3Q18 Portfolio Commentary

Short Duration Income ETF (VNLA)

Market Environment

Investor appetite for risk increased during the quarter on the back of strong U.S. data while traditional safe havens such as government bonds sold off over the period's final weeks. Second quarter annualized U.S. gross domestic product (GDP) growth was revised upward to 4.2%, and during the summer a key manufacturing survey reached its highest level since 2004. An accompanying survey indicated that the services sector, which comprises roughly 80% of the economy, remains well in expansion territory. Nonfarm payrolls maintained its year-to-date average of adding over 200,000 jobs per month and annual wage gains reached as high as 2.9%. The increasing possibility that rising wages could send inflation above the Federal Reserve's (Fed) comfort zone was partly to blame for the late-period sell-off in longer-dated U.S. Treasuries. The yield on the 10-year note rose 20 basis points (bps) to 3.06% and that on the 30-year climbed 22 bps to 3.21%. Two-year notes experienced a more pronounced increase of 29 bps to 2.81%, driven by the Fed's September rate hike and growing expectations that it will raise rates again in December, bringing the 2018 total to four.

Confidence in the economy was evident in corporate credits as spreads narrowed significantly, especially among high-yield names, which saw spreads tighten 47 bps to their lowest level since April. U.S. stocks rallied – with some indices notching record closes – but emerging market shares slid as investors expressed concern about the escalating trade dispute between the U.S. and China. Similarly, most emerging market currencies lost ground against the dollar, as did those of many developed markets.

Performance/Positioning

For the period the Fund outperformed its benchmark, the 3-month USD London Interbank Offered Rate (LIBOR). The Fund's core – largely comprised of shorter-duration, investment-grade corporate credits – was a key contributor to results. We believe this segment of the market can offer investors a visible stream of income with a lower level of risk than many longer dated or lower quality securities. In an effort to mitigate risk levels, the Fund may hold a range of derivatives for hedging purposes. The costs associated with this protection can detract from overall returns. For the quarter, the securities used to help protect the Fund from credit risk weighed on performance as credits spreads narrowed considerably during the risk-on environment. On the other hand, interest-rate hedges benefited performance as they helped the Fund withstand the pronounced sell-off in government debt that occurred over the latter part of the quarter. Other components of the Fund's interest rate positioning that were constructed to generate excess returns also aided performance.

Highlights

- Investors preferred risk assets during the period, with both high-yield corporates and stocks benefiting from the bullish sentiment.
- The Fund's core of shorter duration corporate credits contributed to performance.
- We believe any risk of a tight U.S. labor market causing an uptick in inflation will be counterbalanced by the growth-dampening effects of escalating trade tensions.

Nick Maroutsos
Portfolio Manager

Daniel Siluk
Portfolio Manager

A string of recent data confirm a solid U.S. economy, highlighted by nonfarm payroll gains averaging over 200,000 thus far in 2018 and average year-over-year hourly earnings growth climbing as high as 2.9% during the quarter. These data do keep us concerned about U.S. inflation. However, we believe the trade war will remain a negative theme and keep a cap on where interest rates can go.

Like U.S. dollar strength, global bond yields should remain a barometer of markets' faith in the Trump administration's economic plans. While we remain negative on the U.S. political situation, jobs growth remains robust and wage gains may eventually reach 3%, which could lead to greater overall inflation expectations. The U.S. is close to full employment as strong payrolls data, fewer job openings and quit rates point to a strong labor market. Nonetheless, weak labor bargaining power will put a cap on long-term wage gains and core inflation.

In global bond markets, we continue to favor Australian rates versus the rest of the world. We expect the Reserve Bank of Australia (RBA) to remain on hold for all of 2018 and 2019. Housing and labor markets should remain key factors in future growth and inflation expectations and we expect the RBA will await further data before acting. The latest employment data reconfirm the continuation of last year's strong employment trend when 400,000 jobs were added, with 75% of them being full time. However, employment slack remains, with businesses more recently focused on part-time hiring and many remaining reluctant to increase wages.

The need for Australia to become more competitive in a global world, technological change and weaker labor bargaining power will likely continue to keep downward pressure on wages. The impact of macroprudential policy changes have yet to filter through the Australian economy, but we believe inflation risks will remain to the downside, keeping the RBA on hold well into 2019.

We continue to hold a positive view on investment-grade credit in Australia, largely due to:

- Attractive real yields.
- The health of issuers compared to other developed markets.
- Wider yield spreads versus comparable U.S., eurozone and Japanese issuers.

Our favored sectors remain banking, due to attractive yields and greater liquidity, and infrastructure including airports and toll roads. These tend to offer attractive yields and solid cash flows, and are typically monopolistic businesses with high regulation and quality underlying collateral, of systemic importance.

While Australian banks came under further pressure with the revelation of a new bank tax, rating agency downgrades of second-tier banks and first-tier hybrids, and disclosures in the Royal Banking Commission, we remain bullish on Australian senior bank debt given what we view as conservative business models, strong profitability and implicit government support. We have more recently moved out of the "Big Four" issuers into second-tier financials including regional banks and credit unions in an effort to generate additional yield.

Elsewhere, we like systemically important, highly rated Asian issuers such as government-related energy, telecom and banking entities and "too-big-to-fail" banks in the U.S., whose bonds should be supported by a robust regulatory environment focused on less risk taking and greater capital requirements.

While we view the risk profile of many global regions favorably, Europe is not necessarily one of them. In the near-term, growth has improved, aided by increased consumer spending and improving employment, but we see little inflationary pressure. Stresses in the euro region have increased, particularly with the emergence of an Italian coalition government focused on decreasing taxes and increasing spending with little concern over growing deficits. We expect 2018 European growth and inflation to continue to underperform expectations amid structural rigidities in labor and product markets, particularly in peripheral regions. Low- to negative-bond yields already reflect this scenario.

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

Janus Henderson INVESTORS

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.

Past performance is no guarantee of future results. Call 800.668.0434 or visit janushenderson.com/performance for current month-end performance.

The opinions are as of 9/30/18 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.

OBJECTIVE: Janus Henderson Short Duration Income ETF (VNLA) seeks to provide a steady income stream with capital preservation across various market cycles. The Fund seeks to consistently outperform the LIBOR 3-month rate by a moderate amount through various market cycles while at the same time providing low volatility.

Investing involves risk, including the possible loss of principal and fluctuation of value. There is no assurance the stated objective(s) will be met.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

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.

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.

The Fund is not a money market fund and does not attempt to maintain a stable net asset value.

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

ETF shares are not individually redeemable and owners of the shares may acquire those shares from the Fund and tender those shares for redemption to the Fund in Creation Units only.

LIBOR (London Interbank Offered Rate) is a short-term interest rate that banks offer one another and generally represents current cash rates.

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

Janus Capital Management LLC is the investment adviser and ALPS Distributors, Inc. is the distributor. ALPS is not affiliated with Janus Henderson or any of its subsidiaries.

C-0918-20323 01-15-19

JNS676 388-42-49432 10/18