4Q19
Fixed Income

FUND COMMENTARY

Multi-Sector Income Fund

Market Environment

- The Bloomberg Barclays U.S. Aggregate Bond Index had a marginally positive return of 0.18% over the quarter.
- Fixed income markets broadly became more confident of a soft landing for the U.S. economy as the Federal Reserve (Fed) continued with its accommodative policy. The Fed lowered its policy rate for the third time in 2019 and purchased Treasury bills to help stabilize the short-term borrowing market.
- Corporate credit extended its strong year-to-date gains, with high yield outperforming investment grade. Generally better-than-expected earnings reports and late-period progress in U.S.-China trade relations further supported performance in the asset class.
- Rising rates created a headwind for total returns. The U.S. Treasury yield curve steepened, with the yield on the 5-year note closing December at 1.69%, up from 1.54% in September, and the benchmark 10-year bond yield ending the period at 1.92%, up from 1.66%.

Performance Summary

The Janus Henderson Multi-Sector Income Fund outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, for the quarter ending December 31, 2019. The Fund's plus sectors, including exposure to high yield, added to results as riskier assets rallied. Maintaining relatively low interest rate risk also supported outperformance as Treasury yields rose and prices fell.

For detailed performance information, please visit janushenderson.com/performance.

Portfolio Discussion

Consistent with our aim to steadily reduce risk and diversify our income sources, we increased our exposure to mortgage-backed securities (MBS) and trimmed our corporate allocation on the margin. Given strong returns across corporate credit markets, we sought to take profits – particularly in the highest tier of high yield and the lowest tier of investment grade – and redeployed proceeds into what we view as more attractive risk-adjusted opportunities. Commensurate with our more conservative risk positioning, we reduced duration (a measure of a bond price's sensitivity to changes in interest rates) to 3.68 years at the end of December. Holding materially less interest rate risk than the index contributed positively to relative performance in a period when Treasury yields generally rose and the yield curve steepened.

The Fund's plus sectors, including higher-yielding debt instruments and equity-like securities, are used to support our goal of generating greater monthly income than the benchmark. Our out-of-index allocations to high-yield corporate bonds and bank loans were among the top contributors as the sectors' performance outpaced that of benchmark constituents during the period.

Janus Henderson
INVESTORS

The Fund's core sectors – including investment-grade credit, agency MBS and Treasuries – are employed with the goal of dampening the volatility of our plus-sector positioning. Despite generating positive performance, our investment-grade corporate holdings ultimately detracted on a relative basis, largely due to our material underweight.

At the industry level, our exposure to metals and mining benefited results. Issuer First Quantum Minerals performed well on speculation that involvement of a new strategic partner could result in a spinoff of or joint venture in one of its emerging market operations. Copper prices also recovered near period end as the likelihood of a trade deal increased, supporting the sector. We took the opportunity to reduce exposure now that the sector appears to be pricing in too strong an outlook for GDP.

Security selection in transportation services proved to be a modest detractor. At the issuer level, a position in a regional sports broadcast network faced contractual stumbles with major providers and weighed on results. We trimmed our exposure as a result.

Top Contributors	Average Weight (%)	Relative Contribution (%)
U.S. Treasury N/B	0.10	0.39
Avantor Inc	0.41	0.07
Fannie Mae or Freddie Mac	7.02	0.06
First Quantum Minerals Ltd	0.87	0.04
FNCL 2 1/20	6.96	0.04

Top Detractors	Average Weight (%)	Relative Contribution (%)
US Ultra Bond Cbt Mar20	2.39	-0.09
US 5yr Note (Cbt) Dec19	13.46	-0.06
SEMT 2018-8 AIO1	0.13	-0.04
US Ultra Bond Cbt Dec19	1.66	-0.04
Diamond Sports	0.56	-0.04

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.

Relative contribution is the difference between the contribution by ticker to the portfolio's performance versus that ticker's contribution to the benchmark's performance. It reflects how the portfolio's holdings impacted return relative to the benchmark. Cash, tickers not held in the portfolio and certain derivatives, such as Interest Rate Swaps, may be excluded.

Manager Outlook

Credit markets broadly appear overvalued, insofar as yields over Treasuries are tight relative to historical averages in most sectors, making it difficult to envision further significant spread tightening in 2020. But it is also difficult to be outright bearish on credit given the search for yield remains a global theme, and even moderate (1.5% to 2.0%) economic growth should be sufficient to support many corporate capital structures.

To see significant spread tightening from here would, in our view, require above-trend economic growth. However, the economy has only recently stabilized, and headwinds in the form of international trade and the U.S. presidential election remain, leading us to believe that a more conservative economic outlook is prudent. With credit, and high yield in particular, likely to remain suspended between concerns about U.S. economic weakness and expensive valuations on the one hand and demand for yield on the other, our focus remains on identifying steady and diversified sources of income with the potential to withstand volatility.

At the sector level, we are closely monitoring those likely to experience election volatility, such as health care and pharmaceuticals. Likewise, the U.S. energy sector remains volatile, requiring careful security selection to help avoid capital loss. We remain optimistic on the strength of the U.S. consumer as we have seen no signs of weakness, and we continue to think high-quality consumer-related markets such as asset-backed securities, MBS and bank loans can offer attractive yields and help diversify corporate exposure.

Absent a significant turn for the worse in the economic landscape or trade relations, we anticipate keeping our duration exposure relatively neutral relative to our target range and will remain focused on diversified income that can be captured with minimal portfolio volatility.

Portfolio Management

Seth Meyer, CFA

John Kerschner, CFA

John Lloyd

For more information, please visit **janushenderson.com.**

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. 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 for current month-end performance.

Discussion is based on the performance of Class I Shares.

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.

As of 12/31/19 the top ten portfolio holdings of Janus Henderson Multi-Sector Income Fund are: Fannie Mae or Freddie Mac (2.38%), Ginnie Mae (1.90%), Fannie Mae or Freddie Mac (1.63%), BX Commercial Mortgage Trust 2019-XL (1.50%), Fannie Mae or Freddie Mac (1.21%), Connecticut Avenue Securities Trust 2019-R06 (1.15%), Fannie Mae Connecticut Avenue Securities (0.97%), Ginnie Mae (0.94%), Fannie Mae Pool (0.93%) and Fannie Mae or Freddie Mac (0.91%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 12/31/19 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 is calculated by rolling up securities by ticker and comparing the daily returns for securities in the portfolio relative to those in the index. Relative contribution is based on returns gross of advisory fees, and may differ from actual performance.

Investing involves risk, including the possible loss of principal and fluctuation of value.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

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.

Derivatives can be highly volatile and more sensitive to changes in economic or market conditions than other investments. This could result in losses that exceed the original investment and may be magnified by leverage.

There are special risks associated with selling securities short. Stocks sold short have the potential risk of unlimited losses.

Increased portfolio turnover may result in higher expenses and potentially higher net taxable gains or losses.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

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

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