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REPORTS OF THE DEATH OF 60/40 HAVE BEEN GREATLY EXAGGERATED

Usually, death is eternal. But if you listen to the broader marketplace, the death of the 60/40 always only lasts a couple of months. Throughout recent market turmoil and uncertainty, investors have (once again) lost confidence in balanced portfolios' ability to provide higher returns than bonds while reducing the magnitude of significant drawdowns from equities.

The Portfolio Construction and Strategy (PCS) Team at Janus Henderson believes that it is (once again) too early to call time on the classic "60/40"[1] and traditional balanced portfolios. Despite the ongoing war in Ukraine and skyrocketing commodity prices, soaring inflation and consequent aggressive monetary tightening, patient investors have been rewarded with double-digit returns thus far in 2023 for staying the course.

U.S. and Global Balanced portfolio returns YTD

Time Period	S&P 500 TR USD	Bloomberg U.S. Agg Bond TR USD	U.S. 60/40[2]	MSCI ACWI NR USD	Bloomberg Global Aggregate TR USD	Global 60/40[3]
1 Jan 2023 – 31 July 2023	20.7%	2.0%	13.2%	18.1%	2.1%	11.6%

Source: Morningstar & Janus Henderson Portfolio Construction and Strategy Team. 1 January 2023 to 31 July 2023.
Past performance does not predict future returns.

The story of the balanced portfolio is one of consistency and long-term investment. Though there is no guarantee of positive returns each year, investors using the classic 60/40 hypothetical portfolio historically have been able to finish any given calendar year in positive territory around 80% of all years from 1928 through to 2022[4]. Over this period, the average return of this hypotheical 60/40 portfolio has been 8.9% per annum. There were just four times in the past 95 years when both equity and bond markets fell during the same year and in which the returns of balanced allocations subsequently also slipped into the red: 1931, 1941, 1969 and, most recently, 2022.

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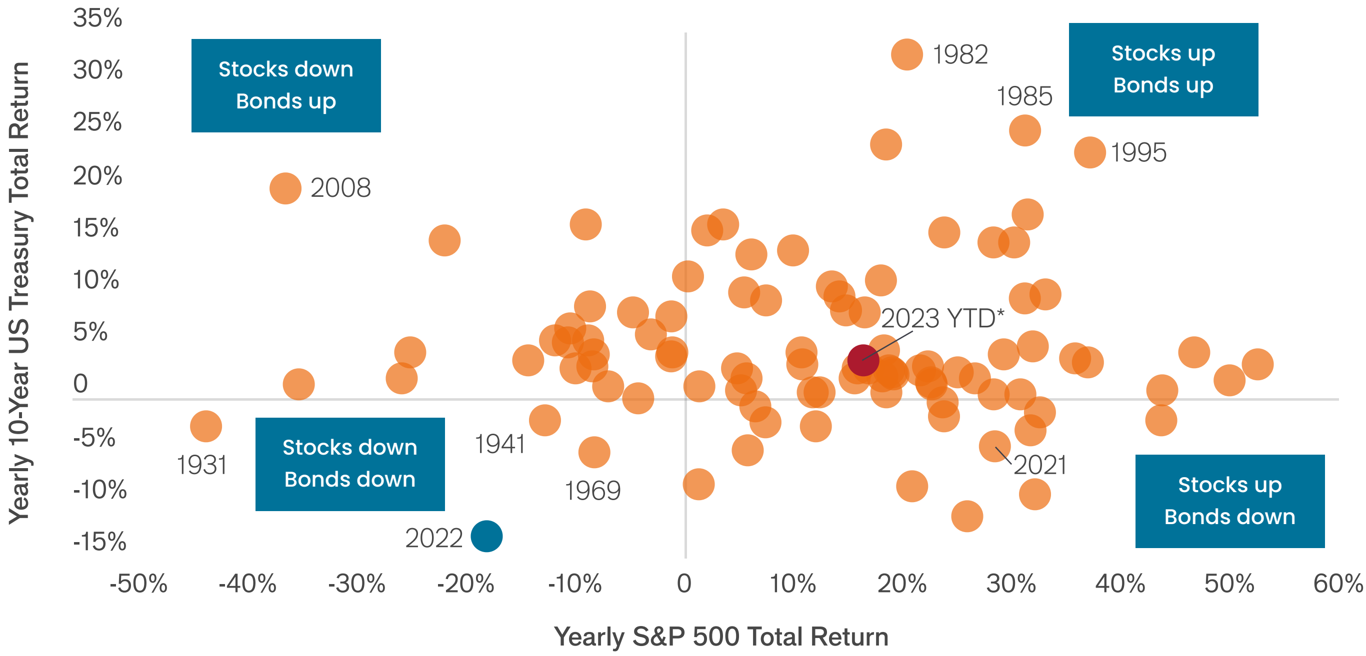
[1] The term '60/40 is generally used to describe a 'balanced' portfolio with a 60% allocation to stocks and a 40% allocation to bonds. Depending on clients' individual investment objectives and goals, however, balanced portfolios typically range between 40%–60% equities. [2] Hypothetical portfolio consisting of 60% invested in the S&P 500 TR USD Index and 40% in the Bloomberg U.S. Agg Bond TR USD Index. [3] Hypothetical portfolio consisting of 60% invested in the MSCI ACWI NR USD Index and 40% in the Bloomberg Global Aggregate TR USD Index. [4] Source: Morningstar, Janus Henderson Portfolio Construction and Strategy (PCS) Team. Returns for a hypothetical portfolio consisting of 60% invested in the S&P 500 TR USD Index and 40% in the Bloomberg U.S. Agg Bond TR USD Index from 1 January 1928 to 31 December 2022. **Past performance does not predict future returns.**

