Janus Henderson INVESTORS

Balanced Fund
VIT Balanced Portfolio

Co-Portfolio Managers

Marc Pinto, CFA
Darrell Watters
Jeremiah Buckley, CFA
Mayur Saigal

Investment Environment

A sense of nervousness prevailed during the period as investors navigated myriad economic and political concerns. Slowing global economic growth – particularly in China – presented a worrisome backdrop. Comments by the Federal Reserve (Fed) also caused volatility, as market participants expressed concern over the possibility of the Fed continuing to raise interest rates despite economic and market weakness. Developments in Washington further rattled markets after a shift in control of the House of Representatives led to political gridlock and a partial U.S. government shutdown. Major equity indices ended the period with steep losses. The S&P 500® Index returned -13.52%. Energy stocks led the index lower as oil prices tumbled more than 40% intra-quarter. Technology stocks were also among the worst performers. Utilities was the only sector to generate positive returns. Health care and consumer staples fared relatively well.

The bond market, as represented by the Bloomberg Barclays U.S. Aggregate Bond Index, returned 1.64% during the quarter. Yields fell across the curve, and Treasuries were the strongest-performing asset class amid the quarter's risk-off mindset. A repricing in market expectations for the Fed's ability to hike in 2019 also contributed to falling yields. The yield on the 10-year note ended December at 2.68%, down from 3.06% in September. Corporate credit spreads (the difference in yield between a security and its underlying risk-free benchmark) widened considerably, with high yield faring worse than investment grade.

Performance Discussion

The Fund, which seeks to provide more consistent returns over time by allocating across the spectrum of fixed income and equity securities, underperformed the Balanced Index, a blended benchmark of the S&P 500 Index (55%) and the Bloomberg Barclays U.S. Aggregate Bond Index (45%). The Fund outperformed its primary benchmark, the S&P 500 Index, and underperformed its secondary benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index.

Compared to the Balanced Index, the Fund remains overweight equities, with a 56% allocation to stocks, approximately 43% in fixed income and a small portion in cash. We continued to reduce our equity allocation during the quarter. While we are still identifying and seeking to take advantage of equity opportunities, we have adjusted the portfolio to be in line with our more neutral-to-cautious outlook. Our quarter-end allocation reflects our view that the return/risk trade-off in equities is nearly neutral relative to fixed income. The equity weighting will continue to be dynamic based on market conditions and the investment opportunities our teams identify across asset classes.

Highlights

- Slowing global economic growth and continued trade tensions coupled with concerns of a policy misstep by the Fed challenged risk assets during the quarter.
- The Fund underperformed the Balanced Index. The equity sleeve outperformed its benchmark. The fixed income sleeve underperformed its benchmark.
- We have a neutral-to-cautious view on the equity markets given the array of downside risks in play.

The Fund's equity sleeve outperformed its benchmark, the S&P 500 Index. The higher-quality nature of our holdings aided the Fund during the period's pronounced market weakness. Companies exhibiting healthy free cash flow tended to fare better during the flight to quality that took place. Strong stock selection in the pro-cyclical consumer discretionary and information technology sectors, as well as the relatively strong-performing health care sector, drove relative outperformance.

CME Group led absolute contributors during the quarter. The operator of financial exchanges benefited from market volatility and heightened volumes in interest rate and equity futures. Going forward, we maintain a favorable opinion of the more stable nature of CME Group's business model relative to other large financial institutions. The company continues to see considerable open interest in futures, which is their core business, and is positioned to further benefit from ongoing market volatility. CME Group also continues to increase its number of customers and use cases, and its acquisition of electronic markets company NEX Group plc, which closed in November, should eventually be accretive to earnings.

Merck & Co. was another top performer. The company benefited from a generally strong quarter for pharmaceutical companies due in part to relatively less rhetoric around pricing regulation. Sales of Keytruda, its cancer-fighting immunotherapy, continue to be strong and the drug continues to take market share from its largest rival. We believe the immunotherapy still has significant growth potential, particularly in overseas markets and in cases of lung cancer treatment.

McDonald's was another leading contributor. We like that this is a more defensive stock within the pro-cyclical consumer discretionary sector. In our view, the company's stable cash flows make it an appealing holding, particularly in times of market weakness. McDonald's has been experiencing strong same-store sales growth, partly as a result of capital expenditures for its "Experience the Future" remodeling program, geared toward modernizing its restaurants. Other initiatives such as their mobile app and the "McDelivery" partnership with Uber Eats are also supporting earnings. McDonald's has also done an admirable job of growing sales overseas and is relatively less affected by geopolitical concerns than other multinational companies.

A zero weighting in the relatively strong-performing utilities sector and stock selection in the consumer staples sector weighed on relative results. At the individual stock level, the following holdings disappointed.

