AUTUMN 2016

GLOBAL OUTLOOK

JANUS CAPITAL Group

Get Well Soon: A Look into Health Care Trends

THOUGHTS AND BONDS: MACRO VIEWS FROM THE JANUS FUNDAMENTAL FIXED INCOME TEAM

Fundamental-Informed Macro Views

Fundamental, independent research has been at the core of the Janus Fixed Income process for over 25 years. While many competitors rely on government statistics to form a top-down view, we focus first on company, issuer and security level fundamentals. We believe this approach differentiates us from our peers and other macroeconomic data providers. Our comprehensive, bottom-up view drives decision making at the macro level, enabling us to make informed sector and risk allocation decisions.

Each quarter we share our global outlook and provide insights on emerging investment opportunities and risks.

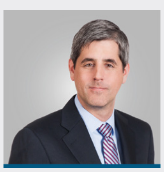
ABOUT JANUS FUNDAMENTAL FIXED INCOME

- **Over 25 years of experience focused on risk-adjusted returns and capital preservation**
- **Integrated fixed income and equity research**
- **Quantum Global: proprietary investment research and risk management system**
- **Highly collaborative team based in Denver and London**
- **35 fixed income investment professionals**
- **$36.5 billion in assets under management as of 6/30/2016**

The opinions expressed are those of the authors as of September 2016 and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

> "In an environment where credit valuations remain full, the outlook for earnings remains stagnant and two potential market moving events loom on the horizon, we believe there is merit in maintaining our defensive stance."

DARRELL WATTERS
HEAD OF U.S. FUNDAMENTAL FIXED INCOME



CHRIS DIAZ, CFA
HEAD OF GLOBAL FUNDAMENTAL FIXED INCOME

JOHN LLOYD
HEAD OF CREDIT RESEARCH

BRAD SMITH
GLOBAL ANALYST, FIXED INCOME

A Word from our Fundamental Fixed Income Team

Throughout 2016, fixed income markets have been heavily influenced by the rhetoric of major central banks, including the Federal Reserve (Fed), Bank of Japan (BoJ) and European Central Bank (ECB). Little is likely to change in the last few months of the year, particularly where the Fed is concerned.

Downward revisions to both gross domestic product (GDP) and inflation forecasts seem to contrast with the Fed's own comments that the "case for an increase in the federal funds rate has strengthened." Yet with three members of the Federal Open Market Committee (FOMC) dissenting from September's decision to hold rates steady and with two meetings remaining this year, the possibility of a U.S. interest rate hike prior to year-end is top of mind.

Of further concern is the upcoming U.S. presidential election. While the ensuing market reaction to the election result is difficult to estimate, challenges for fixed income investors are likely, no matter the winner. Both candidates express a desire to increase government spending which, if realized, would exacerbate the already challenged U.S. fiscal position.

At the industry and sector level, our fundamental analysts are scrutinizing election-driven challenges and opportunities, particularly in health care.

In an environment where credit valuations remain full, the outlook for earnings remains stagnant and two potential market moving events loom on the horizon, we believe there is merit in maintaining our defensive stance.

Our investment approach involves moving methodically from opportunistic to neutral to defensive as appropriate across market cycles. As we navigate this challenging year-end landscape, our focus remains on our core tenets of capital preservation and strong risk-adjusted returns.

COMPANY-INFORMED MACRO VIEW

Get Well Soon

Health care has had its share of trials and tribulations of late. Hospitals were hard hit in the summer of 2015, and questions surrounding drug pricing tactics at specialty pharmaceutical and biotech companies turned investor sentiment against the health care sector as a whole late in 2015 and into 2016. Health care, health insurance and pharmaceutical issuers represent approximately 10% of the Bloomberg Barclays U.S. Corporate High Yield Index, and highly levered hospitals account for roughly 43% of that figure. Our analysts are keeping a close eye on both regulations impacting the sector and the impending U.S. presidential election which is likely to create more turbulence for hospitals and pharmaceutical companies in the weeks, months and years ahead.

HOSPITALS

Steady volume growth is a necessity for hospitals, due to their high fixed-cost structure and highly-levered nature. Decelerating utilization rates have become a concern for the industry as a result.

