

Flexible Bond Fund

Market Environment

- The Bloomberg Barclays U.S. Aggregate Bond Index had a marginally positive return of 0.18% over the quarter.
- Fixed income markets broadly became more confident of a soft landing for the U.S. economy as the Federal Reserve (Fed) continued with accommodation. The Fed lowered its policy rate for the third time in 2019 and engaged in the purchase of Treasury bills to help stabilize the short-term borrowing market.
- Corporate credit extended strong year-to-date gains, with high yield outperforming investment grade. Generally better-than-expected earnings reports and late-period progress in U.S.-China trade relations supported performance in corporate bonds. Investment-grade spreads (yields over Treasuries) closed December at roughly 93 basis points, resulting in an annual return of 14.6% for the investment-grade corporate index.
- Rising Treasury yields created a headwind for total returns. The curve steepened, and the 10-year bond yield closed December at 1.92%, up from 1.66% in September.

Performance Summary

The Janus Henderson Flexible Bond Fund outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, for the quarter ending December 31, 2019. Our overweight position in investment-grade corporate bonds and out-of-index exposure to high yield proved beneficial as both markets rallied.



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

Portfolio Discussion

We maintained our positive outlook on credit markets throughout the quarter, believing they would be supported by the more accommodative Fed, a healthy consumer and favorable financial conditions. Our optimism was buoyed by our view that the low-yield environment would continue to favor credit products generally, and the downward trend in gross issuance of corporate bonds would continue to benefit that asset class specifically. As corporate bonds fared well over the quarter, our overweight positions, particularly our exposure to high yield and the lowest tier of investment-grade ratings, were significant contributors to returns.

Given very strong year-to-date returns and less attractive valuations, we opted to take profits, particularly in high yield where we reduced our energy and metals and mining exposure. We increased our focus on higher-quality issuers with stable free-cash-flow-generative business models, such as data centers, and added exposure in the banking sector as aggregate earnings reports confirmed that a stabilizing economy and a steepening yield curve were improving the health of the sector.

Throughout the quarter, and consistent with our preference to diversify sources of risk in the portfolio, we continued to favor structured securities related to the U.S. consumer. We added mortgage-backed securities (MBS), given what we felt were

attractive valuations, ending December overweight relative to the benchmark. As we sought to capitalize on a more constructive outlook, and consistent with our view that the U.S. yield curve will be range-bound to slightly steeper from here, we maintained our underweight to U.S. Treasuries. As U.S. interest rates rose over the period, our underweight supported relative outperformance.

At the industry level, overweights in technology, metals and mining, and food and beverage boosted returns, as did our focus on companies that prioritize sound fundamentals and deleveraging their balance sheets. Within the technology sector, our overweight position in Broadcom benefited from a shift in the company's long-standing financial policy in which management demonstrated their commitment to maintaining

investment-grade ratings and paying down debt. In the health insurance sector, we added exposure to Centene, a leading player in the Managed Medicaid and Affordable Care Act (ACA) exchange markets. While rated investment grade by Standard & Poor's (S&P), we expect the crossover issuer to be upgraded by Moody's in the near to medium term. Positive momentum in the company's new issue boosted performance.

While there were no material detractors from relative results, a position in Newell Brands, the maker of Rubbermaid, modestly detracted after a ratings downgrade by S&P. Though we were pleased with performance of the bonds for the calendar year, we exited our position on the news. Our modest cash position also held back results. Cash is not a strategy within the Fund but is a residual of our bottom-up investment process.

Top Contributors	Average Weight (%)	Relative Contribution (%)
FN BF0262	14.12	0.09
U.S. Treasury N/B	16.00	0.07
Broadcom Inc	0.56	0.05
Fannie Mae or Freddie Mac	5.71	0.05
Centene Corp	0.58	0.03

Top Detractors	Average Weight (%)	Relative Contribution (%)
Newell Brands	0.48	-0.01
Ford Motor Credit Co	0.48	-0.01
Oncor Electric Delivery	0.60	-0.01
CommScope Inc	0.17	-0.01
Petroleos Mexicanos	0.11	-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 is the difference between the contribution by ticker to the portfolio's performance versus that ticker's contribution to the benchmark's performance. It reflects how the portfolio's holdings impacted return relative to the benchmark. Cash, tickers not held in the portfolio and certain derivatives, such as Interest Rate Swaps, may be excluded.

Manager Outlook

We remain positive on the U.S. fixed income markets, but our outlook for returns is subdued in comparison to 2019. Labor markets and consumer incomes will be important signposts to monitor as we expect stabilization of growth at lower levels, and both geopolitics and the ebb and flow of sentiment shifts will likely cause moments of market volatility. But our base case remains that subdued growth, contained inflation and a strong U.S. consumer – amid the swath of negative-yielding debt globally – should provide stability to the Treasury market and support to the credit markets.

Sector and security selection, however, remain particularly important. Given the relative tightness in corporate bond spreads, we are biased toward higher-quality, cash-flow-generative business models and issuers that are focused on balance sheet improvement. And given the U.S. presidential election could result in significant impact on a variety of industry sectors – including banking, health care and energy – we believe there is a need for diversification of risks at the sector, industry and company levels. As we seek diverse yield sources, we are looking to asset- and mortgage-backed securities tied to the strength of the consumer to offer attractive risk/reward in 2020.

Across the fixed income spectrum, we remain committed to our in-depth, bottom-up research and astute security selection as we strive to deliver strong risk-adjusted returns.

Portfolio Management



Michael Keough



Mayur Saigal



Darrell Watters

For more information, please visit janushenderson.com.

Janus Henderson
INVESTORS

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.

As of 12/31/19, Darrell Watters is no longer Co-Portfolio Manager. Effective 2/1/20, Mayur Saigal will be removed as Co-Portfolio Manager and Greg Wilensky will be added.

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

Basis Point (bp) equals 1/100 of a percentage point. 1 bp = 0.01%, 100 bps = 1%.

Discussion is based on the performance of Class I Shares.

As of 12/31/19 the top ten portfolio holdings of Janus Henderson Flexible Bond Fund are: United States Treasury Note/Bond (3.07%), United States Treasury Note/Bond (2.92%), United States Treasury Note/Bond (2.91%), United States Treasury Note/Bond (2.31%), Fannie Mae Pool (2.05%), United States Treasury Note/Bond (1.41%), Ginnie Mae II Pool (1.29%), Ginnie Mae (1.22%), United States Treasury Note/Bond (0.96%) and Ginnie Mae (0.87%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 12/31/19 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 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, and may 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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