

# Janus High-Yield Fund



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## Investment Environment

The Trump administration's pro-growth initiatives fueled investor optimism early on. Throughout the quarter, however, market participants began reassessing the Trump reflation trade and the likelihood of the administration successfully executing its policy agenda. The dollar weakened and investors' inflation expectations tapered. Nominal Treasury yields were largely range bound, while risk markets – including equities and corporate credit – remained strong due to decent corporate fundamentals and synchronous global growth.

The U.S. economy continued to improve, according to economic data releases. Consumer and business confidence surveys registered multi-year highs, reflecting overall positive sentiment around the economic outlook. The labor market strengthened and key inflation measures ticked higher. This backdrop supported the Federal Reserve's (Fed) decision to raise interest rates by a quarter of a percentage point at its March meeting. Later in the period, Republicans abandoned their replacement plan for the Affordable Care Act (ACA), which increased doubts around the government's ability to effectively implement new fiscal policies. A drop in global crude oil prices created additional unease. Rising U.S. shale production, coupled with news that countries are not complying with OPEC's agreement to reduce supply, knocked the price of crude below \$50 per barrel late in the quarter.

Despite climbing in the days leading up to the Fed meeting, nominal Treasury yields hovered in a tight band over the period. The yield on the 5-year note closed March at 1.92%, versus 1.93% in December. While corporate credit spreads fluctuated over an eventful March, they ultimately compressed over the quarter. Gains were more notable in high yield. Within the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, oilfield services was the strongest performing sector, while retailers was the weakest.

## Performance Discussion

The Fund underperformed its benchmark, the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, for the three months ended March 31, 2017.

Our opportunistic approach to the high-yield market remained intact during the quarter. We continued to emphasize securities that exhibit stronger fundamentals and less short-term volatility than the benchmark. We added to short- and intermediate-dated corporate credit issued by companies with sustainable free cash flow and management teams committed to balance sheet strength. We also identified attractive risk-adjusted opportunities in commercial mortgage-backed securities. Our securitized analysts seek issues backed by a quality property in a desirable location with a leasing entity able to meet its commitments. We like the cash flow stability these instruments offer in a rising-rate environment.

While we remain comfortable with our positioning and our focus on higher quality business models, idiosyncratic risk in a number of our holdings led security selection to be the primary driver of underperformance. In a spread-tightening environment, our cash position also held back results. Cash is not used as a strategy within the Fund but is a residual of our fundamental, bottom-up investment process. Positive contributors to the Fund's performance included our out-of-index exposure to investment-grade corporate credit and a modest allocation to convertible securities.



**Portfolio Manager:**  
Darrell Watters



**Portfolio Manager:**  
Seth Meyer, CFA

## Executive Summary

- The Fund underperformed its benchmark in the first quarter of 2017.
- Idiosyncratic risk in a number of our holdings caused security selection to detract from relative results.
- Solid corporate fundamentals in combination with strong technical factors support our optimistic outlook for the high-yield asset class.

At the credit sector level, oilfield services and independent energy weighed on relative performance. Our security selection in these sectors did not keep pace with the index. Specifically, Jones Energy was the largest individual corporate detractor, on a relative basis. Our position experienced a heightened level of volatility as the exploration and production company grappled with declining crude oil prices in mid-March. We continue to like the company's asset portfolio and relatively liquid balance sheet. In our view, Jones is one of the best-in-class operators in the Eastern Anadarko Basin, and we believe the company is well positioned for long-term growth opportunities. We also appreciate management's emphasis on a sound balance sheet.

Several of the Fund's retailer positions led that sector to be another large detractor from relative results. Retailers in general continue to struggle with the waning need for physical stores as consumers gravitate toward online purchasing. The top detractor in the sector was Men's Wearhouse. The company posted lackluster fourth quarter earnings results amid a feeble retail environment. A joint venture, in which Men's Wearhouse would operate tuxedo rental shops within Macy's department stores, had disappointing results and contributed to weaker-than-expected guidance for 2017. We ultimately believe that the company's business model is set up to succeed over time. We continue to favor the credit due to the company's ability to generate free cash flow and the management team's focus on maintaining manageable debt levels.

Intelsat was another individual detractor, largely due to our underweight allocation. While we were actively building a position in the credit, a merger was announced between Intelsat and OneWeb. Bonds rallied on the news, causing our underweight position to hinder relative performance. We anticipate continued improvement in Intelsat's fundamentals

and are comfortable with our exposure to the company's senior secured bonds, which should be well positioned, whether or not the merger is approved.

Relative sector contributors included health care, metals and mining and finance companies. Security selection in all three sectors aided results, as did our underweight allocation in finance companies.

