

Janus Henderson High Yield Fund

December 2021

Marketing communication
For professional investors only

Fund Managers Names

Seth Meyer, CFA, Brent Olson

Market environment

The Bloomberg US High Yield Bond Index returned 1.9% in December. In a period when rising Treasury yields hampered most other fixed income asset classes, high yield bonds were favoured by investors due to their relatively lower degree of interest rate sensitivity, strong issuer fundamentals and healthy yields. Inflation measures continued to reflect the highest levels of inflation in decades and markets priced in a more aggressive path for interest rate hikes now that the US Federal Reserve (Fed) has shifted away from the term "transitory" inflation and announced plans to accelerate tapering. The yield on the 5-year Treasury note rose from 1.16% to 1.26% over the month. Nonetheless, high yield corporate bond spreads tightened considerably as markets came to terms with the shift in Fed policy and the COVID-19 Omicron variant was determined to be less disruptive to the economic recovery than initially feared.

Performance summary

The fund (class H2 US dollar shares) returned 2.2% while the Bloomberg US High Yield Corporate Bond Index returned 1.9%.

Portfolio discussion

Strong security selection drove relative outperformance, particularly within the highest rating tiers of high yield. Positioning within health care was beneficial, with an equity position in medical device manufacturer Boston Scientific among the top individual contributors. Gains were partially offset by exposure to floating-rate bank loans and a small allocation to investment grade corporates given the asset class generated negative returns for the month. A position in Bally's Corporation also detracted amid the uncertainty of Omicron's impact on the gaming industry.

Manager outlook

We remain optimistic for continued strength in the high-yield market. After borrowing substantial sums when the fed funds rate was relatively low (and 0% in 2020 and 2021), many high yield companies' liquidity profiles have improved significantly. Now, flush with cash and the expectations that income could potentially remain strong on the back of a still-recovering economy, more companies have begun the process of repairing their credit profiles.

Plus, the outlook for defaults has rarely looked so good. The current "stress ratio" (that is, the number of bonds trading below 80 cents on the dollar), which can be a great indicator of default rates, has improved dramatically in recent quarters. Indeed, we believe corporate bond defaults peaked in early 2020 and expect they will decline further in 2022. Simply put, when defaults are expected to be low, the relatively high yields being offered deserve the attention of active portfolio managers. While it helps that the Fed, as recently as 2020, signalled it would support the high yield market should a major crisis occur, we think the asset class' risk/reward profile remains a bright spot in an otherwise low-yielding/tight-spread world for government and corporate bonds.

Although periods of volatility should be expected given the uncertainties around the outlook for inflation, the path of interest rate hikes and the impact of current and future COVID-19 variants, we expect high yield bonds to continue to offer compelling risk-adjusted returns in a low-yield, rising-rate environment. Sustained, even if moderate, economic growth combined with a still-accommodative Fed and relatively few near-term maturities should provide support to the asset class in the quarters ahead. Additionally, as absolute yield levels remain high relative to government and other investment grade markets, high-yield bonds may provide an attractive income cushion to help absorb any volatility in Treasuries.

Source: Janus Henderson Investors, as at 31 December 2021

Janus Henderson High Yield Fund

Fund information

Index	Bloomberg U.S. Corporate High Yield Bond
Morningstar sector	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 U.S. Corporate High Yield Bond Index by 1.25% per annum, before the deduction of charges, over any 5 year period.

Performance in (USD)

Performance %	H2 (Net)	Index	Sector	Quartile ranking	H2 (Gross)	Target (Gross)
1 month	2.2	1.9	1.7	1st	-	-
YTD	5.6	5.3	4.0	1st	-	-
1 year	5.6	5.3	4.0	1st	-	-
3 years (annualised)	8.9	8.8	7.1	1st	-	-
5 years (annualised)	5.8	6.3	4.9	1st	6.6	7.6
10 years (annualised)	6.1	6.8	4.9	1st	7.0	8.2
Since inception 31 Dec 1999 (annualised)	6.3	7.1	5.4	-	7.2	8.4

Source: at 31 Dec 2021. © 2022 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.

Discrete year performance %	H2 (Net)	Index	Sector	H2 (Gross)	Target (Gross)
31 Dec 2020 to 31 Dec 2021	5.6	5.3	4.0	6.3	6.6
31 Dec 2019 to 31 Dec 2020	6.4	7.1	5.0	7.1	8.5
31 Dec 2018 to 31 Dec 2019	15.0	14.3	12.5	15.8	15.7
31 Dec 2017 to 31 Dec 2018	-3.0	-2.1	-3.0	-2.3	-0.9
31 Dec 2016 to 31 Dec 2017	6.1	7.5	6.6	7.0	8.8

Source: at 31 Dec 2021. © 2022 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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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 High Yield Fund

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www.janushenderson.com.

Benelux

Janus Henderson Investors
Tel: +31 20 675 0146
Fax: +31 20 675 7197
Email: info.nederlands@janushenderson.com

France/Monaco

Janus Henderson Investors
Tel: +33 1 53 05 41 30
Fax: +33 1 44 51 94 22
Email: info.europe.francoophone@janushenderson.com

Germany/Austria

Janus Henderson Investors
Tel: +49 69 86 003 0
Fax: +49 69 86 003 355
Email: info.germany@janushenderson.com

Dubai

Janus Henderson Investors
Tel: +9714 401 9565
Fax: +9714 401 9564
Email: JanusHenderson-MEACA@janushenderson.com

Hong Kong

Janus Henderson Investors
Tel: +852 2905 5188
Fax: +852 2905 5138
Email: marketing.asia@janushenderson.com

Italy

Janus Henderson Investors
Tel: +39 02 72 14 731
Fax: +39 02 72 14 7350
Email: info.italy@janushenderson.com

Latin America

Janus Henderson Investors
Tel: +44 20 7818 6458
Fax: +44 20 7818 7458
Email: sales.support@janushenderson.com

Nordics

Janus Henderson Investors
United Kingdom
Tel: +44 20 7818 4397
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

Singapore

Janus Henderson Investors
Tel: +65 6836 3900
Fax: +65 6221 0039
Email: marketing.asia@janushenderson.com

Spain/Portugal/Andorra

Janus Henderson Investors
Tel: +34 91 562 6172
Fax: +34 91 564 6225
Email: info.iberia@janushenderson.com

Switzerland

Janus Henderson Investors
Tel: +41 43 888 62 62 (Zurich office)
Tel: +41 22 810 82 89 (Geneva office)
Email: info.switzerland@janushenderson.com

United Kingdom

Janus Henderson Investors
Tel: +44 20 7818 1818
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

Janus Henderson High Yield Fund

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Janus Henderson High Yield Fund

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