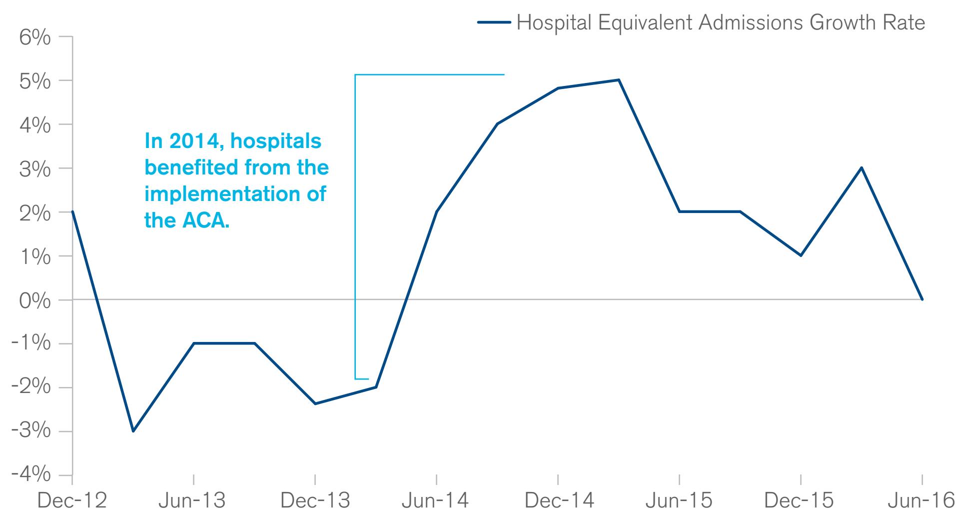
A look back at admissions trends shows varied results. 2013 proved to be a difficult year for hospitals, whereas the implementation of the Affordable Care Act (ACA) drove volumes higher in 2014. Admissions slowed in 2015, and while many hospitals experienced a pop in the first quarter of 2016, second quarter results were alarmingly soft. In its second quarter earnings call, **Hospital Corporation of America (HCA)** acknowledged that while admission volumes had grown, the year-over-year growth rate was more modest than previous quarters. Second quarter same facility equivalent admissions growth of 1.6% was substantially below first quarter's print of 3.1%, and well below management's expected trend for the year. As a result of weak year-to-date volumes, HCA lowered its earnings guidance for the remainder of 2016. These trends have even more acutely impacted rural hospital operators such as **Community Health Systems (Community)**, which reported a decline in volumes. Same-store adjusted admissions were down 0.6% in the second quarter. Equivalent admissions at **LifePoint Health** were flat in the first quarter and down 1.9% for the second quarter, causing management to revise estimates for same-hospital equivalent admissions to a range of down 1% to flat for the year.

KEY TAKEAWAYS

- Hospitals are challenged by decelerating admissions growth, a shifting payer mix and increasing labor costs; however, unpaid hospital bills and bad debts are on the decline as a result of the ACA, providing a bright spot for the industry.
- In an industry beaten down over aggressive drug pricing tactics, we believe increased competition and self-regulation by pharmaceutical companies will offer an efficient solution to drug pricing issues.
- Our analysts are keeping a close eye on regulations impacting health care. We're also mindful of the implications of the U.S. presidential election on the sector, which is likely to create more turbulence for hospitals and pharmaceutical companies in the weeks, months and years ahead.

Same-Hospital Equivalent Admissions Growth Rates On the Decline

Are decelerating utilization rates cause for concern? (12/31/12- 6/30/16)



Source: Bloomberg

Slowing volume trends could be a result of short-term impacts, including a weak flu season. Alternatively, admissions could be realigning with long-term industry trends as the benefits of the ACA begin to fatigue; many individuals underwent necessary procedures upon receipt of insurance coverage and either do not need further hospital care or found costs to be too daunting to return. Of larger concern, however, is the possibility that the trend is indicative of secular decline. Escalating copays and deductibles are pushing price-conscious consumers toward less costly care facilities like urgent care clinics, free-standing emergency rooms and ambulatory surgery centers, which are also becoming more prevalent. Price-conscious patients favoring visits to these low-cost options over the hospital emergency room could prove detrimental to admissions rates and the industry as a whole. In an effort to capitalize on this trend, certain health care service companies, including **Tenet Healthcare**, are working to gain exposure to these strong margin businesses. Tenet recently acquired United Surgical Partners International, an outpatient ambulatory surgery center operator, in an attempt to benefit from the volume shift to lower-cost facilities.

