4Q19 Active Fixed Income

FUND COMMENTARY

VNLA
Short Duration Income ETF

Market Environment

- A distinctly risk-on environment led to roughly flat global bond markets as greater demand for corporate bonds was offset by rising interest rates.
- Fueling the optimism was a potential truce in the U.S.-China trade war along with the possibility that global purchasing manager indices have bottomed.
- The Federal Reserve's (Fed) October decision to cut its benchmark rate for the third time in 2019 pushed down the yield on the 2-year note, but the inference that it may keep rates steady through 2020 and not raise them absent a spike in inflation caused the Treasuries yield curve to steepen.
- Accordingly, high-yield corporates outperformed investment grade, and the more favorable outlook sent the U.S. dollar lower versus most major currencies.

Performance Summary

The Portfolio underperformed 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

The Portfolio's core holdings of cash-based corporate and securitized credit generated positive returns, with both the income generated from these securities and spread tightening contributing to performance. The duration component of these securities, especially on Australian holdings, moderately detracted from overall performance, given the period's rise in interest rates. Similarly, the Portfolio's positions in government bonds also weighed on performance. Much of this exposure is aimed at hedging overall portfolio duration, and thus it is expected that negative returns can be generated depending upon the behavior of interest rates. The Portfolio, on occasion, also attempts to generate excess returns by capitalizing on movements in foreign currency markets. For the quarter, positions in the euro detracted from results.

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 1.50 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

We expect the fixed income environment in 2020 to be similar to what we experienced in 2019 in that the predominant trend will be one of growing policy accommodation by central banks. A notable exception is the uncertain trajectory of the Fed. While we expect the Fed to ultimately resume lowering, it has strongly hinted that after three cuts, it is willing to pause until economic conditions merit action. In this sense, the Fed's normalization program, which commenced in 2015, paid dividends, as it afforded the bank sufficient dry powder to react in an economic downturn. Other central banks are not so fortunate and will likely have to rely upon nontraditional measures to support their fragile economies.

We believe that inaction was likely the Fed's playbook for this past year, but the market forced its hand as concerns about weakening global growth festered. Some of these concerns have not left us. While inroads have been made in breaking the U.S.-China trade impasse, a tenable resolution that could reignite the languishing manufacturing sector and soft trade flows is far from certain. Much of the optimism priced into riskier asset classes as we closed out 2019 reflected a "better case" trade scenario. The high valuations of both corporate credits and equities could quickly reverse should the two countries retreat to a more protectionist stance.

In Europe, questions remain on the structure of the UK's and European Union's post-Brexit relationship. Questions also persist about whether the European Central Bank's latest increase of asset purchases will move the needle for economic growth, especially if governments remain hesitant to implement fiscal stimulus. A new risk is the policy uncertainty thrust upon markets by the U.S. election cycle. Sectors ranging from heath care and energy to technology and financials may all be impacted by proposals of leading presidential contenders.

Fed policy, itself, is a risk that merits close attention. We believe that lower nominal interest rates are a secular trend, and one from which the U.S. is not exempt. Ultimately, we expect the Fed will reengage in rate cuts, but their timing represents a risk to markets. We don't foresee a "doom" scenario, as we don't think a near-term recession is in the cards. In the wake of the Fed's "not-quite-dovish" October statement, futures markets have backed off their expectations for 2020 rate cuts, but they still price in cuts, whereas the Fed does not. Should the Fed stick to its guns and the yield curve steepen more than it recently has, we could foresee repricing across a range of risk assets.

Despite our view that a strong U.S. consumer and accommodative policy by central banks will likely stave off global recession, the lack of clarity on this cocktail of risks means that investors should expect higher levels of bond market volatility. One place where this volatility may manifest itself is the longer end of the U.S. Treasuries curve. Tight spreads may mean that the upside of U.S. corporate credits is limited as well. Other markets appear better positioned, as their monetary authorities are firmly in the easing camp and their corporate sector may not be as richly priced as comparable U.S. issuers.

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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