Q&A on the changes to LIBOR

1. What is LIBOR, and why is it changing?

LIBOR stands for the London Inter-Bank Offered Rate, which is the interest rate at which banks estimate they would be able to borrow money for a short period of time from another bank. This rate plays a central role in the pricing of bonds, derivatives and loans, as well as in the performance evaluation of certain funds.

Global central banks recommended that LIBOR change following the financial crisis, due to the manipulation of the rate by some of the contributing banks.

2. How will LIBOR change?

There have already been some modifications to the LIBOR calculation methodology, such as switching from bank estimates of interest rates to actual transactions, and new administrators have been appointed to compile the LIBOR rates.

It is expected that LIBOR will progressively be replaced by other rates (known as "risk-free rates") in the coming months as follows:

- Sterling LIBOR will be replaced by SONIA, which is the Sterling Overnight Index Average.

  The UK Financial Conduct Authority ("FCA") has announced that it will no longer require banks to provide the estimates used to calculate Sterling LIBOR after 2021. In addition, the FCA and the Bank of England have set out their expectation that SONIA should be used to price all new derivatives from 2nd March 2020 and all new bonds and loans from 1st October 2020.

- Euro LIBOR will be replaced by €STR, which is the Euro Short-Term Rate.

- US Dollar LIBOR will be replaced by SOFR, which is the Secured Overnight Financing Rate.

  The transition to €STR and SOFR is not as advanced as the transition to SONIA. Nevertheless, it is expected that both rates will be used instead of LIBOR from 2022 onwards.

- Replacements have been found for LIBOR in other currencies, such as the Australian Dollar, Japanese Yen and Swiss Franc.

Even though the new risk-free rates have been determined, it is possible that LIBOR will continue to be published beyond the end 2021 deadline. Whether or not this happens will be determined by the regulator in charge of LIBOR, i.e. the FCA.

3. How is Janus Henderson preparing for the move away from LIBOR?

Janus Henderson has carried out a global assessment of the move away from LIBOR on our investment management activities worldwide. The impact on our clients is not currently considered to be material, based on the value of funds and institutional client mandates impacted by the transition.

A cross-functional project group is working to a timeline which sets out the high-level steps to transition away from LIBOR in an orderly manner. In addition, a system upgrade to enable trading in SONIA-based investments has been completed.

4. What will be the impact of the move away from LIBOR on my investments with Janus Henderson?

Some Janus Henderson funds invest in bonds or loans, or enter into derivative contracts, which use LIBOR as a reference rate. This exposure is currently being closely monitored, particularly for financial instruments which mature after 2021. Janus Henderson's experienced portfolio managers will actively consider the best action to take for LIBOR-based investments held by our funds well in advance of the end 2021 deadline.

In addition, certain Janus Henderson funds domiciled in the UK, Ireland and Luxembourg use LIBOR as a benchmark to evaluate the fund's performance and/or to calculate a performance fee. These funds will switch to a benchmark based on the new risk-free rates before end 2021.

Please contact your financial advisor should you have any questions about your investments.

5. What happens if my fund still holds bonds or loans that refer to LIBOR after 2021?

The high volume of existing bonds and loans which needs to be converted to the new risk-free rates means that the transition away from LIBOR may continue after 2021. Janus Henderson will work with its bank counterparts to ensure that the shift to the new risk-free rates for bonds and loans held by our funds is made in the best interest of our clients.

Should LIBOR no longer be published, bonds and loans which previously referenced LIBOR will continue to exist and simply switch to a different interest rate. This shift could potentially make it more difficult for Janus Henderson to sell these bonds / loans, as well as possibly affect the price received. It is too early to determine the exact impact that this change could have on a given fund, as that will depend on (a) the LIBOR-based investments which it holds after 2021 and (b) the precise interest rates which these instruments will switch to should LIBOR no longer be published.

The LIBOR exposure for Janus Henderson's funds is currently being closely monitored, particularly for financial instruments which mature after 2021. Our portfolio managers will actively consider the best action to take for existing LIBOR-based investments held by our funds, which is in the best interests of our clients, well in advance of the end 2021 deadline.

6. What happens if my fund still holds derivatives that refer to LIBOR after 2021?

As with bonds and loans, there is a high volume of derivatives which need to be converted to the new risk-free rates. The International Swap and Derivatives Association (ISDA) is working on an industry protocol to establish the precise reference rates which would be used if LIBOR is discontinued. Subject to final review, Janus Henderson's funds will adhere to this protocol after it is published, which will likely be in the coming months.