

## High-Yield Fund

### Market Environment

- The Bloomberg Barclays U.S. Corporate High-Yield Bond Index returned 4.6% over the third quarter as high-yield spreads (the additional yield offered over a comparable U.S. Treasury) tightened, particularly during the month of July.
- U.S. economic data was broadly positive, boosting market sentiment. Progress in the development of a vaccine and the infrastructure needed to widely distribute it also gave investors more confidence in a positive long-term outlook.
- The Federal Reserve (Fed) formally introduced its average inflation targeting policy, seeking a more holistic approach to its 2% target. The prospect of continued accommodation and lower-for-longer interest rates further bolstered markets.
- High-yield corporate issuance was staggering, fueled by companies taking advantage of low interest rates to refinance their capital structures.
- Near period-end, U.S. election uncertainties coupled with second waves of the virus and concerns over the potential for another round of economic shutdowns brought on a spike in volatility and the market gave back some of its gains.

### Performance Summary

The Janus Henderson High Yield Fund outperformed its benchmark, the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, for the three months ended September 30, 2020. Strong security selection, particularly in the gaming and automotive sectors, drove relative outperformance. Positioning in independent energy detracted, as did a modest cash allocation.



For detailed performance information, please visit [janushenderson.com/performance](https://janushenderson.com/performance).

### Portfolio Discussion

Our optimism for the economic outlook broadly (amid supportive fiscal and monetary policy), and the high-yield asset class specifically (given its attractive yield relative to other fixed income asset classes) led us to modestly increase the aggressiveness of the Fund over the quarter. Given the second quarter momentum in investment-grade credit, we sought to trim some of our higher-rated corporate positions purchased in the teeth of the correction in favor of stronger risk-adjusted return opportunities in high yield. Late in the quarter, we saw a rotation in market leadership as CCC rated corporate bonds began outperforming their relatively higher-quality B and BB rated counterparts. The Fund benefited from being materially overweight CCCs, and we sought to take advantage of the market shift to reduce our underweight in BB bonds.

At the industry level, our gaming holdings aided incremental returns amid improved visitation rates. Our equity position in Caesars Entertainment rose when the casino operator announced better-than-expected earnings results. A position in slot machine and lottery system provider Scientific Games also benefited when activist owner Ron Perelman agreed to sell his stake to strategic buyer Caledonia. Investors cheered the ownership change, believing it will improve transparency and strengthen the company's corporate governance.

Positioning in Ford also aided relative results. After participating in Ford's recent debt offering, we rotated into the company's equity during the quarter, believing it presented a more attractive risk-adjusted opportunity. Successfully navigating Ford's capital structure was a meaningful contributor.

Gains were partially offset by our holdings in the retail sector and independent energy. On a single-name basis, computer

memory manufacturer Micron Technology detracted due to a weak environment for NAND memory. We sold the position and redeployed the proceeds into higher-conviction ideas. Our underweight position in a multinational plane and train manufacturer that constitutes a large position in the index also detracted when the company was able to execute on a long overdue asset sale of its rail business – the proceeds of which will be used to pay down debt.

Top Contributors	Average Weight (%)	Relative Contribution (%)
Caesars Entertainment Inc	0.43	0.18
Scientific Games	0.92	0.12
Ford Motor Credit Co	3.59	0.12
Transocean Inc	0.17	0.09
Tronox Inc	0.58	0.08

Top Detractors	Average Weight (%)	Relative Contribution (%)
Boardriders Inc	0.47	-0.30
Micron Tech	0.49	-0.09
NGL Energy Partners LP	0.42	-0.09
PQ Group Holdings	0.19	-0.06
Teva Pharmaceutical Industries Ltd	1.22	-0.05

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](http://janushenderson.com/info). 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 remain positive on the outlook for the U.S. economy and credit markets. While the advent of winter raises fears of rising COVID-19 cases, we believe that markets and the economy are adapting to the virus and future large-scale economic lockdowns are highly unlikely. As monetary and fiscal policy have proven effective in mitigating the risk of a deeper recession to date, we expect both will remain supportive and adapt as necessary. Going into the correction, high debt levels in the U.S. economy were predominantly concentrated in the corporate sector, but the Fed's interventions in the corporate bond market largely mitigated those risks. Consumers, meanwhile, have surprised markets with their resiliency, the savings rate has increased and the housing market has been relatively strong. As targeted fiscal policy is at least partially responsible, we expect the economy will continue to recover, and the relative strength of the consumer will persist, as long as monetary and fiscal support remains in place.

While high-yield spreads have tightened significantly from March's levels, they remain higher than long-term averages and we are still identifying attractive opportunities. As the recovery takes hold, we expect corporate bonds to remain in demand given the Fed's support and the attractive yields they offer over very low policy rates. We think the yield advantage in high yield makes it particularly attractive. Further, the ratio of distressed bonds (those trading below 70 cents on the dollar) has improved dramatically, indicating declining future default rates. However, volatility did rise in September and we expect it may persist given the upcoming U.S. elections. Politics could certainly delay fiscal stimulus more than the market currently expects, risks are growing of a contested election and the possibility that Democrats gain control of the U.S. Senate as well as the presidency could give markets pause. 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](http://janushenderson.com).

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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](http://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](http://janushenderson.com/performance) for current month-end performance.**

Discussion is based on the performance of Class I Shares.

As of 9/30/20 the top ten portfolio holdings of Janus Henderson High-Yield Fund are: 2020 Cash Mandatory Exchangeable Trust (2.07%), ARD Finance SA (1.87%), General Electric Co (1.87%), LABL Escrow Issuer LLC (1.56%), Allegheny Technologies Inc (1.55%), First Quantum Minerals Ltd (1.51%), Ford Motor Co (1.13%), Change Healthcare Holdings LLC / Change Healthcare Finance Inc (1.09%), Dole Food Co Inc (1.05%) and GCI LLC (1.02%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 9/30/20, 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.**

**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.**

Credit quality ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest).

**Bloomberg Barclays U.S. Corporate High Yield Bond Index** measures the US dollar-denominated, high yield, fixed-rate corporate bond market.

Index performance does not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

**Credit Spread** is the difference in yield between securities with similar maturity but different credit quality. Widening spreads generally indicate deteriorating creditworthiness of corporate borrowers, and narrowing indicate improving.

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

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