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# Five years on: Janus Henderson Horizon Euro High Yield Bond Fund

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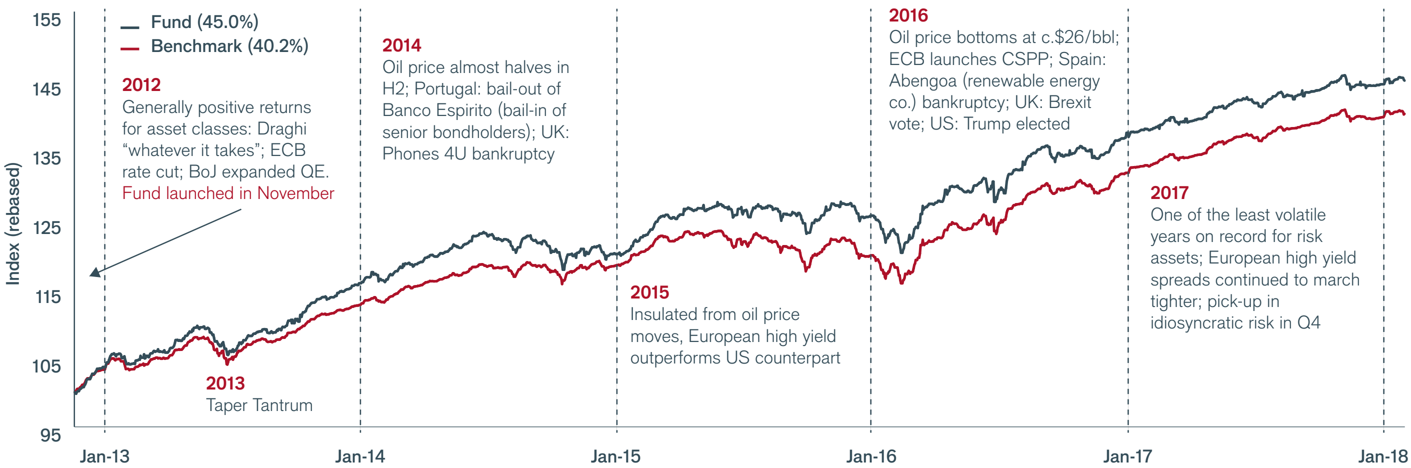
# Five years on

**Launched on 19 November 2012, the Janus Henderson Horizon Euro High Yield Bond Fund has outperformed both its peer group and the benchmark over the five years to 31 January 2018. This document sets out what has driven the strong performance and what the fund managers believe is in store for the European high yield bond market in the near term.**

## Performance

Since inception to 31 January 2018, the fund returned 45.0% (A2 shares) against a peer group average of 29.7% and a benchmark return of 40.2%. Figure 1 charts the performance of the fund and the market drivers over the last five years.

**Figure 1: percentage growth since inception**




Source: Janus Henderson Investors, Morningstar, 19 November 2012 to 31 January 2018. Daily performance for the A2 EUR share class, net of fees. Benchmark is the ICE BofA Merrill Lynch European Currency Non-Financial High Yield 2% Constrained Index.

**Past performance is not a guide to future performance.**

## Fund activity enhancing performance

### 2013

Good performance from overweights in autos, in particular French carmakers (Peugeot, Renault), and a focus on under-researched smaller issuers (eg, Astaldi, Snai)

### 2014

Enhanced returns through allocations to selected financial bonds, including subordinated bonds (RBS, Lloyds), and investment grade bonds (eg, Verizon's jumbo issue). Negative performance in the second half due to exposure to UK retail and oil and gas companies (Enquest and Stork).

### 2015

Overall strong performance from allocations to lower rated securities. Overweights: UK (Iceland and ODEON), Germany (Grand City, ratings upgrade). Underweights: emerging market issuers (eg, Petrobras, Oi) and Spanish renewable energy company Abengoa.

### 2016

Underweights to Oi (Brazil) and Abengoa (Spain) — both filed for bankruptcy.

Overweights to Italian gaming company IGT, German retailer Douglas, and sterling denominated bonds including UK retailers Iceland, Tesco and Pizza Express.

### 2017

Underweight to Croatian food company Agrokor (narrowly avoided bankruptcy) and overweights to transportation company WFS Global and UK retailer Matalan.

