1Q22
Fixed Income

PORTFOLIO COMMENTARY

US High Yield

Market Environment

- The Bloomberg U.S. High Yield Bond Index returned -4.84% in a volatile quarter. Risk assets generally struggled as markets grappled with escalating geopolitical risk and uncertainty surrounding the policy path of the U.S. Federal Reserve (Fed).
- Persistent high inflation and an increasingly hawkish tone from the Fed caused a sharp repricing in interest rates and the Treasury yield curve flattened. From year-end, the yield on the 2-year and 10-year notes rose from 0.74% and 1.51%, respectively, to end March at 2.34%.
- Russia's invasion of Ukraine added another layer of uncertainty, pushing commodity prices higher, exacerbating inflation concerns, and raising questions about the Fed's ability to reduce inflation without dampening a now more-fragile growth outlook.
- In the last two weeks of March, both high-yield spreads and equity markets regained some of the quarter's losses, as market participants began to come to terms with an aggressive Fed tightening cycle.

Performance Summary

The Portfolio underperformed its benchmark, the Bloomberg U.S. High Yield Bond Index, for the quarter ended March 31, 2022. Relative underperformance was driven by security selection, particularly in the B rated tier of the market, where we started the year materially overweight and our holdings exhibited more volatility than the index. The Portfolio's modest allocation to common stocks also detracted as equity markets fell. Aiding performance was an out-of-index allocation to floating-rate bank loans and lack of exposure to certain index holdings negatively impacted by the Russia/Ukraine conflict.

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

Portfolio Discussion

Given expectations for more aggressive rate hikes and uncertainty regarding the conflict in Ukraine, we sought to reduce the Portfolio's net risk, primarily by shifting out of our single B overweight and into BB rated assets. However, our higher-volatility stance at the start of the quarter detracted from relative returns. We also reduced our exposure to bank loans, which we had found attractive relative to the high-yield bond market and on expectation that floating-rate securities would perform well in the early stages of a Fed tightening cycle. However, as markets priced in an aggressive path of Fed hikes and interest rates spiked, bank loans outperformed the broader market. We took profits where we expect further upside to be limited, which aided performance.

At the industry level, we maintained minimal exposure to oil field services companies that did not meet our credit standards, though some nonetheless benefited from the period's sharp rise in oil prices and therefore weighed on relative results. As oil prices are likely to remain dominated by geopolitics in the short term, we are comfortable with our current positioning, expecting the company-by-company fundamental outlook to determine the longer-term performance of the securities we hold. Our security

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selection was more positive, however, in certain independent and midstream names, particularly where expectations for rating upgrades led to price increases, allowing us to realize gains.

Top Contributors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
Nexstar Escrow	0.46	0.06
Renewable Energy Group	0.46	0.05
Teva Pharmaceutical Industries Ltd	1.28	0.05
Great Western Petroleum	0.46	0.05
EQT Corporation	0.23	0.05

Top Detractors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
Bally's Corporation	1.69	-0.16
Tronox Inc	0.46	-0.08
Clarivate Plc	0.49	-0.08
Caesars Entertainment Inc	0.36	-0.07
Liberty Media Corporation	0.80	-0.07

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

With inflation and geopolitical risk likely to remain high, markets – at least in the short term – will likely question the Fed's ability to find a balance between containing inflation and choking growth. In recent decades inflation has trended lower, dragging nominal and real yields with it. This allowed the Fed to be more generous with liquidity in an attempt to drive inflation and real yields higher. Today's environment, in contrast, is reminiscent of the 1970s, when inflation had to be reined in and economic strength was a secondary concern. The current combination of supply-chain challenges and geopolitical uncertainty pressuring commodity prices higher is likely to prevent inflation from subsiding, at least in the coming months. However, our base case is that the Fed will raise rates, possibly aggressively, but not to the degree markets have already priced in. Thus, in our opinion, the risk of government bond yields rising significantly from here is less certain.

While the U.S. economic outlook remains more opaque than it has in some time, we believe high-yield bonds should find support as long as aggregate employment remains relatively strong and the rising star environment remains robust. U.S. corporate balance sheets are, in aggregate, stronger than they were before the shock of COVID-19, free-cash flow statistics remain positive and the financials of the aggregate consumer are equally supportive. Technical factors are likewise supportive for high-yield bonds. A relatively small percentage of the market will mature in the next few years, and new issuance has been lower than predicted. The prevalence of "rising star" companies likely to see sufficient credit improvement to transfer them from the high-yield to the investment-grade bond market will further reduce the investable universe.

Despite a cloudy outlook for interest rates and the U.S. economy, we believe high-yield companies can withstand some inflation, higher interest rates and slower growth. The combination of more attractive valuations given the widening in spreads over the past quarter, and the favorable technical environment looking forward, suggests the high-yield market could offer attractive risk-adjusted returns in the quarters ahead. We will, however, continue to closely monitor the macroeconomic conditions and adjust the Portfolio as evolving conditions warrant.

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, which reflects the typical portfolio management style of the investment strategy. Other accounts in the strategy may vary due to asset size, client guidelines and other factors.

As of 3/31/22 the top ten portfolio holdings of the Representative Account are: Med Trust 2021-MDLN (1.26%), Standard Industries Inc/NJ (1.03%), Mozart Debt Merger Sub Inc (1.02%), Cargo Aircraft Management Inc (1.02%), ARD Finance SA (0.86%), Western Midstream Operating LP (0.85%), Diamond BC BV (0.84%), Organon & Co / Organon Foreign Debt Co-Issuer BV (0.78%), CHS/Community Health Systems Inc (0.78%) and Full House Resorts Inc (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 3/31/22, 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 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.

A yield curve plots the yields (interest rate) of bonds with equal credit quality but differing maturity dates. Typically bonds with longer maturities have higher yields.

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