

Global Multi-Sector Bond

Market Environment

- The Bloomberg Barclays Global Aggregate Bond Index returned 0.71% over the quarter as slowing global economies and increasingly accommodative central banks provided a supportive environment for global bonds. Both sovereigns and investment-grade corporates performed well.
- The benchmark U.S. Treasury 10-year bond yield fell from 2.01% to 1.46% before backing up in September to close the quarter at 1.67%. In Europe, government bond yields continued their march into ever deeper negative territory, and in Denmark, even residential mortgage rates turned negative.
- Early in 2019, the U.S. economy had largely resisted the economic malaise of Europe and Asia, but increasing trade tensions and slowing industrial production growth raised doubts over the quarter. The Federal Reserve (Fed) responded by lowering its target rate a quarter of a percentage point in both July and September.
- The trade-weighted U.S. dollar continued its steady climb higher.

Performance Summary

The Global Multi-Sector Bond Portfolio outperformed its primary benchmark, the Bloomberg Barclays Global Aggregate Bond Index, for the quarter ended September 30, 2019. Relative outperformance was largely driven by our sovereign bond allocation. We maintained both our cash overweight and our duration overweight in the asset class, positioning that proved beneficial as yields fell and developed world sovereign curves generally flattened.



For detailed performance information, please contact a Janus Henderson Institutional team representative.

Portfolio Discussion

The slowdown in global growth remains concerning, and we expect central banks will continue easing to combat the risks. As a result, we continued to favor the return potential of longer-dated government bonds over the quarter. This bias proved beneficial, and drove relative outperformance.

At the issuer level, our long duration positions in the U.S., France and Sweden were among the top relative contributors to results, as yields fell and each respective sovereign curve flattened. In Sweden, we leveraged an intra-period backup, caused by hawkish rhetoric from the Riksbank, to increase our position. We believe the central bank will need to cut rates, rather than hike, given the state of their economic data. Markets priced in a similar viewpoint by quarter-end. Similarly, in Mexico, our exposure was accretive as economic data deteriorated and the central bank moved to a rate-cutting stance. Downward pressure on Mexican interest rates benefited our position, which was overweight the belly of the curve.

Our currency positioning further aided relative results, due in part to an overweight position in the yen. Lower U.S. yields led to compression of the interest rate differential between the U.S. and Japan, putting upward pressure on the yen. Bouts of

risk-off sentiment also supported the currency. In line with our more defensive bias, the Portfolio was broadly underweight emerging market currencies, including the Mexican peso, Korean won, and Chinese yuan. This positioning added to incremental returns as emerging market currencies were generally weaker during the quarter.

While we were pleased with the Portfolio's overall performance, some positioning did disappoint. Assets without duration struggled to keep pace with longer-dated bonds during the period, and some of our shorter-dated and floating rate asset-backed securities, collateralized mortgage obligations and corporate positions weighed on performance.

At the issuer level, the Portfolio was underweight Italian government bonds (BTPs) for much of the period due to concerns about domestic political volatility, but a sudden change in government and the possibility for renewed quantitative easing measures by the European Central Bank cast BTPs in a positive light. We moved to an overweight position by quarter-end. Exposure to federal and provincial government bonds in Canada also weighed on relative results. While our allocations generated positive returns, Canadian government bonds did not rally to the same degree as other larger benchmark constituents.

Top Contributors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
U.S. Treasury N/B	34.12	0.22
Mexican Bonos	7.48	0.16
Japan (Government of)	7.19	0.15
France OATs	0.74	0.13
Sweden (Government of)	3.10	0.11

Top Detractors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
Italy (Government of)	3.93	-0.09
Japan I/L-10yr	2.09	-0.06
Quebec Province	2.11	-0.04
British Columbia	2.12	-0.04
Canada (Government of)	3.51	-0.03

The holdings identified in this table, in compliance with Janus Henderson policy, do not represent all of the securities purchased, held or sold during the period. To obtain a list showing every holding as a percentage of the portfolio at the end of the most recently available disclosure period contact a Janus Henderson institutional team representative. Relative contribution is the difference between the contribution by ticker to the portfolio's performance versus that ticker's contribution to the benchmark's performance. It reflects how the portfolio's holdings impacted return relative to the benchmark. Cash and tickers not held in the portfolio are excluded. Certain derivatives, such as Interest Rate Swaps, may be excluded.

Manager Outlook

Our views on global markets are largely unchanged as we look toward year-end. With global manufacturing in an increasingly deep recession, Chinese economic data mixed, and the U.S. manufacturing indicators suggesting growth has not yet bottomed, we remain bearish on the global economic outlook. Against this backdrop, central banks, including the Fed, will likely remain accommodative. We remain positive on global government bonds, expecting benchmark yields to continue trending lower in the U.S. and more negative in Europe. Around this trend we will remain tactical, looking to add exposure on weakness, and take profits on strength.

We continue to believe the end of the credit cycle is closer than the beginning, and as corporate spreads remain near the tighter end of their historical range, we are comfortably underweight. We hold a similar view on U.S. mortgages, preferring to mitigate our exposure given the supply/demand imbalance created when the Fed stepped back from asset purchases. But after a challenging quarter, mortgages yields have become more attractive and we are evaluating whether they are suitable source of diversification for the Portfolio.

The primary risk to our outlook is a turnaround in the economic growth picture – a surprise improvement in trade relations between the U.S. and China could, for example, cause the market to reprice expectations for global growth. A turn toward aggressive fiscal stimulus in Europe could cause a similar reaction, but neither scenario is likely, in our view. For now, we believe our defensive stance remains a suitable approach as we seek to generate strong risk-adjusted returns and capital preservation for our clients.

Portfolio Management



Chris Diaz, CFA



Andrew Mulliner, CFA

For more information, please visit janushenderson.com.

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Past performance is no guarantee of future results.

Discussion is based on performance gross of fees.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

As of 9/30/19 the top ten portfolio holdings of the Representative Account are: Mexican Bonos (4.93%), Japanese Government CPI Linked Bond (4.51%), United States Treasury Note/Bond (4.35%), United States Treasury Note/Bond (3.96%), United States Treasury Note/Bond (3.92%), United States Treasury Note/Bond (3.91%), New Zealand Government Bond (3.26%), Spain Government Bond (3.04%), United States Treasury Note/Bond (2.88%) and United States Treasury Note/Bond (2.87%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

Portfolio holdings are as of the date indicated, and are subject to change. This material should not be construed as a recommendation to buy or sell any security.

The opinions are as of 9/30/19 and are subject to change without notice. Janus Henderson may have a business relationship with certain entities discussed. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

For fixed income portfolios, relative contribution is calculated by rolling up securities by ticker and comparing the daily returns for securities in the portfolio relative to those in the index. Relative contribution is based on returns gross of advisory fees, and may differ from actual performance.

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

Global Multi-Sector Bond Composite, benchmarked to the Bloomberg Barclays Global Aggregate Bond Index, includes portfolios that pursue maximum total return through current income and capital appreciation by investing in intermediate-term global fixed income securities. The portfolios invest in US and non-US securities issued in both foreign currency and US dollars. Under normal market conditions, emerging market debt is permitted up to 30% and high yield debt to 35%. Total return is expected to result from a combination of current income and capital appreciation, with income normally being the dominant component of total return. Prior to September 2013 the composite was known as the Global Core Plus Bond Composite. The composite was created in February 2011.

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