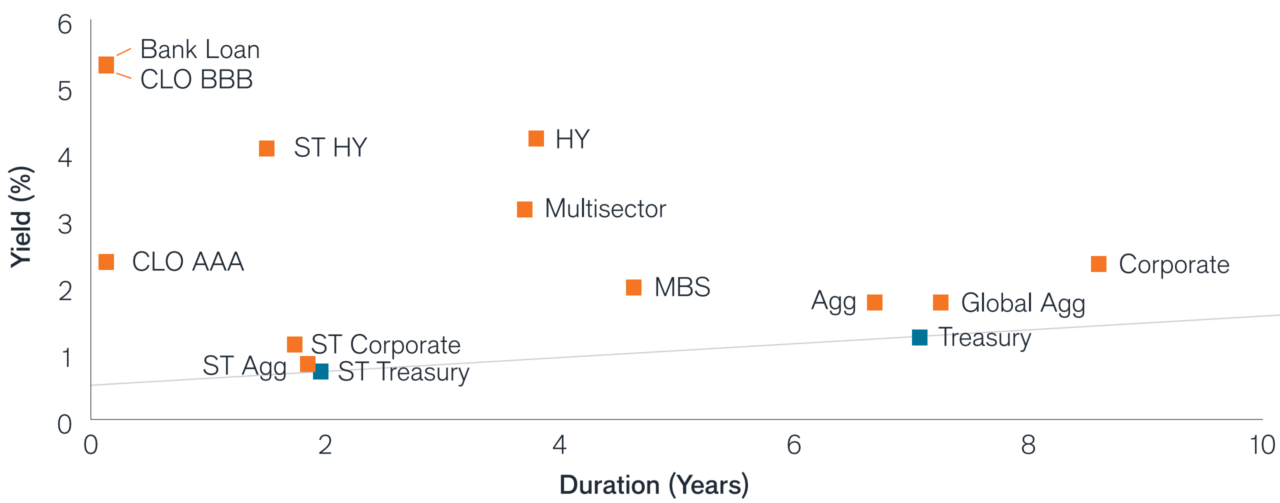
SHIFTING GEARS

ACTIVATING A GOALS-BASED FIXED INCOME STRATEGY

Portfolio Construction and Strategy

For financial professionals, fixed income allocations create profound risk consequences for an entire portfolio. In today's world, investors are faced with several worries, including low yields, higher inflation, and interest rate volatility. While it is true that traditional sovereign fixed income (e.g., Treasuries) represents a historically miserable yield cushion, with relatively high duration risk for relatively low yield, investors should not throw the champagne out with the cork. We believe that fixed income remains a portfolio's most important anchor and, as shown in the chart below, there is still a huge opportunity set of investment grade and non-investment grade fixed income sectors that tend to offer a much better yield cushion. The challenge ahead lies in balancing the safety and duration of Treasury-like exposures with the income potential of higher yielding sectors to create a fixed income allocation that serves as a portfolio ballast no matter what lies ahead.

