4Q16 PORTFOLIO COMMENTARY

Janus Balanced Fund
Janus Aspen Balanced Portfolio

JANUS®

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Executive Summary

- The Fund outperformed the Balanced Index during the fourth quarter of 2016.
- The equity sleeve outperformed its benchmark, driven largely by strong stock selection in the consumer sectors, as well as industrials. Outperformance in the fixed income sleeve was led by our positioning in investment-grade corporate credit.
- Our asset allocation remains overweight equities versus fixed income. We are optimistic for equities with a pro-business administration taking office and cautious on fixed income in the face of rising rates.

Investment Environment

U.S. stocks began the quarter cautiously, with many benchmarks flat in October, as investors waited for the outcome of the November election and Federal Reserve (Fed) policy decisions. Following the election of Donald Trump, risk assets – including equities and corporate credit – rallied for the remainder of the quarter on optimism that the new administration will likely champion pro-growth initiatives. Financials were among the strongest equity sectors, due not only to the prospects for faster economic growth but also the expectation that the Fed would raise interest rates in December, which it ultimately did. Improvements in a key manufacturing survey and steady job gains were factors in allowing the Fed to act. Energy stocks got a boost from OPEC's announcement that it will cut crude oil production in 2017. Industrials stocks outpaced the broader market, as investors priced in future infrastructure programs. Some traditionally defensive sectors lagged.

The Fed is now projecting three additional hikes in 2017. The yields on the 5- and 10-year Treasury notes bore the brunt of the impact of the Fed's projections, although rates across the U.S. yield curve rose considerably during the quarter. Investment-grade and high-yield corporate credit spreads continued to grind tighter, driven by the new administration's proposals for an easing regulatory landscape coupled with tax reform and other pro-business initiatives.

Performance Discussion

The Fund, which seeks to provide more consistent returns over time by allocating across the spectrum of fixed income and equity securities, outperformed the Balanced Index, a blended benchmark of the S&P 500 Index (55%) and the Bloomberg Barclays U.S. Aggregate Bond Index (45%). The Fund underperformed its primary benchmark, the S&P 500 Index, and outperformed its secondary benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index.

Compared to the Balanced Index, the Fund remains overweight equities, with a 63% allocation to stocks, approximately 37% in fixed income and a small portion in cash. Our quarter end allocation reflects our view that on a risk-adjusted basis, equities present more attractive opportunities relative to fixed income. The equity weighting may vary based on market conditions.

The Fund's equity sleeve outperformed its benchmark, the S&P 500 Index. At the sector level, outperformance was led by strong security selection in consumer staples. Stock selection in the consumer discretionary sector aided relative results, although this was partially offset by our overweight allocation in the sector. Performance also benefited from our holdings in industrials and information technology. The main detractor from relative performance was a zero weight to the energy sector, which rallied as the price of crude oil rose on OPEC's decision to decrease production. A lack of exposure to telecommunication services weighed modestly on results.

This quarter's top individual contributor was Boeing. The airline manufacturer rose on optimism that defense spending will increase under the Trump administration: about 40% of Boeing's business is geared toward the defense industry. The recent jump in oil prices was another tailwind since higher energy costs encourage airlines to replace older, less fuel-efficient planes. Finally, many investors believe that a strong economy could help boost air travel, which means more flight hours and wear and tear on jets and, as a result, faster replacement of planes.

Synchrony Financial was another leading contributor during the quarter. The stock of this private label credit card issuer – spun off from General Electric in 2015 – rallied along with the broader financials sector following the November election. Investors were optimistic about the financial health of Synchrony's cardholders, given rising wages and job growth. Synchrony is also well-capitalized and would benefit from any loosening of financial regulations under the new administration.

Morgan Stanley also contributed to performance. Like many financial services companies, Morgan Stanley benefited from the prospect of a more relaxed regulatory environment under the Trump administration and rising interest rates, which helped pad net interest income. A rising equity market also helped, as the company was able to collect higher fees from its asset management business. A rebound in Fixed Income, Currency and Commodities (FICC) trading was another benefit. We continue to like the stock.

Two of our leading detractors were in the health care sector, which lagged the broader market during the quarter due, in part, to uncertainty about potential regulatory changes. Amgen was the top detractor, as its popular rheumatoid arthritis drug Enbrel faced increased competition. Additionally, Amgen is less likely to be able to raise prices on the drug going forward, which has lowered the revenue outlook for that part of the company's portfolio. We continue to believe that Amgen's robust pipeline of new drugs and biosimilar offerings will be able to offset the declines from more mature products, enabling the company to continue to grow overall revenues. A number of cost and working capital efficiency programs should also increase cash flow and allow the company to continue to return a substantial amount back to shareholders in the form of dividends and buybacks.

