

MULTI-SECTOR CREDIT STRATEGY

At a glance

Performance

The Portfolio returned 5.89% (gross) and the Bloomberg U.S. Aggregate Bond Index returned 6.82%.

Contributors/detractors

Yield curve positioning detracted, while overall spread risk positioning contributed. Our strategic underweight to U.S. Treasuries and our overweight to high-yield corporates were key contributors.

Outlook

We believe the Fed's pivot from a rate-hiking to a rate-cutting cycle likely will result in a favorable multiyear outlook for fixed income returns.

Portfolio management



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John Lloyd

Investment environment

- The Bloomberg US Aggregate Bond Index posted its strongest quarterly return in 34 years, driven primarily by the sharp decline in interest rates across the yield curve, and secondarily by the narrowing in corporate and securitized spreads.
- Markets benefited from the Federal Reserve's (Fed) dovish pivot at its December meeting. The central bank held rates steady and guided toward the potential for multiple rate cuts in 2024. With still relatively robust GDP growth and low unemployment, the Fed now expects a soft landing scenario for the U.S. economy.
- November jobs growth exceeded expectations (199,000 vs. 190,000 estimate) and the unemployment rate ticked back down to 3.7%. November annualized inflation of 3.1% was down 0.1%, generally in line with expectations.
- The yield on the 10-year U.S. Treasury ended the quarter at 3.88% relative to 4.57% at the prior quarter end. Corporate investment-grade credit spreads tightened 22 basis points to close at 0.99%, as investors priced in the end of the rate tightening cycle.

Portfolio review

We entered the period with a duration underweight, on expectations that inflation would be stickier in the short term and that the Fed would be cautious to pivot. This detracted as rates rallied during the quarter. Despite the rate move, we added to our duration position late in the period, as we

believe rates have more room to rally given cooling inflation and a now-dovish Fed. We also like the defensive characteristics of higher-duration exposure in the event the economy cools sooner than expected.

Overall spread risk positioning contributed. Our strategic underweight to U.S. Treasuries and our overweight to high-yield corporates were the main contributors. While high yield has continued to deliver strong excess returns, we have maintained the portfolio's exposure to the sector near historical lows due to their very tight spread levels and limited additional upside potential.

In contrast, emerging market (EM) debt is trading cheap relative to corporate credit, while many developing economies are ahead of the Fed in their rate easing cycles. Therefore, we have increased our allocation to EM. We are focused on a diversified group of best ideas from our EM team that reflects countries with improving fundamentals and ratings potential. We are also concentrated in the below-investment-grade portion of the EM index, as the investment-grade segment continues to trade near historical highs.

In our view, the portfolio is well balanced and well positioned to outperform under multiple economic scenarios. If the economy enters a recession, we expect our defensive duration position to counter any spread widening, while our spread risk exposure is predominantly in securitized sectors where spread levels already reflect the risk of recession. On the other hand, if the Fed has engineered a soft landing, we would expect securitized spreads to narrow meaningfully and result in outperformance versus corporate-heavy

benchmarks and peers. We consider the hard or soft landing to be the two most likely scenarios. But in the less likely event that we see a resurgence in inflation and a rise in rates, we believe the portfolio's high distribution yield should help soften any price effects from rising yields, while our underweight to corporate debt should be a net positive as we would expect corporate spreads to widen meaningfully in this scenario.

Manager outlook

Following two years of tough talk and aggressive rate hikes, the Fed delivered some holiday cheer by way of a dovish pivot at its December meeting. Inflation made a sustained move back toward target and allowed the central bank to signal its intent to transition from a 24-month tightening campaign to an easing cycle. This is broadly positive for the economy and fixed income markets.

Looser financial conditions and lower interest rates should bring some welcome relief for consumers and corporations. We also expect the Fed's dual mandate to shift back into balance. In 2022 and 2023, with inflation far too high, the central bank was focused on only one side of its mandate – namely, stable prices. But recently, given its increased confidence that inflation will move back to its 2% target, The Fed highlighted the need also to focus on the other side of its mandate – full employment.

We believe the key result of this policy shift likely will be a favorable multiyear outlook for fixed income returns. We expect demand for the fixed income asset class to increase, as investors will be able to lock in attractive yields and benefit from the diversification that bonds may bring to multi-asset portfolios.

While the outlook has continued to improve, we must also acknowledge the risks. We believe we are yet to feel the full cumulative impacts of prior rate hikes. Monetary policy works in long and variable lags, and while the headwinds of rising rates may be behind us, we should not discount the effect on the economy of a federal funds rate that is 525 basis points above where it was a couple of years ago. As such, we think a slowdown in growth is likely, but the extent thereof remains an open question. Nonetheless, it bodes well that the Fed is now in a stronger position to lower rates if the economy shows signs of weakness.

In addition to the more upbeat macroeconomic backdrop, we believe the strategy is well positioned for strong absolute and risk-adjusted returns in 2024. This is due to our distribution yield in the high single digits, our conservative duration position at the short end of the curve, and the potential for spreads to tighten further within our overweight allocation to securitized sectors.

