3Q19
Fixed Income

PORTFOLIO COMMENTARY

Short Duration Bond

Market Environment

- Slowing global growth and central banks' continued pivot toward accommodative monetary policy provided a supportive environment for fixed income, although shorter-dated securities generally underperformed longer-dated bonds.
- 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 2-year bond yield falling from 1.75% to 1.43% before closing September at 1.62%.
- Corporate credit spreads fluctuated intra-period, but ultimately finished near where they began. Investment grade outperformed high yield.

Performance Summary

The Portfolio's benchmark, the Bloomberg Barclays 1-3 Year U.S. Government/Credit Index, returned 0.69% for the quarter ending September 30, 2019. The Portfolio outperformed its benchmark. Our positioning in Treasuries and high-yield corporate bonds aided performance.

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

Portfolio Discussion

The backdrop for corporate credit remained favorable throughout the quarter: companies looking to refinance debt were met with strong demand, earnings were adequate, inflation remained at bay and the continuation of the Fed's accommodative pivot should serve to extend the credit cycle. In anticipation of these conditions persisting through year-end, we remained overweight corporate credit and underweight Treasuries relative to the index. These asset allocation decisions proved beneficial over the quarter.

Out-of-index exposure to high-yield corporate credit was among the top asset class contributors to relative performance. Our high-yield holdings support our objective of identifying strong carry opportunities, and are biased to front-end issues from companies focused on paying down debt. To help diversify our corporate exposure, we have also sought sources of carry among asset-backed securities. A position in Jack in the Box, backed by the fast-food company's revenue streams, was among the top single-name contributors to relative performance during the quarter.

To help balance our shorter-dated bias in credit, we were long Treasury duration versus the benchmark. As rates fell and the curve flattened, this positioning also aided relative results.

While pleased with overall performance, some positioning did detract from relative performance. Our negligible exposure to government-related bonds, including lack of exposure to a Mexican state-owned oil company, held back results.

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A position in Teva Pharmaceutical also detracted. The company's entanglement in opioid-related lawsuits and price-fixing accusations has overpowered fundamentals of late and we exited our position.

Top Contributors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
U.S. Treasury N/B	27.96	0.10
CCO Holdings LLC	1.99	0.02
Huntington Ingalls Industries	0.74	0.01
JACK 2019-1A A2I	0.49	0.01
Arconic Inc	1.60	0.01

Top Detractors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
T-Mobile USA Inc	1.00	-0.01
Teva Pharmaceutical Industries Ltd	0.57	-0.01
Steel Dynamics	0.81	-0.01
CFII 2019-2A D	0.23	0.00
Citigroup Inc	2.89	0.00

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

As we enter the fourth quarter, the yield curve and certain leading indicators continue to signal caution. Slower growth globally and a divergence in key manufacturing indices coupled with trade tensions and U.S. politics present an uncertain backdrop. However, we are in a materially different environment than this time last year, with central banks in an accommodative stance versus 2018's tightening bias.

The Fed has pledged to act to sustain the economic expansion if U.S. economic conditions come in below its forecast, but our base case is that this year's Fed cuts will help to stabilize growth at below-trend levels. While we are heavily focused on the economic data, and watching for a clear bottoming in the manufacturing sector, trends in consumer spending – which comprises nearly 70% of the U.S. economy – generally remain favorable. Employment data remains constructive and the housing industry has already benefited from recent accommodation. Further, we have yet to see a tightening of financial conditions, and riskier assets remain well bid as investors' quest for yield continues. We believe this presents a favorable but moderated return environment for corporate credit as well as Treasuries. Easy monetary policy from developed-world central banks and the proliferation of negative-yielding debt make it difficult to envision U.S. rates moving higher, although we do anticipate the pace of the rally to slow.

Given the presented landscape and tight valuations across many sectors, we are emphasizing stable sources of yield and reviewing the more cyclical and volatile risk factors in the portfolio. Our focus remains on shorter-dated issues from higher-quality business models focused on prudent balance sheet management. We continue to look to securitized credit tied to the strength of the consumer as a means to help diversify the portfolio. Across asset classes, both thorough vetting of opportunities and security avoidance remain critical as we strive to deliver on our core tenets of capital preservation and strong risk-adjusted returns.

Portfolio Management

Darrell Watters

Mayur Saigal

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: United States Treasury Note/Bond (6.15%), United States Treasury Note/Bond (5.20%), United States Treasury Note/Bond (3.32%), United States Treasury Note/Bond (2.28%), United States Treasury Note/Bond (2.24%), Kinder Morgan Inc/DE (2.05%), United States Treasury Note/Bond (2.04%), United States Treasury Note/Bond (2.03%), Citigroup Inc (1.99%) and United States Treasury Note/Bond (1.90%). 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.

Short Duration Bond Composite, benchmarked to the Bloomberg Barclays US 1-3 Yr Government/Credit Index, includes portfolios that seek as high a level of current income as is consistent with preservation of capital. The portfolios will maintain an average-weighted effective maturity of three years or less under normal circumstances and may invest in high yield/high risk bonds up to 35%. Effective January 1, 2005 the composite definition was changed to include only proprietary mutual funds and exclude sub-advised pooled funds. Effective January 1, 2009 the composite definition was expanded to also include sub-advised pooled funds and separately managed institutional accounts. The composite was created in January 2003.

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