



SETH MEYER

MOST PEOPLE WOULD BE ANNOYED BY A PHONE CALL IN THE EARLY HOURS OF THE MORNING, BUT JANUS HENDERSON'S BOND STAR SETH MEYER KNOWS THERE'S NO REST IN THIS JOB

event that Brexit actually happened, we felt that we needed some level of insurance just in case, so we bought some bonds the day of the Brexit vote.'

As everybody now knows, the leave side did win, sending Treasuries rallying. Meyer was asleep in bed in Paris when his co-portfolio manager called to tell him how much the value of those bonds had gone up and to ask what to do with the trade.

'You think to yourself, "There is never any sleeping in this job," but there is no better way to bring it home than to get a call at three in the morning and to have them telling you that you have a position in your portfolio that's up. It's just a whole different ball game,' he says.

VICKY GE HUANG

Phone calls at 3am tend not to be positive experiences. After all, good news can usually wait.

For Seth Meyer, though, one of the best calls of his career came through at a time when most of us are fast asleep.

Meyer, who is just one 's' away from the comedian also famous for his Late Night work, was in Paris on June 23, 2016 – the day the UK voted to leave the European Union.

The night before, the manager of the \$1.7 billion Janus Henderson High Yield fund and the \$258 million Janus Henderson Multi-Sector Income fund had decided to buy a small amount of US Treasuries as a play on the then unexpected 'leave' vote.

'We thought to ourselves that if the vote went the way everybody thought it would, which was no exit, we would lose a small amount of money over that purchase of Treasuries,' Meyer says. 'But in the unlikely

LONG-TERM CALLS

As exciting as it is to manage money at moments like that, Meyer is more focused on playing the long game.

Despite rising interest rates and many investors opting to reduce their fixed income positions, Meyer sees the years ahead as a bond picker's time to shine, just as much as it is for stock pickers.

'The main driver of our alpha within the high yield portfolio or the multi-sector income portfolio is the bottom-up fundamental work. It's about individual bond-by-bond picking, allocating the capital to the individual names and allowing them to work through the market cycles,' he says.

He focuses on two main factors in any company that he looks at: the free cash flow



of that company and its management team's intentions for that free cash flow.

'If you can find a good, solid company that generates sustainable free cash flow through market cycles, with a management team that is focused on balance sheet accretion through ideas or action, it can lead to a situation where you actually have a really solid outperformer in your portfolio,' he says.

'It's that bottom-up fundamental bond picking, visiting management teams, really understanding what's driving them as far as value creation is concerned and trying to get a handle on exactly what they are going to do with that free cash flow that is really key,' he adds. 'We call them return-on-balance-sheet investments.'

GOLDEN TOUCH

One example of such a return-on-balance-sheet story is Golden Nugget, a luxury hotel and casino in Las Vegas that is owned and operated by American billionaire Tilman Fertitta's restaurant corporation, Landry's.

Meyer bought into the company's bond issuance at the end of last year, which he says was priced at a discount due to a convergence of several factors. Fertitta was raising money to help fund his purchase of the Houston Rockets from fellow billionaire Leslie Alexander for \$2.2 billion, having struck the deal for the NBA team in September 2017.

THE MAIN DRIVER OF OUR ALPHA IS THE BOTTOM-UP FUNDAMENTAL WORK

But then events conspired to make the deal's timing awkward for Fertitta, Meyer says.

'You had a hurricane hitting the southern part of the US at a very difficult time for him, because he has a lot of Houston exposure, he has a lot of southern US exposure and he has a lot of Florida exposure. So you have all that happening and at the same time the high yield market was not performing all that well,' he explains.

'Fertitta had to come to market and issued bonds in our market that we thought were at an extreme discount because of what we thought were kind of transitory issues,' Meyer says. 'We thought these types of things weren't really going to drive the fundamental profile of this business and felt that it was an opportunity to take advantage of a dislocated bond price that was coming to market.'

Golden Nugget fits into Meyer's standards not only because of the sustainability of the business's free cash flow, but also due to its focus on deleveraging its balance sheet – another criterion that Meyer and the team conduct rigorous due diligence on when it comes to corporate bonds.

'Tilman is 100% focusing all his free cash flow on deleveraging his business since buying the Houston Rockets,' Meyer says. 'He's very focused on getting leverage down at this point.'

'We think that will ultimately pay off in tighter spreads for the bonds and will more than likely result at some point in the companies doing a global refinance of these bonds, given that they had to come in at higher coupons and yields than they probably wanted.'