Hospital management teams are tasked with anticipating where admissions levels will normalize, while also battling a payment mix shift. Commercial payers, or those with an employer sponsored health plan, have historically been hospitals' highest-paying customers. Hospitals generally break even on Medicare patients, while Medicaid and self-paid patients typically do not turn a profit. The industry has noted margin and cash flow headwinds deriving from a shift in the primary client from commercial payers to Medicare patients. As the baby boomer generation ages out of the workforce, this mix shift will continue to grow. HCA alluded to a shift in payer mix during their second quarter earnings call, citing that commercial volumes were slightly down, creating a challenge for revenue per adjusted admission (a proxy for hospital pricing). Profitability is unfortunately being hit threefold as tepid admissions and an unfavorable payer mix have been joined by rising labor costs. The latter is primarily a result of nursing shortages. **Universal Health Services** identified increased use of overtime pay and the employment of temporary or agency nurses as contributing to margin pressure in the second quarter.

On a positive note, some benefits of the ACA appear to be holding. By requiring individuals to obtain insurance, Obamacare has reduced the number of uninsured patients that hospitals provide for, in turn reducing the volume of unpaid hospital bills. HCA has seen bad debt as a percent of net operating revenues decline over time; it has decreased from 10.8% in the second quarter of 2013 to 6.9% in the second quarter of 2016, which has in turn contributed to improved free cash flow. While the ACA has aided hospitals by alleviating unpaid tabs and bad debts, we are closely monitoring whether this trend is able to outweigh the impact of decelerating volumes, rising labor costs and a shifting payment mix.

PHARMACEUTICALS

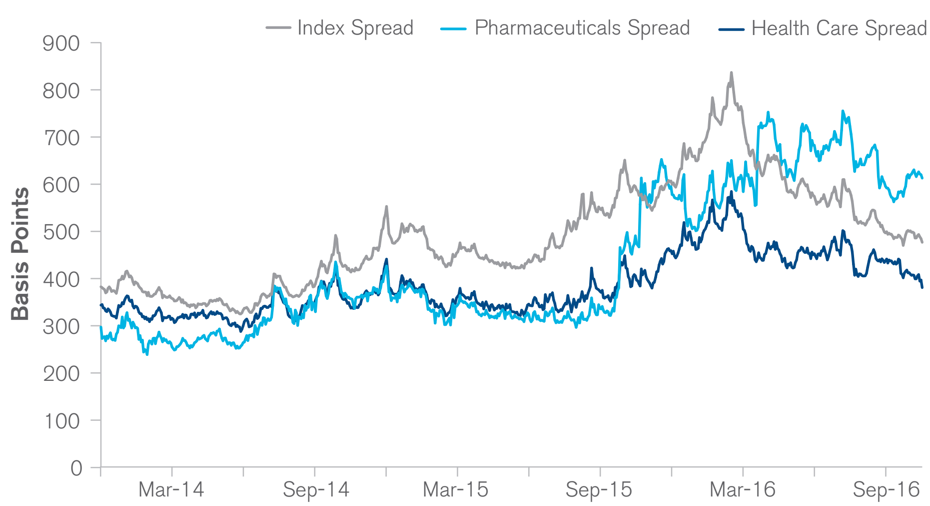
Pharmaceuticals have also faced challenges of late, mainly over drug pricing concerns. Companies that relied on price increases to meet earnings goals have been hit particularly hard, as evidenced in the rising cost of debt funding. For pharmaceutical companies within the Bloomberg Barclays U.S. Corporate High Yield Index, the cost of borrowing doubled from summer of 2015 to autumn 2016. Certain valuations are beginning to look attractive again, in our view, as the industry seeks to right its mistakes.

We believe self-regulation in pharmaceuticals pricing, which we have already seen to some degree, will be a growing trend. The Generic Drug User Fee Amendments (GDUFA) of 2012 were implemented to bridge gaps between the industry and the U.S. Food and Drug Administration (FDA) in an attempt to accelerate the generic drug approval process. Generic companies seek to invalidate patents and, when successful, erode the pricing power for brand name medications, encouraging original producers to maintain reasonable prices and/or sponsor the development of generics. According to the Generic Pharmaceutical Association, just over 4,000 generic drug applications were awaiting approval at the FDA as of July 1, 2016. While the act has been in place for a few years, benefits have only recently helped in speeding generic medications to market. The industry banded together under GDUFA in 2015, and agreed to pay larger fees on Abbreviated New Drug Applications (ANDA) submitted to the FDA in 2016, which provided the agency with increased funding to expedite the generic application review process. The FDA's inability to keep up with requests has hindered generics from coming to market, as evidenced by a lack of competition for **Mylan's** EpiPen. Mylan tacked a 32% price increase on their self-injection treatment for severe allergic reactions in August 2016. Bad press as a result of this decision led Mylan to pursue production of an authorized generic. In our opinion, pursuit of industry-driven free market solutions is likely to continue, and offers a faster, more efficient solution to the generic approval backlog and drug pricing issues than government imposed fines or re-importation of foreign drugs (the practice of importing prescription drugs that were manufactured in the U.S. and exported for sale abroad).

