

Value Plus Income Fund

Market Environment

- U.S. equity indices posted modestly positive returns, but the path was circuitous. Volatility stemmed from ongoing U.S.-China trade tensions, central bank monetary policy decisions, yield curve inversion implications, geopolitical unrest and U.S. political uncertainty.
- Amid lower rates and global growth concerns, the more defensive and interest-rate-sensitive sectors including utilities, consumer staples and real estate led the market. Conversely, energy was pressured by global demand concerns, while increased focus on the U.S. presidential election caused weakness in health care.
- Some of the extreme positioning and valuation disconnects in the market were evident with the rotation from growth to value near quarter-end.
- Slowing growth and central bank accommodation provided a supportive environment for bonds.
- Yields fell across the Treasury curve, with the 10-year bond yield closing September at 1.66%, down from 2.01% in June.
- Corporate yields over Treasuries (spreads) fluctuated intra-period, but ultimately finished near where they began. Investment grade outperformed high yield, with the rally in Treasuries driving the majority of returns for both.

Performance Summary

The Fund, which seeks to provide monthly income and equity market participation with lower volatility by allocating across U.S. fixed income sectors and defensive high-quality equities, outperformed the Value Income Index. The Value Income Index is a blended benchmark of the Russell 1000[®] Value Index (40%) and the Bloomberg Barclays U.S. Aggregate Bond Index (60%). The Fund outperformed its primary benchmark, the Russell 1000 Value Index, and underperformed its secondary benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index.



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

Portfolio Discussion

Compared to the Value Index, the Fund closed the quarter overweight fixed income, with roughly 58% allocated to bonds, 40% to equities and a small portion in cash. Equities have been generally strong this year, with many companies trading at lofty valuations, and we continue to question how much upside potential is left. As a result, we felt it prudent to maintain our overweight to fixed income during the quarter.

Equity Sleeve

The equity sleeve outperformed its benchmark, the Russell 1000 Value Index, driven by strong stock selection in industrials, materials and financials. Overweighting the market-leading real estate sector was also additive to relative performance. We generally expect the sleeve to outperform in down or more volatile markets, and therefore we were pleased with the way the sleeve performed during the more recent choppy market environment. However, some positioning did weigh on relative results. Positioning, including underweights, in both communication services and the strong-performing utilities sector hindered performance.

While much has been made of the long-awaited shift from growth to value, the market is sending mixed signals as it counterbalances weaker economic data against a backdrop of central banks' willingness to cut rates. Within financials, the sleeve continues to favor both banks and insurance companies given what we believe are attractive valuations. The sleeve closed the quarter overweight traditionally defensive health care stocks. In more cyclical sectors, we are overweight what we like to call "industrials staples" and "technology staples," or companies that provide goods or services that typically will not see meaningful demand deceleration in an economic downturn. We also are overweight real estate as we have found companies with resilient rent-collecting revenue streams that, we believe, should also benefit if rates remain low. On the other hand, we are underweight the more risky consumer discretionary sector, and more speculative energy stocks, as well as the materials and utilities sectors.

Top Contributors	Equity	
	Ending Weight (%)	Contribution (%)
NewMarket Corp	1.61	0.34
Chubb Ltd	3.21	0.32
Quest Diagnostics Inc	3.94	0.24
MKS Instruments Inc	1.52	0.24
Equity LifeStyle Properties Inc	1.94	0.24

Top Detractors	Equity	
	Ending Weight (%)	Contribution (%)
Pfizer Inc	1.96	-0.37
Cadence BanCorp	2.10	-0.21
Royal Dutch Shell PLC	2.13	-0.21
Singapore Telecommunications Ltd	1.37	-0.19
Schlumberger Ltd	1.03	-0.16

Fixed Income Sleeve

The fixed income sleeve underperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index. The global economic slowdown continues to give us pause and we are growing increasingly concerned with the company earnings outlook. We adopted a more defensive posture in 3Q, reducing our corporate credit exposure and seeking to further diversify our yield sources, and adding interest rate risk. Still, we hold less interest rate risk than the index, which detracted in a period where longer-dated bonds outperformed. Many of our shorter-dated and floating rate positions in securitized credit, investment-grade bonds and bank loans weighed on relative results.

The sleeve's plus sectors, including higher-yielding debt instruments, are used to support our goal of generating strong monthly income. Our out-of-index allocation to high-yield corporate bonds was among the top asset class contributors. We added to our bank loan allocation, and while it was an overall detractor, it did generate robust income.

