2Q20
Fixed Income

PORTFOLIO COMMENTARY

US High Yield

Market Environment

- The Bloomberg Barclays U.S. Corporate High-Yield Bond Index returned 10.18% over the second quarter as high-yield spreads retraced much of the widening that occurred in the first quarter.
- In April, the Federal Reserve (Fed) committed to buying high-yield bond exchange-traded funds (ETFs) and securities recently downgraded from investment grade. The announcement provided support to a number of recent fallen angels and ignited strong performance across the high-yield market.
- Market sentiment was further buoyed by initial progress in containing COVID-19, signs of a bottoming in the U.S. economy as states began to reopen and a recovery in oil prices. Energy names led the Index higher.

Performance Summary

The Janus Henderson High Yield Portfolio underperformed its benchmark, the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, for the three months ended June 30, 2020, despite capturing a significant portion of the period's upside. The Portfolio's cash allocation and out-of-index exposure to investment-grade corporate bonds held back results given the broadly positive sentiment of the quarter. A general underweight to energy, particularly in recently downgraded names, and security selection in the independent sector also detracted from relative performance, although security selection broadly contributed to Portfolio returns.

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

Portfolio Discussion

When the Fed announced its support for the high-yield market – a first for the world's central banks – valuations adjusted quickly. The restoration of liquidity to the market that finances the lowest credit rating tiers of the corporate bond universe required a reassessment of the expected default rate priced in during the previous quarter. Spreads collapsed commensurately as prices rose, initially in the largest and highest-quality companies in the market and then in lower-quality and lower-rated securities as the quarter progressed and the market gained confidence.

We began adding risk early in the quarter and increased our pace amid the reopening of economies and positive developments in COVID-19 treatments. We sought out opportunities in sectors and securities that were more challenged, but, in our view, could still navigate the uncertain economic landscape. With spreads in many high-yield bonds at their widest levels in a decade, we identified what was, in our view, an abundance of attractive relative-value opportunities.

While our security selection was a strong positive contributor for the period, we did not anticipate the Fed would lend support to the high-yield market and were slow to establish positions in some of the first quarter's fallen angels, such as Occidental Petroleum and Western Midstream Partners. This hesitation held the Portfolio back after the Fed's announcement that it would support companies downgraded from

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investment grade. Our general underweight across energy names further weighed on results as oil prices recovered from April's negative low. An out-of-index allocation to investment-grade securities, which in aggregate underperformed high yield, also detracted on a relative basis. Likewise, our cash position – which is not used as a strategy within the Portfolio but is a residual of our bottom-up, fundamental investment process – detracted given the general "risk-on" sentiment of the quarter.

Exposure to midstream energy, including positions in NGL Energy Partners and Tallgrass Energy Partners, benefited from the recovery in oil. Positioning in the more-defensive food and beverage sector also aided relative results, with Dole Food Company among the Portfolio's top single-name contributors.

Top Contributors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
NGL Energy Partners LP	0.51	0.36
Magnolia Oil & Gas Corp	0.72	0.35
Tallgrass Energy Partners	0.62	0.20
Golden Entertainment	0.71	0.20
Dole Food Co Inc	0.98	0.16

Top Detractors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
Occidental Petroleum	0.33	-0.59
General Electric Capital	2.17	-0.25
Mohegan Gaming	0.68	-0.24
Western Gas Partners LP	0.52	-0.18
JBS USA	1.72	-0.13

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 comforted by the Fed's commitment to support bond markets and anticipate fiscal authorities will continue intervening as needed. With this support, we expect U.S. economic growth to accelerate off recent lows for the next few quarters. Still, the path to recovery remains littered with uncertainties, and it will take years before the economy fully recovers. The restoration of liquidity in the high-yield market has been rapid by historical standards given the Fed's intervention, but that too will take time to fully normalize.

Although market sentiment has improved markedly, high-yield spreads over Treasuries ended the second quarter closer to longer-term averages and still wide of pre-COVID-19 levels. In our view, this leaves opportunity for attractive returns in the year ahead. We expect high-yield bonds will remain in demand as yields remain attractive – especially given historically low cash rates and Fed support.

But we do not expect volatility to fade. COVID-19 and its economic impact remain the most pressing concern, and other risks to market sentiment are also on our radar: a resumption of trade tensions with China and the upcoming U.S. elections, to name two.

We continue to believe sector and security selection will offer both opportunities and risks, and thus expect to remain diversified between the more cyclical and noncyclical sectors in the high-yield market. Sectors particularly sensitive to the economic outlook, such as retailers, media and parts of the energy sector, are vulnerable to an extended recession and require careful security selection. As we navigate these uncertainties, we will continue to adhere to our bottom-up, research-driven investment process with a focus on taking the right amount of risk throughout the cycle.

Portfolio Management

Seth Meyer, CFA

Brent Olson

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: General Electric Co (1.84%), ARD Finance SA (1.58%), Allegheny Technologies Inc (1.37%), Altice France SA/France (1.32%), CCO Holdings LLC / CCO Holdings Capital Corp (1.28%), First Quantum Minerals Ltd (1.23%), Altice France Holding SA (1.16%), Teva Pharmaceutical Finance Netherlands III BV (1.01%), Change Healthcare Holdings LLC / Change Healthcare Finance Inc (0.93%) and Ford Motor Co (0.90%). 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.

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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