

Short-Term Bond Fund

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 considerable widening in both investment-grade and high-yield corporate credit spreads (the difference in yield between a security and its underlying risk-free benchmark). 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 2-year Treasury note ended December at 2.49%, down from 2.82% in September. Led higher by the rally in rates, the Bloomberg Barclays 1-3 Year U.S. Government/Credit Index returned 1.18%.

Performance Discussion

The Fund underperformed its benchmark, the Bloomberg Barclays 1-3 Year U.S. Government/Credit Index, for the three months ending December 31, 2018.

Tightening financial conditions, diminished liquidity and the downgrades of two large investment-grade complexes helped to confirm our view that we are progressing through the later stages of the credit cycle. Given our late-cycle concerns and the darkening macroeconomic picture, we sought to lower the Fund's risk exposure during the period. We reduced our corporate bond allocation by 4.5%. Amid the market's repricing of Fed expectations, we also reevaluated our floating rate exposure and lowered our allocations to bank loans and asset-backed securities (ABS). We doubled our Treasury allocation, which closed the period at 24%, and extended duration (a measure of sensitivity to changes in interest rates) to 84% of the index.

Despite our efforts to reduce risk, it was our risk exposure that detracted most from relative performance. Our out-of-index allocation to high-yield corporate credit was particularly detrimental given the dramatic spread widening in the asset class. We seek higher-quality, high-yield names, with consistent free-cash-flow generation potential and management teams committed to paying

Highlights

- Concerns of a policy misstep by the Fed coupled with slowing global economic growth and continued trade tensions challenged risk assets during the quarter.
- The Fund underperformed its benchmark, with our corporate bond and bank loan exposures weighing most on performance.
- We are monitoring the pace of slowing growth and the impact of Fed policy for insight into whether this is another speed bump in an extended economic cycle or if recession probabilities are increasing.



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Portfolio Manager



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4Q18 Portfolio Commentary

down debt, but even those names were challenged. A position in Teva Pharmaceuticals, for example, was among the top individual detractors. We continue to like the company, appreciating management's focus on operational improvements and paying down debt as well as the company's solid pipeline of generic and specialty drugs.

Our investment-grade corporate credit allocation also weighed on relative performance. This was due in large part to our considerable overweight in a period where investors favored risk-free assets. Our out-of-index exposure to bank loans further weighed on results amid the quarter's risk-off sentiment. 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. These assets did not benefit from the strong rally in Treasury yields as many benchmark constituents did. Loan positions in Charter Communications and Hilton were among top individual detractors from relative returns.

No asset class, sector or individual holding materially aided results. Our focus on security avoidance proved modestly beneficial. A zero-weight to a multinational electric conglomerate that was downgraded during the period contributed modestly. Lack of exposure to a Mexican state-owned petroleum company helped amid oil price declines. Avoidance of a German financial services company mired in scandal also supported performance on the margin.

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 of the credit cycle. As a result, we expect market volatility to persist in the new year. As we venture further into quantitative tightening by major central banks, we anticipate the removal of liquidity from the broader economy coupled with diminished liquidity in fixed income trading to exacerbate that volatility.

We will be closely monitoring U.S. economic data, particularly inflation figures, as well as Fed rhetoric. This will be pivotal in assessing the likelihood of the Fed hiking in excess of what is warranted and potentially accelerating a U.S. slowdown, versus it pausing in 2019. We are mindful of wage pressures and an uptick in oil prices near period end, as well as the importance of the U.S. dollar. Continued dollar weakness could create inflationary pressures and threaten the Fed's ability to pause. However, our base case is that the Fed will be more cautious in its cadence throughout 2019. As we approach the end of the Fed's hiking cycle, we will continue to review our floating rate allocation. And, as always, we will employ a

tactical approach to yield curve positioning with a focus on capital preservation.

While the U.S. economic and corporate fundamental outlooks are slowing, we do not expect an immediate acceleration toward the cycle's end. We are monitoring the pace of slowing and the impact of Fed policy for insight into whether we are going through another modest slowdown in this extended cycle or if recession probabilities are increasing for 2020. High debt loads and diminishing liquidity create headwinds for the outlook. Tighter financial conditions and escalated market volatility could also negatively impact business confidence and capital investment trends in 2019. Despite recent spread widening, overall levels have only repriced to longer-term averages, which we generally do not believe offer just compensation for the stated risk factors and the likely increase in defaults and downgrades to come. Our outlook is cautious and we intend to be deliberate in our corporate credit positioning, emphasizing our highest-conviction names with consistent free-cash-flow generation potential, strong management teams and a commitment to paying down debt. Thorough vetting of opportunities, coupled with security avoidance remains critical as we strive to deliver on our core tenets of capital preservation and strong risk-adjusted returns.

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 (%)
Psnh 2018-1 A1	0.71	0.00	Charter Communications, Inc. (CCO Holdings, LLC)	1.75	-0.06
Spain 2018-A E	0.55	0.00	Kinder Morgan Energy Partners	2.90	-0.05
DPABS 2017-1A A2II	0.74	0.00	Hilton Worldwide Finance LLC	1.21	-0.04
Lundin Mining Corporation	0.74	0.00	U.S. Treasury Notes/Bonds	17.98	-0.04
First Data Corporation	1.15	0.00	Teva Pharmaceutical Industries Ltd	1.14	-0.03

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 Short-Term Bond Fund are: United States Treasury Note/Bond (6.13%), United States Treasury Note/Bond (4.48%), United States Treasury Note/Bond (3.85%), United States Treasury Note/Bond (3.13%), United States Treasury Note/Bond (2.72%), Kinder Morgan Inc/DE (1.88%), Citigroup Inc (1.85%), United States Treasury Note/Bond (1.72%), Ball Corp (1.66%) and JPMorgan Chase & Co (1.52%). 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.

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.

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

Basis Point (bp) equals 1/100 of a percentage point. 1 bp = 0.01%, 100 bps = 1%.

Bloomberg Barclays 1-3 Year U.S. Government/Credit Index measures Treasuries, government-related issues and corporates with maturity between 1-3 years.

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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