Janus Henderson INVESTORS

# JANUS HENDERSON CAPITAL FUNDS PLC - JANUS HENDERSON HIGH YIELD FUND

A2 USD ISIN IE0004446971

## At a glance

**Performance**
The Fund returned −0.83%, the Index returned 0.30% and the Sector returned 0.29%.

**Contributors/detractors**
High yield corporate bond security selection was the biggest detractor, led by technology holdings. Off-benchmark allocations to common stock and convertibles also weighed on performance, while yield curve positioning contributed.

**Outlook**
With earnings growth holding up and yields above 8% again, we believe a patient approach that invests selectively can offer potential rewards for investors over the long term.

## Portfolio management


**Tom Ross, CFA**


**Brent Olson**


**Brad Smith**

## Investment environment

- US high yield corporate bonds eked out a positive return but underperformed other fixed income markets as demand for safe-haven Treasuries surged in the wake of a sell-off in the technology sector. Gains were capped by concerns about inflation as Houthi attacks on Saudi Arabia broadened the Middle East conflict and lifted oil prices.
- Having hiked rates last month, the US Federal Reserve (Fed) left the federal funds rate unchanged at 3.75% to 4.00%. Although Fed Chair Kevin Warsh gave away few policy clues, the Fed upgraded its description of US economic growth to “strong” from “solid”. At the end of the month, futures markets were pricing in another 25-basis point (bps) rate hike in December.
- US economic data was mixed. While non-farm payrolls added a weaker-than-expected 29,000 jobs in September, with the unemployment rate ticking up to 4.2%, the annual headline inflation rate accelerated to 3.7%. Core inflation, which excludes volatile food and energy prices, jumped to 2.6%.
- The 5-year US Treasury yield ended the month 38 bps lower at 4.71%. The yield differential (spread) between US high yield corporate bonds and government bonds widened by 29 bps to 340 bps amid concerns over the sustainability of the artificial intelligence (AI) investment boom.

## Portfolio review

Security selection in high yield corporate bonds was the biggest detractor from performance, led by holdings in the technology services, software and leisure sectors. Off-benchmark allocations to common stock and convertibles also weighed on performance as risk premiums rose, penalising our overweight credit-spread risk positioning.

The off-benchmark allocation to loans contributed, as did yield-curve positioning, which benefited from curve flattening and a fall in yields, even as duration stayed close to the benchmark. Security selection in the gaming and media entertainment sectors also contributed.

We increased the overweight credit-spread risk during the period, while continuing to steer clear of the most distressed corporate bonds. We did this by cutting back the loan allocation and adding to common stock. We also increased the off-benchmark allocation to investment grade bonds and see current starting yields as an attractive entry point for high yield bonds. With earnings growth holding up and yields above 8%, which is roughly a percentage point higher than a quarter ago, we believe a

**Marketing communication**
**Past performance does not predict future returns.**
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patient approach that invests selectively can offer rewards for high yield investors over the long term.

At the individual issuer level, the biggest detractor was Six Flags Entertainment following a fatal accident at one of its rollercoasters, which forced it to close nine rides. Lifepoint Health was another notable detractor. Discovery Communications, now part of Skydance, and Churchill Downs, were among the leading contributors.

## Manager outlook

US fixed income markets have been more volatile since the Fed confirmed the start of a monetary policy tightening cycle in September by raising interest rates for the first time in more than three years. In addition to the prospect of higher rates, markets are still adjusting to life under Fed Chair Warsh, as he seeks to build credibility through delivery rather than the forward guidance investors have grown accustomed to. This is contributing to short-term uncertainty around rates. With the US economy holding up, market pressure does not appear to be coming from any change in credit fundamentals, which largely remain sound.

The range of possible rate outcomes in the coming year feels unusually broad. On the one hand, a fresh flare-up in the Strait of Hormuz could send oil prices surging further and harm economic growth. On the other, a meaningful resolution to the US-Iran conflict could bring oil prices sharply lower again, easing the supply-side pressures on inflation. This opens very different scenarios, even if further gradual monetary policy tightening by the Fed appears to be the most likely rates trajectory for now. We are also keeping a watchful eye on the pace of investment in AI, in case it slows significantly – and more so in the wake of the US mid-term elections, given growing political opposition to the data-centre build-out.

Positioning for extreme potential outcomes, or fat tail risks, is a challenge. However, instead of leaning in any one direction, our inclination is to seek to maximise income for each unit of risk while we await greater clarity. After all, carry comprises most of the long-term return from high-quality fixed income and, with yields where they are, income potential may compare favourably with equities on a risk-adjusted basis. This means paying close attention to interest-rate risks, particularly when different fixed-income markets move in unison, which makes duration a less reliable hedge.