Individual companies are also taking strides toward repairing the industry's image. In early September, **Allergan** chief executive officer Brent Saunders emphatically opposed the use of drug price increases as an earnings growth strategy. His social contract with patients committed to "treatments [that are] accessible and affordable to patients." The statement condemned "predatory pricing" and capped Allergan's pricing policy at a single-digit percentage increase, once per year. New management teams at **Valeant Pharmaceuticals** and **Endo International** are working to realign operational focuses and repair damaged reputations.

The Cost of Debt Funding has Doubled for High-Yield Pharmaceutical Companies

In sharp contrast to today, pharmaceuticals in the Bloomberg Barclays U.S. Corporate High Yield Index have historically traded inside of the index and the health care sector. (1/2/14- 9/30/16)



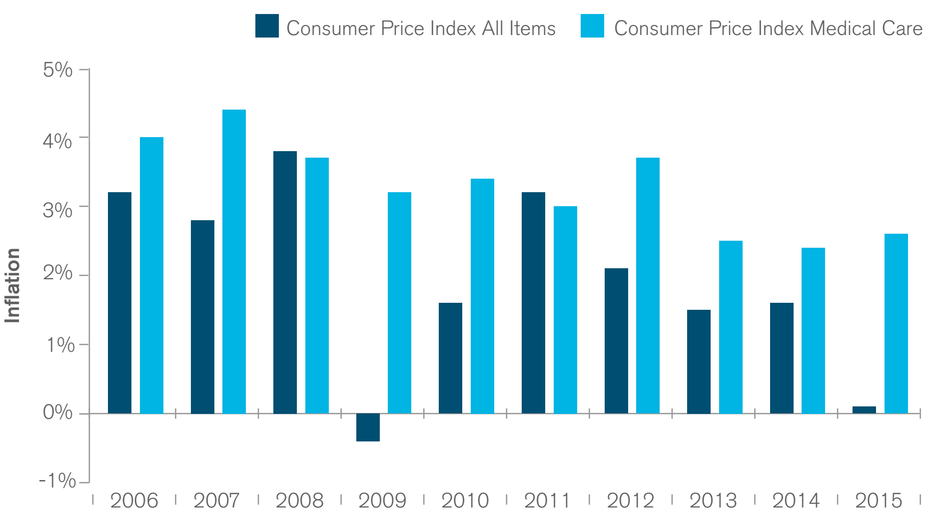
Source: Janus, Quantum Global

Another trend we anticipate will continue in pharmaceuticals is the abundance of merger and acquisition (M&A) activity. Just this year we have seen specialty biopharmaceutical companies **Shire** and **Baxalta** complete a $32 billion merger, **Teva Pharmaceutical** Industries purchase Allergan Generics for $40.5 billion, and Mylan buy Swedish specialty pharmaceutical company **Meda Pharmaceuticals** for $7.2 billion. The macro innovation cycle for pharmaceuticals declined after the 1990s, and patent exclusivity periods for drugs created during that time are expiring. Companies enticed by low borrowing costs and open capital markets are utilizing M&A to fill revenue holes left by patent cliffs and to expand drug pipelines. We have identified opportunities in companies conducting business enhancing M&A by buying bonds once the deals are complete. This enables investors to participate in post-deal deleveraging, while avoiding potential downside risk associated with the transaction. The acquisition of growth and assets is unlikely to lose steam, in our view. However, management teams are likely to step back from inversion transactions – deals resulting in relocation of intellectual property to tax shelter locations. The U.S. Department of the Treasury imposed regulations discouraging inversion deals and reducing financial benefits of such transactions. These new regulations have already derailed one planned merger, that between Dublin-based Allergan and New York-based **Pfizer**.

