3Q19 Active
Fixed Income

FUND COMMENTARY

VNLA
Short Duration Income ETF

Market Environment

- Riskier assets slipped and "safe-haven" government bonds rose mid-period as investors grew more concerned about slowing global growth.
- Geopolitical developments ranging from the U.S.-China trade war, Brexit and tensions in the Middle East all weighed on sentiment. Backing this up were slowing global industrial data.
- Interest rates also rallied as the Federal Reserve (Fed) cut interest rates twice during the period. In Europe, Germany faced the prospect of entering recession.
- Late in the period, plodding progress in trade negotiations caused sentiment to shift slightly, resulting in a rally in corporate bonds and Treasury rates rising from their summer lows.

Performance Summary

The Fund outperformed its benchmark, the FTSE 3-Month US Treasury Bill Index. The strategy seeks to provide long-term positive returns and preserve capital through various market environments by managing portfolio duration, which measures a bond price's sensitivity to changes in interest rates, credit risk and volatility.

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

Portfolio Discussion

Contributing most to performance was the Fund's core of cash-based, shorter-duration corporate credits. These securities benefited from both carry – or the income generated by holding specific securities – and their duration component given the prevalence of declining interest rates during the period. Also generating positive returns were currency positions in the euro. Positions aimed to directly benefit from interest rates moves, on the other hand, detracted from results. Early in the period, a position structured to benefit from a steepening U.S. Treasuries curve generated negative returns. Later, a bearish position in intermediate-dated U.S. Treasuries modestly detracted as the yield on the 5-Year note rallied in the period's closing weeks. Also slightly detracting was the Fund's core allocation to collateralized mortgage obligations and asset-backed securities.

We expect to maintain a higher level of portfolio risk despite recent market volatility, believing that rates will remain low and corporate profitability solid. We expect to maintain Australian and U.S. duration in the 0.50 to 1.00 range for a total portfolio duration of 1.60 years. This is a longer duration position than we have historically taken, but it is informed by our views of scant inflation prospects, continuing global tensions and global central banks remaining in easing mode.

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Manager Outlook

While we foresee eventual increases in service sector inflation, goods inflation should remain well contained, being less linked to decreasing U.S. unemployment. Global spare capacity should continue to make cheap imports a viable alternative to domestic products, although a trade war's tax on consumers may limit imports' effects. While core inflation may slightly rise given the potential for increasing wage pressures, we believe it will remain well contained in the 2% range over the next few years.

In global bond markets we continue to favor U.S. and Australian rates. Over the past few years, we had been more dovish than market consensus in terms of the future path of short-term rates, but the market now prices in more cuts over the next year.

Australia's property downturn continues to deepen, but the employment story remains relatively robust. We believe Chinese growth will remain key for Australia and we remain optimistic despite a deceleration in credit provisions and the trade war. Firm Chinese and Asian growth, employment gains (particularly the recent gains in full-time hiring) and improved terms of trade provide for a solid Australian domestic story. We foresee a continuation of the string of 27 years of recession-free growth. However, non-mining investment, an over-levered consumer, housing market stress and a lack of wage growth should cause the Reserve Bank of Australia to tread carefully.

Favored sectors remain banking due to attractive yields and greater liquidity, and infrastructure such as airports and toll roads, which offer attractive yields and solid cash flows, and are typically monopolistic businesses with a high level of regulation and quality underlying collateral of systemic importance. We remain bullish on Australian senior bank debt. Our view toward these enterprises is formed by what we consider conservative business models, strong profitability and implicit government support. Elsewhere, we like systemically important, highly rated Asian issuers such as government-related energy, telecom and banking entities and the U.S. "too-big-to-fail" banks.

We remain less supportive of European bond opportunities. We believe it will be difficult for the European Central Bank (ECB) to avoid additional stimulus. We expect European growth and inflation to continue to underperform expectations over the coming quarters amid structural rigidities in labor and product markets, particularly in peripheral regions. Low-to-negative bond yields already reflect this scenario. We have mainly avoided UK positions since the 2016 Brexit vote, believing we had little insight into the political decisions that would ultimately drive economic performance. We had been skeptical of UK leaders' ability to deliver a workable Brexit solution and recent developments reinforce our view.

Portfolio Management

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

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OBJECTIVE: Janus Henderson Short Duration Income ETF (VNLA) seeks to provide a steady income stream with capital preservation across various market cycles. The Fund seeks to consistently outperform the FTSE 3-Month U.S. Treasury Bill Index by a moderate amount through various market cycles while at the same time providing low volatility.

Investing involves risk, including the possible loss of principal and fluctuation of value. There is no assurance the stated objective(s) will be met.

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.

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.

The Fund is not a money market fund and does not attempt to maintain a stable net asset value.

Actively managed portfolios may fail to produce the intended results. No investment strategy can ensure a profit or eliminate the risk of loss.

ETF shares are not individually redeemable and owners of the shares may acquire those shares from the Fund and tender those shares for redemption to the Fund in Creation Units only.

FTSE 3-Month US Treasury Bill Index tracks the performance of short-term U.S. government debt securities.

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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