3Q21 Active Fixed Income

FUND COMMENTARY

VNLA
Short Duration Income ETF

Market Environment

- Global bonds lost ground during the period, largely due to sovereign bonds selling off in the final days of September.
- The driver behind rising yields was a more hawkish-than-expected statement by the Federal Reserve (Fed) that implied that balance sheet tapering could commence by the end of this year.
- Corporate bonds – as measured by the spread between their yields and those on their risk-free benchmark – came under pressure early in the period as the highly contagious COVID Delta variant clouded the outlook for global growth. Spreads, however, recovered until a late-period sell-off in riskier assets.

Performance Summary

The Portfolio outperformed its benchmark, the FTSE 3-Month U.S. Treasury Bill Index. The Portfolio seeks to provide a steady income stream with capital preservation across various market cycles. The Portfolio 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.

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

Portfolio Discussion

The Portfolio seeks to generate consistent returns by focusing on higher-quality, shorter-dated credits that tend to offer attractive income streams as they near maturity. Outperformance was the result of the carry[1] earned on the Portfolio's corporate credit allocation. Given tight credit spreads, we capitalized on opportunities to optimize our credit exposure by identifying price dislocations in higher-quality issuance, thus positioning ourselves to capture additional income and "roll down[2]" yield as bonds move toward maturity. Also contributing was the Portfolio's duration positioning expressed through our sovereign bond allocation. We tend to use these securities to manage the Portfolio's overall interest rate exposure. Recognizing that markets can move before policy makers, we lowered the Portfolio's overall duration prior to the Fed's September meeting. This resulted in gains as short- to mid-dated Treasury yields rose. While our duration positioning, in aggregate, contributed to performance, certain instruments utilized generated modestly negative returns.

The rise in interest rates and concerns about inflation cause us to be mindful about additional market volatility. With the trend toward incremental policy normalization and economic reopening resuming, we are maintaining a portfolio duration of 0.51 years. We believe this is sufficiently conservative given our bias toward higher interest rates while also presenting us with the opportunity to generate income as bonds near maturity.

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Manager Outlook

Although not as pronounced as what occurred at the beginning of the year, September's rapid rise in bond yields indicated that investors are well aware that the intermingled forces of economic reopening, inflationary pressure and an eventual reduction in extraordinary monetary policy all act as potential headwinds for bonds. We, too, believe that yields will slowly grind higher, but that the Fed will take measures to control the pace so as not sidetrack the economic recovery.

Rather than fretting over a half-empty glass, investors should keep in mind that rising yields are not necessarily a bad development. For over a decade, after all, market participants have griped about astonishingly low bond yields. As stated, it's the pace of the rise that should dictate the trajectory of bond returns. If methodical, investors will have the opportunity to reinvest maturing securities at yields higher than what had been available only months prior. This tactic is all the more relevant for shorter-dated strategies than can exit highly liquid positions and reallocate toward longer-dated, higher-yielding securities of similar quality. If inflation proves more persistent than expected, shorter-dated strategies should be less affected by rising rates than those that have extended duration to chase returns.

Eventually, policy rates will rise, and in the process put upward pressure on the front end of the yield curve. We are not there yet. In the interim, we believe the bias is for the yield curve to gradually steepen as additional economic growth is priced in. The pace of inflation is key. While stickier than perhaps anticipated, several drivers of the recent uptick appear attributable to economic dislocations caused by the Delta variant. Among these are shortages of key goods and services, including drivers to carry products the "final mile" to consumers.

We maintain the view that the disinflationary forces of demographics and technology get a vote on the trajectory of prices. But with inflation, expectations matter, and if consumers' minds latch onto the fear of rising prices, global central banks may have to pull forward normalization plans even more than what they've already announced. Given these crosscurrents amid a global public health crisis, vigilantly managing duration should remain a high priority for fixed income investors.

With yields still low across maturities – and especially in shorter-dated securities – a sharp rise in rates could wipe out a year's worth of income. Consequently, bond investors must continue to work harder to preserve capital and generate sufficient income. Two ways to expand their tool kit are to take measures to minimize interest rate risk and optimize the yield generated by a credit allocation. These tools are imbedded in our strategy with the aim of helping us deliver on our client commitment of seeking to preserve capital and generate income while incurring a lower level of volatility than that of the broader market.

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 more volatile and sensitive to economic or market changes than other investments, which could result in losses exceeding the original investment and magnified by leverage.

VNLA 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.

FTSE 3-Month US Treasury Bill Index reflects 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.

Carry is the excess income earned from holding a higher yielding security relative to another.

Roll down is the tendency of a fixed income security's market price to approach its par value as it nears maturity.

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