

Janus Henderson Absolute Return Income Fund

For professional investors only | For promotional purposes

Key differentiators

- Experienced investment team:**
 An investment team that is well established in managing absolute return portfolios, including through marked periods of extreme volatility and stress. The team currently manages more than US\$9.4 billion in this strategy at 30 June 2018 on behalf of clients.
- Uncorrelated sources of return:**
 A careful mix of global fixed income securities, together with derivatives to hedge risks and help generate alpha, creates a diversified portfolio. This allows access to sources of return that are intended to be uncorrelated to traditional risk assets.
- Global opportunity set:** The latitude of being able to invest across global fixed income markets, unconstrained by a benchmark, allows the fund managers to express high conviction views and avoid areas where they see greater downside risk.
- Established, low volatility approach:**
 The team has managed strategies with a history of low volatility since 2007, with volatility on the fund an annualised 0.5% since launch. Duration has historically been below two years, providing low sensitivity to interest rate changes.¹

Overview

The Janus Henderson Absolute Return Income Fund aims to provide positive consistent returns above those earned on cash-equivalent investments. It seeks positive returns over the long term through various market environments by investing primarily in fixed income securities and derivative instruments from around the world. Please note a positive return may not be achieved and is not guaranteed.

Management team

The fund is co-managed by Nick Maroutsos, Daniel Siluk and Jason England, with the support of the wider fixed income teams located in Newport Beach, Denver, London and Sydney. They work particularly closely with the absolute return team based in Sydney on this strategy. The same process has been followed since 2007 and senior members of the team have worked together before this date in other capacities.

Investment philosophy

At the heart of the philosophy is a belief that pursuing the following tenets will help the fund meet its objective:



Income generation

Seeking reliability in income to support overall returns for investors.



Diversification

Seeking uncorrelated sources of return helps to reduce risk and potentially offer diversification within an investor's portfolio.



Capital preservation

A focus on delivering stability for investors by seeking to mitigate risks to capital through careful duration and credit positioning.²



Low volatility

Attempting to keep volatility low so that investors have greater confidence in the path of their investment.

¹ Source: Janus Henderson Investors, 30 June 2016 to 31 October 2018, Janus Henderson Absolute Return Income Fund - Class A USD Acc, volatility and duration figures are for information purposes only and may vary over time. Low volatility is not guaranteed. Volatility is annualised standard deviation.

² Preservation of capital is not guaranteed.

This document reflects the portfolio managers' investment process and style at the time of publication, which may be subject to change without notice. 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 investors may not get back the amount originally invested.

Janus Henderson Absolute Return Income Fund

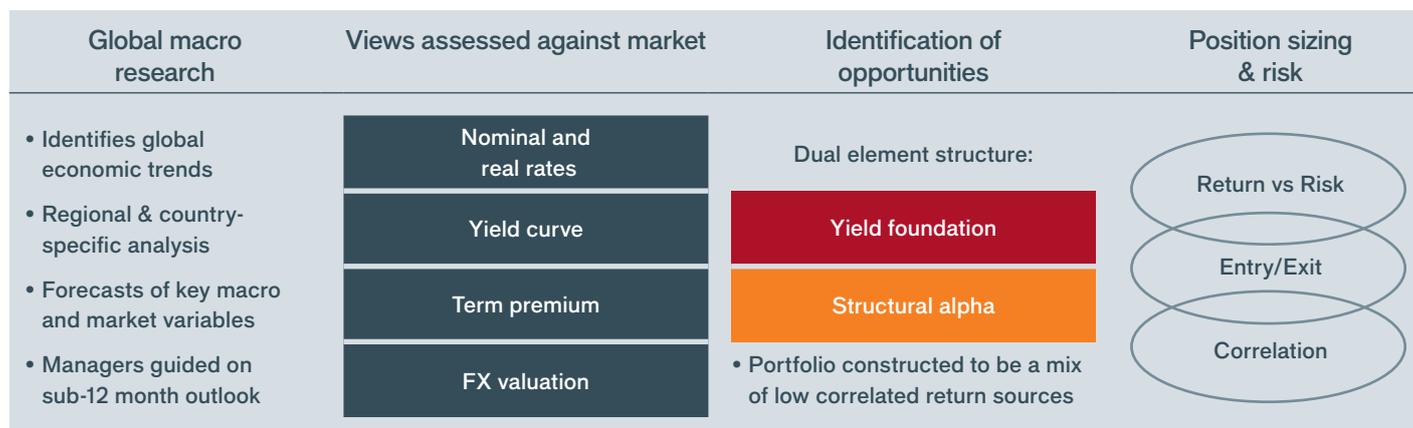
Investment universe

The fund is unconstrained and can therefore invest wherever the managers believe the best risk-adjusted returns lie. The fund invests primarily in fixed income and associated instruments.

