Market Environment

- U.S. stocks faced an unprecedented sell-off during the quarter, with speed and magnitude of historic proportions.
- The exogenous shock of the COVID-19 coronavirus ushered in a period of severe economic uncertainty and market volatility as governments around the world restricted travel and social activity to help contain the virus.
- Contributing to the malaise was a collapse in oil prices when the virus-related drop in demand was met by a flood of supply after OPEC and Russia failed to agree on production cutbacks.
- Central bank and government stimulus action was swift and aggressive. The Federal Reserve (Fed) cut policy rates to zero, committed to open-ended quantitative easing and introduced programs to support bond market liquidity while Congress approved over $2 trillion in crisis support to consumers and small and large businesses.
- Investors flocked to U.S. Treasuries and rates fell across the yield curve while heightened risk of downgrades and defaults caused corporate credit spreads to widen dramatically. The benchmark 10-year Treasury yield closed March at 0.67%, down from 1.92% in December.

Performance Summary

The Fund, which seeks to provide more consistent returns over time by allocating across the spectrum of fixed income and equity securities, underperformed the Balanced Index, a blended benchmark of the S&P 500® Index (55%) and the Bloomberg Barclays U.S. Aggregate Bond Index (45%). The Fund outperformed its primary benchmark, the S&P 500 Index, and underperformed its secondary benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index.

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

Portfolio Discussion

Heading into March’s precipitous decline in risk markets, we had been trimming equity exposure – particularly in travel and leisure, energy and rate-sensitive financials – and adopting a more defensive stance within the fixed income sleeve. However, both sleeves ultimately underperformed their respective benchmarks during this period of severe market distress. We repositioned the Fund from a relatively bullish stance with 62% in equities in December to a conservative allocation by quarter end, with roughly 48% in stocks, 52% in fixed income and a small portion in cash. We believe this cautious stance is appropriate given the lack of visibility into the potential duration of the health care crisis and the corresponding degree of economic damage. Going forward, the asset allocation weightings will continue to be dynamic, based on market conditions and the investment opportunities our teams identify across asset classes.
Equity Sleeve

The Fund’s equity sleeve underperformed the S&P 500 Index during the quarter. Weakness in travel and oil prices was a common thread among the market’s hardest-hit stocks, as well as those within the Fund.

We closed a position in chemical producer LyondellBasell, the sleeve’s largest relative detractor. The stock struggled given prices for ethylene – a primary product line – are generally tied to oil prices, which fell to less than $21 per barrel. Other detractors included Boeing, Sysco and Norwegian Cruise Line, all of which are facing severe declines in business activity due to social distancing constraints, resulting in concern around future liquidity. We exited our position in Norwegian, as we believe the global travel and leisure industries will experience long-term reverberations stemming from the COVID-19 crisis. We reduced exposure to Boeing and Sysco but still believe in the long-term potential of their businesses.

Other positioning, including underweights to energy and financials, aided performance. The balance sheet strength of our top-performing companies and their ability to fund operations without accessing the capital markets led them to perform relatively well during the period. Microsoft and Adobe further benefited as their business lines are expected to hold up better than the overall economy due to the importance of their services to enterprises and the economic value they can create for customers. A position in Eli Lilly & Co. supported results, given the often critical nature of their products for patients will likely result in minimal disruption in demand. With buyers expected to continue stocking up on consumer staples to weather the shelter-in-place environment, a position in Costco also performed well.

Fixed Income Sleeve

With the Fund’s overall asset allocation verging on bullish in the fourth quarter, we had reduced risk in the fixed income sleeve coming into 2020. As the spread of COVID-19 gathered momentum, but before the bulk of the markets’ collapse, we sought to preserve capital and increase liquidity by lowering our credit allocations further and increasing duration (a measure of interest rate risk) to counter the Fund’s risk asset allocations. Within corporate credit, we actively repositioned into higher-quality names we expect to better tolerate a recession.

Despite these changes, the fixed income sleeve underperformed the Bloomberg Barclays U.S. Aggregate Bond Index. Significant spread widening led our out-of-benchmark high-yield exposure, even at a multiyear low, to be among the primary drivers of underperformance. In line with the drop in credit market liquidity, mortgage securities experienced technical dislocations and were among our largest asset class detractors. Our Treasuries underweight further hindered results, although our long duration positioning offset some of the underperformance coming from our credit sector allocations.

With spreads reaching historically extreme levels and stimulus measures reintroducing liquidity near period end, we added to higher-quality corporate bonds through the new issue market in companies we think can perform well in a prolonged economic downturn. Additions in Coca-Cola and defense company General Dynamics added to incremental returns. Avoiding some of the quarter’s large fallen angels also supported results.

