Janus Flexible Bond Fund
Janus Aspen Flexible Bond Portfolio

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Investment Environment

U.S. economic growth gathered momentum in the fourth quarter, but deteriorating growth abroad and plunging crude oil prices captured the attention of the fixed income market. Prices on fixed income risk assets, like high yield, fell. Long-end Treasurys (those with maturities of 10 years or more) benefited from safe-haven purchases. Yields on the 10-year and 30-year Treasurys declined materially during the quarter.

Growth in the eurozone remained stalled while Japan entered into recession. The price of the front month contract for light, sweet crude on the New York Mercantile Exchange fell 42% during the period. Amid slower global growth, oil demand has softened. Lower oil prices drove disinflation concerns globally, and that helped contain the long-end of the Treasury curve, which reflects inflation expectations. Major oil-producing economies within emerging markets struggled, further weakening a fragile global economy.

With U.S. growth bucking the global trend during the quarter, the Federal Reserve (Fed) remained on track to hike rates in the second half of 2015. Third quarter gross domestic product growth was revised upward to 5.0%, its fastest pace since 2003. Two-year Treasury bills are sensitive to Fed rate hikes, and short-term yields rose. With long-end yields contained and front-end yields higher, the U.S. yield curve flattened. The flattening curve signaled concern that slowing global growth will create headwinds for the U.S. economy.

Performance Discussion

We continue to believe that the most effective way to generate consistent risk-adjusted outperformance long term is by bottom-up security selection based on fundamental research. However, macroeconomic challenges, in the form of falling crude oil prices and slowing global growth, held sway over the fixed income market during the fourth quarter, and the Fund underperformed its benchmark, the Barclays U.S. Aggregate Bond Index.

Underperformance was driven by our security selection within corporate credit, specifically energy-related credits, as well as by an overweight to corporate credit in general. In the fourth quarter, the sharp decline in crude oil prices sparked indiscriminate selling in energy-related corporate credit, primarily within the high-yield market. We had a material overweight in several energy-related sectors.

Our energy exposure included companies that generate solid cash flows and are strengthening their balance sheets, in our view. Many have ratings in the high-yield market's "crossover" section, which is just beneath investment grade. We believe this section of the high-yield market, in general, offers attractive risk-adjusted returns due to the potential ratings upgrades for these companies. We also believe many of our energy holdings can efficiently produce oil at lower prices.

But, wholesale selling of energy credits during the quarter, especially in high yield, meant individual company fundamentals were ignored, in our view. We would add that a significant portion of crude oil's quarterly decline occurred during the holiday season. That is a low volume period in the high-yield market, and we believe the lower trading volume exacerbated price declines.

The independent-energy sector, in particular, significantly detracted from the Fund's relative performance overall. California Resources, a recent spin-off from Occidental

Portfolio Manager:
Gibson Smith

Portfolio Manager:
Darrell W. Watters

Executive Summary

- U.S. growth is on a solid foundation, but deteriorating growth abroad and plunging crude oil prices have captured the attention of the fixed income market.
- Performance was driven partly by our overweight in corporate credit, specifically an overweight in the energy sector.
- Going forward, we have assumed a more defensive positioning, reducing our credit holdings, including our energy exposure, and raising our Treasury weighting.
- Tame inflation, global growth concerns and stepped up Treasury purchases by foreign investors could contain long-end yields for now.

Petroleum, was the largest individual credit detractor. Historically, the company had only occasionally hedged a small amount of its oil output, and we believe the prices of its securities declined in direct sympathy with price of crude oil. We have since reduced our position in this firm's debt.

The banking and the automotive sectors within corporate credit were additive on a relative basis. Our out-of-index high-yield exposure in corporate credit helped make spread carry, or the excess income generated by individual securities versus the index, a relative contributor.

On the securitized front, our allocation within mortgage-backed securities (MBS) was also a relative detractor due to security selection. We are positioned in higher coupon, more prepayment-resistant MBS tranches, which we believe have a more stable cash-flow profile. Our MBS positioning is intended to lend defensive characteristics to the portfolio during times of market volatility. However, MBS is also typically priced off the 10-year Treasury rate. Due to the decline in 10-year Treasury yields during the quarter, lower coupon mortgage-backed securities were favored over those with higher coupons due to their longer duration (duration is a bond's price sensitivity to changes in yield).

