

FUND COMMENTARY

Flexible Bond Fund

Market Environment

- The Bloomberg Barclays U.S. Aggregate Bond Index returned 2.27% over the quarter as slowing global growth and central banks' continued pivot toward accommodative monetary policy provided a supportive environment for 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 benchmark 10-year bond yield falling from 2.01% to 1.46% before closing September at 1.66%.
- Corporate yields over Treasuries (spreads) fluctuated intra-period, but ultimately finished near where they began. Investment grade outperformed high yield.

Performance Summary

The Janus Henderson Flexible Bond Fund outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, for the quarter ended September 30, 2019. Our longer-dated Treasuries exposure proved beneficial as yields fell and the curve flattened. Positioning in corporate credit, the strongest-performing asset class in the index, also aided relative outperformance.



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

Portfolio Discussion

The central bank shift toward more accommodative policy has fostered an environment in which Treasuries and credit can perform well. Negative rates abroad are creating appeal in Treasuries versus global peers, and while we were underweight the asset class, we remained biased to longer-dated Treasuries versus the index. The latter contributed to relative results as rates rallied. However, given the magnitude of the rate rally year to date, we expect the pace at which yields are falling to slow. We reduced duration, which averaged roughly 105% during the quarter, largely through our Treasury positioning to end September in line with the index. We believe maintaining Fund duration in a tight band around the index is prudent, but approach duration with a tactical lens to help preserve capital and balance our credit exposure.

We maintained an overweight to corporate bonds and modestly added to our allocation. But given uncertainties at this late stage of the credit cycle, we remain biased to less cyclical, shorter- and intermediate-dated issues from companies executing higher-quality business models and prudent balance sheet management. Security selection and spread carry, a measure of excess income generated by the Fund's corporate holdings, supported relative outperformance.

In addition to the contribution from our Treasury and corporate positioning, a position in Newell Brands (the maker of Rubbermaid) aided relative results. Soft fundamentals and a poor balance sheet had generated negative sentiment in the name, but as our

research had anticipated, Newell executed asset sales to protect credit ratings during the quarter, a move that was well received by investors.

While we were pleased with overall fund performance, certain positioning detracted from relative results. Assets without duration struggled to keep pace with longer-dated bonds during the period, and some of our shorter-dated positions, including

asset-backed securities and collateralized-mortgage obligations, weighed on performance. On a single-name basis, Ford held back results. Slower-than-expected execution of the company's restructuring plan led Moodys to downgrade Ford to high yield in September. Mindful that Ford has yet to take aggressive action to protect its ratings, we trimmed our position.

Top Contributors	Average Weight (%)	Relative Contribution (%)
U.S. Treasury N/B	17.22	0.28
Newell Brands	0.63	0.03
Crown Castle	0.79	0.03
Campbell Soup Co	0.52	0.03
Novelis Corp	0.51	0.03

Top Detractors	Average Weight (%)	Relative Contribution (%)
Fn Fm1689	14.36	-0.06
FG G07300	8.38	-0.04
EQM Midstream Partners	0.27	-0.02
Vistra Operations	1.04	-0.01
Ford Motor Credit Co	0.76	-0.01

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.

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 higher-quality business models and higher-quality ratings. Within high yield, we are biased to shorter-dated issues in names with upgrade potential. We continue to look to agency mortgage-backed securities and 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



Michael Keough



Mayur Saigal

For more information, please visit janushenderson.com.

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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.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Discussion is based on the performance of Class I Shares.

As of 9/30/19 the top ten portfolio holdings of Janus Henderson Flexible Bond Fund are: United States Treasury Note/Bond (2.84%), United States Treasury Note/Bond (2.66%), United States Treasury Note/Bond (2.29%), United States Treasury Note/Bond (1.54%), Ginnie Mae (1.19%), United States Treasury Note/Bond (0.98%), United States Treasury Note/Bond (0.90%), Fannie Mae Pool (0.83%), Freddie Mac Gold Pool (0.82%) and United States Treasury Note/Bond (0.82%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

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.

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.

High-yield or "junk" bonds involve a greater risk of default and price volatility and can experience sudden and sharp price swings.

Increased portfolio turnover may result in higher expenses and potentially higher net taxable gains or losses.

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

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

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