Apple led absolute detractors. The company is in the middle of a less impactful product upgrade cycle, which has led to softer demand for iPhones. Concerns over economic weakness in China further pressured the demand outlook which led the stock lower. We intend to maintain our position, believing that the company remains poised to benefit from higher-average-selling prices of its newest phones, which is supporting profit growth. Its services business, including Apple Music and cloud services, also result in a growing, recurring revenue stream. Further, we appreciate the company's focus on returning cash to shareholders by way of increased dividends and stock buybacks.

Mastercard was another detractor. This is one of our larger positions, and it was caught up in the general market sell-off. Concerns about China, the slowing global economy and the potential impact on global travel also weighed on the stock. We still like the company and our long-term investment thesis continues to play out. Payments companies such as Mastercard continue to benefit as consumers and businesses switch from cash and check to plastic and electronic payments. Mastercard is particularly well positioned to benefit from this shift because a majority of its revenues are generated outside the U.S., where many markets have a lower penetration of card and electronic payments and are experiencing significantly faster electronic purchase volume growth.

Altria was also among the top detractors. Tobacco stocks fell in November after the FDA made comments it would explore a potential ban on menthol cigarettes. Cigarette sales volumes have also been down toward the low end of their historic range, which made investors nervous. During the period, Altria took a stake in e-cigarette company Juul. While the acquisition was costly, we do not believe it overly hampers Altria's balance sheet and we anticipate it will ultimately be accretive to earnings. The deal also allows Altria to connect with the best technology in the vaporizing industry.

The Fund's fixed income sleeve underperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index. Tightening financial conditions, diminished liquidity and credit rating downgrades of a few large investment-grade complexes helped to confirm our view that we are progressing through the later stages of the credit cycle. Given our late-cycle concerns and the darkening macroeconomic picture, we sought to lower the sleeve's risk exposure during the period. We reduced our corporate bond allocation by nearly 5%. Amid the market's repricing of Fed expectations, we also reevaluated our floating rate exposure and lowered our allocations to asset-backed securities (ABS). We added more than 7% to our Treasury allocation, which ended the quarter near 38% of the fixed income sleeve, and extended the sleeve's duration (a measure of sensitivity to changes in interest rates) to 103% versus the index.

Despite our efforts to reduce risk, it was our risk exposure that detracted most from relative performance. Our out-of-index allocation to high-yield corporate credit was particularly detrimental given the dramatic spread widening in the asset class. We seek higher-quality, high-yield names, with consistent free-cash-flow generation potential and management teams committed to paying down debt, but even those names were challenged. The sleeve's largest individual detractor for the quarter was Freeport-McMoRan. The copper miner's balance sheet improvement progress was overshadowed by fears of a slowdown in China coupled with trade war uncertainty, given that China consumes a significant portion of the world's copper. We appreciate the value of Freeport's assets, and ultimately expect the miner to benefit from limited supply and growing demand for copper – an essential component of electric vehicles – as the electrification of vehicles accelerates. We also like the company's commitment to deleveraging and expect management to continue paying down debt in coming months.

Our out-of-index exposure to bank loans further weighed on relative performance amid the period's risk-off sentiment. The lack of duration in bank loans, given their floating rate structure, also proved costly as market expectations shifted from Fed hikes over the next three years to potential cuts in 2019. A significant portion of our ABS exposure is also front end and floating rate. These assets did not benefit from the strong rally in Treasury yields as many benchmark constituents did.

An allocation to commercial mortgage-backed securities also detracted from relative results. Two of our holdings were negatively impacted by weakness in brick-and-mortar retail and the tightening in capital markets, which brought into question the ability for these issuers to refinance their deals and extend maturities. We exited one position and significantly reduced the other by quarter end.

These losses were partially offset by our Treasuries positioning. Our bias to longer-dated Treasuries, which we use to help manage overall duration, proved beneficial. With risk-off sentiment prevailing during the quarter, our underweight allocation in investment-grade corporate credit also

contributed to relative results. Minimal exposure to government-related securities, which include government agency debt as well as debt issued by state-owned firms, was another asset class contributor to relative results. Lack of exposure to certain Mexico-domiciled issuers was particularly accretive.

At the individual issuer level, our lack of exposure to several of the large investment-grade complexes that were downgraded from single-A to BBB also aided relative results. These downgrades were driven by a combination of challenged fundamentals, levering acquisitions and elevated leverage profiles. General Electric is one such example. GE's fundamentals have been weak for an extended time, and in lieu of deleveraging, it has focused on returning over $80 billion of capital to shareholders since 2015. New CEO Larry Culp's efforts to turn around the company and repair the balance sheet may take place over time, but the highly leveraged balance sheet was no longer able to support single-A ratings. Our zero weight in the credit when it fell out of the single-A index led GE to be a modest contributor.

