2Q20
Fixed Income

PORTFOLIO COMMENTARY

Janus Henderson
INVESTORS

Core Plus Bond

Market Environment

- The Bloomberg Barclays U.S. Aggregate Bond Index returned 2.90% for the quarter, largely driven by strong performance across credit markets as corporate bond spreads rallied sharply from March wides.
- The Federal Reserve's (Fed) aggressive support of financial markets and corporations contributed to a rapid improvement in market conditions. Improved liquidity in the Treasury market and an opening of capital markets for corporations resulted in a record $715 billion of debt issued by investment-grade companies.
- Initial progress to contain COVID-19 and signs of a bottoming in the U.S. economy as states began to reopen further boosted market sentiment.
- U.S. Treasury yields were relatively stable, in part due to the significant expansion of the Fed's balance sheet to over $7 trillion in assets as it purchased Treasuries. The yield on the 10-year note ended June at 0.66%, down from 0.70% in March.

Performance Summary

The Janus Henderson Flexible Bond Portfolio generated strong outperformance versus the Bloomberg Barclays U.S. Aggregate Bond Index for the quarter ended June 30, 2020. Our asset allocation decisions, including our overweight in investment-grade corporate bonds and underweight positions in both mortgage-backed securities (MBS) and U.S. Treasuries, drove outperformance as credit markets generally rallied. Security selection in both corporate and securitized credit also contributed to results.

For detailed performance information, please contact a Janus Henderson Institutional team representative.

Portfolio Discussion

Entering the quarter, we continued the process started in late March of adding risk to the portfolio by purchasing select higher-quality companies that we thought would be better positioned in the event of an extended downturn, particularly in the utilities and telecom sectors. As the Fed's level of commitment to supporting credit markets solidified early in the quarter, we became increasingly comfortable adding additional risk, turning more of our focus to sectors and securities that were more challenged but, in our view, could still navigate the extremely elevated economic uncertainty. We gained further confidence amid the reopening of economies and positive developments in COVID-19 treatments, adding, in some cases, more cyclical names, including those driven by consumer demand. With spreads in many corporate bonds at decade wides, we sought to take advantage of what was, in our view, an abundance of attractive relative value opportunities.

Over the quarter we added more than 11% to our corporate bond allocation, primarily in the investment-grade space but also, and more selectively, in the high-yield market. To accommodate the increased exposure to corporate credit, we moved further underweight agency mortgage-backed securities (MBS) and U.S. Treasuries. These allocation decisions proved beneficial to relative outperformance as Treasuries and agency MBS underperformed all other sectors in the benchmark.

On an issuer basis, food services company Sysco was a top contributor, performing well after an attractive new issue was launched in March. We added to our position early in the quarter on the belief that markets were pricing in more risk than warranted given that, in our view, Sysco remains a market leader in the sector, with a variable cost and high-free-cash-flow business that could navigate a difficult demand backdrop. However, asset-backed security Dine Brands Global detracted from returns as its restaurants were closed as a result of the economic shutdowns. The Portfolio's underweight in government-related securities, which include emerging market issues, also detracted from returns over the quarter.

Top Contributors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
U.S. Treasury N/B	10.40	0.73
Sysco Corp	0.85	0.16
WPX Energy	0.30	0.12
Cheniere Energy	0.46	0.12
General Motors Financial	0.60	0.11

Top Detractors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
Federal National Mortgage Assn	12.46	-0.21
Gov National Mortgage Assn	2.05	-0.06
Fannie Mae or Freddie Mac	2.97	-0.06
DIN 2019-1A A2I	0.17	-0.03
G2SF 4.5 10/20	0.66	-0.02

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 recently available disclosure period contact a Janus Henderson institutional team representative. 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

We believe the continued support from both the Fed and fiscal authorities will benefit consumers, corporations and market conditions. With this support, we expect the U.S. economy to bounce back from lockdown levels over the next few quarters but know it will take years before the economy fully recovers.

While there has been a rapid deterioration in corporate fundamentals, we believe we are entering a new phase of the credit cycle where balance sheet repair will be a top priority for management teams and ultimately lead to lower credit risk premiums. We expect corporate bonds and structured securities, including asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS), to remain in demand, driven by the additional yield available over very low policy rates – which will likely persist for the foreseeable future – and thus more attractive hedging costs for non-U.S. investors.

We continue to favor investment-grade over high-yield companies but remain focused on valuations and diligent in identifying attractive risk-adjusted opportunities across the ratings spectrum. In structured securities, we believe the Fed's aggressive actions should support liquidity and underlying fundamentals, but are biased to higher-quality credits within ABS, CMBS and collateralized mortgage obligations (CMOs). We will continue to favor sectors and securities where we believe the structures can withstand the elevated economic uncertainty.

Although market sentiment and credit spreads improved markedly, valuations ended the quarter closer to longer-term averages and still have room to tighten before reaching pre-COVID-19 levels. We believe this creates an opportunity for attractive returns in fixed income in the year ahead. But we do not expect volatility to fade. COVID-19 and its economic impact remain a pressing concern, and other risks to market sentiment are on our radar: a resumption of trade tensions with China and the upcoming U.S. elections, to name two. As we navigate these uncertainties, we will continue to adhere to our research-driven investment process with a focus on taking the right amount of risk throughout the cycle.

Portfolio Management

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Michael Keough

For more information, please visit janushenderson.com.

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Past performance is no guarantee of future results.

Discussion is based on performance gross of fees.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

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

As of 6/30/20 the top ten portfolio holdings of the Representative Account are: United States Treasury Note/Bond (2.47%), United States Treasury Note/Bond (2.37%), Fannie Mae Pool (2.03%), United States Treasury Note/Bond (1.30%), United States Treasury Note/Bond (1.11%), Fannie Mae Pool (0.82%), Ginnie Mae II Pool (0.77%), Fannie Mae Pool (0.75%), Fannie Mae Pool (0.67%) and JPMorgan Chase & Co (0.67%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

Portfolio holdings are as of the date indicated, and are subject to change. This material should not be construed as recommendation to buy or sell any security.

The opinions are as of 6/30/20 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 fixed income portfolios, relative contribution compares the excess return of an issuer in the portfolio to the excess return of that issuer in the benchmark and the excess return of that issuer in the benchmark to the benchmark overall, factoring in any difference in weight. Excess return is calculated by comparing the performance of a security to a hypothetical duration-matched security with no credit risk, and rolling up securities by issuer. Relative contribution is based on comparing daily 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.

Core Plus Bond Composite, benchmarked to the Bloomberg Barclays US Aggregate Bond Index, includes portfolios that pursue maximum total return by investing in various income-producing securities. The portfolios will, under normal market conditions, maintain an average-weighted effective maturity of five to ten years and, may invest up to 35% high yield/high risk bonds. Total return is expected to result from a combination of current income and capital appreciation, with income normally being the dominant component of total return. Effective January 1, 2005 the composite definition was changed to include only proprietary mutual funds and exclude sub-advised pooled funds. Effective January 1, 2009 the composite definition was expanded to also include sub-advised pooled funds and separately managed institutional accounts. The composite was created in January 2003.

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