2Q20
Fixed Income

PORTFOLIO COMMENTARY

Global Multi-Sector Bond

Market Environment

- The Bloomberg Barclays Global Aggregate Bond Index returned 3.32% for the quarter, largely driven by strong performance in credit markets.
- Market sentiment improved as global central banks aggressively intervened in bond markets and fiscal authorities enacted large-scale stimulus packages. Declining cases of COVID-19 in Europe and the U.S., along with signs of a bottoming in the U.S. economy as states began to reopen, further boosted sentiment.
- Market participants largely ignored renewed trade tensions between the U.S. and China.
- Developed world rates were generally range-bound, with the yield on the 10-year U.S. Treasury ending June at 0.66%, down from 0.70% in March. Many emerging market countries saw rates fall across their respective sovereign curves.

Performance Summary

The Global Bond Portfolio outperformed its benchmark, the Bloomberg Barclays Global Aggregate Bond Index, for the quarter ended June 30, 2020. Our shift to a corporate credit overweight near mid-May proved beneficial in the latter half of the period. Overweights to the Indonesian rupiah and the country's sovereign bonds were also accretive.

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

Portfolio Discussion

We entered April underweight corporate credit versus the Index, but following the severe sell-off of the first quarter, we were able to identify what we deemed to be attractive opportunities in higher-quality companies positioned well for a potentially extended downturn. Early on, we added to more-defensive business models, primarily through the new issue market. As global central banks' commitment to supporting credit markets solidified, new cases of COVID-19 slowed and economies began to reopen, we gained the confidence to move to overweight corporate credit. Still, we continued to focus on investment-grade companies that have support from global central banks and, in our view, can navigate the elevated economic uncertainty. We added nearly 15% to our corporate allocation over the quarter. We also identified attractive yield opportunities in certain USD-denominated emerging market bonds, including some owned by developed country companies, and added to our exposure there. To accommodate these changes, we reduced our allocations to U.S. Treasuries – where we believe near-zero policy rates limit the potential for further upside – and agency mortgage-backed securities (MBS), though our outlook for MBS remains positive.

The above-mentioned adjustments generally proved beneficial, with positioning in sovereign bonds, government-related securities and corporate credit all aiding relative outperformance. At the issuer level, exposure to both the rates and currency of Indonesia contributed to results, as the government has done an admirable job of

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actively managing the economy though the current crisis. This emerging market exposure also benefited from the "risk-on" mindset of the quarter, as did a new position in USD-denominated bonds issued by Qatar. We maintained duration exposure in peripheral European countries that often trade with risk sentiment, some of which also proved accretive in the latter part of the quarter.

Gains were partially offset by positioning in agency mortgage-backed securities and our modest cash allocation; cash is not used as a strategy within the Portfolio but is a residual of our investment process. At the issuer level, we exited our position in Swedish government bonds over the period, anticipating that our thesis for lower rates there had largely run its course. However, our early-period overweight ultimately detracted as yields rose off the crisis lows.

Top Contributors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
Japan (Government of)	6.67	0.15
Indonesia (Government of)	2.43	0.12
Continental Resources Inc	0.29	0.11
Qatar (Government of)	0.55	0.11
U.S. Treasury N/B	11.82	0.06

Top Detractors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
Japan I/L-10yr	4.49	-0.12
Federal National Mortgage Assn	6.41	-0.10
Mexican Bonos	5.42	-0.10
Gov National Mortgage Assn	2.06	-0.06
Sweden (Government of)	1.55	-0.03

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 are encouraged by the commitment shown by central banks globally to support bond markets and anticipate regional fiscal authorities will continue intervening as needed. With this support, world economic growth could accelerate off recent lows for the next few quarters but, even still, it will take years before economies fully recover. Unfortunately, the health care crisis does not have the same backstop, and additional waves of COVID-19 still have the potential to reduce economic activity, with the U.S. and UK the most vulnerable. While another set of large-scale lockdowns seems unlikely, uncertainty will remain high, and we expect volatility to accompany it. Further, other risks to market sentiment are on our radar, including a resumption of trade tensions with China and the upcoming U.S. presidential and congressional elections.

We intend to remain cautious in our sector and security selection in global credit markets, favoring investment-grade credit primarily due to the more explicit support for this market from policy makers, but also due to the generally stronger balance sheets of the sector's issuers. In our view, the yield over Treasuries in agency MBS and the explicit support from the U.S. Federal Reserve could create attractive investment opportunities in the asset class. In terms of sovereign exposure, we have removed much of our interest rate overweight in the developed world given our doubts that others will follow Europe in allowing yields to turn negative. We continue to look for duration opportunities in emerging markets where we expect rates to fall.

As we navigate these challenging markets, we will continue to adhere to our process of blending bottom-up corporate and sovereign fundamental research with top-down decision-making to construct a dynamic and diversified portfolio with a disciplined risk management overlay.

Portfolio Management


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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.

As of 6/30/20 the top ten portfolio holdings of the Representative Account are: Japan Government Ten Year Bond (5.05%), Mexican Bonos (4.61%), Italy Buoni Poliennali Del Tesoro (4.60%), Japanese Government CPI Linked Bond (4.39%), United States Treasury Note/Bond (3.47%), Freddie Mac Pool (2.65%), Indonesia Treasury Bond (2.48%), United Kingdom Gilt (2.29%), Spain Government Bond (1.95%) and United States Treasury Note/Bond (1.94%). 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.

Global Multi-Sector Bond Composite, benchmarked to the Bloomberg Barclays Global Aggregate Bond Index, includes portfolios that pursue maximum total return through current income and capital appreciation by investing in intermediate-term global fixed income securities. The portfolios invest in US and non-US securities issued in both foreign currency and US dollars. Under normal market conditions, emerging market debt is permitted up to 30% and high yield debt to 35%. 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. Prior to September 2013 the composite was known as the Global Core Plus Bond Composite. The composite was created in February 2011.

Janus Henderson provides investment advisory services in the U.S. through Janus Capital Management LLC, together with its participating affiliates.