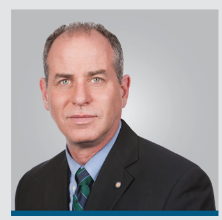
Janus Diversified Alternatives Fund

JANUS

Portfolio Manager:
John Fujiwara

Portfolio Manager:
Richard Lindsey, Ph.D.



Portfolio Manager:
Andrew B. Weisman

Executive Summary

- A strengthening U.S. economy amid weakening foreign economies created market conditions that drove U.S. stock prices higher and Treasury rates lower.
- Our currency momentum strategy contributed the most to quarterly performance amid a sustained rally in the U.S. dollar.
- Market volatility appears to be creeping upward. Our approach is to evenly distribute risk across our fund using our risk premia strategies.

Investment Environment

A strengthening U.S. economy amid weakening foreign economies created market conditions in the fourth quarter that drove U.S. stock prices higher and Treasury rates lower. Corporate earnings prospects remained mostly intact while a weaker global economy helped keep inflation tame. The S&P 500 Index, a broad measure of U.S. equity performance, rose 4.9% during the period while the yield on the 10-year Treasury declined from 2.48% at the start to 2.17%. With the labor market strong and U.S. gross domestic product growth gathering momentum, the Federal Reserve (Fed) remained on track to hike its benchmark interest rate in mid-2015. Faltering economies abroad meant other major central banks continued their loose monetary policies.

Due to divergence between the U.S. and much of the world in growth and central bank policy, the U.S. dollar strengthened against most major currencies. Meanwhile, global demand for many commodities, particularly crude oil, slowed. Several commodity-producing emerging market countries were pushed into or toward recession. Market volatility spiked at times during the quarter amid investor anxiety about global growth.

Performance Discussion

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

Our currency momentum strategy contributed the most to quarterly performance. Specifically, the strategy benefited from a sustained rally by the U.S. dollar against a basket of foreign currencies. U.S. dollar strength was mostly fueled by central bank divergence, in our view. The Fed signaled to the market that it was preparing to raise rates in 2015 as economic data during the fourth quarter showed U.S. growth was gathering momentum. In contrast, the Bank of Japan increased its quantitative easing (QE) program while the European Central Bank (ECB) President Mario Draghi hinted that the ECB may launch a QE program of its own in 2015. The upward trend of the U.S. dollar was also fueled by its historically inverse relationship to crude oil prices, which plunged during the quarter.

Three of the Fund's equity strategies were also contributors, though the equity-size strategy, which is long small-cap stocks and short large-cap stocks, was the most additive by far. For much of the year, small- cap stocks had lagged returns of large-cap stocks. Investors had been concerned that U.S. growth would falter and affect the prospects of small-cap businesses, which tend to be domestically focused. But, in the fourth quarter those fears subsided, and small caps reversed course and outpaced the returns of large caps. Our equity momentum and equity value strategies benefited from the general upward trend of the S&P 500 Index as well as from the returns of value stocks generally outpacing growth stocks during the quarter, respectively. However, these two trends were less consistent during the quarter than the performance turnaround of small-cap stocks.

Our rates momentum strategy, which seeks to capture a sustained directional trend of interest rates, contributed to returns amid a steady decline in long-end rates. The yield of the bellwether 10-year German bund steadily declined during the quarter, touching record lows beneath 0.55%. A flagging eurozone economy on top of the region's disinflation stoked speculation that the ECB would step up monetary stimulus.

Also contributing to returns was our credit strategy, which seeks to realize the additional rate of return that investment-grade corporate debt can provide over Treasurys. Longer-dated investment-grade credit particularly benefited from the general decline in rates during the quarter. Also, credit benefited from a rotation out of the riskier, "high yield" portion of the fixed income market.

While our three commodities strategies helped returns, the Fund mainly benefited from its commodity curve strategy. This strategy seeks to gain from longer-term commodity deliveries rather than shorter-term deliveries. Specifically, our positioning in natural gas helped us after harsh winter temperatures failed to materialize, and the spot price for natural gas declined.

The strategy which detracted the most from returns was the equity emerging strategy, which favors emerging market (EM) stocks over stocks of developed markets. Lower commodity prices sparked wholesale selling in EM companies as many of their home countries are major commodity producers, such as Russia and Brazil. Brazil ended the fourth quarter in recession and Russia appeared headed toward it. Moreover, EM currencies weakened considerably against the U.S. dollar, and that hurt EM securities generally.

Our currency carry strategy was also a detractor. The strategy invests in higher-yielding currencies and sells lower-yielding ones while seeking to gain from the difference. However, higher-yielding currencies like New Zealand had losses after these currencies weakened against the U.S. dollar.

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

Outlook

We do not believe in forecasting a market's particular direction; however, it does appear that market volatility is creeping back. Amid greater market volatility, we intend to maintain our approach of evenly distributing risk across the Fund using our risk premia strategies. A key way to do this is to favor strategies which are less correlated to the overall market.

For example, fixed-income returns have exhibited lower correlation to the overall market, so we increased our weighting in our rates momentum and credit strategies. We increased our weightings in our commodity strategies for this reason. Equities have shown higher correlation, so we trimmed our exposure to our equity momentum strategy.

Changes in strategies are made according to our risk allocation methodology, which is designed so no one risk premium contributes disproportionately to the overall risk of the portfolio.

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 opinions are as of 12/31/14 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.

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.

Janus Capital has limited experience managing a risk premia investment strategy. 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.

Barclays U.S. Aggregate Bond Index is made up of the Barclays U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

LIBOR (London Interbank Offered Rate) is a short-term interest rate that banks charge one another and that is generally representative of the most competitive and current cash rates available.

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

C-1214-81532 04-15-15

188-42-28991 01/15