COMMENTARY

Janus Henderson Cautious Managed Fund

Q4 2020 **For promotional purposes**

Fund Managers Names

Philip Payne, CFA, Stephen Payne, ASIP

Macro backdrop

We think the fourth quarter of 2020 marked an important turning point for global markets. On a shorter-term horizon, the successful development of COVID-19 vaccines laid the groundwork for a re-opening of economies and a consequent strong cyclical recovery. However, there were also some important long-term shifts in market trends and dynamics. The inexorable decline in bond yields may well have finally turned, as yields rose through the quarter. The policy backdrop has notably changed, with the US Federal Reserve (Fed) shifting to a symmetrical inflation target (ie. it is willing to tolerate an overshoot beyond the 2% level). If you factor in COVID-19 triggering an end to austerity, governments engaging in substantial fiscal support - further bolstered in the US by Biden's election victory - this is a reflationary environment and inflation expectations are rising.

This has profound implications for the structure of markets going forward, with a reversal of the disinflationary era we have lived through for many years. Returns from bonds cannot be expected to match history from these levels. Within equity markets, this change of backdrop has led to the beginnings of a significant rotation away from growth stocks or bond proxies (shares that tend to behave similarly to bonds) and towards value and more economically sensitive cyclical names. This shift would typically favour more value-biased markets such as the UK and, combined with the end of the Brexit, leaves the UK very well positioned to sustainably outperform global markets in our view.

During the fourth quarter, the FTSE All-Share Index rose by 12.6%, outperforming the FTSE World Index by 4%, compared to a rise of only 6.1% for the S&P500 in the US. This was further supplemented by a continued recovery in sterling which gained 5.8% against the US dollar over the quarter. Within the UK equity market, gains were led by mid-cap stocks which were up 18.9%, and value stocks which rose 16.5%.

Bond markets produced respectable gains of 3.2% over the quarter, delivering the stable and steady returns for which they are held in the strategy. Sterling investment grade corporate bonds outperformed government equivalents as credit spreads continued to tighten as the prospects of economic recovery improved and ongoing government support limited adverse credit events.

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Fund performance and activity

The fund returned 10.6% over the quarter compared to the composite benchmark (50% FTSE All-Share & 50% ICE Bank of America Sterling Non-Gilt Index) which was up 8.0%. This amounted to top-decile performance within its IA Mixed Investment 20-60% peer group, where the median fund delivered 6.7%.

Asset allocation was a strong positive over the quarter as the fund had a notable overweight position to UK equities at the expense of bonds, given our view of better return prospects from the former in the next few years.

Our equity portfolio outperformed the market by over 3% as our shift into value stocks paid dividends. We added further value and cyclical exposure to the portfolio in October and this delivered in November when value stocks surged, thanks to the positive COVID-19 vaccine news. Top contributors to performance included Anglo American (mining), OSB Group (banking), National Express (transport), SSP Group (travel catering) and Just Group (life insurance). Our relative lack of exposure to expensive defensives such as AstraZeneca and Reckitt Benckiser was also beneficial. More defensive names, where we did retain some exposure, were a drag. These included Barrick Gold and pharmaceuticals firm Roche.

Activity in the equity portfolio was concentrated in October, accelerating the previous quarter's moves around increasing cyclical exposure. This was funded by reducing our exposure to bonds and certain more defensive equities. We bought positions in mid-cap cyclicals such as Morgan Sindall and Ibstock in the construction sector, Vesuvius (an early-cycle industrial) and Beazley, the insurance firm. We also added to large-cap value holdings such as Lloyds Bank, Royal Dutch Shell and Prudential. Among more defensive stocks we banked profits by reducing holdings in Barrick Gold, GlaxoSmithKline and National Grid, while closing the positions in Reckitt Benckiser, Pennon (water utility) and HICL Infrastructure.

The main contributors to performance on the bond side were holdings in financials, real estate and telecoms, with lower-rated bonds outperforming. UK banks and insurers shrugged off any uncertainty regarding the end of the Brexit transition period, with strong performance coming through holdings in NatWest, Nationwide and HSBC. Renewed appetite for cyclicals in November benefited our real estate holdings, with good performance coming from Aroundtown, Tritax Bigbox and Heimstaden Bostad (the latter being a new name added to the fund during the quarter). Vaccine news favoured airports such as Heathrow, where we increased exposure via a new deal. We took new positions in Gatwick Airport and Manchester Airport during the quarter. We also saw some positive movements from selected longer-maturity holdings in Vodafone, AT&T, EDF and Thames Water, as strong appetite from UK 'buy and maintain' investors continued to support the UK market.

In other fixed income trades we invested in new issues from Adler Group and Cofinimmo (real estate) and Travis Perkins and Athene, while increasing our exposure to HSBC, WPP, NWG, Verizon, EDF, and Tritax Bigbox through their inaugural Green Bond issues. Holdings in Mars, Unilever, CK Hutchinson ABN and Argenta were sold.

Outlook/strategy

The rally in the UK equity market and value stocks has been impressive in the last quarter but in the context of recouping their underperformance in recent years we believe there is still plenty to come. The economic backdrop of early-cycle recovery, with supportive monetary and now fiscal policy, is leading to rising bond yields, which is conducive to continued value rotation. The UK equity market's structure is biased to value and so we expect it should benefit from this, as well as the conclusion of the Brexit process, which has removed an impediment for international investors to allocate to the UK. Equity valuations in the UK remain very attractive by historical standards; earnings estimates are being upgraded and positioning is still favourable. The cyclical exposure we have added has the potential to benefit from both profit recovery and re-rating at the same time.

Our portfolio remains very close to maximum weight in equities, with a value tilt, while the bond portfolio is biased towards the lower-rated end of the investment grade scale, with some additional high yield exposure, where we still see some scope for spreads to tighten.

Source: Janus Henderson Investors, as at 31 December 2020

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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	2.3	2.7	1.9	1st	-	-
YTD	-1.2	-1.2	3.5	4th	-	-
1 year	-1.2	-1.2	3.5	4th	-	-
3 years (annualised)	1.7	2.3	3.2	4th	-	-
5 years (annualised)	3.8	5.8	5.4	4th	4.5	7.4
10 years (annualised)	5.0	6.3	4.8	3rd	5.8	7.9
Since inception 03 Feb 2003 (annualised)	6.1	7.1	5.6	-	6.9	8.7

Source: at 31 Dec 2020. , 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. , 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.

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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