Multi-Sector Credit Strategy (as of 12/31/23)

Performance - USD (%)

Returns	Cumulative			Annualized			
	4Q23	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (04/01/14)
Composite (gross)	5.89	11.01	11.01	0.75	4.02	—	4.40
Composite (net)	5.74	10.36	10.36	0.15	3.46	—	3.89
Bloomberg U.S. Aggregate Bond Index	6.82	5.53	5.53	-3.32	1.10	—	1.66

Past performance cannot guarantee future results. Investing involves risk, including the possible loss of principal and fluctuation of value. Returns greater than one year are annualized. Returns are expressed in U.S. dollars unless otherwise stated. Composite returns are net of transaction costs and gross of non-reclaimable withholding taxes (if any and unless otherwise noted), and reflect the reinvestment of dividends and other earnings.

Portfolio

Top Holdings (%)	Fund
Fannie Mae or Freddie Mac 4.00 01/16/2024	4.19
Fannie Mae or Freddie Mac 3.50 01/16/2024	3.39
Fannie Mae or Freddie Mac 5.50 01/16/2024	3.27
Ginnie Mae 3.50 01/22/2024	2.67
Fannie Mae or Freddie Mac 4.50 01/16/2024	2.61
Fannie Mae or Freddie Mac 5.00 01/16/2024	2.48
Flagstar Mortgage Trust 2021-13INV 3.00 12/30/2051	0.96
Fannie Mae Pool 5.00 07/01/2053	0.84
Freddie Mac Strips 2.50 01/25/2051	0.82
Total	21.23

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Definitions

Basis point (bp) equals 1/100 of a percentage point. 1 bp = 0.01%, 100 bps = 1%.

Credit spread is the difference in yield between securities with similar maturity but different credit quality. Widening spreads generally indicate deteriorating creditworthiness of corporate borrowers, and narrowing indicate improving.

A yield curve plots the yields (interest rate) of bonds with equal credit quality but differing maturity dates. Typically bonds with longer maturities have higher yields.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

Securitized products, such as mortgage- and asset-backed securities, are more sensitive to interest rate changes, have extension and prepayment risk, and are subject to more credit, valuation, and liquidity risk than other fixed-income securities.

Any risk management process discussed includes an effort to monitor and manage risk which should not be confused with and does not imply low risk or the ability to control certain risk factors.

10-year Treasury Yield is the interest rate on U.S. Treasury bonds that will mature 10 years from the date of purchase.

Monetary Policy refers to the policies of a central bank, aimed at influencing the level of inflation and growth in an economy. It includes controlling interest rates and the supply of money.

Quantitative tightening (QT) is a government monetary policy occasionally used to decrease the money supply by either selling government securities or letting them mature and removing them from its cash balances.

Distribution Yield is calculated by annualizing actual dividends distributed for the monthly period ended on the date shown and dividing by the net asset value on the last business day for the same period. The yield does not include long- or short-term capital gains distributions.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Quantitative Easing (QE) is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market.

To receive a complete list and description of composites and/or a presentation that complies with the requirements of the GIPS® standards, please visit janushenderson.com/us-institutional to contact a Janus Henderson institutional team representative.

The gross performance results presented do not reflect the deduction of investment advisory fees. Returns will be reduced by such advisory fees and other expenses as described in the individual contract and, where applicable, Form ADV Part 2A.

Net performance results do not reflect the deduction of investment advisory fees actually charged to the accounts in the composite but do reflect the deduction of model investment advisory fees based on the maximum fee rate in effect for the respective time period, adjusted for performance-based fees where applicable. Actual advisory fees may vary among clients invested in the strategy and may be higher or lower than model fees. Returns for each client will be reduced by such fees and expenses as described in the individual contract and, where applicable, in Form ADV Part 2A.

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Multi-Sector Credit Composite, benchmarked to the Bloomberg US Aggregate Bond Index, includes portfolios that pursue high current income with a secondary focus on capital appreciation by investing in multi-sector portfolio of U.S. and non-U.S. debt securities, including high yield/high risk bonds. The portfolios will normally maintain a weighted-average effective duration between 2.5 and 7 years and investments in high yield/high risk bonds will typically range from 35% to 65%. Emerging market debt exposure may range from 0% to 30%. Portfolios may also utilize derivative instruments for various investment purposes, such as to manage or hedge portfolio risk, enhance return, or manage duration. Prior to December 2018 the composite was known as the Multi-Sector Fixed Income Composite. The composite was created in April 2014.

Information relating to portfolio holdings is based on the representative account in the composite, which reflects the typical portfolio management style of the investment strategy. Other accounts in the strategy may vary due to asset size, client guidelines and other factors.

Portfolio holdings are as of the date indicated, and are subject to change. This material should not be construed as recommendation to buy or sell any security.

Investing involves risk, including the possible loss of principal and fluctuation of value.

Discussion is based on performance gross of fees.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Index returns are provided to represent the investment environment existing during the periods shown. The index is fully invested, including the reinvestment of dividends and capital gains. Index returns do not include any transaction costs, management fees or other costs, and are gross of non-reclaimable withholding taxes, if any and unless otherwise noted.

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