelerate off recent lows for the next few quarters. Still, the path to recovery remains littered with uncertainties, and we think it will take years before the economy fully recovers. The restoration of liquidity in the high yield market has been rapid by historical standards given the Fed's intervention, but that too will take time to fully normalise.

Although market sentiment has improved markedly, high yield spreads over Treasuries ended the second quarter closer to longer-term averages and still wide of pre-crisis levels. In our view, this leaves opportunity for active fixed income managers in the year ahead. But we do not expect volatility to fade. COVID-19 and its economic impact remain the most pressing concern, and other risks to market sentiment are also on our radar such as a resumption of trade tensions with China and the upcoming US elections, to name two.

We continue to believe sector and security selection will offer both opportunities and risks, and thus expect to remain diversified between the more cyclical and noncyclical sectors in the high yield bond market. Sectors particularly sensitive to the economic outlook are vulnerable to an extended recession and require careful security

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selection. As we navigate these uncertainties, we will continue to adhere to our bottom-up, research-driven investment process with a focus on taking the right amount of risk throughout the cycle.

Source: Janus Henderson Investors, as at 30 June 2020

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Fund information

Index	Bloomberg Barclays U.S. Corporate High Yield Bond Index
Morningstar sector	Morningstar Europe OE USD High Yield Bond
Objective	The Fund aims to provide a high income with the potential for some capital growth over the long term.
Performance target	To outperform the Bloomberg Barclays U.S. Corporate High Yield 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	0.8	1.0	0.8	2nd	-	-
YTD	-5.4	-3.8	-4.8	3rd	-	-
1 year	-1.1	0.0	-1.6	2nd	-	-
3 years (annualised)	2.6	3.3	2.0	2nd	-	-
5 years (annualised)	3.7	4.8	2.8	1st	4.6	6.1
10 years (annualised)	5.8	6.7	5.1	1st	6.8	8.0
Since inception (annualised)	6.1	7.1	5.0	-	7.1	8.4

Source: at 30 June 2020. © 2020 Morningstar. All rights reserved, performance is with gross income reinvested.

Discrete year performance %	I Acc (Net)	Index	Sector	I Acc (Gross)	Target (Gross)
30 Jun 2019 to 30 Jun 2020	-1.1	0.0	-1.6	-0.2	1.3
30 Jun 2018 to 30 Jun 2019	7.3	7.5	5.9	8.2	8.8
30 Jun 2017 to 30 Jun 2018	1.7	2.6	1.8	2.6	3.9
30 Jun 2016 to 30 Jun 2017	10.4	12.7	10.4	11.3	14.1
30 Jun 2015 to 30 Jun 2016	0.6	1.6	-1.8	1.5	2.9

Source: at 30 June 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.

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.

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