Multi-Sector Income Fund

Janus Henderson INVESTORS

Opportunities Across Fixed Income Sectors

Investors looking for a consistent level of high monthly income can face a difficult choice between risk and return. Janus Henderson Multi-Sector Income Fund presents an appealing alternative to the classic dilemma by seeking much of the yield of the high-yield asset class while also considering volatility. Portfolio Manager Seth Meyer talks about the Fund's distinctive core plus construction and his plans for navigating the current cycle of rising interest rates.

Seth Meyer, CFA
Portfolio Manager

How might Janus Henderson Multi-Sector Income Fund help investors achieve their income goals?

The Fund seeks high and consistent income for investors. Since March 1, 2014, the Fund has averaged 80% of the yield of the Bloomberg Barclay's U.S. Corporate High Yield Index with less than half the volatility as measured by standard deviation.

This portfolio is managed between two main buckets: core and plus. Core sectors include investment-grade corporate bonds (generally longer duration and more conservative), Treasurys and mortgage-backed securities (MBS). Plus sectors include high-yield corporate bonds, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and bank loans. The core serves to dampen volatility, since we're inherently adding volatility (and risk) every time we buy something in the plus bucket.

How do you position the portfolio in a rising rate environment?

Higher interest rates signal a growing economy in which higher risk asset classes, such as those in our plus sectors, generally outperform those in our core sectors. So we would increase our exposure in some of our plus sectors, and shorten up duration and/or buy floating rate instruments like bank loans as this may help mitigate the impact of rate increases.

One thing to remember is that higher rates also mean higher income. This makes the goal of generating income a little easier.

How do you seek to mitigate volatility?

The Fund seeks to dampen volatility through our core. If we're adding significant risk to our plus side, we will shift to be significantly more conservative on our core side.

Essentially, it's a balancing act. We start with our plus because we want that income stream each month, then we decide how aggressive to be in our core sectors.

How do you identify attractive opportunities in the bond market?

We conduct fundamental, bottom-up credit research and emphasize issuers' ability to generate consistent free cash flow and their commitment to improve their company financials. As evidence of the latter, we look for a willingness to use cash to buy back stock, pay dividends, conduct acquisitions, or to pay down debt. We invest with conviction when we identify those issuers that we believe have both the cash flow and the willingness to decrease their financial leverage.

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Where do you see opportunities to gain yield in this market?

In a rising rate environment, allocating more capital to asset-backed securities (ABS) with innovative business models is a potential way to earn higher income while potentially avoiding undue risk. This is because the securities we're investing in are tied to the consumer, which should benefit in a period of decent GDP, consumer confidence and low unemployment.

Another way is to allocate more capital to bank loans. There are two main advantages to this: loans are secured, placing them higher than bonds in the capital structure, which lowers risk, and they reset as rates rise (meaning the coupon or interest payment is tied to a market rate and as that rate rises or falls, so does the payment made by the issuer). While bank loans are typically issued by companies with lower credit ratings, there are two main advantages to the securities: loans are secured, placing them higher than bonds in the capital structure, which lowers risk, and they reset as rates rise.

How do you differentiate yourself?

Our 19 credit analysts, located in the U.S. and the UK, have the willingness to research in smaller names or names less frequently identified by the street research. We are not afraid to establish big positions in our highest conviction names. The nimble size of our portfolios allows us to utilize these areas of the market. In addition, the Fund can benefit from our collaborative team-based approach within a flat team structure which allows us to compare risk-adjusted returns across asset classes while trying to achieve our goal. We have the flexibility to invest in numerous areas of the fixed income market with the goal of dampening volatility while providing income.

What would it take to make you change your allocations and/or reposition the portfolio?

Our positioning is dictated by where we are finding the best risk-adjusted returns in the market. Generally speaking this means our portfolio will reflect where our analysts are finding solid return opportunities that fit within our construct. As an example, in today's market we believe that consumer confidence should continue to improve, which should be positive for consumer ABS. This is one reason why we are finding interesting opportunities in this space. We believe this flexibility is a direct benefit to clients who are seeking income in today's market while also seeking to dampen volatility.

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

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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.

Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. The principal on mortgage- or asset-backed securities may normally be prepaid at any time, which will reduce the yield and market value of these securities. Investing in derivatives entails specific risks relating to liquidity, leverage and credit and may reduce returns and/or increase volatility.

Bank loans often involve borrowers with low credit ratings whose financial conditions are troubled or uncertain, including companies that are highly leveraged or in bankruptcy proceedings.

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

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Any risk management process discussed includes an effort to monitor and manage risk, which should not be confused with and does not imply low risk or the ability to control certain risk factors.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa. Standard Deviation measures historical volatility. Higher standard deviation implies greater volatility.

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