Of further risk to pharmaceutical companies are potential Independent Payment Advisory Board (IPAB) cuts to the Medicare prescription drug benefit (Part D). A challenge of this nature would be less than ideal for specialty pharmaceutical companies that primarily operate in the U.S. and rely on year-over-year drug price increases. The rising cost of medical care has outpaced inflation over the last four years. As a result, starting in 2017 the IPAB, a government agency tasked with controlling Medicare reimbursements without affecting coverage or quality of care, is expected to begin the process of identifying ways to cut 1.5% of Medicare spending. Historically, hospitals have been the target of such cuts; however, through the ACA they negotiated immunity through 2020. We are closely monitoring the IPAB process and the likelihood of implementation as we expect Medicare Part D, and consequently pharmaceutical companies, to bear the largest burden in the next round of cuts.

Medical Care Costs Outpace Inflation

The IPAB is set to cut Medicare spending as a result of increasing health care costs.



Source: U.S. Bureau of Labor Statistics

ELECTION CONCERNS

In addition to these myriad difficulties, investor sentiment typically shifts away from hospitals in election years due to uncertainty surrounding Medicare and Medicaid spending, and this year, political rhetoric has kept pharmaceutical pricing in the headlines. Presidential candidates Hillary Clinton and Donald Trump have taken very different tactics in expressing views on health care, but both could have significant impact on the outlook for the sector.

If Secretary Clinton is elected, she has pledged support for the ACA and intends to expand services. In this scenario, a status quo environment for hospitals is likely. The ACA resulted in a drastic reduction in disproportionate share hospital (DSH) payments meant to reimburse hospitals for uncompensated care costs. In order to continue effective implementation of the bill, the government must find ways to incent hospitals to continue operating within the ACA parameters. Congress, in our view, is unlikely to target hospitals to create further ACA efficiencies, particularly if the House of Representatives remains under Republican control.

Hospitals are likely to benefit from policies promoting expanded Medicaid, which we expect Secretary Clinton to support. The ACA expanded Medicaid benefits up to 138% of the Federal Poverty Level, but 19 states elected not to adopt the expansion at the state level. We believe Secretary Clinton will be able to incent holdout states, including Florida and Texas, to join the provision to expand Medicaid. If states that opted out ultimately decide to widen their Medicaid eligibility bands, hospitals in those states would benefit from the resulting reduction in unpaid costs for services provided to low-income individuals. As an advocate of mental health, we also anticipate Secretary Clinton will endorse additional changes in the Institutions for Mental Disease (IMD) exclusion. Prior to this April, mental health and drug and alcohol addiction treatment centers were excluded from receiving Medicaid reimbursements. Roughly eight million 22- to 64-year-old Americans may now benefit from insurance coverage for inpatient psychiatric care. Secretary Clinton is likely to propose further expansion of, and increased funding for, IMD benefits. Hospitals and companies operating mental health or drug and alcohol addiction treatment centers would stand to benefit.

Should Secretary Clinton win the White House, political risk is highest for specialty pharmaceuticals. She is expected to continue in President Obama's footsteps and block M&A for the purpose of moving intellectual property to a low-rate tax shelter. Additionally, Secretary Clinton has already expressed plans to penalize so-called unjustified drug price increases. Despite the rhetoric, significant aspects of Secretary Clinton's drug plan will require congressional approval. If Republicans maintain control of the House of Representatives, as is currently expected, proposed regulation will be difficult to bring to light. On the margin, however, Secretary Clinton could put pressure on pharmaceutical companies through the use of executive action. She could, for example, direct the FDA to impose fines for drug price increases or to establish government purchase programs from foreign drug manufacturers. In the event of a Democratic sweep in Congress, the legislative hurdles to the implementation of Secretary Clinton's drug pricing would wane, creating a difficult operating environment for many pharmaceutical companies. We expect pharmaceuticals to remain part of her platform; however, we do not believe drug pricing regulation will be Secretary Clinton's chief priority.

Mr. Trump's intentions seem to be focused elsewhere, making his policies on the health care sector somewhat opaque. Mr. Trump has, however, indicated he wishes to repeal Obamacare. Through the ACA, approximately 20 million previously uninsured Americans are now insured. Revoking an existing benefit from a constituency of that size would be difficult to push through Congress. We believe a well-thought-out replacement plan will need to be brought to the table as a full dismantling of the ACA without one will not be possible.

