

Multi-Sector Income Fund

Investment Environment

The U.S. bond market had a positive quarter. Corporate credit outperformed government bonds, and investment grade outperformed high yield. The Federal Reserve's (Fed) first quarter pause continued to provide a tailwind for corporate credit early in the period. A re-escalation of trade tensions and continued concerns around slowing global growth generated volatility in May, but the Fed's pledge to "act as appropriate" to sustain the economic expansion boosted riskier assets again in June. Treasuries also rallied, and falling yields further supported corporate credit. The yield on the 10-year Treasury note closed June at 2.01%, down from 2.41% in March. The yield on the 5-year note ended the period at 1.77%, down from 2.23%.

Performance Discussion

The Fund's benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, returned 3.08% for the quarter ending June 30, 2019. The Fund performed in line with its benchmark.

The Fund leverages a bottom-up, fundamentally driven investment process that focuses on identifying, and dynamically allocating to, the best risk-adjusted opportunities across fixed income sectors. We seek to provide high monthly income while effectively navigating market and rate cycles. We attempt to offer much of the yield benefit of the high-yield asset class, but with less volatility, and with less interest-rate sensitivity than the Aggregate index.

The Fund's plus sectors, which include higher-yielding debt instruments, convertible bonds and preferred and common stock, are used to support our goal of generating greater monthly income than the benchmark. Strong security selection in high-yield corporate bonds, particularly in the health care sector, contributed positively to relative results. Equity markets also rallied, and our modest allocation to equity and equity-like securities – which we hold in an attempt to replicate exposure to the lowest tiers of high yield with less liquidity risk – further benefited returns. We owned both the bonds and preferred equity of a medical solutions company that executed an initial public offering during the quarter. Our positioning benefited when the company used a portion of the proceeds to pay down debt and a portion to redeem outstanding shares of its preferred stock.

These gains were partially offset by our holdings in the metals and mining sector. Many companies in the sector were disproportionately affected by U.S.-China trade tensions intra-quarter. At the asset class level, our out-of-index exposure to higher-yielding bank loans also weighed on relative returns. The asset classes' lack of duration (a measure of sensitivity to changes in interest rates), given its floating rate nature, caused it to lag many index constituents.

Highlights

- As the Fed's pivot to a more accommodative stance evolved into potential rate cuts in 2019, both Treasuries and credit performed well in the second quarter.
- The Fund performed in line with its benchmark; strong security selection aided relative results.
- The outlooks for U.S. GDP and corporate earnings growth have become uncertain, making it prudent, in our view, to reduce risk heading into the second half of 2019.



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Portfolio Manager



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Portfolio Manager



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Portfolio Manager

2Q19 Portfolio Commentary

The outlooks for U.S. GDP and corporate earnings grow more uncertain by the day, yet corporate spreads (the difference in yield between a corporate security and its underlying risk-free benchmark) tightened significantly late in the quarter on the back of potential rate cuts by the Fed. By period end, we felt it prudent to incrementally reduce risk and increase our focus on steady income opportunities with companies generating sufficient free cash flow to meet their coupon obligations. Given our shift toward a more neutral stance, we reduced the Fund's duration to 3.67 years.

The Fund's core sectors, including investment-grade credit, Treasuries and agency mortgage-backed securities (MBS) – are employed with the goal of

dampening the volatility of our plus sector positioning. We utilize U.S. Treasury futures to achieve our duration target and balance the shorter-dated bias of our spread product allocation. Our rates positioning was additive to performance amid the quarter's strong rally in Treasuries. An underweight to U.S. MBS further supported relative results, given both government bonds and corporate credit performed better. However, out-of-index exposure to certain collateralized mortgage obligations weighed on results, largely due to their floating rate structure. Our investment-grade corporate credit allocation also detracted. While the allocation generated positive returns, our large underweight to the strong-performing asset class hindered our performance relative to the benchmark.

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

Outlook

Although defaults remain low and corporate fundamentals are generally sound, U.S. economic data has started to roll, and we expect the continued lack of resolution in U.S.-China trade disputes to start leading to disappointments in company earnings results. The Fed may announce an interest rate cut this year, but it is unlikely to solve for the key challenge, which is slowing growth around the globe. China's stimulus has fallen short of expectations and Europe's slowdown has yet to show signs of bottoming. Given the landscape, we believe valuations, particularly in high yield, appear inappropriately rich after the second quarter's round of tightening.

In an attempt to get ahead of any potential spread widening, we believe it prudent to reduce absolute risk. We are shifting emphasis toward steady income opportunities with companies that generate sufficient free cash

flow to cover their coupon obligations. Within high yield, we are favoring short-dated issues from companies in deleveraging mode. But we are increasingly looking to higher-quality credit, and think the lowest tier of investment grade ratings is particularly appealing. Senior, more defensive bank loans – an asset class that is starting to look oversold, in our view – are also presenting unique opportunities. Mindful of the importance of diversification at this late stage of the cycle, we are seeking sources of steady income outside the realm of corporate credit, in asset-backed securities that are tied to the strength of the consumer, such as restaurant franchises, and high-quality MBS. As always, we will rely on our fundamental, bottom-up research to inform our asset allocation decisions and to thoroughly vet opportunities and identify those that should be avoided. Our approach reflects our objective of delivering high current income with lower volatility than a dedicated high-yield strategy.

Top Relative Contributors and Detractors Held for the Quarter Ended 6/30/19

Top Contributors	Average Weight (%)	Relative Contribution (%)	Top Detractors	Average Weight (%)	Relative Contribution (%)
US 5yr Note (Cbt) Jun19	20.95	0.24	SEMT 2018-8 AIO1	0.45	-0.20
US 5yr Note (Cbt) Sep19	16.80	0.20	5yr Treasury Notes	21.02	-0.12
Federal National Mortgage Association	6.69	0.15	US 10yr Ultra Fut Jun19	-4.04	-0.10
Government National Mortgage Assn	1.77	0.10	FG G60989	3.81	-0.06
Federal Home Loan Mortgage Corp	2.38	0.10	US 10yr Ultra Fut Sep19	-3.00	-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.

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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.

Discussion is based on the performance of Class I Shares.

As of 6/30/19 the top ten portfolio holdings of Janus Henderson Multi-Sector Income Fund are: Fannie Mae or Freddie Mac (2.60%), Fannie Mae Pool (1.10%), Bank of America Corp (0.88%), Stericycle Inc (0.86%), Freeport-McMoRan Inc (0.83%), Freddie Mac Gold Pool (0.81%), Fannie Mae or Freddie Mac (0.79%), Jack In The Box Funding LLC (0.68%), CommScope Inc (0.65%) and Ginnie Mae (0.65%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 6/30/19 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.

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.

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

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.

There are special risks associated with selling securities short. Stocks sold short have the potential risk of unlimited losses.

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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