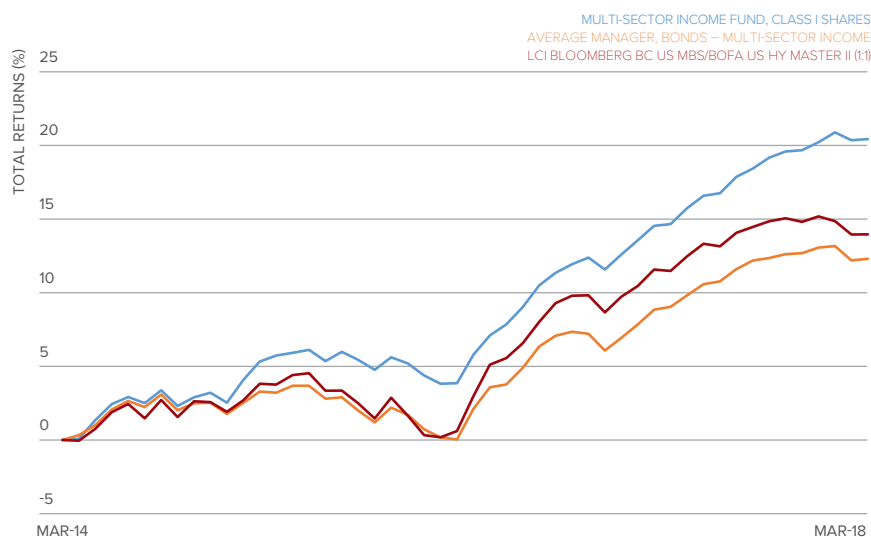
In the case of Golden Nugget, Meyer's team has looked beyond the near-term challenges of weather impact and potential earning shortfalls within the next couple of quarters because of the long-term return potential in such a well-managed company. 'It has been a solid performer,' Meyer says.

DIGGING DEEP

Another way that Meyer and his team try to add value is by finding names that are under-researched by the Street, whether that's because they are small and obscure, or

SETH MEYER HAS A STRONG TRACK RECORD IN MULTI-SECTOR INCOME

DATA TO MARCH 31, 2018 / SOURCE: CITYWIRE/LIPPER



because their business models are not well-understood or require plenty of due diligence. 'We find ourselves really gravitating toward those names where we can exploit market inefficiencies. We look for those types of names where there isn't really sell-side research out there on it and where a lot of people haven't done the work on it, so we can really exploit what we believe to be market inefficiency,' Meyer says.

To exploit these market inefficiencies, Meyer and the team have been adding to the asset-backed securities area within the multi-sector income fund, which accounted for 16% of the fund at the end of 2017.

Meyer explains that the team likes asset-backed securities for their risk reduction and yield cushion benefits.

'Number one, it was about meeting that yield goal that we are looking for, but then

number two, it was about shortening our duration. Considering that we were concerned about what was going on with interest rates, we thought that that was a proven move,' he says.

Through due diligence and fundamental analysis, Meyer has identified fintech start-up SoFi as one of the firms within the asset-backed securities sector.

The San Francisco-based online personal finance firm, which provides student loan refinancing, mortgages and personal loans, targets individuals who are graduating from the more prestigious universities and colleges across the country with a lot of debt that they would like to consolidate to a lower interest rate burden. They were paying us an above-market rate because of the extra work that is required to get comfortable with the story. It wasn't as straightforward as some of the

asset-backed securities stories out there. But we felt that it was a unique opportunity and something that we would like to take advantage of. 'So with those types of stories, if we can find them, we are going to invest with conviction, make them sizable positions in our portfolio and let them work out through market cycles.' ■

VERDICT



FRANK TALBOT
HEAD OF INVESTMENT RESEARCH, CITYWIRE

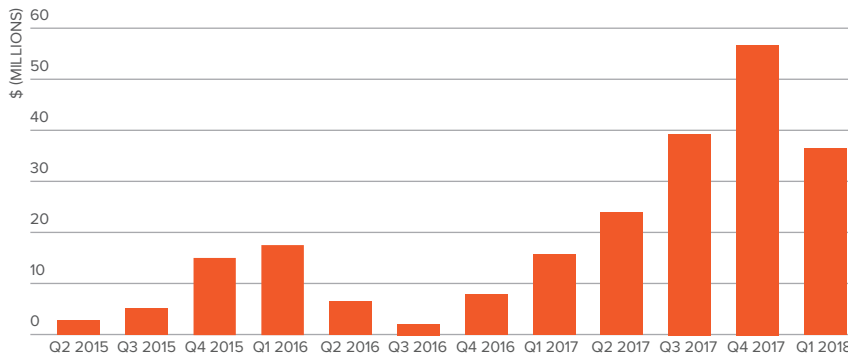
It is difficult to find a home for the Janus Henderson Multi-Sector Income fund. It is undeniably aggressive, with a stated mandate of between a third and two thirds outside investment grade.

