4Q20
Fixed Income

FUND COMMENTARY

Absolute Return Income Opportunities Fund

Market Environment

- Global bond markets rallied during the period, fueld by corporate credits and sovereign bonds.
- Gains in government debt were largely concentrated outside the U.S. as a steady steepening of the Treasuries yield curve – with longer-dated bonds selling off – resulting in negative returns on these securities.
- Overall gains in the U.S. were muted as positive COVID-19 vaccine developments and prospects of additional stimulus under a Biden administration raised investors' expectations for economic growth.

Performance Summary

The Fund outperformed its benchmark, the FTSE 3-Month US Treasury Bill Index. The strategy seeks to provide long-term positive returns and preserve capital through various market environments by managing portfolio duration – which measures a bond price's sensitivity to changes in interest rates –

credit risk and volatility.

For detailed performance information, please visit janushenderson.com/performance.

Portfolio Discussion

The Fund seeks to generate consistent returns by focusing on higher-quality, shorter-dated credits that tend to offer attractive income streams as they near maturity. Gains were concentrated in the Fund's cash-based core of corporate and securitized credits. Detracting from results was a position aimed at capitalizing on regional interest rate differentials. Also modestly weighing on performance was a positioned structured to take advantage of dislocations in foreign currency markets.

We continue to closely monitor markets for signs of additional volatility. With central banks' commitment to accommodation and scant evidence of inflation, we have maintained the Fund's overall duration at roughly 2.7 years. We believe this is sufficiently conservative to account for our concerns surrounding long-term growth, corporate profitability and the effects of continued pandemic-related shutdowns.

Janus Henderson
INVESTORS

Manager Outlook

The past few months have seen several developments with the potential to impact the investment landscape. A change of administration in Washington, control of the legislative branch passing to the Democrats, and in Europe, the finalization of the UK's exit from the European Union will all have policy and market ramifications. Yet these events are overshadowed by the persistence of the COVID-19 pandemic and the forceful response by major central banks.

Riskier assets have rallied on the approval of multiple vaccines. This signals that we are likely closer to the end than the beginning of the pandemic. As evidenced by missteps in the vaccine rollout, however, we believe the "return to normalcy" may be longer than expected. And once we arrive, investors will learn that "normal" will be different as consumer and business behavior has likely permanently changed.

Despite market optimism, the choppiness that is likely to characterize the exit from the pandemic is already on display. Economic data in the U.S. softened toward the end of the year and the UK has again issued stay-at-home orders to combat a new strain of the virus. The timing could not be worse as UK businesses face the additional burden of complying with a new trade regime with Europe. Still, the cloud of Brexit uncertainty has cleared and the worst-case scenario was avoided.

Within the U.S., a change in administration typically means policy shifts that stand to reshape the economic landscape. While that is certainly true for this transition, we believe that any initiatives by the Biden administration will be overshadowed by the massive sway the Federal Reserve (Fed) continues to hold over the country's economic and financial market prospects.

Fed Chairman Jerome Powell is likely to find a willing partner in maintaining accommodative policy as Janet Yellen, assumes the helm of the Treasury Department. With this nomination, we believe the Fed's call for more fiscal accommodation will finally be met and the Powell-Yellen alliance could lead to an unprecedented level of cooperation between the Fed and Treasury. Near-term stimulus is likely needed until the economy can safely reopen, but even after that we believe dovish policy will be on order for longer than many expect. This persistent level of economic support is likely behind the recent steepening of the Treasury curve.

We do not view the recent rise in longer-dated Treasury yields as worrisome. The Fed has made it known that it won't tolerate higher rates. As the economy normalizes, we expect the Fed will accept modestly higher yields, but would move quickly to quell an acceleration in a Treasury sell-off. While Yield-Curve Control remains on the table, we expect that global differentials will keep a lid on yields as foreign investors would reallocate toward Treasuries to capitalize on yield differentials. Similarly, income-focused domestic investors may be drawn toward Treasuries as an alternative to riskier income streams.

Portfolio Management

Nick Maroutsos

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For more information, please visit **janushenderson.com.**

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Discussion is based on the performance of Class I Shares.

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Investing involves risk, including the possible loss of principal and fluctuation of value.

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.

No investment strategy, including an absolute return strategy, can ensure a profit or eliminate the risk of loss. An absolute return strategy may result in underperformance during a bull market.

Derivatives can be highly volatile and more sensitive to changes in economic or market conditions than other investments. This could result in losses that exceed the original investment and may be magnified by leverage.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

FTSE 3-Month US Treasury Bill Index tracks the performance of short-term U.S. government debt securities.

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

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