In our view, market volatility driven by rate uncertainty, rather than weaker fundamentals, should not unduly damage the outlook for high yield bonds. As long as company default rates stay low and third-quarter earnings hold up, we believe there are strong grounds for thinking credit markets can weather higher interest rates. In this environment, we continue to favour companies driving innovation, particularly in the power sector. If spreads widen further, we have the wiggle room to continue to add to our core high yield holdings.

## Performance (%)

| | Cumulative | | | | Annualised | | |
|---|---|---|---|---|---|---|---|
| **Returns** | **1 Month** | **3 Month** | **YTD** | **1 Year** | **3 Year** | **5 Year** | **10 Year** |
| A2 USD (Net) with sales charge | -5.79 | -7.17 | -5.65 | -4.81 | 5.98 | 0.38 | 2.52 |
| Index | 0.30 | -1.28 | 0.40 | 1.56 | 8.56 | 3.70 | 5.04 |
| Sector | 0.29 | -1.15 | 0.11 | 1.21 | 7.41 | 2.69 | 3.83 |
| A2 USD (Net) | -0.83 | -2.28 | -0.69 | 0.20 | 7.81 | 1.41 | 3.05 |

| **Calendar year** | **YTD at Q3 2026** | **2025** | **2024** | **2023** | **2022** | **2021** |
|---|---|---|---|---|---|---|
| A2 USD (Net) | 0.14 | 8.13 | 7.02 | 10.34 | -16.19 | 4.41 |
| Index | 0.10 | 8.62 | 8.19 | 13.44 | -11.19 | 5.28 |
| Sector | -0.19 | 7.59 | 6.75 | 11.09 | -11.11 | 3.99 |

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Fund charges will impact the value of your investment. In particular, the ongoing charges applicable to each fund will dilute investment performance, particularly over time. For further explanation of charges please visit our Fund Charges page at www.janushenderson.com.

Note that any differences among portfolio securities currencies, share class currencies and costs to be paid or represented in currencies other than your home currency will expose you to currency risk. Costs and returns may increase or decrease as a result of currency and exchange rate fluctuations.

**Past performance does not predict future returns.**

## Fund details

| | |
|---|---|
| **Inception date** | 24 December 1998 |
| **Total net assets** | $296.18m |
| **Asset class** | Fixed Income |
| **Domicile** | Ireland |
| **Structure** | Irish Investment Company |
| **Base currency** | USD |
| **Index** | Bloomberg U.S. Corporate High Yield Bond Index |
| **Morningstar sector** | USD High Yield Bond |
| **SFDR category** | Article 8 |

In accordance with the Sustainable Finance Disclosure Regulation, the Fund is classified as Article 8 and promotes, among other characteristics, environmental and/or social characteristics, and invests in companies with good governance practices.

## Investment objective

The Fund aims to provide a high income with the potential for some capital growth over the long term. The Fund invests at least 80% of its assets in debt securities or preference shares (non-investment grade) issued by US issuers or companies.

### Fund specific risks

An issuer of a bond (or money market instrument) may become unable or unwilling to pay interest or repay capital. If this happens or the market perceives this may happen, the value of the bond will fall. When interest rates rise (or fall), the prices of different securities will be affected differently. In particular, bond values generally fall when interest rates rise (or are expected to rise). This risk is typically greater the longer the maturity of a bond investment. While high yield (non-investment grade) bonds generally offer higher rates of interest than investment grade bonds, they are more speculative and more sensitive to adverse changes in market conditions. High exposure to a particular country or geographical region carries a higher level of risk than a more broadly diversified portfolio. Derivatives may be used to help achieve the investment objective. This can result in leverage (higher levels of debt), which can magnify an investment outcome. Gains or losses may therefore be greater than the cost of the derivative. Derivatives also introduce other risks, in particular, that a derivative counterparty may not meet its contractual obligations. When the Fund, or a share/unit class, seeks to mitigate exchange rate movements of a currency relative to the base currency (hedge), the hedging strategy itself may positively or negatively impact the value of the Fund due to differences in short-term interest rates between the currencies. Securities could become hard to value or to sell at a desired time and price, especially in extreme market conditions when asset prices may be falling, increasing the risk of investment losses. The Fund may incur a higher level of transaction costs as a result of investing in less actively traded or less developed markets compared to a fund that invests in more active/developed markets. Some or all of the ongoing charges and other costs of the Fund may be taken from capital, which may erode capital or reduce potential for capital growth. In addition to income, this share class may distribute realised and unrealised capital gains and original capital invested. Fees, charges and expenses are also deducted from capital. Both factors may result in capital erosion and reduced potential for capital growth. Investors should also note that distributions of this nature may be treated (and taxable) as income depending on local tax legislation. Losses could be incurred if a counterparty became unwilling or unable to meet its obligations, or as a result of failure or delay in operational processes or the failure of a third party provider. The sustainability approach applied may exclude potential investments which do not meet certain criteria (e.g. non-financial criteria such as ESG screens). This may cause differences in performance compared to similar products that are permitted to invest in those investments.

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