## Discrete annual performance %

| | 01/01/2013 31/12/2013 | 01/01/2014 31/12/2014 | 01/01/2015 31/12/2015 | 01/01/2016 31/12/2016 | 01/01/2017 31/12/2017 |
|---|---|---|---|---|---|
| Fund | 11.67 | 3.63 | 4.63 | 9.53 | 5.11 |
| Benchmark | 9.05 | 5.04 | 1.26 | 9.96 | 6.08 |

Source: Janus Henderson Investors, Morningstar, as at 31 December 2017. Performance displayed bid-to-bid, midday pricing, net of fees, euro, A2 share class. Performance over one year is annualised and gross income reinvested. The benchmark is the ICE BofA Merrill Lynch European Currency Non-Financial High Yield 2% Constrained (HPIC) index.

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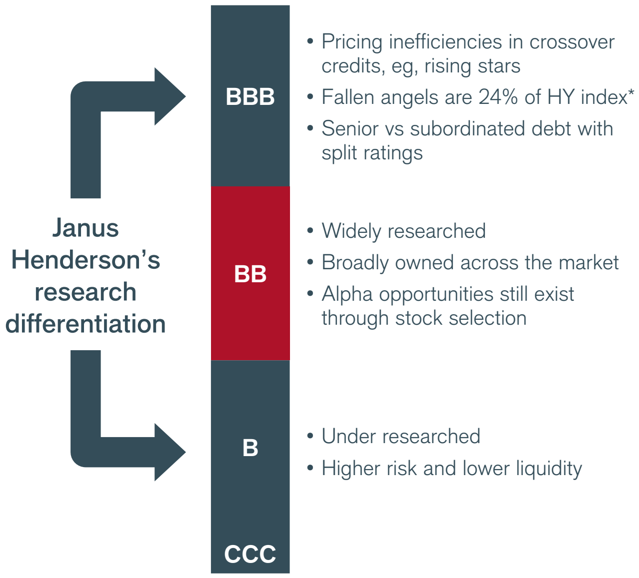
## Distinctive qualities

**Figure 2: making full use of the opportunity set**




*Market value of the ICE BofA Merrill Lynch Euro Fallen Angel High Yield Index (HEFA) as a percentage of the ICE BofA Merrill Lynch Euro High Yield Index (HE00), at 31 December 2017.

- **Capability to find value across the risk spectrum —** the Janus Henderson Global Credit Research team covers credits on a sector by sector basis across the full ratings spectrum. Although this is a high yield fund, we believe the structure of the credit research platform allows us to exploit the universe of rising stars (companies/credits that are on the cusp of being upgraded to investment grade) as well as looking for under-researched and misvalued, lower rated and less frequent issuers.

- **A truly global credit research platform —** although the fund is a European currency high yield fund, issuers outside Europe and the UK are taking on an increasing importance in euro and sterling high yield issuance. Since inception, the weighting of US issuers in the index has quadrupled from just over 3.0% to 12.0%, while emerging market issuers have increased from around 5.5% to 9.0%.

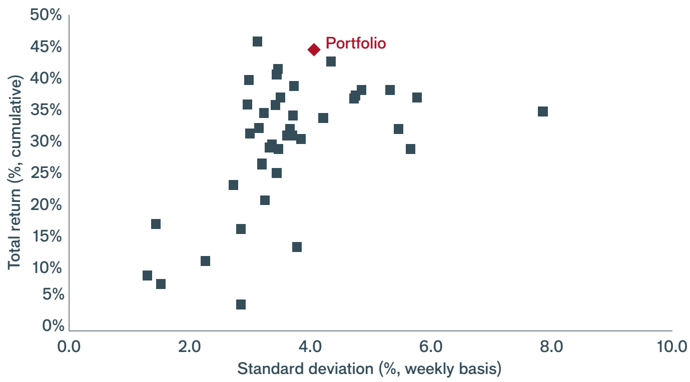
- **Tactical use of derivatives —** we view the use of credit derivatives as one of our three 'key levers' to generate returns in the fund (the other two levers are active benchmark management and off-benchmark, ie, investment grade and US dollar-denominated high yield bonds). We use credit default swaps (CDS) to take both long and short positions. We take short positions via CDS on issuers where we expect a deterioration in credit quality and long positions should CDS offer the best relative value in an issuer. We also periodically express directionality or hedge positions through the use of CDS indices.

