2Q21 Active Fixed Income

FUND COMMENTARY

JMBS
Mortgage-Backed Securities ETF

Market Environment

- The Bloomberg Barclays U.S. MBS Index returned 0.33% over the period. Sharply rising inflation data pushed shorter-maturity Treasury yields higher on increased expectations of rising policy rates. But the yield curve flattened as the market generally accepted the U.S. Federal Reserve's (Fed) statements that it expected inflation to remain contained.
- The Fed maintained its large-scale mortgage-backed securities (MBS) purchasing program, aiming to keep mortgage rates low. Additionally, sustained high levels of bank deposits and low demand for loans encouraged U.S. banks to continue to allocate capital to agency mortgages given their liquidity and AA+ credit rating.
- Demand for housing remained strong, supported by mortgage rates still near historic lows. Home price appreciation is near historic highs, and as new homebuilding has not kept up with rising demand for many years, home prices have been strong.

Performance Summary

The Janus Henderson Mortgage-Backed Securities Portfolio outperformed its benchmark, the Bloomberg Barclays U.S. MBS Bond Index, for the three months ended June 30, 2021. As mortgage prepayment rates remain relatively high, the Portfolio's security selection within agency MBS was a driver of returns. Both asset allocation decisions and security selection in out-of-benchmark exposure to mortgage-related credit also aided performance.

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

Portfolio Discussion

The direct purchasing of mortgage securities by the Fed, combined with insatiable demand for mortgages from U.S. banks, continued to create inefficiencies that the Portfolio has been able to exploit. The benchmark must maintain a market-weight allocation to securities that are rapidly pre-paying, while we were focused on identifying special borrower types in particular geographies that, in our view, would have lower potential to prepay, adding to returns. As Treasury yields fell over the period, it became increasingly important to avoid the kind of MBS securities that were likely to prepay quickly, favoring securities with more stable cash flows.

The continued resilience of the U.S. housing market also provided opportunities in mortgage-related credit instruments that are not included in the benchmark MBS Index. Many of these securities have lagged the strength in corporate credit since the lows of 2020 and thus, in our view, still offer attractive relative value. Over the period, the Portfolio's out-of-index allocations to these sectors largely benefited returns, thus providing diversity from the direction of the overall mortgage market.

Janus Henderson INVESTORS

Manager Outlook

We maintain our positive outlook for MBS. We believe the combination of the asset class' relatively high yield and low duration – substantially lower than that of the Bloomberg Barclays U.S. Aggregate Bond Index – provides attractive diversity relative to other fixed income sectors. Additionally, the currently high prepayment environment creates opportunities for security selection within MBS, while strong home prices bolster the potential for positive returns in mortgage-related credit such as collateralized mortgage obligations (CMOs) and credit-risk transfers (CRTs), as both sectors' performance is more closely tied to the underlying credit risk of home mortgages.

While the Fed may begin to transition its bond purchasing programs in the latter half of 2021, we expect MBS purchasing will remain a core part of the Fed's approach to managing both interest rates and interest rate volatility for the foreseeable future. We do not expect demand from the Fed to wane substantially in 2021. Given the historic level of aggregate consumer savings, we do not expect bank demand to wane significantly, either. And, as we expect the economic recovery in the first half of 2021 will meet or exceed current expectations, resulting in the strongest growth in nearly 40 years, we expect home price appreciation to continue.

While interest rate volatility declined over the quarter, as longer-maturity Treasuries trended toward lower yields, we expect this trend will not be sustainable and volatility should pick up again. While we remain positive on MBS, and expect to maintain our overweight exposure in higher-quality mortgage-related credit markets, we believe active management will remain important for generating positive returns in the coming quarters. As such, we will maintain our bottom-up fundamental and technical approach, looking for investment opportunities offering attractive risk-adjusted returns.

Portfolio Management

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

Holdings are subject to change without notice.

Equity country, regional, sector and industry weights primarily based on MSCI and GICS classifications. Fixed income country, regional, sector and industry weights primarily based on Bloomberg classifications.

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

The ETF is new and has less than one year of operating history.

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.

Mortgage-backed securities (MBS) may be more sensitive to interest rate changes. They are subject to extension risk, where borrowers extend the duration of their mortgages as interest rates rise, and prepayment risk, where borrowers pay off their mortgages earlier as interest rates fall. These risks may reduce returns.

Concentrated investments in a single sector, industry or region will be more susceptible to factors affecting that group and may be more volatile than less concentrated investments or the market as a whole.

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.

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

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

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

Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index tracks the performance of U.S. fixed-rate agency mortgage backed pass-through securities.

Omega Ratio measures the change in an option's value with respect to the percentage change in the underlying price. It gives option investors an idea of how the option price and the stock price that underlies it move together.

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.

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