Not once in a lifetime, but once in decades

Double-digit declines in 60/40 portfolios are not uncommon, and history also shows that markets more often than not have rebounded within the 12 months following a bear market. The sell-off in both equity and fixed income markets in 2022 has largely been attributed to the shift from a quantative easing to a tightening environment, where much of the repricing has now occurred. If investors had followed the market's siren song about the death of the 60/40 in 2022 and changed their allocations accordingly, they would have missed out on the subsequent rebound.

2022 was an outlier when it came to equity and bond returns



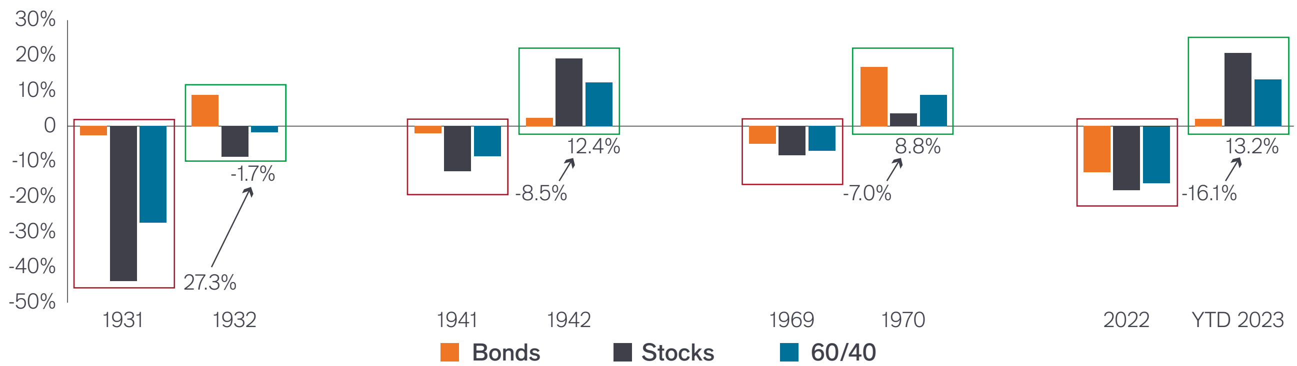
Source: Bloomberg, Morningstar, Janus Henderson Portfolio Construction and Strategy Team. Annual returns 1 January 1928 to 31 December 2022. S&P 500 TR USD; U.S. Agg TR USD; *YTD as of end of July 2023. **Past performance does not predict future returns.**

Who dares wins

Balanced portfolios have the unique characteristic of providing investors with a competitive return during positive market environments and pack an element of fixed income-like ballast during selloffs. Both equities and fixed income typically suffer in periods with unprecedented high inflation. This was one of the main challenges markets faced in 2021 and 2022, which contributed to doubts regarding the resilience of 60/40 portfolios, leading to claims of its untimely demise.