The sleeve's core sectors, including investment-grade credit, agency mortgage-backed securities (MBS) and Treasuries – are employed with the goal of dampening the volatility of the equity sleeve and our plus-sector positioning. Despite helping to generate income, our investment-grade corporate holdings detracted on a relative basis, largely due to the shorter-dated nature of our exposure. Positioning in MBS was a strong relative contributor. Our underweight proved beneficial as MBS struggled to keep pace with the strong rally in rates. A supply/demand imbalance, coupled with lower rates enticing borrowers to refinance have also weighed on the asset class. We increased our allocation on weakness, anticipating MBS will offer a stable source of yield in the months ahead.

Top Contributors	Fixed Income	
	Average Weight (%)	Relative Contribution (%)
US 5yr Note (Cbt) Sep19	17.65	0.19
US 10yr Ultra Fut Sep19	3.25	0.15
Trivium Pack Fin	1.19	0.07
FNR 2010-109 Bs	0.26	0.06
US Long Bond (Cbt) Sep19	0.46	0.03

Top Detractors	Fixed Income	
	Average Weight (%)	Relative Contribution (%)
US Long Bond (Cbt) Dec19	4.68	-0.13
US 5yr Note (Cbt) Dec19	14.06	-0.11
US 10yr Note (Cbt)dec19	4.41	-0.10
US 2yr Note (Cbt) Dec19	7.70	-0.05
SEMT 2018-8 AIO1	0.49	-0.04

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.

Manager Outlook

Given the strength in equities year to date coupled with the fact that the pool of high-quality companies trading at attractive valuations appears to be increasingly limited, we intend to remain overweight fixed income for the quarter ahead. We believe this approach is consistent with our objective of providing a defensive core allocation and a smoother investment experience for clients.

Within the fixed income sleeve, we proactively reduced portfolio risk with an aim to have a more conservative portfolio in the final quarter of the year. We are increasingly concerned about economic weakness adversely affecting corporate credit, and high yield in particular, whether by directly hurting company fundamentals or indirectly leading to higher-volatility periods as the market debates the extent and impact of the slowdown. In our view, the true impact of unresolved trade tensions has yet to be realized at the company level, and the eventual effect may be severely underestimated. The next round of earnings bears close watching. In general, we look to avoid exposure to companies that are disproportionately impacted by trade and political risk, as these variables have been, and are likely to remain, sources of volatility. Mindful of the importance of diversification at this late stage of the cycle, we are seeking sources of steady income outside the realm of traditional corporate bonds, in senior, more defensive bank loans; asset-backed securities that are tied to the strength of the consumer, such as restaurant franchises; and high-quality MBS. We believe heightened selectivity is required at this late stage of the credit cycle.

On the equity side, volatility is set to continue, in our view, and we believe there is still considerable downside risk in growth stocks. When the market finally corrects, we anticipate that investors will question why so many stocks trade at dizzying multiples. We believe the equity sleeve is positioned to avoid those companies trading at lofty valuations that do not have some sort of defensive characteristic. At Perkins, we continue to focus on companies that are temporarily out of favor but have solid balance sheets and generate healthy free cash flow. While there remains a measure of uncertainty in the broader market, we believe we have constructed the equity sleeve to perform well in a variety of economic and political scenarios.

Portfolio Management

Equity Sleeve

Sub-advised by Perkins Investment Management LLC

- Ted Thome, CFA
- Alec Perkins

Fixed Income Sleeve

- Seth Meyer, CFA
- John Kerschner, CFA
- John Lloyd

For more information, please visit janushenderson.com.

Janus Henderson
INVESTORS

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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 9/30/19 the top ten portfolio holdings of Janus Henderson Value Plus Income Fund are: Freddie Mac Pool (2.30%), Quest Diagnostics Inc (1.65%), Chubb Ltd (1.35%), PepsiCo Inc (1.26%), Lamar Advertising Co (1.17%), Wells Fargo & Co (1.13%), US Bancorp (0.96%), Citizens Financial Group Inc (0.97%), Gilead Sciences Inc (0.95%) and Royal Dutch Shell PLC (0.89%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 9/30/19 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.

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

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 currency fluctuations, political and economic uncertainty, increased volatility and lower liquidity, all of which are magnified in emerging markets. 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 or "junk" bonds involve a greater risk of default and price volatility and can experience sudden and sharp price swings.

Value stocks can continue to be undervalued by the market for long periods of time and may not appreciate to the extent expected.

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.

Russell 1000[®] Value Index reflects the performance of U.S. large-cap equities with lower price-to-book ratios and lower expected growth values.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Value Income Index is an internally-calculated, hypothetical combination of total returns from the Russell 1000[®] Value Index (40%) and the Bloomberg Barclays U.S. Aggregate Bond Index (60%).

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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