Janus Global Bond Fund

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Investment Environment

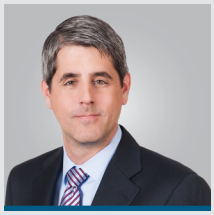
Global fixed income markets entered into the much anticipated era of diverging central bank policy in the fourth quarter. The final stretch of this path was not without unexpected detours. Acutely aware of the sensitivities financial markets exhibited to flagging Chinese growth during the summer, the Federal Reserve (Fed) chose to delay its first interest rate hike in nine years at its September meeting. Later, comments by Fed officials and a rebound in nonfarm payroll data seemed to ensure an upward move at its December meeting. The building consensus in markets resulted in yields on shorter dated Treasurys rising over the course of the quarter. In Europe, meanwhile, benchmark rates – namely the German Bund – were heading in the opposite direction. The driver was the expectation that the European Central Bank (ECB) would increase the size of its asset-buying program in its effort to combat stubbornly low inflation. Markets were disappointed when, in early December, the ECB only extended the length of the program rather than increasing monthly purchases. The market's swift reaction sent the yield on the 1-year Bund rapidly up from 0.46% to 0.68%. The euro experienced a similar reversal, rising considerably against the U.S. dollar during the last four weeks of the quarter.

The Fed's cessation of its experiment with zero-percent-interest-rate policy placed additional downward pressure on several emerging market currencies. Along with slowing growth in many of these regions, the weakening currencies threatened the liquidity profiles of governments and corporations that had U.S. dollar-denominated debts. Acutely affected were natural resource producers, given the multi-year lows in energy and materials prices.

Spreads on broad-based global bond indices narrowed for much of the quarter, only to widen after the ECB's surprise announcement and in anticipation of the Fed's imminent rate increase. The yield on the 10-year U.S. Treasury rose to as high as 2.35% as expectations of a rate hike solidified, but it spent the latter part of the quarter below that level as inflation data remained benign. Investment-grade corporate bond spreads tightened for much of the period, though they gave back some price gains in the wake of the Fed decision. After tightening to 1.45% in November, investment-grade corporate spreads finished the quarter slightly wider at 1.55%. Spreads on high-yield corporates widened considerably.

Performance Discussion

The Fund underperformed its primary benchmark, the Barclays Global Aggregate Bond Index, and its secondary benchmark, the Barclays Global Aggregate Corporate Bond Index. Given the current environment, we believe it prudent for fixed income managers to act with elevated caution and have positioned the portfolio accordingly. Reasons for our defensive positioning include evidence of the corporate sector being in the late innings of a credit cycle, tepid global growth and weak energy prices creating stress on national and corporate balance sheets. Alarmingly low market liquidity, which could lead to substantial price dislocations, remains another chief concern. The portfolio's duration remains below that of the benchmark. When compared to the end of the third quarter, we have marginally increased duration and the portfolio's corporate credit allocation as we sought to take advantage of the spread widening in specific issues that continue to exhibit solid fundamentals.



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Executive Summary

- Less risky segments of global fixed income markets gained during the quarter while emerging market and high-yield debt sold off.
- The Fund underperformed both its primary and secondary benchmarks.
- We are defensively positioned given our view that diverging global monetary policy will be a driving force in fixed income markets as we head into 2016.

On a market segment basis, detracting most from relative performance was duration and yield curve positioning on government debt. Much of this can be attributed to the Fund's zero-weighting in Japanese government debt, a major benchmark component. During the quarter, Japan's sovereign yield curve flattened across all tenors as the country's central bank and government continued to be solidly in the accommodative camp with regard to fiscal and monetary stimulus. Also weighing on performance was our yield curve positioning and overweight in Swedish government debt.