That high yield allocation almost certainly puts it among the highest in the peer group, but it's tough to argue with the results since its launch in 2014. If you are looking for a high yield fund, this could be the one to go for.

That said, it will be tricky to benchmark. We have used a proxy of 50% high yield, 50% MBS, and although it is not perfect, it is a lot better than the US Aggregate, to which the fund has an R-squared of just 0.2% over the past three years.

MEYER'S MULTI-SECTOR INCOME FUND HAS SECURED SOME IMPRESSIVE INFLOWS IN RECENT QUARTERS

DATA TO MARCH 31, 2018 / SOURCE: LIPPER



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There is no assurance that the investment process will consistently lead to successful investing. There is no assurance the stated objective(s) will be met.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.

High-yield or "junk" bonds involve a greater risk of default and price volatility and can experience sudden and sharp price swings.

Securitized products, such as mortgage- and asset-backed securities, are subject to prepayment and liquidity risk.

As of 06/30/18, returns, including reinvestment of dividends and capital gains, for the Janus Henderson Multi-Sector Income Fund (Class I Shares) and the Bloomberg Barclays U.S. Aggregate Bond Index were: 3.46%, -0.40% for the 1-year, 4.65%, 1.72% for the 3-year periods and 4.45%, 2.05% since inception (2/28/14), respectively.

Returns greater than one year are annualized.

Janus Henderson Multi Sector Income Fund's Class I Shares annual gross and net expense ratios as of the Fund's fiscal year-end as of 6/30/17 were 0.94% and 0.67%, respectively.

Net expense ratios reflect the expense waiver, if any, contractually agreed to through 11/1/18.

Returns quoted are past performance and do not guarantee future results; current performance may be lower or higher. Investment returns and principal value will vary; there may be a gain or loss when shares are sold. For the most recent month-end performance call 800.668.0434 or visit janushenderson.com/performance.

As of 5/31/18, Golden Nugget Inc. was 1.83% and 0.78% and SoFi Professional Loan Program was 0.00% and 1.19% of Janus Henderson High Yield and Multi-Sector Income Funds, respectively. Holdings are subject to change.

As of 06/30/18, the top 10 portfolio holdings of High Yield Fund are: Golden Nugget Inc. (1.86%), HCA Inc. (1.40%), Dole Food Co Inc. (1.33%), Sprint Corp. (1.32%), Allegheny Technologies Inc. (1.25%), Jacobs Entertainment Inc. (1.21%), Jacobs Entertainment Inc. (1.19%), Ardagh Packaging Finance PLC / Ardagh Holdings USA Inc. (1.17%), Valeant Pharmaceuticals International Inc. (1.12%) and Zekelman Industries Inc. (1.09%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

As of 06/30/18, the top 10 portfolio holdings of Multi-Sector Income Fund are: Fannie Mae Pool (2.90%), Fannie Mae Pool (2.66%), Applebee's Funding LLC / IHOP Funding LLC (2.01%), Trimble Inc. (1.32%), LCM XVIII LP (1.31%), CSC Holdings LLC (1.03%), ECAF I Ltd. (1.02%), First Investors Auto Owner Trust (1.01%), Dell International LLC / EMC Corp. (1.01%) and JP Morgan Chase Commercial Mortgage Securities Trust 2010-C2

(0.99%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

Holdings are subject to change without notice. For a complete list of holdings as of the most recent publicly available disclosure period, visit janushenderson.com/info.

As of 4/30/18, assets under management for the Janus Henderson High Yield and Multi-Sector Income Funds were \$1.6B and \$278M, respectively.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

LCI BLOOMBERG BC US MBS/BOFA US HY MASTER II (1:1) is a hypothetical combination of the Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index (50%) which tracks the performance of U.S. fixed-rate agency mortgage backed pass-through securities, and the Bank of America Merrill Lynch High Yield Master II Index (50%) which tracks the performance of the U.S. high yield bond market.

Index performance does not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

Alpha compares risk-adjusted performance relative to an index. Positive alpha means outperformance on a risk-adjusted basis. **Duration** measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa. **R-squared (R²)** measures the relationship between portfolio and index performance on a scale of 0.00 (0%) to 1.00 (100%). A higher R² indicates more of the portfolio's performance is affected by market movements and vice versa.

Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus Henderson at 800.668.0434 (or 800.525.3713 if you hold shares directly with Janus Henderson). You can also visit janushenderson.com/info (or janushenderson.com/reports if you hold shares directly with Janus Henderson). Read it carefully before you invest or send money.

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