Looking back, we can see that during periods of high, medium and low inflation, investors have still been able to generate a real return (net of taxes and inflation) of at least 4% per annum if they stayed invested in a 60/40 model portfolio over a rolling period of 10 years (with a probability of 86%).

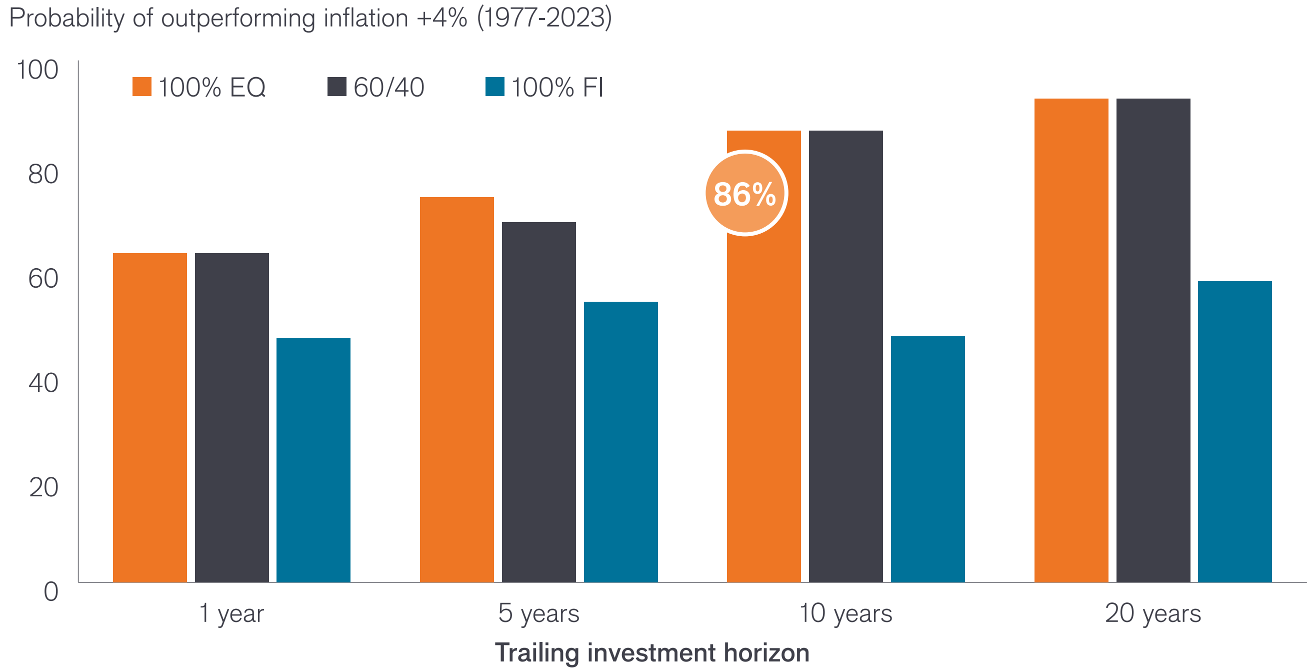
Periods of significant turmoil across asset classes have historically been followed by periods of much better performance



Source: Bloomberg, Morningstar, Portfolio Construction and Strategy. Annual returns 1928-2022. S&P 500 TR USD; U.S. Agg TR USD; YTD as at end of July 2023. **Past performance does not predict future returns.**

Consistency is key

Staying invested in the 60/40 over the long-term (10 years) has a 86% hit ratio of achieving real returns of at least 4% per year