Contributing to relative results was our corporate credit allocation. Investment-grade credits drove favorable returns due to spread carry, a measure of excess income generated by the portfolio's holdings, and security selection. Those gains countered the negative effects of yield curve positioning within investment-grade. Toward the end of the period, spreads in this segment widened as U.S. benchmark rates moved off 0% and global corporate revenue growth was called into question. That potentiality could exacerbate stressed balance sheets that have been stretched during this period of pronounced shareholder-friendly activity. Also contributing was our out-of-benchmark allocation to high-yield corporate credit.

The credit sectors weighing most on relative performance were technology and independent energy. During the quarter, energy prices, namely crude oil, experienced another leg down, with North American benchmark crude falling below $36 per barrel in intraday trading. Spread carry, an overweight allocation and solid security selection led the banking sector to be a contributor for the period. Similarly, security selection and an overweight to automotives aided relative results. During the quarter we reduced our overweight to the challenged basic industries sector and we reduced our overweight to consumer noncyclicals. We markedly increased our overweights to both technology and banking.

In addition to sovereign issuers, certain corporate credits weighed on performance. Chesapeake Energy, a major natural gas producer with some oil assets, was one such issuer. Although the company has achieved productivity gains to help combat the weak price environment, we exited the position during the period.

Hard disk manufacturer Seagate Technology also detracted from relative performance. We invested in Seagate in 2014 due to its leading position in an industry that had undergone consolidation. We also liked its conservative balance sheet and potential for a ratings upgrade, which ultimately occurred. Recently, hard disk demand has softened due to weak personal computer growth in emerging markets and a strong U.S. dollar. The company also released a disappointing earnings report. Still, Seagate maintains a conservative balance sheet and management aims to reduce leverage further. The company continues to generate solid free cash flow, and, in our view, has a sufficient equity cushion to protect bondholders.

Banking and payment technology company Fidelity National Information Services was a leading individual contributor. We like the company's solid business model, which can remain stable in a tepid economic environment. We believe that management has the opportunity to better penetrate its customer base and can use free cash flow to pay down debt.

Sovereign issuers that aided performance included Ireland and Spain. Both countries undertook meaningful governmental and market reforms as they fought to emerge from Europe's debt crisis. Budgets have been rationalized and growth-friendly initiatives have been implemented, serving as a template for other countries within the region still searching for a path to stability and market trust.

On a currency basis, when compared to the benchmark, our positioning in the British pound, Japanese yen and New Zealand dollar weighed on relative performance. Our positioning within the euro and U.S. dollar aided relative results most, followed by our out-of-benchmark holding in the Indian rupee, one of the few emerging market currencies within the portfolio. India, in our view, continues to be a bright spot among major emerging markets with regard to promoting growth-friendly policies and weathering the current global slowdown.

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

Outlook

The U.S. having entered a rising rate environment far from clarifies the outlook for global interest rate and monetary policy. The U.S. is one of the highest yielders among advanced economies, but the trajectory and cadence of future rate hikes is by no means settled. The Fed's optimistic economic projections call for four rate hikes of 0.25% during 2016. We view that scenario as doubtful. The rails of future U.S. growth may be confined within the 1.5% to 3% range. In such an environment, we would suspect the interest rate that the Fed deems appropriate over the long term to be lower than its pre-crisis average.

Subpar growth trajectories are evidenced in low rates of inflation in both the U.S. and abroad. What had earlier been

considered an issue of excess supply across commodities – especially with regard to North American crude production and OPEC's refusal to rationalize output – now can partly be ascribed to flagging demand. Low inflation complicates many central banks' accommodative goals as it acts as a de-facto tightening mechanism. Most vulnerable to this are emerging markets whose consumption basket is weighted toward energy and food. Disinflation within the U.S. would likely keep downward pressure on the long-end of the Treasurys curve.

ECB officials are dealing with the same issue as its asset-purchasing program has yet to spur inflation and subsequently catalyze aggregate demand. The euro's sharp advance in December may further add to disinflationary pressure. Many continental economies, led by Ireland and Spain, have made substantive reforms. We expect the yields on the bonds of reforming countries to converge toward those of German Bunds. While the economic situation slowly improves, the region faces an array of geopolitical risks. The UK is expected hold a referendum on a so-called "Brexit" during 2016. At the very least, the country will seek to negotiate its relationship with the European Union. Elsewhere there has been an anti-establishment and anti-austerity backlash, emanating from both the left and right of the political spectrum. The summer's immigrant crisis called into question countries' commitment to open borders and open economies.