Broad Opportunity Set

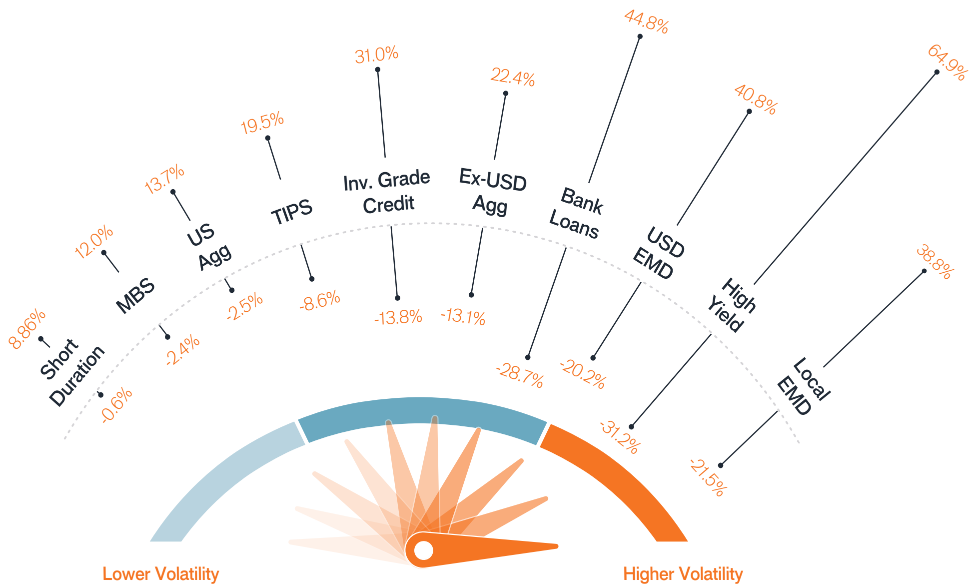


Source: Bloomberg OAD and YTW as of 12/31/2021 for the following indices. "ST Treasury": Bloomberg US 1-3yr US Treasury TR USD, "Treasury": Bloomberg US Treasury TR USD, "ST Agg": Bloomberg US Aggregate 1-3yr TR USD, "Agg": Bloomberg US Agg Bond TR USD, "Global Agg": Bloomberg Global Aggregate TR USD, "ST Corporate": Bloomberg US Corp 1-3yr TR USD, "Corporate: Bloomberg US Corp Bond TR USD, "MBS": Bloomberg US MBS TR USD, "CLO AAA": JPM AAA CLO, "Bank Loan": JPM Leveraged Loan Index and "CLO BBB": JPM High Quality Mezzanine Index. Morningstar Avg Eff Duration and 12mo yield for Multisector Bond Category as of 12/31/2021.

Yield cushion, defined as a security's yield divided by its duration, is a common approach that views bond yields as a cushion that can help bond investors navigate the potential negative effects of duration risk. The yield cushion potentially helps mitigate losses from falling bond prices if yields were to rise. In the chart above, the highest cushions would be found in securities plotting closest to the top-left corner of the chart.

Farewell to an Old Era, Hello to New

To successfully navigate such a large and diverse fixed income opportunity set, investors need a forward looking framework that recognizes we are entering a new era of fixed income investing. Traditional lines in fixed income investing have been blurred by low rates, large price swings, high duration risks and a proliferation of new strategies. This environment has turned fixed income from what has traditionally been a fairly straightforward asset class – one that seeks to provide capital preservation and income – into one that investors may find disorienting:



A DISORIENTING ENVIRONMENT*

- Double-digit dispersions among major fixed income asset classes
- Ranked from lowest volatility to highest
- Figures represent best and worst 12-month returns

*Calculated using trailing 12-month rolling windows with 1-month step goes back farther than 10 years (7/1/07 – 12/31/21). Categories represented by corresponding indices from Bloomberg, JPMorgan and Credit Suisse.

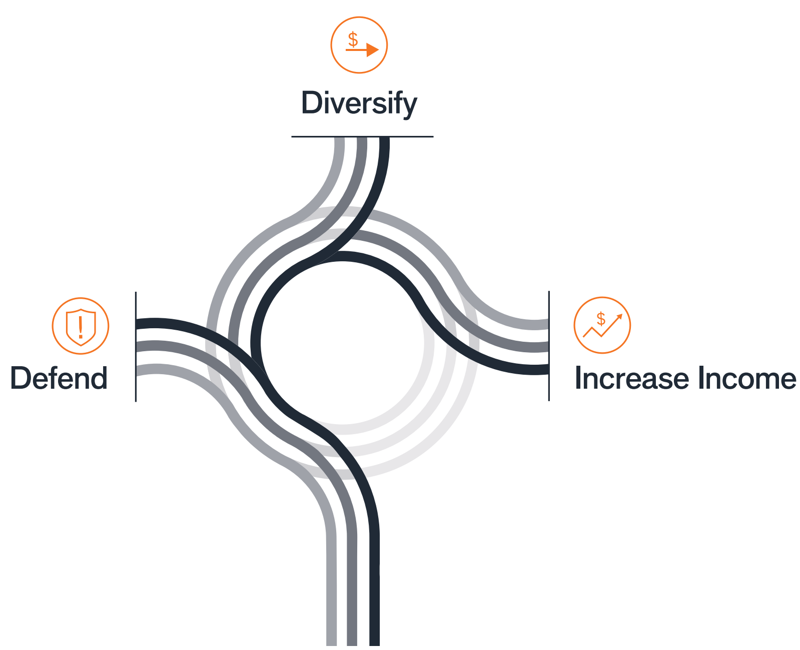
Past performance is no guarantee of future results.

New Era, New Framework

In this disorienting environment we hear a long list of questions, such as: “Are bank loans the new risk manager, since they might perform better than Treasuries if rates rise?” or “With rates at historical lows, should I be looking beyond Treasuries in core fixed income?” We think there has been too much focus on finding a single solution, when the best solution is probably that it’s a mix – and that mix depends on an investor’s goals:

A GOALS-BASED APPROACH

- Have a forward-looking mindset
- Reduce the universe of fixed income managers into three distinct objectives
- Allocate across these objectives according to one’s goals