Medtronic was another such detractor. During the quarter, the medical-device maker reported sales that were below guidance and consensus estimates, as customers delayed purchases in anticipation of new products coming to market. In addition, the company misanalyzed the replacement cycle of cardiac rhythm management devices (such as pacemakers and defibrillators) and overseas sales declined. Still, Medtronic's revenues could improve as patients eventually adopt new products, such as Medtronic's automated insulin-delivery device for type 1 diabetes, approved by the Food and Drug Administration (FDA) in September.

Adobe Systems also weighed on performance. The software company's stock price was hurt by investors' general rotation out of technology stocks, as well as below-consensus revenue guidance for 2017 earnings. We continue to like the stock as earnings remain strong and the company is shifting its digital media business from a perpetual license-based model to a subscription-based model, which should help increase profits. Further, Adobe's digital marketing business is well positioned for the transition in advertising spending away from traditional media toward digital advertising platforms.

The Fund's fixed income sleeve outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index. We shifted our positioning in an attempt to protect capital as rates rise and inflation moves higher. In corporate credit, we continued to focus on front-end issues and increased emphasis on securities and sectors that could benefit from potential changes in fiscal policy. We increased our exposure to bank loans. In our view, loans – which benefit from a senior position in the capital structure and can offer protection in a rising rate environment – will offer stable and attractive risk-adjusted opportunities in the coming year. An actively tightening Fed in combination with rising inflationary pressures led us to reduce duration exposure coming from Treasurys. We also diversified our duration profile with the addition of Treasury Inflation-Protected Securities (TIPS). With our more defensive stance on rates, the fixed income sleeve's duration ended December at 74% of the benchmark.

Investment-grade corporate credit was the leading contributor to relative results. Our overweight allocation and focus on short- and intermediate-dated issues proved beneficial. Outperformance was concentrated in the lowest tier of investment-grade ratings which saw spread tightening on the prospect of economic growth leading to improved fundamentals. For similar reasons, an out-of-index allocation to high yield contributed on a relative basis. Further supporting performance was our off-benchmark allocation to bank loans. The floating rate nature of the instruments aided results, as short-term interest rates ticked higher. The Fund also benefited from the generally higher yields on the instruments.

At the credit sector level, relative contributors included banking, restaurants and wireline communications. Security selection and spread carry, a measure of excess income generated by the Fund's holdings, contributed to outperformance in the banking sector, as did our overweight allocation. The steepening yield curve generated a more positive outlook for the sector. Results in the restaurants sector were driven, in part, by bank loan exposure to an American fast food company that operates multiple licensed brands worldwide.

Yield curve positioning, including a duration underweight in AT&T, led outperformance in wireline communications. The announcement of AT&T's acquisition of media company Time Warner resulted in general spread widening in the name as investors anticipate the merger to come with a large debt issuance and a credit downgrade. The telecommunications company was our largest individual corporate credit contributor, as the news had minimal impact on the front-end paper we own.

An overweight allocation to Charter Communications, including term loan exposure, further boosted relative performance. We favor the cable company's solid earnings growth and strong management team which has proven they can effectively execute the integration of Time Warner Cable and Bright House Networks – both acquired in 2016.

Food and beverage was the leading sector detractor on a relative basis, due to yield curve positioning. Underperformance was impacted, in part, by our exposure to Anheuser-Busch InBev. Our longer duration positioning was negatively impacted by the sell-off in long Treasurys. We continue to like the name, believing the synergies gained from the multinational beverage and brewing company's merger with SABMiller will be beneficial in driving earnings growth. We also appreciate management's plans to delever and improve the balance sheet post-merger.

On an asset class level, our commercial mortgage-backed securities (CMBS) boosted relative results, primarily due to the shorter dated nature of our holdings. We allocate to higher quality, shorter duration positions with what we consider to be strong risk-adjusted return opportunities. Positioning in U.S. Treasurys was the largest detractor. Our yield curve positioning, particularly exposure to the 5- and 10-year notes, weighed on results as rates continued to sell off in December. The backup in rates was most pronounced in the belly of the curve which was impacted by the Fed's decision to increase the target federal funds rate during the month, as well as by future Fed projections.

For detailed performance information or to download a Fact Sheet, please visit www.janus.com/funds

Outlook

We think U.S. stocks continue to be well positioned, and intend to maintain our overweight to equities as we move into the new year. President-elect Trump campaigned on a pro-growth agenda that we believe will be business-friendly. Proposed tax reforms, deregulation and infrastructure spending could help drive inflation and faster economic growth, leading to higher interest rates, increased capital expenditure and rising wages – all a net positive for U.S. stocks. In particular, the cyclical stocks that accelerated after the election, such as financials and industrials, could continue to charge ahead in 2017.

