

## Janus Henderson Global High Yield Bond Strategy

Published May 2017

For professional investors only

### Key differentiators

**Global insight:** Janus Henderson's credit team has been built up into a global team that allows them to contextualise value and be aware of cross-regional factors that affect individual credits.

**Multiple levers of return:** Investment in an expanding and diverse universe of issuers complemented by tactical off-benchmark opportunities and prudent use of derivatives. Janus Henderson was an early adopter of credit derivatives and has a strong implementation track record.

**Commercially-driven analyst structure:**

Janus Henderson's credit analysts focus on supplying active buy and sell recommendations, rather than simply replicating rating agency research notes.

**High-conviction approach:** 75-200 issuers selected with a strong emphasis on credit analysis, with the ability to access smaller, less liquid credit issuers while actively managing the portfolio to reflect market changes.

### Overview

The Janus Henderson Global High Yield Bond Strategy seeks to provide a high overall yield and potential for capital growth. At least 80% of net assets are invested in sub investment grade securities of issuers with a credit rating equivalent to BB+ or lower.

Security selection is the primary driver of returns, so emphasis is placed on assessing company metrics, corporate strategy, and bond covenants, while taking into account the credit cycle and market conditions.

### Management team

The strategy is jointly managed by Seth Meyer in the US and Tom Ross in Europe. Both managers have strong track records as credit managers, with a combined 34 years of industry experience.

The portfolio managers harness the strengths of Janus Henderson's highly experienced credit team of portfolio managers, analysts and traders. They work with colleagues globally, who have expertise across investment grade, high yield, secured credit and emerging market debt, as well as cross-collaboration with the equity teams.

### Investment philosophy

The global high yield bond market is diverse. It ranges from large publicly-listed household names that have been downgraded from investment grade to smaller private companies that are first-time issuers. By definition, the sub-investment grade market is populated by companies where questions exist over earnings direction and balance sheet strength. Given that high yield is an area where strong credit analysis is rewarded, the investment philosophy is based upon three key elements:

<b>Market inefficiency</b>	Price inefficiencies exist that create attractive relative value opportunities across issuers due to size, credit quality and geography
<b>Research driven</b>	Forward-looking credit research aims to identify issues ahead of time and to allow expression of high conviction views
<b>Flexibility</b>	Ability to access smaller, less liquid credit issuers while retaining ability to exit positions on a change of view

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## Investment universe

The team can invest flexibly across the entire spectrum of rating categories, industries and geographies, with the proviso that at least 80% of the portfolio is held in bonds rated BB+ or lower. Investment is primarily in cash high yield bonds, although derivatives may also be used to gain exposures or hedge positions.

## Process overview



## 1. Focus the universe

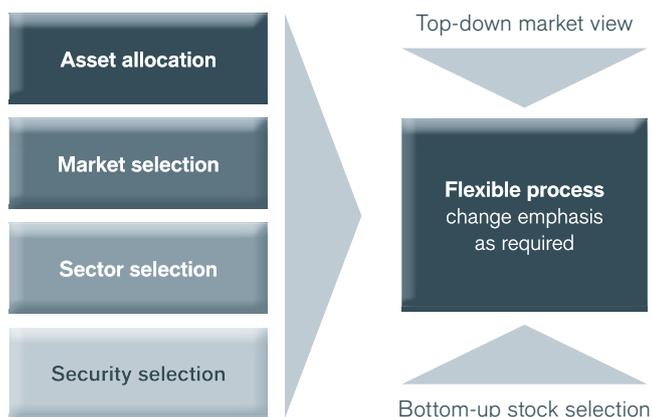
The high yield universe includes approximately 1450 issuers and the initial stage of the process is to focus on the areas of the market with the most attractive risk/return profiles. A combination of internal and external research and analysis is used to determine the final 75-200 issues to be included in the portfolio.<sup>1</sup> A key strength of Janus Henderson is the team's expertise in assessing smaller issuers and those lower down the ratings spectrum, given that mispricing is often most pronounced in these areas of the market.

<sup>1</sup> Illustrative range only. Correct as at 31 March 2017.

## 2. Idea generation

Ideas are assessed based on a rigorous four-factor decision framework that covers: **macroeconomics**; **corporate health**; **market dynamics**; and **valuations**. In this way, top-down macroeconomic analysis is blended with bottom-up credit selection to inform analysis.

### Research and analysis – targeting the strategy



### Top-down

**Asset allocation:** The credit portfolio managers meet each month to formulate the team's macro outlook. This includes a review of credit sub-asset classes using the four-factor decision framework. In addition to macroeconomic factors, the team reviews each sub-asset class based on the fundamental health of balance sheets, supply and demand technicals, and relative value compared to other credit opportunities.

**Market selection:** Based on the macro view, credit sub-asset classes are ranked in order of preference based on their potential to offer the best returns in the coming months. This provides the portfolio managers with an overlay for portfolio construction for each strategy. While the managers are able to deviate from this higher level view if bottom-up opportunities merit, justification must be provided and the reasons

endorsed at the monthly portfolio review meeting with the wider team. Seasonal factors can be important within high yield, thus particular attention is paid to the deal pipeline and flows, all of which can have a bearing on high yield valuations.