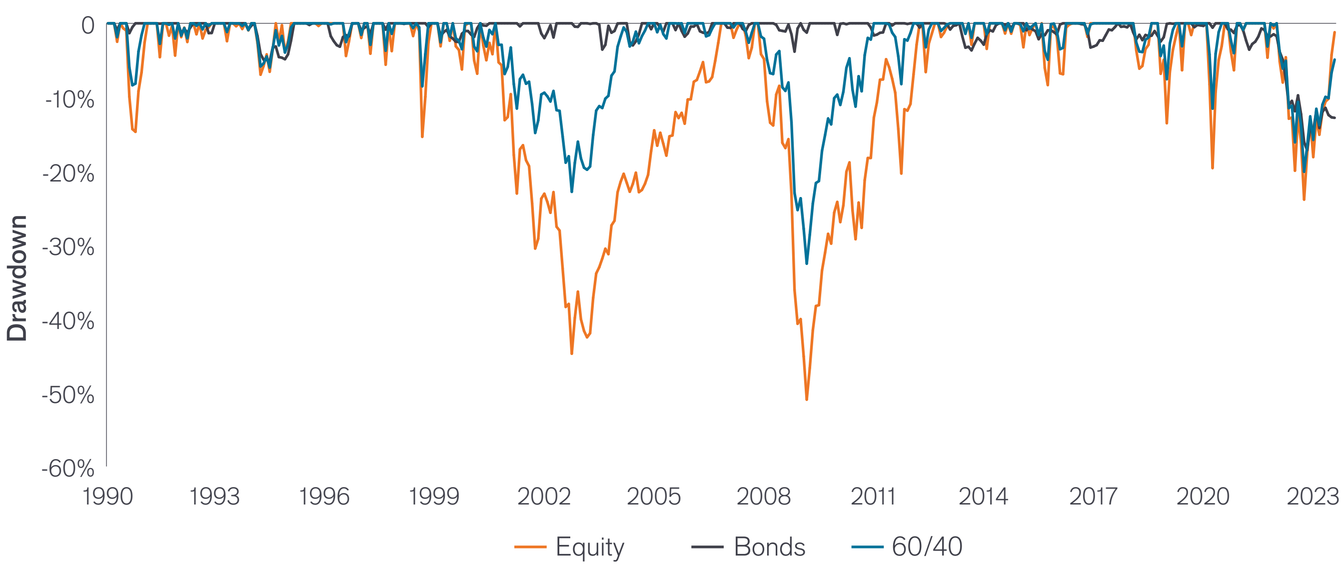
Source: Bloomberg, Morningstar, Janus Henderson Portfolio Construction and Strategy Team. Monthly returns 1 January 1977 to 31 July 2023.

Please note: This is a hypothetical portfolio consisting of 60% invested in the S&P 500 TR USD Index and 40% in the Bloomberg U.S. Agg Bond TR USD Index. It is used here purely for illustration purposes. No accounts were managed using the portfolio composition for the periods shown and no representation is made that the hypothetical returns would be similar to actual performance. **Past performance does not predict future returns.**

Diversification and risk mitigation

This historical performance highlights one of the key strengths of a 60/40 strategy: the ability to generate performance over time with less impactful drawdowns, and a faster recovery than exposure to just equities, or just bonds. During the Global Financial Crisis (GFC), the drawdown on the 60/40 model portfolio was one-third lower than it was for the S&P 500 Index, and the recovery was 15 months quicker.

60/40 portfolios have historically experienced lower drawdowns and faster recoveries than equities