This outlook, of course, hinges on Trump's agenda becoming a reality. In addition, proposed trade tariffs and a strong dollar could weigh on certain U.S. multinational companies. Given that, we remain optimistic about U.S. stocks but are focused on finding companies that are exposed to secular growth trends and can continue to increase earnings and free cash flow.

We anticipate a steeper yield curve, with the front end moving on Fed projections and the long end rising further on increased inflationary expectations. The Fed's forecast for three interest rate hikes in 2017 is in line with our expectations, although we believe more hikes could be warranted in a reflationary environment. As a result, we will continue to actively manage duration and yield curve positioning in the fixed income sleeve, with the expectation of maintaining duration below that of the benchmark.

New fiscal policies, if properly implemented, should stimulate growth and the accompanying rise in operating earnings could allow companies to grow into their capital structures, reversing the recent trend of increasing leverage. We will closely monitor the difference between rhetoric and policy implementation, as well as the transition from policy intentions to growth. Our analysts are conducting in-depth, bottom-up research to identify issuers with higher quality business models and strong fundamentals, particularly in sectors that may benefit from a change in economic policy.

With growth prospects on the horizon, we are taking a selectively opportunistic approach to U.S. corporate credit, yet we remain mindful of tighter spread levels after tightening in 2016. We are also closely monitoring the ability for corporate spreads to hold near current levels in a rising-rate environment. Our focus remains on issuers with higher quality business models, ample liquidity, strong free-cash-flow generation potential and commitment to a sound balance sheet. In this extended cycle, the importance of security avoidance remains a central aspect of our investment process. Even as we opportunistically add to credit, we intend to maintain a conservative bias in the fixed income sleeve, reflecting our commitment to deliver capital preservation and strong risk-adjusted returns for our clients.

Top Equity Sleeve Contributors and Detractors for the Quarter Ended 12/31/16

Top Contributors	Ending Weight (%)	Contribution (%)	Top Detractors	Ending Weight (%)	Contribution (%)
Boeing Co	4.07	0.74	Amgen Inc	3.46	-0.49
Synchrony Financial	2.66	0.65	Medtronic PLC	2.00	-0.40
Morgan Stanley	2.09	0.54	Adobe Systems Inc	2.43	-0.14
CME Group Inc	3.35	0.49	Kimberly-Clark Corp	1.31	-0.13
TD Ameritrade Holding Corp	2.15	0.45	NIKE Inc	3.02	-0.10

The holdings identified in this table, in compliance with Janus 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 877.33JANUS (52687) or visit janus.com/advisor/mutual-funds.

Top Contributors

Boeing: We are optimistic about the aircraft manufacturer for several reasons: About 40% of Boeing's business is geared toward the defense industry, which could benefit from increased spending under the Trump administration. Rising oil prices could be another tailwind since higher energy costs often encourage airlines to replace older, less fuel efficient planes. Finally, a strong economy could help boost air travel, which means more flight hours and wear and tear on jets and, as a result, faster replacement of planes. Boeing also has the highest dividend yield in its industry, and in 2016, management raised the payout by 30%.

Synchrony Financial: We continue to favor the company for its private label credit card business where it has an estimated 40% market share. This business line, in our view, is quite stable given the preponderance of long-term contracts with clients. We believe Synchrony offers a significant value proposition for retailers, given its ability to collect data on customers' purchases and help retailers creating advertising campaigns and promotions that will drive more store traffic and purchase volume. We also like the changes the company has made since its initial public offering, namely investing heavily in its capabilities.

Morgan Stanley: Morgan Stanley is a global financial services firm that is a market leader in securities, asset management and credit services. The company has made great strides in improving its balance sheet with capital and liquidity levels at record highs. We appreciate management's efforts to make Morgan Stanley's wealth management businesses less capital- and liquidity-intensive and to lower earnings volatility.

Top Detractors

Amgen: We like the potential of many drugs in this biotech company's robust pipeline, especially Repatha, which helps lower cholesterol. In addition, Amgen is going through a major restructuring, cutting operating expenses and head count. We expect that all of these efforts will result in double-digit earnings per share (EPS) growth over the next several years. We also like the company's expansion, focusing on Japan and emerging markets.

Medtronic: Medtronic makes and sells medical devices throughout the world. The Dublin, Ireland-based firm recently earned FDA approval for its device that automatically delivers insulin to type 1 diabetes patients. Such innovations should contribute to future growth. In addition, the company has raised its dividend for 39 consecutive years, and the stock's valuation is attractive.

Adobe: We believe the company is poised to increase profits as its digital media business moves from a perpetual license-based business model to a subscription-based business model. We also believe Adobe's digital marketing business, which helps advertisers create digital content, is well positioned for the transition in advertising spending away from traditional media toward digital advertising platforms.

