1Q17 PORTFOLIO COMMENTARY

# Janus Global Unconstrained Bond Fund

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## Investment Environment

Global fixed income markets were relatively calm during the quarter as investors awaited greater clarity on a range of macroeconomic topics. After enduring a fourth quarter sell-off in anticipation of a pro-growth agenda from the Trump administration, the yield on the 10-year U.S. Treasury remained range-bound for much of the first quarter. The lack of volatility in Treasurys occurred as investors reassessed the likelihood that Washington could deliver regulatory, tax and health care reform. The caution was most evident in the 10-year's yield dipping to as low as 2.31% in late February.

Another macro driver was the expectation that the Federal Reserve (Fed) would raise its benchmark overnight lending rate at its March meeting. In advance of that, 10-year Treasurys sold off, with yields rising by as much as 31 basis points (bps), to 2.63%. However, a slightly more dovish statement by the Fed caused investors to dial back their estimates of the number of rate hikes set to occur in 2017. Consequently, Treasurys rallied over the period's final two weeks, with yields dipping to 2.39% by period end. Yields on 2-year U.S. Treasurys also finished the period roughly where they began, at 1.25%.

The so-called Trump Trade, was more evident in riskier assets. Spreads on both investment-grade and high-yield corporate credit narrowed before giving back some gains in March. Both segments finished the period with modestly narrower spreads. Global stocks enjoyed a tailwind with several U.S. benchmarks achieving record closes prior to a late-March pullback. In Europe, stocks remained range-bound for much of the period prior to rallying in March. Germany's 10-year Bund, however, exhibited more volatility, with yields ranging from 19 bps to 49 bps before finishing the period at 33 bps.

## Performance Discussion

The Fund outperformed its benchmark, the 3-month USD London Interbank Offered Rate (LIBOR). The strategy seeks to provide long-term positive returns and preserve capital through various market environments by managing portfolio duration, credit risk and volatility. The Fund seeks to limit potential downside and avoid areas of the market where we see disproportionate risk. For the period, the Fund was largely positioned to capitalize on rising interest rates. While opportunities in certain asset classes and specific securities enabled us to generate positive returns, other strategies utilized by the Fund were negatively impacted by predominantly falling interest rates.

The core of the portfolio is comprised of shorter-duration, cash-based fixed income securities. We believe that higher-yielding corporate credits with durations under three years represent an attractive source of income that is often overlooked by the market. For the quarter, the Fund's core generated positive returns, with both corporate credit and collateralized mortgage obligations (CMO) being key factors. The Fund also benefited from its positioning in Mexican inflation-linked bonds, which rallied over the period.

Complementing the Fund's cash-based core, we employ a series of strategies we refer to as Structural Alpha, which are designed to generate excess returns by judiciously utilizing instruments, including options, futures, swaps and other derivatives. A key component of Structural Alpha is the selling of volatility on a range of asset classes using options strategies. Contributing to performance during the period was the Fund

## Executive Summary

- Global fixed income markets largely traded in a narrow range during the quarter.
- The Fund outperformed its benchmark, the 3-month USD LIBOR.
- The Fund's core holdings of corporate bonds and mortgages contributed to performance.

**Portfolio Management:**
**Bill Gross**

selling volatility in select government debt with the expectation that interest rates would remain range-bound. The Fund also generated returns by selling volatility on commodities, namely crude oil and gold with the bias that prices would not decline. Crude traded tightly for much of the period, aiding performance. Similarly, volatility sales on U.S. equities, tilted against lower prices, aided performance.

During the period, the Fund was able to generate returns by taking positions in companies involved in merger and acquisition (M&A) transactions. Such exposure is another component of our Structural Alpha strategy. We believe that arbitrage opportunities exist, given the tendency for announced acquisition prices and settlement prices to differ.

Some of the Fund's positioning, however, detracted from quarterly performance. The Fund's duration weighed on results. In February, the Fund sold volatility on German interest rates, expecting them to rise. As German rates fell, the Fund's position detracted from returns. The Fund also had exposure to credit default swaps (CDS) on corporate credit, expecting spreads to widen. Instead, credit spreads narrowed over much of the period, causing this positioning to weigh on returns. Late in the period, the Fund's positioning in sovereign CDS also generated slightly negative returns.

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

## Outlook

For Bill Gross' most recent Investment Outlook, please visit www.janus.com/BillGross.

**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 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.

**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.**

**Fixed income securities are subject to interest rate, inflation, credit and default risk. As interest rates rise, bond prices usually fall, and vice versa. High-yield bonds, or "junk" bonds, involve a greater risk of default and price volatility. Foreign securities, including sovereign debt, are subject to currency fluctuations, political and economic uncertainty, increased volatility and lower liquidity, all of which are magnified in emerging markets.**

**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. No investment strategy can ensure a profit or eliminate the risk of loss.**

**Performance was positively impacted by investments in initial public offerings (IPOs). There is no guarantee this level of performance will be repeated. The prices of IPO securities may fluctuate more than prices of equity securities of companies with longer trading histories. Investing in IPOs entails special risks, including limited operating history of companies, limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the company, and high portfolio turnover.**

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

**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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