

Janus Henderson Core 3 Income Fund

Quarter 4 2019

For promotional purposes

Fund Managers Names: Dean Cheeseman, Nick Watson, CFA & Paul O'Connor

Macro backdrop

An eventful but rewarding decade for financial investors ended with a boom year and a strong quarter to round off 2019 as equity and corporate bond markets delivered positive returns. Risk appetite followed the traditional end of year Santa Claus rally with indications of macroeconomic stabilisation and rumours of trade war progress after a year of uncertainty. More cyclical regions delivered the strongest returns, with Asian and emerging market equities both rising 4.0%. The UK led developed markets higher as the general election result instigated a rally in sterling assets.

Fund performance and activity

The fund returned 1.4% (I income share class) over the quarter.

Instrument selection provided a positive contribution to fund returns with the JP Morgan Global Emerging Markets Income Trust rising 4.4% and the direct holding in TSMC rallying 17.1%. In the UK, the Gresham House UK Multi Cap Income Fund returned 16.3%.

Alternative asset classes also enjoyed strong returns over the quarter. Domestically exposed infrastructure assets benefited from falling bond yields and the victory of the Conservative Party in the general election, which took away the prospect of a less 'market friendly' Corbyn-led government. The Renewables Infrastructure Group was up 11.1% and International Public Partners was up 8.5%. Property assets rallied in a similar manner with the UK Commercial Property REIT rising 6.8%. Commodities were more muted amid the risk-on tone to markets, with the Wisdomtree Gold ETF falling 4.7%.

Bond performance was mixed, with high quality interest rate-sensitive assets struggling in an environment of rising yields, while higher risk spread assets rallied alongside equities. The iShares Core UK Gilt ETF was down 3.9% and the Janus Henderson All Stocks Credit fell 0.4%. Higher risk bond funds captured the spirit of the investor rotation into risk assets, with the Principal Finisterre Unconstrained Emerging Market Bond Fund up 2.9% and the Janus Henderson Fixed Interest Monthly Income Fund returning 0.9%.

Despite the strong returns over the year, the improving sentiment towards the global macro environment and seasonal factors supported steady equity allocations at the aggregate level. However, relative valuations and a desire for more cyclical exposure directed us to make a regional rotation out of the US and we reduced the S&P 500 Future and allocated the proceeds into European equities. Within the direct equity allocation there was substantial activity towards the end of the period. We added new holdings in ABB, Samsung Electronics and M&G, which were funded by taking profits from Microsoft and LAM Research.

We also made a couple of sales in alternatives as strong performance pushed valuations into uncomfortable territory in some areas and liquidity proved challenging in others. Greencoat UK Wind had performed well and been allowed to dilute into a smaller position on inflows and stretched valuations, so we completely exited the position. We also reduced the fund's property position on liquidity grounds.

The sell-off in government bonds provided us with the opportunity to rebuild hedging positions at higher starting yields, and we allocated more into the iShares Core UK Gilt ETF. This increased the fund's exposure to perceived safe-haven assets and was funded primarily by reducing passive exposure within investment grade corporate bonds by reducing the holding in the iShares USD Corporate Bond ETF. Proceeds were also rotated into shorter duration bonds that offer compelling yields for lower risk, such as the actively managed Muzinich Global Short Duration Investment Grade Bond Fund.

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Outlook/strategy

As we enter 2020 we remain optimistic about the outlook for risk assets as we believe that the reflationary rotation that began in late 2019 can continue in the near term, sustaining investor risk appetite. Reflecting this, we currently favour equities to credit and are focused more on economically-sensitive regions such as the eurozone, Japan and emerging markets.

The near-term prospects for defensive assets such as sovereign and investment grade bonds are more challenged after strong performance over the last 12 months. We remain vigilant for signs that the anticipated modest cyclical recovery is overwhelmed by some of the wider adverse influences but see scope for upside surprises if the upswing gains broader traction. The risks to our central scenario seem both sizeable and symmetric as we enter the new decade.

Source: Janus Henderson Investors, as at 31 December 2019

Benchmark information

Index benchmark: Not Applicable

The Fund has no target or constraint with reference to a benchmark. Performance assessment may best be made to funds that maintain the same risk rating from the same risk rating body as the Fund. Investors should contact their financial adviser to obtain this information.

Discrete year performance % change	I Acc
31 Dec 2018 to 31 Dec 2019	9.3
31 Dec 2017 to 31 Dec 2018	-3.0
31 Dec 2016 to 31 Dec 2017	4.7
31 Dec 2015 to 31 Dec 2016	8.5
31 Dec 2014 to 31 Dec 2015	0.0

Source: at 31 Dec 2019. © 2020 Morningstar. All rights reserved, performance is on a net of fees basis, with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

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