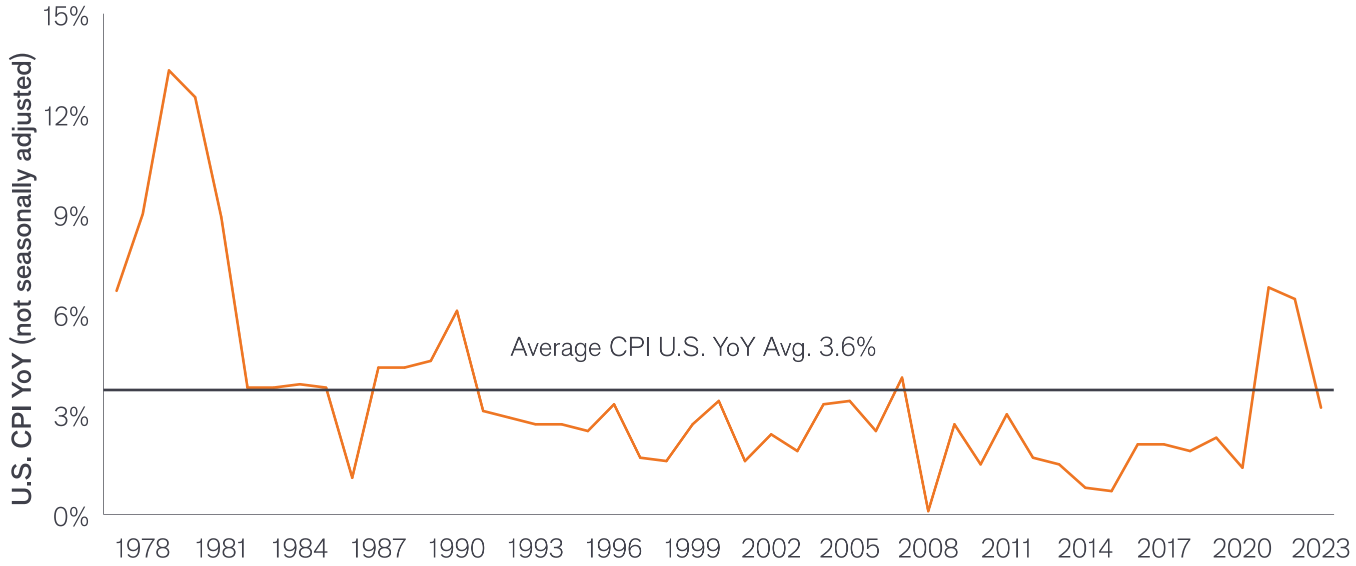


Source: Bloomberg, Morningstar, Janus Henderson Portfolio Construction and Strategy Team. 1 January 1990 to 31 July 2023. Please note: The 60/40 portfolio used here is a hypothetical portfolio consisting of 60% invested in the S&P 500 TR USD Index and 40% in the Bloomberg U.S. Agg Bond TR USD Index. It is used here purely for illustration purposes. No accounts were managed using the portfolio composition for the periods shown and no representation is made that the hypothetical returns would be similar to actual performance. **Past performance does not predict future returns**.

Periods of persistently high inflation are uncommon

Periods of unexpectedly high inflation are not common – the average inflation (year on year) seen in the U.S. over the past 45 years (1 January 1977 to 31 December 2022) is 3.6%. This has been exceeded for multiple years in a row only in the late 1970s and early 1980s, due in part to specific exogenous events (namely the Iranian Revolution and a global disruption of oil supplies). Markets adapt, and the scale of government and central bank intervention in 2022 and 2023 suggests that most developed markets are already past the peak.

Significant changes in monetary policy have been aimed at trying to bring inflation under control



Source: Bloomberg, Morningstar, Portfolio Construction and Strategy Team. Inflation is shown using U.S. Consumer Price Index (CPI) YoY, not seasonally adjusted, 1 January 1977 to 31 July 2023. **Past performance does not predict future returns.**

We on the PCS team believe that a nimble allocation of dynamic, actively managed asset allocation strategies can help investors to stay true to their long-term objectives. Too often, we have seen commentators proclaiming the death of the traditional 60/40 "balanced" portfolio, only for them to fall back in love with it a short time later. We believe investors' focus should remain on providing a thoughtful, forward-looking asset allocation process that aligns with the client's goals, time horizons and risk tolerances, as well as thorough due diligence on the relevant regional, sector and asset class exposures.

About the Portfolio Construction and Strategy Team

The PCS Team provides tailored analysis and insight on investment portfolios. From thousands of consultations, the team identifies trends and opportunities in portfolio construction.

Our goal is to help investors make sense of what's happening in the market, the portfolio implications and how to seek an investment edge through our practical insights.

Equity securities are subject to risks including market risk. Returns will fluctuate in response to issuer, political and economic developments.

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.

Index performance does not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

Actively managed investment portfolios are subject to the risk that the investment strategies and research process employed may fail to produce the intended results. Accordingly, a portfolio may underperform its benchmark index or other investment products with similar investment objectives.

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

10-Year Treasury Yield is the interest rate on U.S. Treasury bonds that will mature 10 years from the date of purchase.

Monetary Policy refers to the policies of a central bank, aimed at influencing the level of inflation and growth in an economy. It includes controlling interest rates and the supply of money.

Quantitative Easing (QE) is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market.

Quantitative Tightening (QT) is a government monetary policy occasionally used to decrease the money supply by either selling government securities or letting them mature and removing them from its cash balances.

Consumer Price Index (CPI) is an unmanaged index representing the rate of inflation of the U.S. consumer prices as determined by the U.S. Department of Labor Statistics.

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