Within health care, outperformance was led by our position in Tenet Healthcare. Bonds of the health care services company performed well over the quarter, despite selling off late in the period on concerns that the proposed ACA replacement bill would increase the number of uninsured patients. The bill failed to pass Congress, leaving hospitals – which benefited from Obamacare – to operate under the status quo. We continue to believe the societal need for hospital services adds to this asset-rich entity being an attractive risk-adjusted opportunity.

Individual issuer Blackhawk Mining drove outperformance in the metals and mining sector. The company recently underwent an initiative to refinance its capital structure, which we participated in. We believe an improved supply/demand backdrop for coal coupled with Blackhawk's high-quality assets, many of which were acquired from distressed competitors, leave the company well-positioned versus its competition.

Jack Ohio, affiliate of Jack Entertainment, was another strong contributor during the quarter. Positive sentiment continued to surround the Midwest gaming company for its fourth quarter debt restructuring. Upward momentum in gaming trends further supported the credit. We remain favorable on the position, as we anticipate continued margin improvement will result in deleveraging.

For detailed performance information or to download a Fact Sheet, please visit [www.janus.com/funds](http://www.janus.com/funds)

## Outlook

Continued improvement in the U.S. economy will afford the Fed the ability to tighten further in 2017. While we expect the central bank to hike – when it can – to normalize interest rates, we believe increases will be measured in order to avoid derailing economic growth. We will be monitoring inflationary pressures to see if the Fed's targets are achievable. Shifting monetary policy may pressure front-end yields higher over the remainder of the year. However, attractive returns relative to other safe-haven debt should entice foreign buyers and keep Treasuries range-bound, particularly on the long end of the curve.

High-yield corporate credit spreads are already tighter than their 10-year averages. With rates set to rise, we are closely watching the ability for spreads to hold near current levels. In our view, higher than expected inflation or an overly hawkish Fed present the largest risks to high-yield's performance over the remainder of the year. With the recent failure of the ACA replacement plan, we are also mindful of the potential for additional reform disappointment by the Trump administration.

Outside of these concerns, solid corporate fundamentals and minimal defaults should continue to support performance in the asset class. Additionally, demand for high-yield corporates – due to their strong returns versus other fixed income asset

classes – remains robust. And while a healthy amount of issuance came to market year to date, much of it was a result of refinancing initiatives, keeping net new issuance contained. These dynamics support our optimistic outlook.

As we enter corporate earnings season, our analysts will be evaluating the extent to which healthy consumer and business confidence data translates into first quarter results, and

ultimately into first quarter gross domestic product growth. We are also watching for any uptick in merger and acquisition activity, which could generate sector volatility and create buying opportunities. Our focus remains on higher quality business models and transformational balance sheet stories, which reflects our objective of delivering a less volatile client experience within the high-yield asset class.

### Top Relative Contributing and Detracting Issuers Held for the Quarter Ended 3/31/17

Top Contributors	Average Weight (%)	Relative Contribution (%)	Top Detractors	Average Weight (%)	Relative Contribution (%)
Tenet Healthcare Corp	2.09	0.09	Jones Energy Holdings LLC	0.80	-0.10
Jack Ohio Finance LLC	1.44	0.05	Intelsat Jackson Holdings	0.11	-0.07
Eletson Holdings	0.39	0.05	Men's Wearhouse Inc/The	0.65	-0.06
Blackhawk Mining LLC	0.33	0.04	Rite Aid Corp	0.81	-0.05
Ardagh Packaging Finance	1.07	0.04	Argos Merger Sub Inc (PetSmart Inc)	0.68	-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](http://janus.com/advisor/mutual-funds).

Relative contribution is the difference between the issuer's contribution to the portfolio's performance versus that issuer's contribution to the benchmark's performance. It reflects how the portfolio's holdings impacted return relative to the benchmark. Cash and issuers not held in the portfolio are excluded.



**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](http://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](http://janus.com/advisor/mutual-funds) for current month-end performance.

Discussion is based on the performance of Class I Shares.

As of 3/31/17 the top ten portfolio holdings of Janus High-Yield Fund are: ADS Tactical Inc (1.88%), HCA Inc (1.55%), Blackboard Inc (1.30%), Tenet Healthcare Corp (1.20%), Rite Aid Corp (1.13%), Sprint Corp (1.11%), Florida East Coast Holdings Corp (1.10%), Sabine Pass Liquefaction LLC (1.05%), Hunt Cos Inc (1.04%) and Clear Channel Worldwide Holdings Inc (1.03%). There are no assurances that any Janus portfolio currently holds these securities or other securities mentioned in this commentary.

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.

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.

**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. 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.**

**Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.**

**Bloomberg Barclays U.S. Corporate High Yield Bond Index** measures the US dollar-denominated, high yield, fixed-rate corporate bond market.

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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