Kimberly-Clark: Kimberly-Clark produces paper-based consumer products. A strong dollar has weighed on the profits that Kimberly-Clark earns in emerging markets, but the company should continue to benefit from secular growth trends in these countries, such as rising diaper usage per capita. We also like Kimberly-Clark's consistent free-cash-flow generation and its ample dividend. Finally, the company continues to innovate in its shift from consumer tissue

Top Contributors (continued)

CME Group: We believe CME Group, which runs options and futures exchanges, stands to benefit from regulatory tailwinds, an increasingly global user base and the continued digitization of its markets, including U.S. equity futures and commodities. In addition, potential market shifts, such as rising interest rates, could help increase trading volume on CME's exchanges and boost the company's revenues.

TD Ameritrade: We believe the online broker is a best-in-class asset gatherer. We also believe TD Ameritrade has a unique and differentiated business model, having outsourced the banking operations of the business to TD Bank, allowing it to run a capital-light business model, generate free cash flow in excess of net income, and deliver attractive returns. We like that the company does not typically take balance sheet risk. Going forward, we believe that the retirement wave of baby boomers is a tailwind for companies such as TD Ameritrade as financial assets will move from defined contribution plans to rollover IRAs.

Top Detractors (continued)

products to personal care products, which is a higher margin business.

Nike: We believe the footwear and apparel maker can benefit from the growing relevance of sport in global culture. In particular, we like Nike for its significant emerging-markets exposure and its ability to expand into new markets based on its brand strength. Operationally, Nike continues to innovate in both its supply chain and manufacturing capabilities, which will help the company lower total product costs and improve margins. We also are confident that Nike's investments in an omnichannel retail experience, including a fast-growing collection of websites, will help the company to grow despite a challenging environment for brick-and-mortar retailers.

Top Fixed Income Sleeve Relative Contributing and Detracting Issuers Held for the Quarter Ended 12/31/16

Top Contributors	Average Weight (%)	Relative Contribution (%)	Top Detractors	Average Weight (%)	Relative Contribution (%)
Federal National Mortgage Assn	17.49	0.10	U.S. Treasury Notes/Bonds	8.55	-0.46
AT&T Inc	1.20	0.04	Federal Home Loan Mortgage Corp	3.44	-0.02
Government National Mortgage Assn	5.73	0.04	Anheuser-Busch Inbev NV	1.35	-0.02
U.S. Treasury Bills	4.71	0.03	American Tower REIT	0.73	-0.01
Charter Communications (CCO Holdings, LLC)	1.12	0.03	Baxalta Inc	0.60	-0.01

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Relative contribution is the difference between the issuer's contribution to the portfolio's performance versus that issuer's contribution to the benchmark's performance. It reflects how the portfolio's holdings impacted return relative to the benchmark. Cash and issuers not held in the portfolio are excluded.

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 at 877.33JANUS (52687) or download the file from janus.com/info. Read it carefully before you invest or send money.

Past performance is no guarantee of future results. Call 877.33JANUS (52687) or visit janus.com/advisor/mutual-funds for current month-end performance.

Discussion is based on performance of the Fund's "parent" share class (typically that with the longest history).

The discussion and data quoted are based upon the results, holdings and characteristics of the Janus Investment Fund ("JIF") mutual fund. Such data may vary for the Janus Aspen Series ("JAS") portfolio due to asset size, investment guidelines, diversity of portfolio holdings and other factors. We believe the JIF mutual fund most closely reflects the portfolio management style for this strategy.

As of 12/31/16 the top ten portfolio holdings of Janus Balanced Fund are: Microsoft Corp (3.16%), United States Treasury Bill (3.08%), Boeing Co (2.57%), Mastercard Inc (2.55%), Altria Group Inc (2.37%), Amgen Inc (2.18%), CME Group Inc (2.11%), LyondellBasell Industries NV (2.04%), Alphabet Inc (2.02%) and NIKE Inc (1.90%). There are no assurances that any Janus portfolio currently holds these securities or other securities mentioned in this commentary.

The opinions are as of 12/31/16 and are subject to change at any time due to changes in market or economic conditions. Janus 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 issuer 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.

A Fund's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Fund may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Fund has different risks. Please see a Janus prospectus for more information about risks, Fund 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.

S&P 500® Index measures broad U.S. equity performance.

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

Balanced Index is an internally-calculated, hypothetical combination of total returns from the S&P 500® Index (55%) and the Bloomberg Barclays U.S. Aggregate Bond Index (45%).

A Fund's portfolio may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore its performance does not reflect the expenses associated with the active management of an actual portfolio.

Funds distributed by Janus Distributors LLC

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