Avoiding benchmark biases

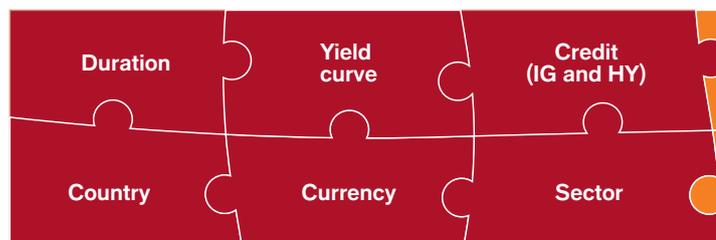
The fund is managed opportunistically based on risk/return characteristics of positions rather than with reference to a benchmark. It is the managers' view that fixed income benchmark indices can restrict opportunities. There are also biases within indices – such as higher weightings for the most-indebted borrowers and higher duration – that may not be optimal for investors.

Process overview

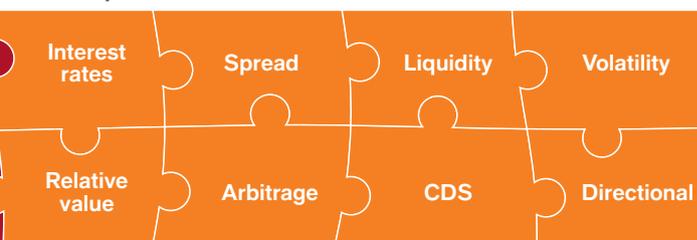


The portfolio comprises a core of actively managed global fixed income securities (yield foundation), complemented by a carefully selected group of trade ideas (structural alpha). The portfolio is constantly evaluated and adjusted in response to the changing environment and opportunity set. This is overlaid with derivative structural alpha strategies, often using futures, options and swaps.

Yield foundation:



Structural alpha:



Yield foundation: This relates to the categorisation and positioning of the assets that the team wants to hold within the fund.

- It determines the weighting towards different asset classes such as government debt, corporate bonds and asset-backed securities, geographical positioning, yield curve positioning and duration (interest rate sensitivity). Duration has historically been in the range of -2 to +2 years*.
- Within the credit space, proprietary quantitative metrics are applied to filter securities down to a more manageable number for review. Once an opportunity is identified, the team conducts credit research and seeks the most efficient and liquid way to add that name to the portfolio, selecting the most attractive jurisdiction, capital structure and maturity profile available.
- Shorter-dated investment grade credit is typically favoured: default rates have been low here and have historically offered compensation for taking on the credit risk.

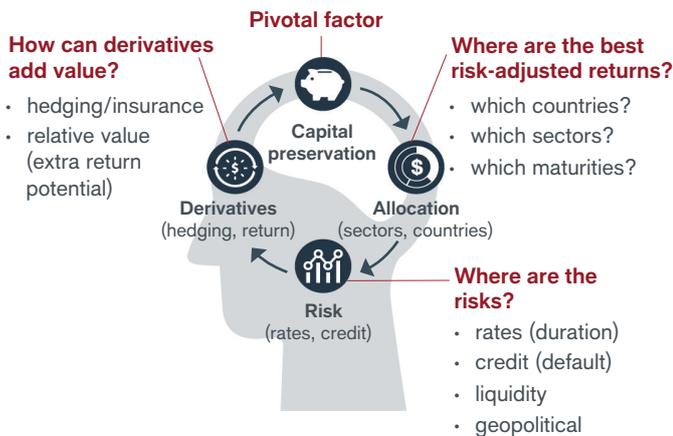
*Correct at 31 October 2018. For illustration purposes only and may vary.

Structural alpha: These are active positions that seek to profit from market mispricing and relative value opportunities.

- Although higher risk/higher return trades may exist, the goal of alpha trades is to provide the investor with a large level of diversification and seek to act as either risk mitigators or return enhancers. Examples of structural alpha include:
 - Arbitrage:** the fund operates in a global market place and many issuers issue in different currencies. Since the ultimate default risk lies with the issuer, rather than the currency, it may be possible to own a security in one currency and hedge it back to the base currency and extract a higher yield.
 - Interest rates:** Differences in expectations can create opportunities. For example, taking a long position on Kiwi rates versus US rates, on the basis that the New Zealand economy is not as strong as the market is pricing.

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Absolute return mindset – four pillars



Typical portfolio characteristics

Parameter	Indicative fund range (at 31 Oct 2018)*
Number of positions	>150
Typical duration range	-2 to +2 years
Volatility	<1.5%
Forex exposure	Minimal non-base currency
General credit profile	A
High yield exposure	<15%
Emerging market exposure	<15%

