3Q20
Fixed Income

FUND COMMENTARY

Flexible Bond Fund

Market Environment

- After a fairly calm July and August, market volatility picked up in September as the upcoming U.S. election – together with a surprise vacancy on the Supreme Court – diminished the probability of further fiscal stimulus in the short term.
- However, the stock market and credit markets still broadly performed well over the quarter. Positive U.S. economic data, progress in the development of a vaccine for COVID-19, and additional clarity on the Federal Reserve's (Fed) inflation-targeting framework together with their continued commitment to keeping interest rates low boosted market sentiment.
- The Bloomberg Barclays U.S. Aggregate Bond Index returned 0.62% over the quarter. Treasury returns were muted as average yields remained basically unchanged and the yield curve marginally steepened. Positive performance came primarily from investment-grade corporate securities where spreads (yields over Treasuries) tightened modestly.

Performance Summary

The Janus Henderson Flexible Bond Fund outperformed the Bloomberg Barclays U.S. Aggregate Bond Index for the quarter ended September 30, 2020. Our asset allocation decisions, including an overweight in investment-grade corporate bonds and out-of-index exposure to high-yield securities, drove outperformance as credit markets generally rallied. Our underweight positions in both agency mortgage-backed securities (MBS) and U.S. Treasuries further contributed to positive returns. Lack of exposure to non-U.S. government-related securities, including emerging markets governments, detracted from performance.

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

Portfolio Discussion

The Fed's commitment to lower policy rates for the foreseeable future, and their stated desire to see higher average inflation, resulted in inflation expectations rising over the quarter. As the nominal U.S. Treasury curve remained relatively stable, real rates (the interest rate earned after taking into account expected inflation) became more negative across the yield curve. These low-to-negative yields tend to push investors out on the risk spectrum into higher-yielding sectors including corporate bonds; they also provide support to the recovering economy. As a result, we modestly increased our credit risk over the quarter.

As the period progressed and more economic data was released, we (and the markets) became more confident about the pace of reopening of the U.S. economy in the quarters ahead. Progress toward a vaccine for COVID-19 and the infrastructure required to distribute it were also encouraging. Although economic normality is likely many quarters away, the distribution of a safe and effective vaccine will accelerate its arrival.

Janus Henderson
INVESTORS

Given the fact that investment-grade corporate bonds outperformed high-yield corporates on a risk-adjusted basis in the second quarter, we rotated some of our investment-grade bond exposure to the higher-rated segments of the high-yield corporate market. We also rotated a portion of our exposure in the securitized markets given our more positive fundamental outlook and shifting valuations. Because of the Fed's large purchases of MBS, and the high level of mortgage refinancings, MBS had become increasingly expensive relative to other securitized and corporate markets. Over the period, we further reduced our exposure to MBS while adding to our asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) positions, which, in our view, have more compelling valuations. While our remaining MBS exposure is smaller, we remain focused on identifying attractive individual securities in the sector.

Top Contributors	Average Weight (%)	Relative Contribution (%)
U.S. Treasury N/B	8.52	0.13
Wabtec	0.83	0.03
Trimble Inc	1.01	0.03
General Motors Financial	0.62	0.03
Goldman Sachs Group Inc	0.80	0.02

Top Detractors	Average Weight (%)	Relative Contribution (%)
Federal National Mortgage Assn	10.69	-0.04
Gov National Mortgage Assn	1.38	-0.04
DPABS 2018-1A A2I	0.31	-0.01
Fannie Mae or Freddie Mac	2.84	-0.01
NatWest Group	0.23	-0.01

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

We believe the Fed's commitment to keeping interest rates low will continue to support the economic recovery. Specifically, we anticipate the Fed will utilize its existing facilities to support the credit markets if spreads were to widen materially from current levels, which improves the outlook for credit, on a risk-adjusted basis. On the fiscal side, we expect there will be further stimulus packages from Congress regardless of who wins the election, given the current economic environment. Between fiscal and monetary support, and optimism about the pace of ongoing developments toward a vaccine and advancements in therapeutics, we expect the U.S. economy will continue to recover.

As the recovery takes hold, we anticipate corporate credit fundamentals will improve as corporations begin a multiyear process of repairing their balance sheets. The resulting tailwind of declining credit risk should lead to tighter spreads and attractive return opportunities. We believe "technical" factors will provide further support, as low yields should encourage both foreign (given lower hedged costs) and domestic investors to seek returns from higher-yielding securities and asset classes.

However, volatility did rise in the final month of the quarter, and we expect it may persist given the upcoming election. Politics could delay fiscal stimulus more than the market currently expects, risks are growing of a contested election and, finally, the possibility that Democrats gain control of the U.S. Senate as well as the presidency could give markets pause. Although there is short-term uncertainty, we remain constructive as we look ahead, and we think it is important to remain active, focused on companies with strong balance sheets, cash flows and long-term competitive advantages.

Portfolio Management

Greg Wilensky, CFA

Michael Keough

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.

Discussion is based on the performance of Class I Shares.

Credit Spread is the difference in yield between securities with similar maturity but different credit quality. Widening spreads generally indicate deteriorating creditworthiness of corporate borrowers, and narrowing indicate improving.

As of 9/30/20 the top ten portfolio holdings of Janus Henderson Flexible Bond Fund are: United States Treasury Note/Bond (3.24%), United States Treasury Note/Bond (2.61%), United States Treasury Note/Bond (1.98%), Fannie Mae Pool (1.80%), Fannie Mae Pool (1.45%), Fannie Mae or Freddie Mac (1.39%), United States Treasury Note/Bond (0.98%), United States Treasury Note/Bond (0.97%), Fannie Mae Pool (0.78%) and Ginnie Mae II Pool (0.63%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 9/30/20, are subject to change and may not reflect the views of others in the organization. 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.

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.

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

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

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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