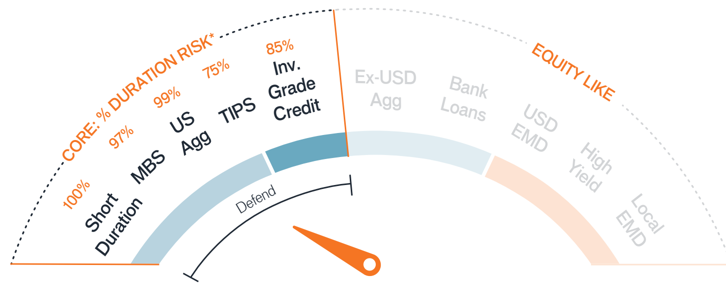


Breaking Down Our Three Fixed Income Objectives

Consolidating the breadth of fixed income instruments into three objectives can seem challenging to those not yet familiar with our framework. Below, we outline how Defend, Diversify and Increase Income can be defined by their respective goals, personalities and criteria.

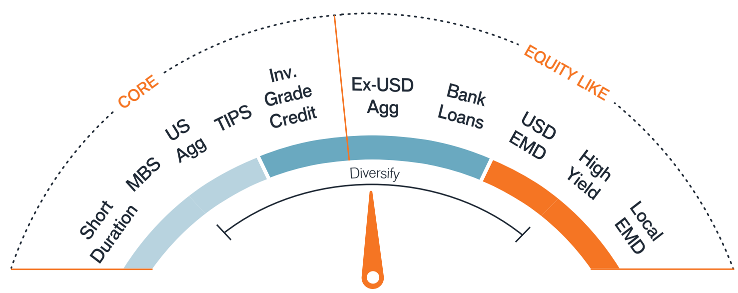
Defend
Risk-managing, core fixed income

- **Goal:** Seeks to provide capital preservation during a market downturn
- **Personality:** Low volatility, low correlation to traditional equities, high-quality, high-interest-rate sensitivity; composed of primarily investment grade securities
- **Criteria:** Allocates to currency-hedged, global developed market credit, securitized or government debt



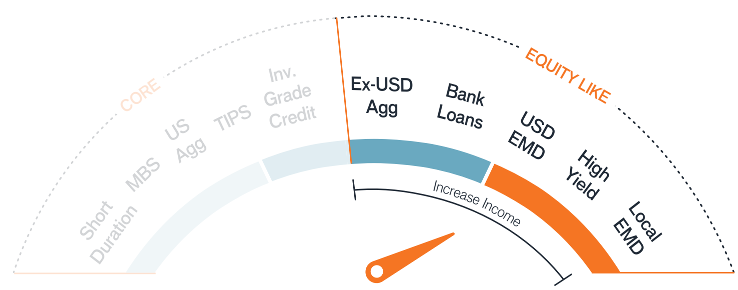
Diversify
Move beyond traditional benchmarks

- **Goal:** Dynamically combine some elements of capital preservation with higher income potential
- **Personality:** Go-anywhere approaches combining elements from Defend and Increase Income categories, more risk-aware than approaches in the Increase Income category
- **Criteria:** Allocates across the quality spectrum with higher alpha targets than benchmark-constrained portfolios. May include ability to short. Common strategy names include terms like “strategic income,” “multi-sector” and “unconstrained.”



Increase Income
High income opportunities

- **Goal:** Highest return and income potential via exposure to equity-like fixed income on a global scale
- **Personality:** High volatility, high correlation to traditional equities
- **Criteria:** Benchmark-constrained, long-only exposure typically to below-investment grade and/or lower in the capital structure, or investment emerging markets



*To analyze the extent to which duration drives the overall risk of each major core fixed income asset class, we look to Janus Henderson’s proprietary risk management software, Quantum. As illustrated in the above graphic, Quantum shows that the vast majority of each core asset classes’ risk budget is driven by duration, as of Dec 2021.

Duration measures a bond price’s sensitivity to changes in interest rates. The longer a bond’s duration, the higher its sensitivity to changes in interest rates and vice versa.

Equity-like fixed income vehicles are investments that may be less susceptible to changes in interest rates or other factors than traditional fixed income. They are higher risk than traditional fixed income, without necessarily the same returns as a true equity investment.

Alpha compares risk-adjusted performance relative to an index. Positive alpha means outperformance on a risk-adjusted basis.

Short: Short sales are speculative transactions with potentially unlimited losses, and the use of leverage can magnify the effect of losses.

Implementation: No Single Destination

We believe clients are best served with a multi-faceted, goals-based approach. Even in the face of today's low rate environment, core fixed income's role is as essential as ever: core bond allocations are strategic allocations intended for capital preservation during a crisis. However, the current environment will require that forward-looking investors pursue a new level of due diligence for each destination of capital within their fixed income allocation:

Defend
Dig Deeper

- **New Consideration:** With most global sovereign bond rates yielding very little, traditional benchmarks with large, passive weightings to sovereign debt are no longer a bond investor's North Star.
- **New Roadmap:** Dig deeper into the defensive tool kit; understand new opportunities and trade-offs within securitized, investment-grade corporates, and both short and intermediate duration.

