2Q21
Fixed Income

PORTFOLIO COMMENTARY

US High Yield

Market Environment

- The Bloomberg Barclays U.S. Corporate High Yield Bond Index returned 2.74% over the quarter, helped by strong economic data and investors' continued demand for yield. Despite a robust new issuance market, spreads compressed to their tightest post-Global Financial Crisis levels.
- Sharply rising inflation data pushed shorter-maturity Treasury yields higher on increased expectations of rising policy rates. But the yield curve flattened as the market accepted the U.S. Federal Reserve's (Fed) statements that it expected inflation to remain contained. The 5-year Treasury note ended the quarter with a yield of 0.89%, down 0.05% over the period.
- High-yield corporate bonds benefited relative to other fixed income sectors, given their greater sensitivity to the improving economic environment. Lower-rated bonds once again outperformed higher-rated tiers as investors eager for higher yields felt comfortable continuing to add additional credit risk.

Performance Summary

The Portfolio outperformed its benchmark, the Bloomberg Barclays U.S. Corporate High Yield Bond Index, for the quarter ended June 30, 2021. The Portfolio's security selection among BB rated securities benefited performance, as did our modest exposure to equity and equity-like securities. The Portfolio's positioning relative to the Treasury yield curve and its lack of exposure to lower-rated companies in the oil field services sector were the primary detractors from returns.

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

Portfolio Discussion

Going into the quarter, we had a favorable view on the U.S. economy and believed the Fed was likely to remain accommodative, which should benefit high-yield bonds. We added significant exposure to the BB rated segment of the market, seeking to identify individual names that we think have the potential to be "rising stars" – securities that, in our view, could see sufficient rating improvement to push them into the investment-grade market in the years ahead.

Additionally, we sought to capitalize on what we deemed to be attractively priced new issues from companies with quality business models. The individual companies we favored varied across industries and themes, but each met our internal thresholds for their outlook and governance.

After lowering our exposure to equity and equity-like securities late in the first quarter, opportunities increased over the second quarter. In our view, market valuations in many companies became distorted, creating attractive entry points in names where we believe upside potential has already played out in the debt portion of a company's capital structure. Our equity exposures generally performed well over the period. Specifically, a position in medical device manufacturer Boston Scientific generated

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strong gains as operating rooms have reopened, enabling previously postponed surgeries to take place.

Our equity exposure helps to recreate some of the benchmark risks that we are unwilling to take, such as our lack of exposure to the CCC rated names in the oil field services sector – positioning that did detract during the quarter. On a single-name basis, a position in Bally's also weighed on relative results. Twin River acquired the rights to the Bally's brand in 2020, and subsequently bought the naming rights to Fox Sports regional networks as well as UK online gaming platform Gamesys Group Plc. While we deem these acquisitions to be long-term positives, income generation has been minimal to date, creating uncertainty in the name.

Top Contributors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
Boston Scientifc	1.16	0.19
Providence Service Corp	0.61	0.07
Great Western Petroleum	0.38	0.05
EnLink Midstream	0.59	0.04
Springleaf Financial	1.23	0.04

Top Detractors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
Twin River World	0.87	-0.03
Hudbay Minerals	0.85	-0.02
Teva Pharmaceutical Industries Ltd	0.83	-0.02
Cargo Aircraft Management	0.90	-0.02
NRG Energy Inc	0.84	-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 continue to expect strong economic growth, fueled by the combination of excess aggregate consumer savings, fiscal stimulus and pent-up demand. The positive effect on company fundamentals, and high-yield companies in particular, can be seen in the steady decline of default expectations. While forecasts vary, it is possible that the coming quarters will produce the lowest default rate in the history of the high-yield index, at levels below 1%.

Additionally, the market is entering a multi-year period where the volume of short-dated maturities is relatively benign. With little debt maturing, there is less need to access markets, further improving the outlook for short-term risk-adjusted returns. Between the positive fundamental outlook, declining defaults, and the ongoing demand for yield in a low-yield environment, we expect that high-yield bond spreads are likely to continue to tighten, despite nearing historic lows.

We expect BB rated bonds will outperform the general market in the quarters ahead. This is due in part to the potential for historic credit upgrades amid a historic recovery, but relative valuations favor BB securities as well. On a risk-adjusted basis, BB securities currently offer around four times the yield of BBB investment-grade securities – a historic aberration that is more likely to be corrected than extended.

While high-yield portfolio returns in 2020 were largely determined by the broad market shock and recovery from COVID-19, we anticipate overall returns in 2021 will be determined by the relative performance of individual sectors and companies. Selectivity will be essential. However, we believe opportunities will continue to present themselves, whether as a result of perceived mispricings in the market, or the inevitability of volatility.

Portfolio Management

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For more information, please visit janushenderson.com.

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 6/30/21 the top ten portfolio holdings of the Representative Account are: ARD Finance SA (1.31%), Ford Motor Co (1.09%), TransDigm Inc (1.03%), Boston Scientific Corp (0.99%), Cargo Aircraft Management Inc (0.91%), Downstream Development Authority of the Quapaw Tribe of Oklahoma (0.86%), NRG Energy Inc (0.85%), Bally's Corp (0.81%), 1011778 BC ULC / New Red Finance Inc (0.81%) and Liberty Interactive LLC (0.76%). 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 6/30/21, 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.

US High Yield Composite, benchmarked to the Bloomberg Barclays US Corporate High Yield Index, includes portfolios that seek to obtain high current income by investing primarily in high-yield/high-risk fixed income securities rated BB or lower by Standard & Poor's Ratings Services or Ba or lower by Moody's Investors Service, Inc. Capital appreciation is a secondary objective when consistent with the primary objective. Effective January 1, 2005 the composite definition was changed to include only proprietary mutual funds and exclude sub-advised pooled funds. Prior to June 2020 the composite was known as the High Yield Bond Composite. The composite was created in January 2003.

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

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