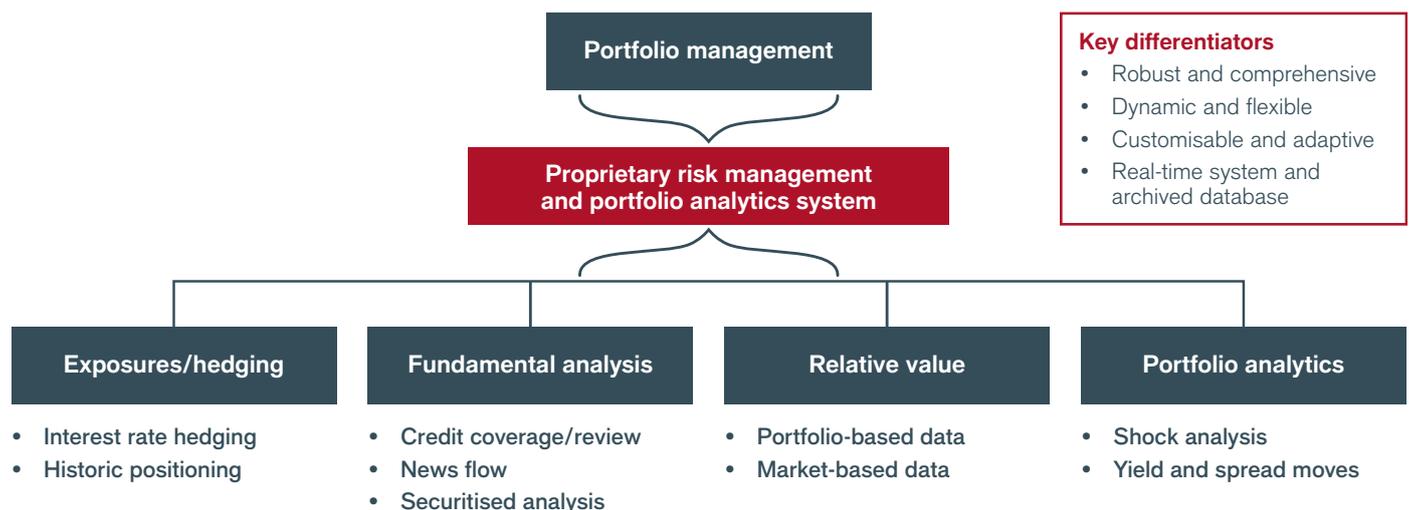
*Please note that these ranges are reflective of the portfolio managers' investment process and style at the time of publication. They may not be hard limits and are subject to change without notice. Please refer to the Prospectus for the broader parameters within which the Fund may operate.

Risk management

At the heart of the portfolio is an unwavering focus on seeking to protect capital, making active use of a wide range of techniques to do so when risk of loss threatens. This can include minimising interest rate and other risk exposures through the use of derivatives. It is this that has helped to contribute to the strategy's historically low volatility and consistent returns.

The portfolio is fine-tuned so that the managers are comfortable at any given point with its sensitivity to interest rate changes (duration) and its exposure to credit default risk (the risk that a borrower fails to make repayment to investors).

Risk levels are assigned to each of the trades depending on return expectations, size of trade, correlation with other positions, entry and exit levels, mean reversion, best execution, and conviction. With respect to derivative 'alpha' trades, entry/exit and stop loss levels are set per trade and monitored rigorously to ensure profit targets are being met, as well as measuring the sensitivity to the prevailing market conditions. Trades are monitored and evaluated on a daily basis. Liquidity testing and scenario analysis is undertaken regularly.



Hedging

All non-base currency positions are hedged back to the base currency. The managers have the ability to take active currency positions; however, it is done outside the normal hedging process. Typically, currency hedging is done via foreign exchange forwards on a three month (or less) roll.

Liquidity

Liquidity remains an important aspect and the fund offers daily liquidity. The absolute return approach permits cash positions to rise in order to achieve a more defensive stance, although cash holdings (cash on deposit or cash at the custodian) are typically below 10%.

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Fund managers



Nick Maroutsos
Co-Head of Global Bonds

- Based at Newport Beach California, Nick co-manages the Absolute Return Income Strategy and a US-based Short Duration Income ETF.
- Founder and Managing Director of Kapstream Capital, a subsidiary of Janus Henderson. Joined Janus Henderson when Kapstream was acquired in 2015.
- Previously worked at PIMCO in Australia.
- Holds bachelor of arts degree in economics from the University of California - San Diego and an MBA from the Anderson School of Management at UCLA.
- 19 years of financial industry experience.



Daniel Siluk
Portfolio Manager

- Based at Newport Beach California, Daniel co-manages the Absolute Return Income Strategy and a US-based Short Duration Income ETF.
- Joined Janus Henderson through Kapstream acquisition in 2015.
- Previously worked at Challenger in Investment Analytics and, before that, Insight Investment and Northern Trust in London.
- Holds bachelor of applied finance from Macquarie University.
- 15 years of financial industry experience.



Jason England
Portfolio Manager

- Based at Newport Beach California, Jason co-manages the Absolute Return Income Strategy and a US-based Short Duration Income ETF.
- Joined Janus Henderson in 2017.
- Previously worked at PIMCO where he helped launch their first hedge fund, exchange traded fund and multi-asset portfolios as well as managing fixed income and asset allocation portfolios.
- Holds bachelor of business administration and finance and an MBA from the University of Southern California, Marshall School of Business.
- 23 years of financial industry experience.

Contact us

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