3Q19
Fixed Income

PORTFOLIO COMMENTARY

High Yield

Market Environment

- The Bloomberg Barclays U.S. Corporate High-Yield Bond Index returned 1.33% for the quarter. Returns were largely a result of the capital appreciation of falling government bond yields.
- Early in 2019, the U.S. economy largely resisted the global slowdown, but increasing trade tensions and slowing industrial production growth raised doubts during the quarter. The Federal Reserve (Fed) responded by lowering its target rate a quarter of a percentage point in both July and September.
- Yields fell across the Treasury curve, with the yield on the 5-year note falling from 1.77% to 1.32% before closing September at 1.54%.
- Despite significant intra-period volatility, high-yield spreads ended the quarter roughly unchanged.
- Within high yield, higher-rated credits led the index higher, while the lower tiers of high yield dramatically underperformed. Investment grade outperformed high yield.

Performance Summary

The Janus Henderson High-Yield Portfolio outperformed its benchmark, the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, for the quarter ending September 30, 2019. Strong security selection, including our decision to avoid a number of issuers whose bonds experienced severe price declines during the period, drove relative outperformance.

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

Portfolio Discussion

The global economic slowdown continues to give us pause, and we have grown increasingly concerned with the dramatic dispersion of returns between the highest and lowest tiers of the high-yield market. In our view, the tail end of the credit cycle is nearing, and we adopted an increasingly more defensive posture throughout the quarter. We redoubled emphasis on issuers in the top tier of high-yield credit ratings, and sought to cull some of the Portfolio's more volatile risk factors. Regulatory and political uncertainties have led us to shy away from health care names, and the continued lack of discipline from oil and gas issuers caused us to reduce exposure there. We added to our food and beverage allocation given the industry's relatively stable cash flows in slower growth environments. At the asset class level, we continued to identify opportunities in senior, more defensive bank loans, while cutting our already minimal exposure to equities and equity-like securities.

These decisions generally proved beneficial over the quarter, with the bulk of the Portfolio's relative outperformance coming from security selection and avoidance. Positioning in the communications sectors was among the strongest contributors. An overweight position in Altice benefited results as the media and communications company reported better-than-expected earnings. Sentiment toward the company's bonds also increased as management continued to emphasize deleveraging and

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provide greater transparency into the company's capital structure. Our zero weight to a wireline communications issuer that has struggled with potential bankruptcy was particularly accretive. Likewise, in oil field services both security selection and avoidance proved beneficial.

On a single-name basis, our long-standing overweight in food processor JBS USA also supported relative returns. The company has strongly benefited from a tighter pork market and higher pricing as a result of African swine flu.

While pleased with overall performance, some positioning did detract. Our modest equity exposure was among the quarter's detractors, with a convertible position in Insmed weighing most on performance at the individual issuer level. We still own the name, but continue to evaluate prospects for its drug Arikayce, which is the only approved treatment to address the bacterial lung infection nontuberculous mycobacterial.

Whiting Petroleum missed its financial targets for the quarter and hurt performance relative to the index. Extraction Oil and Gas also detracted from incremental returns despite having reasonable reported numbers. We trimmed both positions.

Top Contributors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
Altice USA	1.23	0.08
JBS USA	2.28	0.06
CF Industries	0.75	0.05
Western Digital	0.73	0.05
Station Casinos	0.38	0.05

Top Detractors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
Insmed Inc	0.65	-0.11
Whiting Petroleum	0.37	-0.08
Extraction Oil	0.32	-0.07
Valaris PLC	0.29	-0.06
Southwestern Energy	0.53	-0.04

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

We proactively reduced portfolio risk with an aim to have a more conservative portfolio in the final quarter of the year. We are increasingly concerned about economic weakness adversely affecting the high-yield market, whether by directly hurting company fundamentals or indirectly leading to higher-volatility periods as the market debates the extent and impact of the slowdown. In our view, the true impact of unresolved trade tensions has yet to be realized at the company level, and the eventual effect may be severely underestimated. The next round of earnings bears close watching. In general, we look to avoid exposure to companies that are disproportionately impacted by trade and political risk, as these variables have been, and are likely to remain sources of volatility. Likewise, we expect to remain underweight issuers in the lower-rated tiers of the asset class, preferring higher-quality credits that should better weather market volatility.

We acknowledge the lack of tightening in financial conditions, and the fact that riskier assets generally remain well bid as investors continue to reach for yield. Aggregate high-yield spreads are near the tighter end of the recent range, supported in part by a persisting supply-demand imbalance as the market shrinks. While this technical support has been favorable for high yield, we expect the downshift in growth to have greater sway over market sentiment going forward, and to lead to modestly wider spreads. We believe heightened selectivity is required at this late stage of the credit cycle as we seek to deliver a less-volatile client experience within the high-yield asset class.

Portfolio Management

Seth Meyer, CFA

Brent Olson

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

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: Golden Nugget Inc (2.08%), General Electric Co (1.47%), Allegheny Technologies Inc (1.46%), Altice France SA/France (1.37%), CCO Holdings LLC / CCO Holdings Capital Corp (1.34%), Change Healthcare Holdings LLC / Change Healthcare Finance Inc (1.34%), Cablevision Systems Corp (1.23%), Altice Luxembourg SA (1.13%), Watco Cos LLC / Watco Finance Corp (1.11%) and Great Western Petroleum LLC / Great Western Finance Corp (1.06%). 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.

High Yield Bond Composite, benchmarked to the Bloomberg Barclays US Corporate High Yield Index, includes portfolios that seek to obtain high current income by investing primarily in high-yield/high-risk fixed income securities rated BB or lower by Standard & Poor's Ratings Services or Ba or lower by Moody's Investors Service, Inc. Capital appreciation is a secondary objective when consistent with the primary objective. Effective January 1, 2005 the composite definition was changed to include only proprietary mutual funds and exclude sub-advised pooled funds. The composite was created in January 2003.

Janus Henderson provides investment advisory services in the U.S. through Janus Capital Management LLC, together with its participating affiliates.

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