

High-Yield Fund

Investment Environment

The high-yield market, as represented by the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, returned -4.53%. Slowing economic growth in Europe and China, weakening U.S. data and a lack of resolution in U.S.-China trade relations shook investor confidence over the period. In December, the Federal Reserve (Fed) raised interest rates for the fifth consecutive quarter. Fed rhetoric added to market volatility as it created concern over the possibility that the central bank might maintain its hiking cadence despite economic and market weakness. Oil prices also made headlines as the West Texas Intermediate (WTI) price per barrel tumbled more than 40% intra-quarter. Amid these events, a risk-off mindset prevailed. Weakness in equity markets and increasing risk premiums contributed to widening corporate credit spreads (the difference in yield between a security and its underlying risk-free benchmark). High-yield spreads widened 66% from September. All index sectors delivered a negative return, with energy being the greatest detractor. As financial conditions tightened, liquidity became more challenged, exacerbating market volatility late in the period.

Investors turned to risk-free assets, and yields fell across the Treasury curve. A repricing in market expectations for the Fed's ability to hike in 2019 also contributed to falling yields. The yield on the 5-year Treasury note ended December at 2.51%, down from 2.95% in September.

Performance Discussion

The Fund outperformed its benchmark, the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, for the three months ended December 31, 2018.

Amid the quarter's volatility, our primary focus was to upgrade the portfolio by focusing on our highest-conviction, high-quality positions. These are positions in companies with consistent free-cash-flow generation potential and management teams committed to deleveraging, and names that we believe will have positive return catalysts in 2019. Given the risk-off sentiment prevalent during the quarter, our more conservative security selection relative to the benchmark aided the Fund's outperformance. This was particularly evident by our higher-quality holdings in independent energy, one of the sectors most challenged by the plunge in oil prices. Strong security selection in retailers, a sector that continues to battle general weakness in the face of online disruption, also proved beneficial. Our underweight allocations to both sectors further supported results.

Out-of-index exposure to asset-backed securities (ABS) and bank loans also contributed to relative performance. With our ABS allocation we have been able to diversify some of our high-

Highlights

- Concerns of a policy misstep by the Fed coupled with slowing global economic growth and continued trade tensions led to significant spread widening in high-yield corporate credit.
- In a challenged quarter for risk assets, our more conservative security selection led the Fund to outperform its benchmark.
- Valuations after the recent sell-off have become more compelling, but thorough vetting of opportunities and disciplined security avoidance are still required.



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Portfolio Manager



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4Q18 Portfolio Commentary

yield exposure, while still identifying opportunities with high-yield-like yields. We have emphasized opportunities that are tied to the strength of the consumer, but not related to over-levered retailers, such as those collateralized by restaurant franchises. We utilize bank loans in an effort to further dampen Fund volatility. We appreciate their steady coupon and senior, more defensive position in a company's capital structure.

On a single name basis, our positioning in Frontier Communications was among the top relative contributors. The wirelines communications issuer tends to trade with the market, and we exited our position early in the period, ahead of the weak market sentiment.

An overweight position in Summit Materials also aided relative results. We have a favorable view of the company's assets and believe it is well positioned to benefit from robust U.S. construction demand. Further, we appreciate its domestic footprint that helps isolate it from tariff concerns.

While we were pleased with the performance of the aforementioned positioning, other holdings negatively impacted results. Despite reducing our equity exposure during the quarter, our modest allocations to common stock and convertible securities detracted from performance. Major equity

benchmarks suffered steep losses and our positions were caught in the decline.

On a single name basis, our position in Enesco plc was the largest detractor from relative performance. The offshore driller was negatively impacted by falling oil prices, and our overweight allocation detracted. We continue to like Enesco, believing that its merger with Rowan Companies, which was announced during the period, will create one of the strongest and most diversified offshore drilling fleets in the industry.

A position in Freeport-McMoRan also weighed on relative results. The copper miner's balance sheet improvement 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.

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

Outlook

There are plenty of risk factors on the horizon, including slowing global economic growth, unresolved trade disputes, the potential for Fed policy error and the continued progression through the late stages of the credit cycle. However, much of this appears to be factored into asset prices and corporate outlooks, and we expect the Fed to be more cautious in its cadence in 2019. In our view, if the U.S. and China reach a trade agreement, or China releases economic stimulus, a rebound in risk markets is not unfeasible. Further, while the U.S. economic and corporate fundamental outlooks are slowing, they remain generally healthy. Unemployment is low, and the consumer and their desire for experiences continue to spend. Starting from GDP growth in the 3% range, a U.S. recession in 2019 seems unlikely.

With this in mind, valuations after the recent sell-off have become more compelling. In December, there was no new high-yield issuance, and as the market shrinks, the technical backdrop for the asset class also remains favorable. Additionally, we expect escalated market volatility to create attractive investment opportunities in the months ahead. Still, thorough vetting of opportunities will be required, coupled with disciplined security avoidance.

We remain focused on late-cycle business models and issuers with consistent free-cash-flow generation potential. We are emphasizing liquid issuers in the higher-rated tiers of the high-yield market, and we are inclined to favor bonds that are more senior in the capital structure. We will continue to rely on our in-depth fundamental research to identify transformational balance sheet stories as well as high-quality opportunities in bank loans. Our approach reflects our objective of delivering a less-volatile client experience within the high-yield asset class.

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

Top Contributors	Average Weight (%)	Relative Contribution (%)	Top Detractors	Average Weight (%)	Relative Contribution (%)
Quiksilver Inc.	0.26	0.09	Enesco International Inc.	0.78	-0.11
Frontier Communications	0.22	0.08	Freeport-McMoRan Inc.	2.01	-0.09
Summit Materials LLC	1.25	0.06	Endo Finance Co	1.45	-0.09
Zekelman Industries Inc.	1.23	0.04	Whiting Petroleum Corp	0.59	-0.07
Cablevision Systems Corp	2.40	0.04	Nabors Industries Inc.	0.52	-0.06

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.

As of 12/31/18 the top ten portfolio holdings of Janus Henderson High-Yield Fund are: Sprint Corp (2.04%), Ardagh Packaging Finance PLC / Ardagh Holdings USA Inc (2.03%), HCA Inc (1.90%), Golden Nugget Inc (1.86%), Dole Food Co Inc (1.44%), Allegheny Technologies Inc (1.38%), Zekelman Industries Inc. (1.22%), Freeport-McMoRan Inc. (1.18%), CCO Holdings LLC / CCO Holdings Capital Corp (1.17%) and Cablevision Systems Corp (1.12%). 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.

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.

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

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.

Bloomberg Barclays U.S. Corporate High Yield Bond Index measures the US dollar-denominated, high yield, fixed-rate corporate 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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