1Q17 PORTFOLIO COMMENTARY

Janus Diversified Alternatives Fund

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Investment Environment

Global stocks continued their strong run well into the first quarter. Optimism was premised on the belief that the Trump administration would champion a series of pro-growth reforms that would help propel the U.S. and, ultimately, other economies. Even prior to any legislation being passed, data lent support to the notion of a strengthening U.S. economy. This favorable environment was a key factor in allowing the Federal Reserve (Fed) to raise interest rates by a quarter of a percentage point at its March meeting.

Economic data also hinted at a resilient Europe, which counterbalanced – to a degree – concerns about a surge in populist rhetoric throughout the region. Emerging markets rebounded after their post-election sell-off, benefiting from a healthier global economic outlook, as well as the Trump administration's little-to-no focus on U.S. protectionist efforts.

After peaking in mid-March, however, many global indices slid over the remainder of the period as market participants began reassessing the Trump reflation trade. Doubts around the government's ability to effectively implement fiscal reforms were justified when Republicans abandoned their replacement plan for the Affordable Care Act in March. Energy slipped, in part, on a decrease in global crude oil prices and a ramp-up in U.S. production. The U.S. dollar fell against most developed and emerging market currencies by the end of the quarter, and U.S. inflation expectations tapered.

Treasury yields rose on the front end of the curve during the quarter, while intermediate and longer dated Treasurys were largely range-bound. Yields on German sovereign bonds fluctuated over the period, but ultimately rose across all tenors. Corporate credit spreads ultimately finished tighter, with gains more notable in high yield.

Performance Discussion

The Fund underperformed its primary benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, and its secondary benchmark, LIBOR + 3%, during the quarter. Over time, the Fund seeks to provide positive absolute returns and offer true diversification with low correlation to stocks and bonds by investing in a portfolio of risk premia strategies.

The continuation from the previous quarter – and subsequent unwinding – of the "Trump Trade" impacted a number of the Fund's strategies during the quarter. The lack of a continuous trend meant that a number of the momentum strategies delivered negative returns. The currency momentum strategy, which looks to capture long-term movements in the U.S. dollar versus a basket of foreign currencies, was a leading detractor. After rallying in the previous quarter, the dollar was largely range-bound – with a bias toward being weaker – during the quarter, which weighed on the strategy's returns. The strategy's bias toward a stronger dollar also impacted performance.

The equity value strategy also detracted. This strategy aims to capture the potential return associated with holding value equities while also being short growth stocks. Value stocks – which had rallied in the months following Donald Trump's surprise election – underperformed growth stocks during the quarter as the Trump Trade stalled.

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Executive Summary

- The Fund underperformed its benchmarks during the quarter.
- The unwinding of the "Trump Trade" impacted a number of the Fund's strategies, including three of the momentum strategies. The commodity curve strategy was the leading contributor.
- The Fund's models have reduced the weighting to a number of the equity strategies.

Another leading detractor was the commodity momentum strategy. After rising in the fourth quarter, crude oil prices traded in a band before falling near the end of the period. As this strategy looks to capture the persistence in the price movement of commodities, it underperformed in the largely directionless environment. The rates momentum strategy, which aims to capture the persistence in the movement of interest rates, was another detractor. The range-bound nature of 10-year Treasury yields during the period weighed on the strategy's returns.

However, a number of our strategies were able to capitalize on market trends. The equity emerging strategy, for example, benefited as the Trump administration modestly stepped back from its anti-globalization stance. Improving fundamentals in a number of emerging market countries further aided the strategy's performance as this strategy looks to capture the potential return associated with holding equities in companies of less-developed economies.

The commodity curve strategy was another leading contributor. This strategy seeks to generate returns by providing liquidity to the most "crowded" section of the commodity futures curve; it is typically short the most active front-month contract and long farther-dated tenors. A warm winter led to weakness in natural gas prices, which contributed to the strategy's returns, as did the drop in crude oil prices late in the quarter.

The equity momentum strategy also aided returns as equities were generally up during the quarter. This strategy aims to capture directional momentum in equities through the quantitative analysis of equity index price movement.

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

Outlook

The Fund's model has indicated potentially increased correlations between a number of the equity strategies and the absolute direction of financial markets in general. It has, in turn, reduced the allocation to these premia – namely equity value and equity size. Despite the somewhat directionless environment during the quarter, the allocation to the momentum strategies, which tend to underperform in such environments, has remained approximately the same.

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.

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Discussion is based on the performance of Class I Shares.

The opinions are as of 3/31/17 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.

Risk premia contribution is based on a model portfolio, and may differ from actual contribution. It is calculated using an internal, manual process, and reflects the deduction of trading costs, fees and expenses. Risk premia contribution is intended to demonstrate the impact of each risk premia strategy within the portfolio.

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.

There is a risk that the Fund's investments will correlate with stocks and bonds to a greater degree than anticipated, and the investment process may not achieve the desired results. The Fund may underperform during up markets and be negatively affected in down markets. Diversification does not assure a profit or eliminate the risk of loss.

Investments in commodities, commodity-linked notes, securities derivatives, futures, foreign securities, short sales and investments through a nonregistered subsidiary provide exposure to certain special risks, including greater volatility and loss of interest and principal, and may not be appropriate for all investors. Commodities are speculative and may fluctuate widely based on a variety of factors, including market movements, economic events and supply and demand disruptions. 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.

Holding a meaningful portion of assets in cash or cash equivalents may negatively affect 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.

LIBOR (London Interbank Offered Rate) is a short-term interest rate that banks offer one another and generally represents current cash rates.

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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