For detailed performance information, please visit janushenderson.com/performance.

Outlook

Concerns around the U.S. government shutdown, slowing growth in China, trade tensions and overall global economic weakness present an uncomfortable macroeconomic backdrop, and we expect market volatility to persist. As a result, our outlook is neutral-to-cautious. While mindful of the various downside risks, a generally healthy U.S. economy and positive indicators such as healthy wage inflation, strong employment and a robust holiday shopping season highlight the strength of the consumer. If progress is made around trade policy or the U.S. budget, a rebound in risk markets is not unfeasible.

In the equity sleeve, we are favoring companies with more of a U.S. footprint and are seeking to mitigate exposure to companies that may be impacted by trade rhetoric and slowing global growth. We will continue to focus on companies that exhibit consistent free cash flow, and on those making business investments that should drive value over time. Heightened market volatility has presented opportunities to exit stocks in which we have relatively lower conviction and redeploy the proceeds into higher conviction names.

In the fixed income sleeve, we will be closely monitoring U.S. economic data, particularly inflation figures, as well as Fed rhetoric. This will be pivotal in assessing the likelihood of the Fed hiking in excess of what is warranted and potentially accelerating a U.S. slowdown, versus it pausing in 2019. Our base case is that the Fed will be more cautious in its cadence going forward. As always, we intend to employ a tactical approach to yield curve positioning with a focus on capital preservation.

Despite recent spread widening, we generally do not believe that spreads offer just compensation for the stated risk factors and the likely increase in defaults and downgrades to come. Our outlook is cautious and we intend to be deliberate in our corporate credit positioning, emphasizing our highest-conviction names with consistent free-cash-flow generation potential, strong management teams and a commitment to paying down debt. Thorough vetting of opportunities coupled with security avoidance remains critical as we strive to deliver on our core tenets of capital preservation and strong risk-adjusted returns in the fixed income sleeve.

Top Equity Sleeve Contributors and Detractors for the Quarter Ended 12/31/18

Top Contributors	Ending Weight (%)	Contribution (%)	Top Detractors	Ending Weight (%)	Contribution (%)
CME Group Inc.	2.02	0.27	Apple Inc.	2.81	-1.05
Merck & Co., Inc.	2.77	0.19	Mastercard Incorporated	4.25	-0.67
McDonald's Corporation	3.28	0.17	Microsoft Corporation	5.61	-0.59
Eli Lilly and Company	2.08	0.14	Altria Group, Inc.	2.86	-0.52
AbbVie Inc.	1.56	0.08	General Dynamics Corporation	2.34	-0.51

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 recent publicly available disclosure period, contact 800.668.0434 or visit janushenderson.com/info.

Top Contributors

CME Group Inc.: We believe CME Group, which runs options and futures exchanges, stands to benefit from an increasingly global user base and the continued digitization of its markets, including U.S. equity futures and commodities. In addition, market volatility and rising interest rates should help increase trading volume on CME's exchanges and boost the company's revenues. Its acquisition of electronic markets company NEX Group should also be accretive to earnings.

Top Detractors

Apple Inc.: One of the world's largest mobile device and computer makers, Apple has been the beneficiary of incremental sales opportunities and increased penetration in new geographies, mobile service providers and product categories. Innovation in the capabilities of its mobile devices has continued to lead to higher-than-average-selling prices across the globe. Further, the Apple ecosystem of devices

Top Contributors (continued)

Merck & Co., Inc.: The pharmaceutical company is benefiting from the rapid sales growth of Keytruda, a leading checkpoint inhibitor for the treatment of certain cancers, including melanoma and non-small cell lung cancer. We believe Merck is well positioned to expand Keytruda for other indications in the near future. We also like the management team, which has executed clinical trials well.

McDonald's Corporation: We appreciate improvements that the fast-food giant has been making. For example, menu, supply chain and marketing innovations, as well as store remodels, have boosted sales at existing McDonald's locations. The company has also worked toward appealing to digital-savvy customers through mobile order and pay capabilities. We also appreciate McDonald's track record of regularly increasing its dividend.

Eli Lilly and Company: The pharmaceutical company is benefiting from a number of recent drug launches, including Trulicity, which helps lower blood sugar for diabetes patients; Jardiance, a treatment that lowers the risk of cardiovascular death in diabetics; Taltz, used by adults with moderate to severe psoriasis, a chronic skin condition; Olumiant, an oral drug for rheumatoid arthritis; and Emgality, a CGRP inhibitor to prevent migraines. We believe these products will help drive sales growth and lead to significant margin expansion for the company.