## Strong risk-adjusted returns

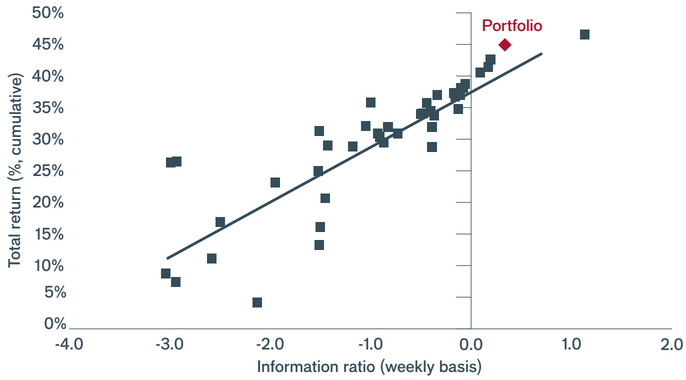
The fund has remained true to its investment process of creating a high conviction, bottom-up portfolio through unconstrained idea generation by our highly skilled credit analysts. This has been instrumental in delivering a strong risk-adjusted performance since inception (the European high yield strategy is ranked second in the Morningstar peer group for European high yield since inception).*

**Figure 3: superior risk-adjusted returns versus peer group**

**Total return versus volatility relative to peers (since inception 19 November 2012)**




**Total return versus information ratio relative to peers (since inception 19 November 2012)**




Source: Morningstar Workstation, comparison with the Morningstar fixed income euro high yield universe, updated quarterly, as at 31 December 2017. Total return is since fund inception (net of AMC). Performance shown is for euro denominated funds only (excludes USD denominated euro-hedged share classes). Performance based on midday pricing, A2 accumulation share class, euro, returns net of fees.

**Please note the fund invests in lower grade securities, which have a higher risk of capital loss than investment grade securities. The fund may use derivative instruments, which can involve a higher level of risk.**

**Past performance is not a guide to future performance.**

*As at 31 December 2017

# Janus Henderson Horizon Euro High Yield Bond Fund

## Portfolio Managers

Thomas Hanson and Tom Ross, portfolio managers of the fund, review the lessons learned and outline their expectations for 2018.

**Thomas Hanson**
**Portfolio Manager**

**Tom Ross**
**Portfolio Manager**

## Lessons learned

We believe that idiosyncratic risk and bottom-up credit selection drives returns in the high yield market. Seeking out alpha driven market inefficiencies is the core of our investment philosophy.

However, there have been occasions over the last five years when returns have been driven by beta rather than alpha. For example, over the summer of 2014, following the bail-in of senior bondholders in Banco Espirito Santo and the bankruptcy of Phones 4U, all European high yield, in particular UK retail, suffered despite some names (in our opinion) standing out from the crowd.

We saw similar market beta exert itself in September 2017, when out of 23 new issues all but two performed well. There were bonds that were issued in September that we avoided due to concerns over credit fundamentals and governance. A good example of this would be the Greek gaming company Intralot. Although the new issue was priced to look cheap compared to other single B-rated names, our credit analyst had fundamental concerns relating to Intralot's accounting, as well as the company's foreign exchange exposure and lack of free cash flow.

## Outlook

The macroeconomic backdrop continues to be supportive for European high yield, with growth positive across Europe and inflationary pressure contained. Corporate fundamentals are also solid, with net leverage near cycle lows in the non-financial space, strong earnings and robust balance sheets. Defaults – the failure to meet bond repayment obligations – remain extremely low in Europe and it is difficult to envisage this changing significantly in the near term given the macroeconomic backdrop. The potential for reversal of supportive monetary policy by the European Central Bank and other central banks remains a medium term hurdle.

The technical (demand and supply) picture is more complicated. Retail flows were negative for virtually all of 2017, and yet the asset class posted a return of more than 6% for 2017*. Of concern is a potential shift in the buyer base, with investment grade accounts having formed an increasingly influential part of the BB-rated market. One of the chief risks would be the repatriation of opportunist capital away from high yield back to investment grade. There is also increasing evidence of late cycle indicators, such as a higher proportion of lower rated bond issuance. Risk was reduced in the fund towards the end of 2017 and early in 2018. There has been a clear pick-up in idiosyncratic risk. Some of it is positive as several credits attained investment grade status through upgrades by the ratings agencies. These 'rising stars' included Italian aerospace company Leonardo, Italian utility ENEL, and subordinated bonds from German REIT Aroundtown. Conversely, pharmaceutical company Teva was downgraded to high yield following a profits warning and retailer Steinhoff saw its credit rating cut following an accounting scandal. Against this backdrop, the portfolio managers continue to utilise the bottom-up fundamental research of the global credit team and to focus on idiosyncratic opportunities to help drive returns.

*Source: Bloomberg, ICE BofAML European Currency High Yield Index, total return in euro. **Past performance is not a guarantee of future performance.**

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