

Janus Henderson Sterling Bond Unit Trust

Quarter 4 2019

For promotional purposes

Fund Managers Names: James Briggs, ACA, CFA & Philip Payne, CFA

Macro backdrop

Improving global economic data, continued monetary support and the US-China phase one trade deal that was struck in December supported global credit markets and excess returns were strong across the board. Brexit negotiations and the political deadlock in the UK rattled the sterling credit market over the quarter. However, by the end of the year the avoidance of a no-deal Brexit and the removal of election uncertainties boosted sentiment.

Sterling investment grade corporate bond issuance in 2019 was the highest since 2009 amid a rush for corporates to lock in cheap funding as a result of the large falls in global bond yields. The fourth quarter also saw decent gross new supply, although net supply was slightly negative. Supply was taken down very well as demand for credit continued to be underpinned by buy and maintain investors and the generally healthy risk appetite supported by central bank initiatives such as the European Central Bank (ECB) restarting its CSPP program and the Federal Reserve (Fed)'s Repo operations. Hence credit spreads tightened and corporate bonds outperformed government equivalents over the quarter, particularly in the higher risks segments.

Sterling investment grade credit spreads (measured by the iBoxx Sterling non-gilts Index) tightened by 19 basis points (bps) and ended the quarter at 121bps. Total returns on sterling corporate bonds were slightly negative at -0.69% over the quarter due to rising gilt yields over the period. Excess returns, however, were strong as corporate bond spreads continued to compress across the board and lower quality segments outperformed higher quality. At the sector level, the strongest returns came from subordinated insurance and corporate hybrids amidst the risk rally while laggards included tobacco, travel & leisure and mortgage-backed securities (MBS).

Fund performance and activity

The fund returned -0.6% over the fourth quarter compared to the Markit iBoxx GBP Non-Gilts All Maturities Index, which returned -0.7%, while the IA Sterling Corporate Bond sector returned -0.1%.

A small overweight position in credit beta benefited returns as credit spreads tightened on the back of reduced Brexit noise and continued buy and maintain investor demand, particularly in sectors with longer maturities, such as utilities, telecoms and industrials.

Overweight positions in REITs, banks, insurance and financial services added value with issuers such as Aroundtown, Logicor, BUPA, Royal London and Society Generale among the top contributors. Other notable outperformers included Vodafone and EDF as well as GE, which continued to recover after underperforming earlier in the year. The biggest single name detractors were an underweight to Legal & General, EIB, Wellcome Turst and Engie, which performed well over the quarter.

In terms of primary market activity over the period, we established new positions in JAB Holdings, Boston Scientific, Sovereign Housing, Royal London, ZFF and Leaseplan. Most of these deals performed very well in the secondary market with Sovereign Housing and Royal London among the top contributors for the quarter. In secondary markets we increased our positions in UK banks via Santander UK, Barclays, Virgin Money and RBS. We also added to holdings in Enel, AB InBev and Orsted and established a new position in Vivion.

The fund's broad positioning hasn't changed over the quarter. We continue to keep our portfolio beta positioning close to neutral with a small overweight bias in credit beta in the near term. The largest sector exposures remain utilities, REITs and financials and we continue to be overweight BBB-rated versus A and AA-rate bonds. We will be looking to add risk selectively in the names that we fundamentally like, predominantly through new issues, and trim risk in names that have done well to lock in profits.

Source: Janus Henderson Investors, as at 31 December 2019

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Benchmark information

Index benchmark: Markit iBoxx GBP Non-Gilts all maturities Index

Index benchmark usage: Comparator

The Markit iBoxx Non-Gilts all maturities Index is a measure of the combined performance of investment grade corporate bonds issued in pounds sterling. It provides a useful comparison against which the Fund's performance can be assessed over time.

Peer group: IA Sterling Corporate Bond

Peer group 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.

Discrete year performance % change	I Acc	Index	Peer group
31 Dec 2018 to 31 Dec 2019	10.0	9.3	9.5
31 Dec 2017 to 31 Dec 2018	-2.2	-1.5	-2.2
31 Dec 2016 to 31 Dec 2017	5.5	4.3	5.1
31 Dec 2015 to 31 Dec 2016	10.2	10.7	9.0
31 Dec 2014 to 31 Dec 2015	-1.2	0.5	-0.4

Source: at 31 Dec 2019. © 2019 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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