4Q18 Portfolio Commentary

Janus Henderson INVESTORS

Multi-Sector Income Fund

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Investment Environment

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). Investment-grade spreads over Treasuries widened nearly 45% from September. High yield fared worse, widening 66%. 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 10-year Treasury note ended December at 2.68%, down from 3.06% in September. Led higher by the rally in rates, the Bloomberg Barclays U.S. Aggregate Bond Index returned 1.64%.

Performance Discussion

The Janus Henderson Multi-Sector Income Fund underperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, for the three months ending December 31, 2018. 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.

Given the weakening macroeconomic picture, unresolved trade tensions and heightened market volatility, we had been reducing risk coming into the quarter. We entered October with high-yield exposure near historic Fund lows. We continued to reduce our allocations to commercial mortgage-backed securities and bank loans as the quarter progressed. With the decreasing likelihood that the Fed will be able to execute on its intended path in 2019, we also extended Fund duration (a measure of sensitivity to changes in interest rates) to 3.89 years. Still, we had too much spread product and too little duration to combat the significant spread widening and dramatic repricing of rate expectations realized during the quarter.

Highlights

- Risk-off sentiment prevailed amid concerns of a policy misstep by the Fed, slowing global economic growth and continued trade tensions.
- In a challenged quarter for riskier assets, our "plus sector" positioning, particularly exposure to high-yield corporate credit, drove the Fund's relative underperformance.
- We are emphasizing more defensive, carry opportunities, but will remain opportunistic. Thorough vetting of opportunities and disciplined security avoidance are required.

The Fund's "plus sectors," which include high-yield corporate credit, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and bank loans, are used to support our goal of generating greater monthly income than the benchmark. In a quarter where risk-off sentiment prevailed, our plus sectors weighed on relative results. Our high-yield exposure was the primary driver of underperformance. We have been emphasizing 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. On a single name basis, a position in hotel and casino operator Golden Nugget was among the leading detractors. Stronger-than-expected earnings, particularly in its gaming business, and continued debt repayment were overshadowed by general weakness in high yield. We took advantage of the dislocation and added to our position.

Our out-of-index exposure to bank loans also detracted from relative results amid the flight to quality. 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 further hampered Fund performance. Our position in Starwood Retail Property Trust, a position collateralized by four shopping malls, was among the leading individual detractors on a relative basis. Weakness in brick-and-mortar retail and the tightening in capital markets brought into question the ability for Starwood to refinance its deals and extend its debt maturity. We significantly reduced our position by quarter end.

"Core sectors" – including Treasuries, investment-grade corporate credit and mortgage-backed securities (MBS) – are utilized to dampen the volatility of our plus sector positioning. Our overall positioning in Treasuries, particularly our yield curve positioning, contributed to relative performance. As spreads widened, our material underweight allocation to investment-grade corporate credit further supported results. Our MBS allocation, including exposure to agency and non-agency residential mortgage-backed securities, was another modest contributor. MBS was one of the strongest-performing fixed income segments given its strong liquidity profile.

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 feasible. 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.

We are looking for opportunities with this in mind. In many cases, these will be more defensive, carry opportunities, with which we believe we can earn greater income than the benchmark. However, we will also seek to capitalize on dislocations in our highest-conviction names, when we believe improving credit metrics will ultimately support performance. We remain focused on late-cycle business models and issuers with consistent free-cash-flow generation potential. We will continue to emphasize liquid issuers, bonds more senior in the capital structure, and transformational balance sheet stories. We'll utilize our core sectors in an effort to dampen volatility in the Fund. As always, we will rely on our fundamental, bottom-up research to thoroughly vet opportunities and to identify those that should be avoided. Our approach reflects our objective of delivering consistent income with lower volatility than a dedicated high-yield strategy.

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 (%)
U.S. Ultra Long-Term Treasury Bond	2.40	0.13	U.S. Treasury Notes/Bonds	0.57	-0.36
10 Year Treasury Notes	9.05	0.13	5-Year Treasury Notes	-9.82	-0.11
Eurodollar	13.29	0.10	Starwood / Srpt 2014-Star C	0.43	-0.08
Eurodollar	13.29	0.10	Golden Nugget Inc	0.78	-0.07
Federal National Mortgage Association	10.93	0.09	5-Year Treasury Notes	2.80	-0.07

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 12/31/18 the top ten portfolio holdings of Janus Henderson Multi-Sector Income Fund are: United States Treasury Note/Bond (2.25%), United States Treasury Note/Bond (1.45%), Applebee's Funding LLC / IHOP Funding LLC (1.31%), Freddie Mac Gold Pool (1.07%), Ginnie Mae II Pool (0.88%), UBM PLC (0.75%), Fannie Mae Pool (0.73%), Banco La Hipotecaria SA (0.72%), Sequoia Mortgage Trust 2018-8 (0.72%) and MDC Holdings Inc (0.72%). 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.

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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