Our Treasury allocation was also a relative detractor. We increased our Treasury weighting during the period as a defensive measure in light of market conditions, though we still remained underweight the benchmark during much of the quarter. Given the significant decline in long-end Treasury yields during the period, our underweight made the Treasury allocation a relative detractor. Our position in government-related debt, where we were underweight, was a modest outperformer.

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

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Outlook

We believe that U.S. economic growth has established a strong foundation and that unprecedented monetary stimulus measures abroad could eventually spark the beginnings of a global economic recovery over the next year. In the near term, however, the global economy faces headwinds, such as the threat of deflation and China's slowing growth. Uncertainty created by the diverging growth and monetary policy trajectories of the U.S. and its major trading partners could drive volatility in the fixed income markets.

First and foremost, we invest according to our two core tenets of seeking capital preservation and risk-adjusted returns. Consequently, we have sought to reduce risk within our portfolio by reducing our exposure to corporate credit, though we remain overweight the benchmark. Specifically, we have reduced our weighting within the energy credit sector as we believe crude oil prices could remain at lower levels. Within energy, we are focused on less leveraged credits, those cost-efficient producers that are hedging their output and, in our view, are solid capital stewards. Depending on market conditions, we may reduce our energy sector exposure further and boost exposure to more defensive sectors.

While the Fed has signaled that it is preparing to exit loose monetary policy, we believe near-term global growth concerns and tame inflation trends may contain long-end Treasury rates. We are also mindful of stepped up Treasury purchases by foreign investors hungry for yield. As part of our defensive positioning, we have increased our Treasury exposure to be more in line with the benchmark's. We also believe it is prudent at this juncture for the Fund's overall duration to be more in line with the benchmark's and allow for flexibility to adjust upward or downward as conditions warrant.

On the securitized front, the MBS sector's favorable supply/demand profile should keep spread levels tight, in our view. However, we also believe that the fixed income market is vulnerable to increased volatility over the near term. Our MBS allocation is defensively positioned to weather volatility and for the current flattening yield curve through the use of higher coupon MBS, in our view. MBS generally does better in a market with lower volatility, so we have decreased our MBS allocation overall. We remain underweight MBS versus the benchmark.

Meanwhile, solid U.S. economic growth bodes well for corporate prospects. Moreover, with yields low, corporate credit will continue to be in demand. Nevertheless, at this stage in the credit cycle, companies are re-leveraging their balance sheets through share repurchases and expensive acquisitions. Selectivity is key, and that plays to our bottom-up, fundamental process of focusing on strong balance sheets and managements.

Not taking on excessive risk, being diversified and defensive in one's positioning does not require giving up solid risk-adjusted returns. When the U.S. fixed income market begins to register signs of a global economic recovery, a portfolio that didn't take excessive bets and instead, focused on capital preservation and risk-adjusted returns will have the flexibility to take advantage of the opportunities that arise.

Top Relative Contributors and Detractors by Issuer for the Quarter Ended 12/31/14

Top Contributors	Average Weight (%)	Relative Contribution (%)	Top Detractors	Average Weight (%)	Relative Contribution (%)
Royal Bank Of Scotland	1.61	0.04	California Resources Corp	1.00	-0.18
Seagate	0.89	0.03	Chesapeake Energy Corp	1.40	-0.09
Albemarle Corp	0.28	0.03	U.S. Treasury Notes/Bonds	23.98	-0.07
General Motors Co	1.63	0.02	Government National Mortgage Assn.	5.10	-0.05
Trimble Navigation Ltd	0.21	0.01	Continental Resources Inc	0.52	-0.04

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.

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 12/31/14 the top ten portfolio holdings of Janus Flexible Bond Fund are: U.S. Treasury Notes/Bonds (4.72%), U.S. Treasury Notes/Bonds (3.86%), U.S. Treasury Notes/Bonds (3.26%), U.S. Treasury Notes/Bonds (2.79%), U.S. Treasury Notes/Bonds (2.48%), U.S. Treasury Notes/Bonds (2.26%), U.S. Treasury Notes/Bonds (2.17%), U.S. Treasury Notes/Bonds (1.99%), U.S. Treasury Notes/Bonds (1.76%) and Freddie Mac Gold Pool (1.67%). There are no assurances that any Janus portfolio currently holds these securities or other securities mentioned in this commentary.

The opinions are as of 12/31/14 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.

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.

High-yield/high-risk bonds, also known as "junk" bonds, involve a greater risk of default and price volatility than U.S. Government and other high quality bonds. High-yield/high-risk bonds can experience sudden and sharp price swings which will affect net asset value.

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.

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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