

Janus Henderson Cautious Managed Fund

January 2021

For promotional purposes

Fund Managers Names

Philip Payne, CFA, Stephen Payne, ASIP

Macro backdrop

Markets paused for breath in January after a couple of ebullient months. UK equities were down -0.8%, in line with the move in global markets. Within the equity market the reflation-inspired rotation out of growth stocks into value also marked time. There is a lot of talk about bubbles in markets these days. To be honest, we see very little signs of such exuberance in the UK and indeed if anything the opposite as sentiment remains depressed. The clear value on offer in the UK equity market is attracting bid interest, notably from private equity, which has a lot of money to put to work. Within the fund, we have seen recent bid approaches for Entain, the gaming company, and Elementis, the chemicals business. These have not as yet come to fruition but their share prices have sustained notably higher levels as their inherent value has been highlighted.

Sterling consolidated its recent gains against the US dollar but moderately appreciated against the euro. Sterling investment grade bonds began the new year on a softer note, with the ICE BofAML Non-Gilt Index returning -0.9%. Returns were negatively impacted by a rise in government bond yields with spreads broadly flat over the month, which led to a small positive excess return for corporate bonds. The weakest returns came through telecoms due to concerns regarding the C-band auctions. Industrial and travel-related sectors also fared poorly; sentiment towards those more cyclical issuers that performed so well in late 2020 turned, driven by renewed lockdown measures and increased travel restrictions, which impacted airports in particular. Issuance in sterling was just over £5 billion, which is average for a January. However, despite strong order books, follow through demand was limited, highlighting the richer valuations across many sectors.

Fund performance and activity

The fund delivered a total return of -1.2% over the month, compared to the composite benchmark (50% FTSE All-Share & 50% ICE Bank of America ML 5-15 Year Sterling Non-Gilt Index) which fell 0.9%. The fund's IA Mixed Investments 20-60% peer group was down 0.4%.

Our equity portfolio lagged the broader UK market over the month as some of our value exposures consolidated recent gains, as did mid/small caps. Within financials, Beazley, the insurer, and Lloyds Bank were detractors. Royal Dutch and BP outperformed, where the fund has somewhat of an underweight position, while oil services holdings Wood Group and Hunting paused after strong performance of late.

We modestly trimmed a few mid/small caps early in the month, locking in some profits from the sharp moves in recent weeks. We also added some new positions in stocks that we believe could benefit from 're-opening' (the removal of COVID-19-related economic restrictions) in the form of Greencore, the food-to-go supplier, and Easyjet. We also bought Virgin Money, a mid-cap mortgage bank. At the end of the month we took profits in Cisco, which had risen rapidly with the frothy technology sector in the US market.

On the fixed income side, the fund benefited from its exposure to high yield issuers such as the Co-Operative Group and B&M. Subordinated debt issued by Nationwide Building Society added value, and holdings in Tesco bonds once again benefited from further liability management by the company, which tendered some of its outstanding debt. Holdings in telecoms, airports, insurance and REITS detracted.

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Outlook/strategy

The rally in the UK equity market and value stocks was impressive into the end of 2020, but in the context of recouping the underperformance in recent years, we believe there is still a lot more to go. UK equity valuations remain attractive by historical measures; earnings estimates are being upgraded and positioning is still favourable as global investors remain underweight. The economic backdrop of a sharp recovery as economies re-open, backed up by supportive monetary and fiscal policy, looks like a strong tailwind for equity markets. Inflation expectations are rising, leading to higher bond yields, which is conducive to the value rotation continuing. The UK equity market's structure is biased to value and so we would expect it should continue to benefit from this, as well as the conclusion of the Brexit process, removing an impediment for international investors considering the UK.

Hence, the fund remains very close to maximum weight in equities, with a value tilt. The bond portfolio is biased towards the lower-rated end of investment grade, with some high yield exposure where we still see some spread tightening scope.

Source: Janus Henderson Investors, as at 31 January 2021

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Fund information

Index 50% FTSE All Share + 50% ICE Bank of America ML Sterling Non Gilt Index
Index usage Target, Comparator

The 50% FTSE All Share + 50% ICE Bank of America ML Sterling Non Gilt Index is a composite index reflecting 50% exposure to shares listed on the London Stock Exchange and 50% exposure to corporate bonds. It forms the basis of the Fund's performance target and provides a useful comparison against which the Fund's performance can be assessed over time.

Peer group benchmark IA Mixed Investment 20-60% Shares
Peer group benchmark usage Comparator

The Investment Association (IA) groups funds with similar geographic and/or investment remit into sectors. The Fund's ranking within the sector (as calculated by a number of data providers) can be a useful performance comparison against other funds with similar aims.

Objective The Fund aims to provide a return, from a combination of income and capital growth over the long term.

Performance target To outperform the 50% FTSE All Share + 50% ICE Bank of America ML Sterling Non Gilt Index by 1.5% per annum, before the deduction of charges, over any 5 year period.

Performance in (GBP)

Performance %	I (Net)	Index	Peer group	Quartile ranking	I (Gross)	Target (Gross)
1 month	-1.2	-0.9	-0.4	4th	-	-
YTD	-1.2	-0.9	-0.4	4th	-	-
1 year	-2.3	-1.7	3.1	4th	-	-
3 years (annualised)	1.6	2.5	3.1	4th	-	-
5 years (annualised)	3.9	5.8	5.9	4th	4.6	7.4
10 years (annualised)	4.9	6.3	4.8	3rd	5.6	7.8
Since inception 03 Feb 2003 (annualised)	6.0	7.0	5.5	-	6.8	8.6

Source: at 31 Jan 2021. © 2021 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 %	I (Net)	Index	Peer group	I (Gross)	Target (Gross)
31 Dec 2019 to 31 Dec 2020	-1.2	-1.2	3.5	-0.5	0.3
31 Dec 2018 to 31 Dec 2019	13.2	14.3	12.1	14.0	16.0
31 Dec 2017 to 31 Dec 2018	-6.1	-5.3	-5.1	-5.4	-3.8
31 Dec 2016 to 31 Dec 2017	5.7	9.1	7.2	6.5	10.8
31 Dec 2015 to 31 Dec 2016	8.4	13.5	10.4	9.2	15.2

Source: at 31 Dec 2020. © 2021 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.

From 1 July 2020, the Fund's benchmark changed. Past performance shown before 1 July 2020 was achieved under circumstances that no longer apply.

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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