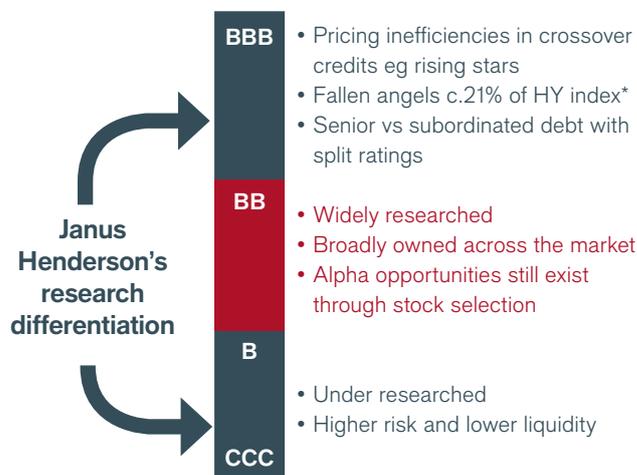
### Bottom-up

**Sector selection:** Analysts on both sides of the Atlantic are responsible for analysing specific sectors and the securities within those sectors across the full capital structure. Each month the analysts score their respective sectors based on the same four-factor decision framework. They pay particular attention to credit improvement/deterioration and the likelihood of default.

**Security selection:** Analysts provide a continuous stream of unconstrained buy/sell ideas, focusing on value and the catalysts that drive price performance in a bond. The team's analysts stand out for their 'publishing-lite', commercial approach to generating trade ideas, and are remunerated based on the success of these ideas.

The key question for the analysts is which companies offer value or are best avoided, since price movements tend to be more acute in high yield than investment grade. As well as identifying near-term catalysts for returns, the analysts often propose bonds from companies that are in the early stages of credit improvement. Over time, these can offer significant ratings upgrades, even to the point of gaining investment grade status, so-called 'rising stars'. Similarly, value may be present in bonds recently downgraded from investment grade, so-called 'fallen angels'.

### Exploiting the opportunity set



\*Source: Market value of BofA Merrill Lynch Global Fallen Angel High Yield Index (HWFA) as a percentage of BofA Merrill Lynch Global High Yield Index (HW00), in USD terms, at 31 March 2017.

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Where a company issues bonds in more than one currency, the analysts use techniques to identify relative value across different currency markets. Direct meetings with company management allow for a deeper understanding of an issuer's corporate strategy and whether this is bondholder-friendly. The credit analysts also liaise closely with their colleagues in Janus Henderson's equities department to develop a broader viewpoint, identify inconsistencies in future expectations and assess areas of potential conflict among stakeholders. Analysis of sustainability and corporate governance is incorporated in recognition of the importance that management, quality of earnings and the regulatory environment can have on long-term corporate success.



**Tom Ross, CFA**  
Portfolio Manager

“Rigorous analysis is at the core of our approach as we seek to identify improvement and avoid deterioration among corporate issuers. We need to be satisfied that a bond offers value.”

## 3. Portfolio construction

### Idea adoption

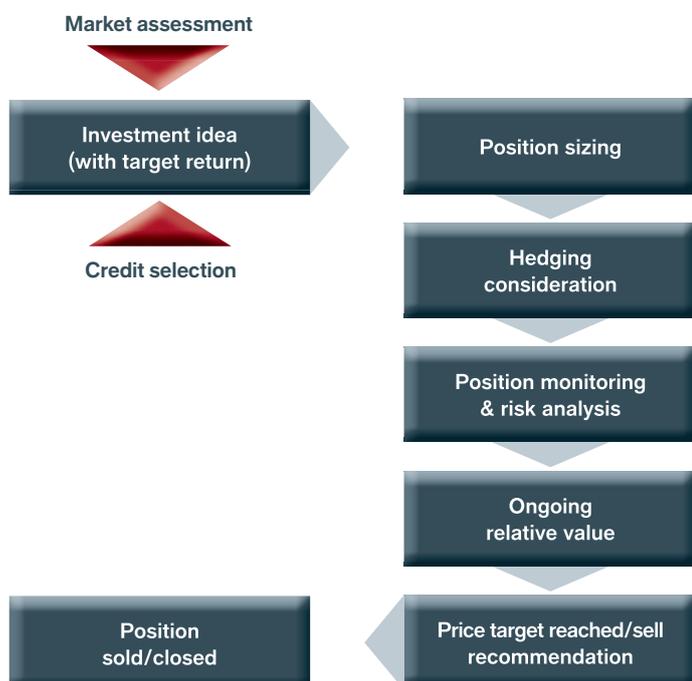
Each portfolio manager assesses investment ideas that arise from the decision framework. While the macro view provides a basis for construction, the individual managers implement the ideas that best meet the objective of their specific strategy. These ideas could be at a sector level (eg, a strong directional view) or individual security level (either outright or relative value).