Diversify
A Brave New World

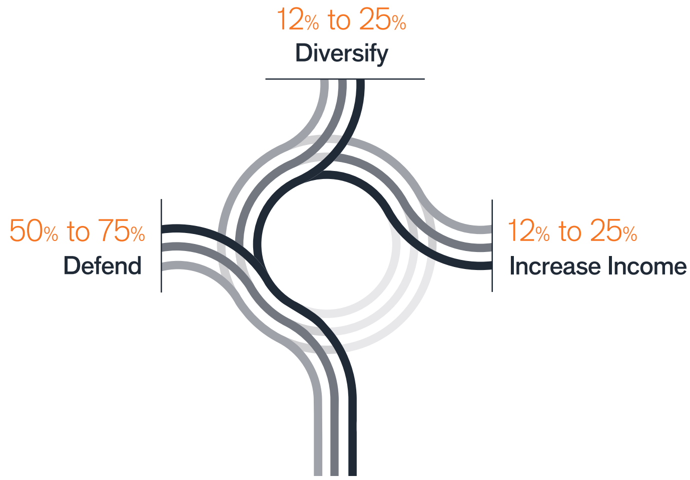
- **New Consideration:** Volatility has been relentless in exacerbating the gaps and concentrations in fixed income allocations. There has been a decade's worth of new dynamic fixed income strategy launches, but equity market corrections prove that no amount of innovation has escaped the fact that increased yield carries increased risk.
- **New Roadmap:** Diversifying strategies are dynamic tools that can "re-risk" core fixed income overweights and/or "de-risk" overly aggressive fixed income allocations. However, we believe investors need to focus on managers who streamline their approach and limit exposure to complex approaches that can generate unintended risk.

Increase Income
Expertise and Grit

- **New Consideration:** The riskiest – and highest-returning – fixed income markets have enjoyed strong returns amidst a recovering market, creating opportunities for upside along with potential for another drastic sell-off.
- **New Roadmap:** High yields don't guarantee positive prospective returns, but investors need to pay heed to opportunities when presented. Sector- and security-selection expertise tied to appropriate timing and a strong stomach are the necessary ingredients in order to navigate dislocations in these markets.

Strategic Allocation: Prepare for Uncertainty with Scenario Analysis

This powerful framework helps organize the huge universe of fixed income managers and, most importantly, conveys a clear, forward-looking approach to fixed income for clients. Whatever environment we are in, we believe the majority (50%-75%) of most fixed income portfolios should be aimed to provide defense. Savvy investors need to strongly consider the pros and cons of each allocation in the Defend category, as well as how they interact with the Diversify and Increase Income component. Through our dedicated fixed income analysis we can shine a light on how well the safety component has carried the portfolio during risk-off and spread widening scenarios while also seeing if there has been sufficient diversification to perform when rates are rising or markets are strong.



About Janus Henderson's Portfolio Construction and Strategy Team

The PCS Team performs customized analyses on investment portfolios, providing differentiated, data-driven diagnostics. From a diverse universe of thousands of models emerge trends, themes and potential opportunities in portfolio construction that we believe will be interesting and beneficial to any investor.

CONNECT WITH US

Our dedicated portfolio strategists can analyze your fixed income lineup and examine how its behavior in past rising-rate and risk-off markets might prepare you for the current environment.

Contact your Janus Henderson sales director at **800.668.0434** or experience us online at **janushenderson.com** for more information.

Janus Henderson INVESTORS

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.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

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

Collateralized Loan Obligations (CLOs) are debt securities issued in different tranches, with varying degrees of risk, and backed by an underlying portfolio consisting primarily of below investment grade corporate loans. The return of principal is not guaranteed, and prices may decline if payments are not made timely or credit strength weakens. CLOs are subject to liquidity risk, interest rate risk, credit risk, call risk and the risk of default of the underlying assets.

Mortgage-backed securities (MBS) may be more sensitive to interest rate changes. They are subject to extension risk, where borrowers extend the duration of their mortgages as interest rates rise, and prepayment risk, where borrowers pay off their mortgages earlier as interest rates fall. These risks may reduce returns.

Bank loans often involve borrowers with low credit ratings whose financial conditions are troubled or uncertain, including companies that are highly leveraged or in bankruptcy proceedings.

Volatility measures risk using the dispersion of returns for a given investment.

FOR MORE INFORMATION CONTACT JANUS HENDERSON INVESTORS

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