

Absolute Return Income Opportunities Fund

Market Environment

- Global bond markets recovered from their COVID-19 depths as central banks massively expanded balance sheets to support flagging economies.
- With the Federal Reserve (Fed), European Central Bank (ECB) and other monetary authorities committed to zero or negative interest rate policy for the foreseeable future, yields on government bonds stayed at extremely low levels.
- Global bond indices generated positive returns, driven almost exclusively by spread tightening on corporate credits.

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

Returns were driven almost exclusively by the narrowing of the difference between the interest rates on investment-grade corporate credits and those on their risk-free benchmark. The Fund's exposure to securitized credit also generated positive returns. Detracting from performance were hedges aimed at lowering duration risk. Also detracting was a position constructed to capitalize on the movement of a basket of currencies relative to the U.S. dollar. Over the past several months we have taken aggressive steps to increase the quality of the Fund's corporate credit holdings. While we recognize that the income generated by corporate credits will account for an increasing role in overall fixed income performance, our cautious view on a return to steady economic growth in the absence of a COVID-19 vaccine or effective antiviral therapies is causing us to avoid what we consider to be the riskier segments of credit markets. The sectors of the market that we are avoiding – many of which are tied to travel and leisure and others with elevated leverage – we believe could be at risk of a material sell-off should growth flounder even more.

Manager Outlook

Our concern over longer-term economic growth, corporate profitability and the lingering effects of the global shutdown cause us to continue with more conservative positioning. A large amount of headline data released during June pointed to a cautious tone. Among these were the continued rise in COVID-19 cases and deaths; an increase in U.S.-China tensions, not only with respect to trade but also the pandemic and human-rights issues; and a marked uptick in bankruptcies, including a pioneer in the U.S. fracking industry. Collectively, these have the potential to weigh on supply chains, global growth and, ultimately, the prospects for risky assets.

We remain concerned over further market turmoil and expect to maintain conservative risk exposures. Penalty rates for holding cash have become too painful, and we have begun to invest our excess cash into short-term commercial paper with what we consider to be attractive yields. While we doubt these securities will benefit from price increases, portfolio yield should remain attractive and their inclusion should help insulate the portfolio against additional market volatility. We still consider it necessary to maintain a degree of protection via derivatives against potential defaults that would adversely affect our corporate holdings, and we are keeping duration in the 1.25-year range. We also remain concerned that a longer-than-anticipated lockdown could stress corporate solvencies even further. We will await further information before materially increasing risk positions.

While we remain biased toward lower short-term rates, they have largely been priced in, and we have little conviction in the overall direction of rates from where we stand today. Market conjecture of negative U.S. rates, in our view, is premature, but low short-term rates are a given for the next 12 to 18 months. We are not believers in the consensus view of a steeper yield curve driven by massive deficits and record Treasury bond issuance. Lessons from Japan and Europe demonstrate that longer-term deflation risks combined with central bank purchases override supply concerns.

Bond market liquidity continues to improve. We remain primarily allocated to investment-grade securities, biased toward shorter-dated issues. We continue to avoid more volatile or higher-beta sectors (such as commodities, energy, gaming, tourism and airlines) as well as the regions most affected by the pandemic. We maintain only a modest exposure to China (and only in USD-denominated quasi-sovereign issuers) and otherwise nothing in emerging markets. Despite our cautious outlook, we have no greater concern with default risk than we did before the turmoil began. Our main goal is to buttress the portfolio against a renewed sell-off in risk assets.

Portfolio Management



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Jason England

For more information, please visit janushenderson.com.

Janus Henderson
— INVESTORS —

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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.

Increased portfolio turnover may result in higher expenses and potentially higher net taxable gains or 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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