Emerging markets remained challenged. But given their abysmal recent run, we expect many of the hurdles have been priced in. Before increasing exposure to these regions it is necessary to differentiate between the dispersed range of potential outcomes. Brazil, for example, is mired not only in a commodities-driven recession, but also a political quagmire, including the possibility of impeachment proceedings against the president. The country is not alone in having spent the commodities boom years increasing a profligate welfare state to satiate voters rather than restructuring the economy for durable long-term growth.

A risk we continue to monitor in emerging markets is the pressure that weak currencies and low prices for basic materials may place on the government and corporate balance sheets. Emerging market debt has surged over the past several years, and while a greater share is denominated in local currency, a sizeable amount remains U.S. dollar-denominated, meaning the risk of default is on the table should revenues weaken further. There are bright spots. In our opinion, India continues to lead the way in reforms among the largest developing economies, and Mexico may represent an attractive risk/reward profile.

Although Chinese debt – which has risen considerably – is largely an uninvestable universe, the country's near-term prospects cast a shadow over the global economy and financial markets. The country is the world's second largest energy consumer and is the source of most new demand. It also consumes roughly half of the world's industrial metals. A worse-than-expected slowdown would impact all of its trading partners. We do not expect a hard landing for China but continue to monitor the health of the economy and its gargantuan and politically tinged banking system.

While we see opportunity in 2016, our positioning remains defensive. The Fund's credit allocation is near the low end of its historical range. We are overweight the U.S. dollar and have portfolio duration below that of the benchmark. In light of widening of spreads among corporate credit in the fourth quarter and risks roiling across many regions, we are closely adhering to our long-standing core tenets of capital preservation and risk adjusted returns. Perhaps at no other time since the financial crisis have these principles been so essential to meeting the investment goals of our clients.

Top Relative Contributors and Detractors by Issuer for the Quarter Ended 12/31/15

Top Contributors	Average Weight (%)	Relative Contribution (%)	Top Detractors	Average Weight (%)	Relative Contribution (%)
Fidelity National Information Services	1.48	0.06	Seagate	0.83	-0.15
Volkswagen	0.47	0.05	Sweden (Kingdom Of)	4.16	-0.08
Ireland (Republic Of)	4.13	0.04	Chesapeake Energy Corp	0.09	-0.07
Spain (Kingdom Of)	3.59	0.03	Valeant Pharmaceuticals Int	0.15	-0.06
Royal Bank Of Scotland Group plc	1.46	0.03	New Zealand I/L	7.41	-0.05

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).

As of 12/31/15 the top ten portfolio holdings of Janus Global Bond Fund are: New Zealand Government Bond (3.91%), United States Treasury Note/Bond (2.77%), Sweden Government Bond (2.37%), Ireland Government Bond (2.06%), Italy Buoni Poliennali Del Tesoro (1.81%), United Kingdom Gilt (1.78%), AVAGO TECHNOLOGIES CAYMAN (1.74%), New Zealand Government Bond (1.55%), Nemus II Arden PLC (1.48%) and United Kingdom Gilt (1.40%). There are no assurances that any Janus portfolio currently holds these securities or other securities mentioned in this commentary.

The opinions are as of 12/31/15 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.

Sovereign debt securities are subject to the additional risk that, under some political, diplomatic, social or economic circumstances, some developing countries that issue lower quality debt securities may be unable or unwilling to make principal or interest payments as they come due.

Barclays Global Aggregate Bond Index is a broad-based measure of the global investment grade fixed-rate debt markets.

Barclays Global Aggregate Corporate Bond Index measures global investment grade, fixed-rate corporate bonds.

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.

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