2Q20
Fixed Income

PORTFOLIO COMMENTARY

Multi-Sector Credit

Market Environment

- The Bloomberg Barclays U.S. Aggregate Bond Index returned 2.90% for the quarter, largely driven by strong performance across credit markets.
- Markets were encouraged by historic levels of monetary and fiscal stimulus, initial progress in containing COVID-19 and signs of a bottoming in the U.S. economy as states began to reopen.
- Aggressive stimulus measures by the Federal Reserve (Fed) provided support to corporations and financial markets and contributed to an improvement in liquidity conditions across fixed income sectors. As capital markets reopened for corporations, investment-grade companies issued a record $715 billion of debt during the quarter.
- The Fed's commitment to buy high-yield corporate bond exchange-traded funds (ETFs) and securities recently downgraded from investment grade ignited strong performance across the high-yield market, which in aggregate outperformed investment grade.
- Structured securities, including residential and commercial mortgages, asset-backed securities and collateralized loans also benefited from an improvement in liquidity but underperformed corporate bonds.
- Treasuries were the weakest-performing segment of the benchmark as yields were generally range bound.

Performance Summary

The Janus Henderson Multi-Sector Income Portfolio outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, for the quarter ended June 30, 2020. The Portfolio's asset allocation decisions drove relative outperformance. Out-of-index exposure to high-yield corporate bonds was the primary contributor to incremental returns given strong performance across the asset class but positioning in residential and commercial mortgage-backed securities also aided relative results.

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

Portfolio Discussion

As the quarter began, we continued our efforts to take advantage of what we viewed as attractive new issues in the investment-grade market, selectively adding exposure in higher-quality companies we believe are well positioned in the event of an extended downturn. We gained confidence amid the reopening of economies and positive developments in COVID-19 treatments. And as the Fed's level of commitment to supporting credit markets – including high yield – solidified, we were comfortable adding additional risk to the portfolio.

We increased our focus on sectors and securities that were more challenged but, in our view, could still navigate the uncertain economic landscape. We added to high-yield corporate bonds, a decision that proved beneficial amid the strong performance

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in the asset class. An overweight allocation in the metals and mining sector was particularly accretive, as commodity names generally recovered with the rebound in oil prices over the period. Additionally, we increased exposure to commercial and non-agency residential mortgage-backed securities and positioning in both contributed to incremental returns.

To accommodate these shifts, we reduced our holdings in investment-grade corporate bonds and agency mortgage-backed securities. We maintained our duration underweight as we sought to swap one credit risk for another, and Portfolio duration closed the quarter at 3.85 years.

Given the "risk-on" sentiment of the quarter, performance gains were partially offset by the Portfolio's underweight in investment-grade corporates as well as lack of exposure to government-related securities, which are often tied to "riskier" emerging market issuers. An overweight allocation in asset-backed securities also detracted from performance, despite generating a positive return.

Top Contributors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
CAS 2019-R05 1B1	0.49	0.29
UPST 2019-2 C	0.41	0.16
USA Compression Partners LP	0.36	0.14
CAS 2019-R03 1M2	0.45	0.14
CAS 2019-R06 2M2	0.57	0.14

Top Detractors	Representative Account Average Weight (%)	Representative Account Relative Contribution (%)
TBOLT 2019-1 E	0.09	-0.15
FNCL 1.5 7/20	10.10	-0.10
PRIMA 2019-7A D	0.32	-0.09
Mohegan Gaming	0.31	-0.09
FNCFL 2 1/21	4.06	-0.08

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, credit spreads over Treasuries ended the second quarter closer to longer-term averages and still wide of pre-crisis levels, leaving opportunity for attractive returns in fixed income in the year ahead. We expect corporate bonds, including high yield, to remain in demand given the Fed's support and the attractive yields they offer over very low policy rates – which will likely persist for the foreseeable future. And after a rapid deterioration in corporate fundamentals, we believe a period of debt paydown is likely to ensue by investment-grade issuers, which would further support that asset class. Across the ratings spectrum, however, security selection remains of the utmost importance, as additional downgrades and fallen angels are not out of the question. Security selection is equally as critical within structured securities, where we believe it prudent to focus on higher-quality structures that can withstand a slower economy; we expect the Fed's aggressive actions to support the liquidity and underlying fundamental performance of these securities.

We are optimistic, 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. 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

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John Kerschner, CFA

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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.

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

Credit Spread is the difference in yield between securities with similar maturity but different credit quality.

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: Fannie Mae or Freddie Mac (9.29%), Ginnie Mae (1.96%), Fannie Mae or Freddie Mac (1.71%), Fannie Mae or Freddie Mac (1.43%), Fannie Mae or Freddie Mac (1.21%), Fannie Mae or Freddie Mac (1.15%), Spruce Hill Mortgage Loan Trust 2019-SH1 (1.00%), General Electric Co (0.97%), BX Commercial Mortgage Trust 2019-XL (0.96%) and Jersey Mike's Funding (0.69%). 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.

Multi-Sector Credit Composite, benchmarked to the Bloomberg Barclays US Aggregate Bond Index, includes portfolios that pursue high current income with a secondary focus on capital appreciation by investing in multi-sector portfolio of U.S. and non-U.S. debt securities, including high yield/high risk bonds. The portfolios will normally maintain a weighted-average effective duration between 2.5 and 7 years and investments in high yield/high risk bonds will typically range from 35% to 65%. Emerging market debt exposure may range from 0% to 30%. Portfolios may also utilize derivative instruments for various investment purposes, such as to manage or hedge portfolio risk, enhance return, or manage duration. Prior to December 2018 the composite was known as the Multi-Sector Fixed Income Composite. The composite was created in April 2014.

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

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