The analyst recommendation is made with a proposed target return and anticipated impact on portfolio risk. The portfolio managers will use measures such as duration contribution, tracking error and factor analysis to assess the recommendation. They also overlay a qualitative view, which contributes to position sizing, taking into account factors such as liquidity and expected recovery value should the bond default.

An idea selected by the portfolio managers may be implemented using either cash bonds or credit derivatives. Credit analysts, portfolio managers and Janus Henderson's dedicated credit traders sit on adjacent banks of desks and have ongoing dialogue that helps optimise the execution of trades. Having teams in Europe and the US also means that the portfolio can be monitored and managed across key time zones.

### Investment lifecycle

The lifecycle of an investment made by the credit team is ever changing and has key checks applied. Although this process is not linear, the chart below gives an indication of the various stages it goes through.



## Sell discipline

Each active position has an investment rationale, target return and risk level, determined by the credit analyst and portfolio managers at the outset. These are then subject to continued monitoring, with revisions as new information is received. Typical triggers for a sell recommendation include:

Relative value	Anticipated near-term negative credit event
<ul style="list-style-type: none"> <li>Initial performance target achieved</li> <li>Superior investment opportunity elsewhere</li> <li>Spread per unit of leverage insufficiently attractive</li> <li>Cross-market currency mismatch in bonds from same issuer</li> </ul>	<ul style="list-style-type: none"> <li>Earnings risk (issuer specific or peer group)</li> <li>Releveraging (debt financed M&amp;A, distribution to shareholders)</li> <li>Change in strategy/senior management</li> <li>Liquidity concerns</li> <li>Potential covenant breach</li> </ul>

While the strategy provides investors with access to many of the smaller issuers that comprise a large part of the high yield market, the managers tend to avoid bond issues that are below US\$100 million in size due to liquidity.

### Derivatives

Janus Henderson's credit team has employed derivatives within portfolios for more than a decade. Derivatives are used for hedging purposes, to alter exposures in the strategy or to undertake synthetic short positions. Credit derivatives may be used to take advantage of relative value discrepancies between bonds and derivatives, or to take a short position in a single issuer through credit default swaps if a security is deemed to be overvalued. Derivative transactions are made with one or more counterparties and counterparty risk is spread in accordance with strategy directives.

### Duration positioning

Duration in high yield portfolios tends to be lower than investment grade because of the relatively short maturities and higher coupons. As a result, duration tends to be a secondary consideration, although it is taken into account when assessing relative value and market sentiment towards different areas of the fixed income market.

### Currency hedging

Currency exposure is hedged back to the US dollar (the benchmark currency) through foreign exchange forward contracts and then, if necessary, to the required currency of the mandate.

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## 4. Risk management

Risk management is embedded throughout the process via performance attribution, risk budgeting, liquidity analysis, stop-losses, strict sell disciplines and concentration limits, together with monitoring of performance, volatility/tracking error and net/gross exposures.

Janus Henderson's oversight structure includes an Investment Risk Team that is independent from the portfolio managers. This team works closely with the portfolio managers and senior management to ensure all risks taken in the portfolios are intended, ie, they accurately reflect the managers' core views and are in line with client expectations.

Third party risk models such as RiskMetrics and UBS Delta are employed to provide a comprehensive decomposition of risks in the portfolio. This allows for reviews of risk and for stress testing and scenario analyses to be undertaken. Dashboards are updated daily so that portfolio managers and the investment risk team are quickly alerted to any developing risks.

Each quarter the Investment Risk Team meets the portfolio managers for a formal risk review of the portfolio and may be required to attend additional fixed income oversight meetings on a rotational or as required basis.

## Portfolio Managers



**Tom Ross, CFA**  
Portfolio Manager

Tom Ross is a Portfolio Manager at Janus Henderson Investors, a position he has held since 2006. He is responsible for Global High Yield, European High Yield, European Investment Grade and Absolute Return credit strategies. Prior to portfolio

management, Tom specialised in credit trading on Henderson's centralised dealing desk. Tom joined Henderson in 2002. Tom graduated from Nottingham University with a BSc (Hons) in biology and holds the Chartered Financial Analyst designation. He has 15 years of financial industry experience.



**Seth Meyer, CFA**  
Head of Credit, US

Seth Meyer is a Portfolio Manager at Janus Henderson Investors responsible for co-managing the High Yield, Multi-Sector Income and Short Duration High Yield strategies. Seth joined Janus in 2004 as a product manager covering a variety of equity and fixed income strategies. Prior to Janus, he was a consultant relations manager at OppenheimerFunds. Seth received his bachelor of science degree in business administration, with a concentration in finance, from the University of Colorado. He holds the Chartered Financial Analyst designation and has 19 years of financial industry experience.

### Janus Henderson Investors

Henderson Global Investors merged with Janus Capital Group in May 2017.

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