<table>
<thead>
<tr>
<th>Top Contributors</th>
<th>Fixed Income</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Average Weight (%)</td>
</tr>
<tr>
<td>Petroleos Mexicanos</td>
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<tr>
<td>Coca-Cola Co</td>
<td>0.58</td>
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<tr>
<td>United Parcel</td>
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<tr>
<td>Mastercard Inc</td>
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<td>General Dynamics</td>
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<table>
<thead>
<tr>
<th>Top Detractors</th>
<th>Fixed Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average Weight (%)</td>
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<tr>
<td>WPX Energy</td>
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<tr>
<td>Cheniere Energy</td>
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<td>Wabtec</td>
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<td>Continental Resources Inc</td>
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<tr>
<td>General Motors Financial</td>
<td>0.67</td>
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</tbody>
</table>

The holdings identified in this table, in compliance with Janus Henderson policy, do not represent all of the securities purchased, held or sold during the period. To obtain a list showing every holding as a percentage of the portfolio at the end of the most recent publicly available disclosure period, contact 800.668.0434 or visit janushenderson.com/info. Relative contribution reflects how the portfolio’s holdings impacted return relative to the benchmark. Cash and securities not held in the portfolio are not shown.
Manager Outlook

The shuttering of the global economy in response to the COVID-19 pandemic has been unprecedented, as has the resulting market volatility. We know the economic ramifications will be significant, but with the duration of the shutdown still uncertain, the extent of that damage is yet to be fully understood. Stimulus from fiscal and monetary authorities has been large and swift, but high levels of uncertainty will likely hamper the effectiveness of both in the short term, leading us to expect that more will need to be done.

While premature to make forecasts around the timing of an eventual rebound, ultimately, once the health care crisis recedes, we do expect a level of growth to return, fueled by a renewal of demand and aided by the stimulus efforts. For now, we believe it is prudent to position defensively, but as companies have repriced broadly, it is equally important to remain vigilant for attractive opportunities that could benefit in an eventual recovery. Turbulent market environments such as these reinforce our belief in an active approach, both from an asset allocation standpoint and through our individual equity and fixed income holdings.

We have reduced our equity exposure and anticipate maintaining that conservative positioning in the near term, but we continue to focus on stocks of high-quality companies with significant free cash flow and strong balance sheets, which we believe will be able to better weather the storm and perhaps emerge in an even stronger competitive position. For some time, our portfolio has emphasized a set of industry trends with long-term tailwinds, including the shift to cloud computing, growth in Software as a Service business models and the increasing popularity of digital payments. We expect these themes to remain valid and potentially solidify in the face of social distancing.

In the fixed income sleeve, we also remain focused on companies more inclined to weather a tough economic cycle and are largely avoiding names with significant cyclical or commodity exposure. This preference is reinforced by the Fed’s exclusion of below-investment-grade securities from their buying programs. After the magnitude of spread widening this quarter, corporate credit valuations are looking more attractive, but we expect downgrades, company bankruptcies and consumer delinquencies to rise sharply. We are open to taking advantage of strong opportunities, but in-depth security analysis remains paramount. As we seek diversification across credit markets, we expect to maintain our securitized allocation, with a focus on higher-quality structures, which should also benefit from Fed purchases. We expect the volume of securities being bought, coupled with the Fed holding interest rates steady, to keep Treasury yields relatively range-bound, but we will stay alert for any eventual signs of inflation.

As we move through this crisis, we will continue to adhere to the same philosophy and process that have allowed us to navigate these and other challenging conditions: a dynamic approach to asset allocation that leverages our bottom-up, fundamental equity and fixed income research with a disciplined risk management overlay.

Portfolio Management

Equity Sleeve

- Marc Pinto, CFA
- Jeremiah Buckley, CFA

Fixed Income Sleeve

- Michael Keough
- Greg Wilensky, CFA
For more information, please visit janushenderson.com.

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 download the file from janushenderson.com/info. Read it carefully before you invest or send money.

Past performance is no guarantee of future results. Call 800.668.0434 or visit janushenderson.com/performance for current month-end performance.

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

Beta measures the volatility of a security or portfolio relative to an index. Less than one means lower volatility than the index; more than one means greater volatility.

Credit Spread is the difference in yield between securities with similar maturity but different credit quality.

Discussion is based on the performance of Class I Shares.

10-Year Treasury Yield is the interest rate on U.S. Treasury bonds that will mature 10 years from the date of purchase.

As of 3/31/20 the top ten portfolio holdings of Janus Henderson Balanced Fund are: Microsoft Corp (3.95%), United States Treasury Note/Bond (2.82%), Mastercard Inc (2.54%), United States Treasury Note/Bond (2.38%), Apple Inc (2.03%), Alphabet Inc (1.74%), UnitedHealth Group Inc (1.68%), United States Treasury Note/Bond (1.50%), Adobe Inc (1.48%) and United States Treasury Note/Bond (1.47%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 3/31/20 and are subject to change without notice. Janus Henderson may have a business relationship with certain entities discussed. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

For equity portfolios, relative contribution compares the performance of a security in the portfolio to the benchmark’s total return, factoring in the difference in weight of that security in the benchmark. Returns are calculated using daily returns and previous day ending weights rolled up by ticker, gross of advisory fees, may exclude certain derivatives and will differ from actual performance.

For fixed income portfolios, relative contribution is the difference between the contribution by ticker to the portfolio’s performance versus that ticker’s contribution to the benchmark’s performance. It is calculated by rolling up securities by ticker and comparing the daily returns for securities in the portfolio relative to those in the index. Relative contribution is based on returns gross of advisory fees, may exclude certain derivatives and will differ from actual performance.

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

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.

Growth stocks are subject to increased risk of loss and price volatility and may not realize their perceived growth potential.


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

Balanced Index is an internally-calculated, hypothetical combination of total returns from the S&P 500® Index (55%) and the Bloomberg Barclays U.S. Aggregate Bond Index (45%).

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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