AbbVie Inc.: AbbVie is a biopharmaceutical company whose lead drug, Humira, treats rheumatoid arthritis, chronic plaque psoriasis, Crohn's disease and other common autoimmune conditions. Although Humira faces future competition from biosimilars, AbbVie has promising therapies in its pipeline that could offset this headwind. These medicines include recently launched Mavyret for hepatitis C, risankizumab, a treatment for psoriasis, and upadacitinib, an oral therapy for a wide range of inflammatory diseases.

Top Detractors (continued)

continues to grow and has led to increased demand for additional high-margin services from the company.

Mastercard Incorporated: The global card payment network connects consumers, financial institutions, merchants, governments and businesses, enabling them to use electronic forms of payment instead of cash and checks. We like Mastercard for its high return on invested capital business and growth potential as well as its strong balance sheet and quality management team. A majority of its revenues are generated outside the U.S., where many markets have a lower penetration of cards/electronic payments and are experiencing significantly faster electronic purchase volume growth.

Microsoft Corporation: Microsoft, the legacy software giant, has reinvented itself to become the second-largest provider of cloud-based IT services. We believe the transformation has been a smart one, as more companies move workloads from physical servers to the cloud. We are also impressed by Microsoft's transition to a subscription-based model for its popular Office suite, and the company's continued focus on cutting costs, buying back shares and raising its dividend. While the stock has risen significantly, we still see upside for Microsoft's cloud business, as only a small fraction of business workloads currently operate in the cloud.

Altria Group, Inc.: The tobacco company remains an attractive holding given its historical ability to generate significant levels of cash, a high percentage of which is returned to shareholders via dividends and share buybacks. We think despite declining cigarette volumes in the U.S., Altria's cash flows will grow moderately over time as the company continues to improve margins and grow the non-cigarette business. Its recent investment in e-cigarette company Juul allows them access to the best technology and the best brand in the non-combustible space.

General Dynamics Corporation: The aerospace and defense company is well positioned to benefit from a robust long-term outlook for defense spending, as well as rebounding demand for business jets. Its subsidiary Gulfstream Aerospace is introducing new jet models including the G600 that are replacing older offerings and are expected to be superior to competing planes. The company has a diversified line of products, and within its defense business it is improving margins in both its ship-building and combat vehicle divisions. The stock is also attractively priced relative to its defense industry peers.

Top Fixed Income Sleeve Relative Contributors and Detractors Held for the Quarter Ended 12/31/18

Top Contributors	Average Weight (%)	Relative Contribution (%)	Top Detractors	Average Weight (%)	Relative Contribution (%)
U.S. Treasury Notes/Bonds	32.38	0.04	Freeport-McMoRan Inc.	0.99	-0.08
Federal National Mortgage Association	10.90	0.02	Government National Mortgage Assn.	3.25	-0.05
GE Capital Corp.	0.23	0.01	Range Resources Corporation	0.43	-0.04
Federal Home Loan Mortgage Corp.	8.21	0.01	Diamond 1 Fin/Diamond 2	0.57	-0.03
Bank of America Corporation	0.60	0.01	Campbell Soup Company	0.65	-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 recent publicly available disclosure period, contact 800.668.0434 or visit janushenderson.com/info.

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.

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.

Discussion is based on the performance of Class I Shares.

The discussion and data quoted are based upon the results, holdings and characteristics of the similarly managed Janus Henderson mutual fund. Such data may vary for the Janus Henderson VIT portfolio due to asset size, investment guidelines and other factors. We believe the mutual fund most closely reflects the portfolio management style for this strategy.

As of 12/31/18 the top ten portfolio holdings of Janus Henderson Balanced Fund are: United States Treasury Note/Bond (3.30%), Microsoft Corporation (3.22%), Mastercard Incorporated (2.44%), Alphabet Inc. (2.20%), The Boeing Company (2.05%), McDonald's Corporation (1.89%), United States Treasury Note/Bond (1.87%), US Bancorp (1.74%), Altria Group, Inc. (1.65%) and United States Treasury Note/Bond (1.63%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 12/31/18 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.

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

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.

Performance may be affected by risks that include those associated with non-diversification, portfolio turnover, short sales, potential conflicts of interest, foreign and emerging markets, initial public offerings (IPOs), high-yield and high-risk securities, undervalued, overlooked and smaller capitalization companies, real estate related securities including Real Estate Investment Trusts (REITs), derivatives, and commodity-linked investments. Each product has different risks. Please see the prospectus for more information about risks, holdings and other details.

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.

S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Balanced Index is an internally-calculated, hypothetical combination of total returns from the S&P 500® Index (55%) and the Bloomberg Barclays U.S. Aggregate Bond Index (45%).

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

Janus Henderson is a trademark of Janus Henderson Group plc or one of its subsidiaries. © Janus Henderson Group plc.

Janus Henderson Distributors

C-1218-21429 04-15-19

188-42-29102 01/19