4Q18 Portfolio Commentary

Janus Henderson INVESTORS

Global Unconstrained Bond Fund

Investment Environment

Global bond markets started the quarter sluggishly, held down, in part, by weakness in U.S. Treasuries. The one-two punch of U.S. hourly earnings growth eclipsing 3.0% for the first time in the post-financial crisis era and an inference by Federal Reserve (Fed) Chairman Jerome Powell that the central bank was a long way from its estimated neutral interest rate, pushed up U.S. Treasury yields across all tenors. Riskier assets such as stocks and high-yield corporate credits did not absorb the developments well either as evidenced by many U.S. equity indices coming off record closes set in late September. Later in the period, Mr. Powell sought to clarify the Fed's position on rates, stating that the fed funds overnight rate – 2.25% at the time – was just below the neutral rate's range as based on a survey of Fed members. The possibility that a succession of additional hikes was not baked in caused a reversal in Treasury yields, which later accelerated on concerns about slowing global economic growth.

By the time December arrived, market participants were hopeful that the Fed would dramatically lower its projected interest rate path. Those aspirations were dashed at the Fed's December meeting in which their median estimate of roughly one hike in 2019 still exceeded the market's bogey of none. Consequently, riskier pockets of the market continued their slide and purported safe havens, namely Treasuries and gold, rallied. The yield on the 10-year note finished the period at 2.68%, 56 basis points (bps) below its intra-period peak. Given the lower path projected by the Fed, the yield on the 2-year note fell 33 bps over the period to 2.49%. As the market divined where near-term rates would eventually land – and in a rush to safety – points along the front end of the yield curve inverted, historically a signal of impending economic weakness.

Thirty-year Treasuries rallied, as did German Bunds, whose yield dipped to as low as 0.24%. After starting the period relatively tame, spreads between corporate bonds and their risk-free benchmarks widened considerably as fears of a global slowdown grew. While investment-grade credits registered only slight losses – aided by falling Treasury yields – the surge in high-yield spreads resulted in considerable losses. Several broad global and U.S. equity benchmarks slid between 10% and 20% during the quarter and flirted with bear-market territory based on their late-September peaks. Ultimately, major U.S. and global bond benchmarks finished the period with mild gains, fueled by the rally in government debt.

Highlights

- Rising market volatility and global growth concerns led to gains in safe-haven government bonds, while riskier assets sold off.
- The Fund outperformed its benchmark, the 3-month USD London Interbank Offered Rate (LIBOR).
- Volatility sales across a range of asset classes were key contributors to performance.

Portfolio Management

Bill Gross

Performance Discussion

The Fund outperformed its benchmark, the 3-month USD London Interbank Offered Rate (LIBOR). The strategy seeks to provide long-term positive returns and preserve capital through various market environments by managing portfolio duration, credit risk and volatility.

The Fund's core of cash-based, shorter-duration fixed income securities generated positive returns. We believe that this segment of the bond market offers an attractive source of visible income that is often overlooked by the market. This positioning aided performance as shorter-dated credits performed better than those with longer tenors during the period. Also contributing was our exposure to inflation-linked Mexican government debt.

Much of the Fund's outperformance was concentrated in its Structural Alpha sleeve. Structural Alpha is a set of strategies designed to generate excess returns by capitalizing on certain tendencies in financial markets. One such tendency is investors overpaying for protection against large price swings by purchasing derivatives aimed at hedging potential losses.

The fear permeating financial markets during the quarter set up well for the Fund's volatility sales as investors sought to hedge positions against additional large price swings. The result was multiple components of Structural Alpha generating positive returns and aiding performance.

Volatility sales on high-yield credits aided results, with the bearish leg of the positioning especially benefiting from the late-period spread widening. Also contributing was our early-quarter directional positioning aimed at capitalizing on a rise in high-yield credit spreads.

The Fund's interest rate positioning also contributed to performance. Losses on volatility sales aimed at benefiting from a weaker German Bund were more than offset by long positions on 10- and 30-year U.S. Treasuries.

Equity volatility sales, on the other hand, detracted from performance as the slide in U.S. stocks after the Fed's December meeting resulted in the position's trading range being breached. The Fund's mergers and acquisitions (M&A) equity positioning, however, aided performance, especially its exposure to M&A activity in the health care space.

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

Outlook

For Bill Gross' most recent Investment Outlook, please visit janushenderson.com/billgross.

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

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Discussion is based on the performance of Class I Shares.

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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. As interest rates rise, bond prices usually fall, and vice versa. High-yield bonds, or "junk" bonds, involve a greater risk of default and price volatility. Foreign securities, including sovereign debt, are subject to currency fluctuations, political and economic uncertainty, increased volatility and lower liquidity, all of which are magnified in emerging markets.

Equity securities are subject to risks including market risk. Returns will fluctuate in response to issuer, political and economic developments.

Derivatives involve risks in addition to the risks of the underlying securities, including gains or losses which, as a result of leverage, can be substantially greater than the derivatives' original cost. Short sales are speculative transactions with potentially unlimited losses, and the use of leverage can magnify the effect of losses. No investment strategy can ensure a profit or eliminate the risk of loss.

Initial Public Offerings (IPOs) are highly speculative investments and may be subject to lower liquidity and greater volatility. Special risks associated with IPOs include limited operating history, unseasoned trading, high turnover and non-repeatable performance.

Holding a meaningful portion of assets in cash or cash equivalents may negatively affect performance.

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

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.

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