Mr. Trump is focused on tax reform and lowering both individual and corporate income tax rates. His plan, which has been assessed by the Tax Foundation and the Tax Policy Center, would reduce government income and therefore be difficult to achieve without a significant reduction in the federal budget. Substantial budget reductions are often achieved through cuts to Medicare and Medicaid, which are funded out of federal dollars. Hospitals represent approximately 40% of Medicare/Medicaid spending and their reimbursement would be negatively impacted by potential cuts to the programs. In the long run, however, Mr. Trump's proposed drop in the corporate tax rate from 35% to 15% would reduce the tax burden on hospitals, creating an important offset to the hypothetical reduction in Medicare/Medicaid spending. Operating primarily in the U.S., hospitals tend to be full taxpayers and would benefit from improved cash flows at a lower tax rate.

As it pertains to pharmaceuticals, we expect Mr. Trump to take a more laissez-faire approach on both drug pricing and M&A activity. While both candidates have expressed the intent to explore drug re-importation as a solution to affordable medication costs, a balance of power in government is unlikely to let such regulations pass.

Secretary Clinton's policies would generally provide a supportive environment for hospitals and a difficult one for pharmaceuticals. Mr. Trump's policies appear benign for pharmaceuticals while challenging for hospitals in the near term – although ultimately beneficial if tax cuts are achieved. As our analysts evaluate health care trends and downside potential driven by the upcoming election, we are actively adjusting our portfolio positioning to account for the risks we've identified.

Cautiously Optimistic

UNITED STATES

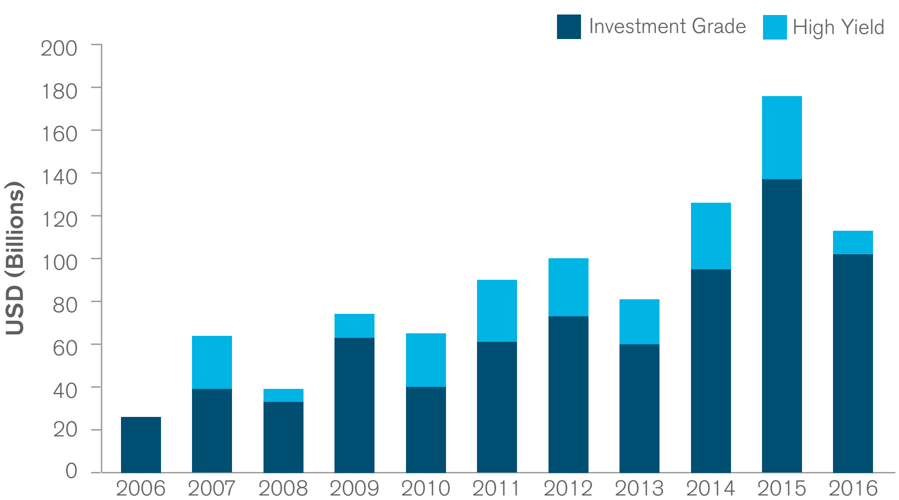
Heading into the last few months of the year, market participants are deliberating the hawkish tone of the Fed's September meeting announcement and what that means for a potential interest rate hike in 2016. Odds for a hike at December's meeting stood near 60% at the end of September. However, downward revisions to both GDP and inflation forecasts seem to contrast with the Fed's own comments that the "case for an increase in the federal funds rate has strengthened." We are closely monitoring economic data and events that may sway the Fed one way or the other. Keeping in mind the Fed's decision to lower the terminal rate and the trajectory for future rate hikes, we expect a very moderate pace for this Fed tightening cycle.

U.S. corporate credit remained well-bid through the summer, compressing valuations that were already expensive, in our view. Year to date to September, corporate debt issuance in the U.S. has surpassed 2015 issuance for the same period as issuers continue to take advantage of open capital markets and low borrowing costs – a dynamic analogous with the late stages of the credit cycle. Overall, we believe valuations remain full and the outlook for earnings remains stagnant. Yet, the environment has stabilized considerably from the first quarter. Global demand for U.S. corporate credit is robust, and this dynamic has modestly improved our outlook for the asset class.

The upcoming U.S. presidential election is likely to add challenges for fixed income investors. Both candidates express a desire to increase fiscal spending, although if a balance of power in government remains this will likely be difficult to achieve. If realized, government spending could help accelerate growth; however, it would also exacerbate the already challenged U.S. fiscal position.

Capital Markets are Open and Borrowing Costs are Low

Health care companies continue to take advantage through new debt issuance.



Source: Bloomberg

DEVELOPED MARKETS

The Bank of Japan introduced a new tool in September, setting a target yield for 10-year government bonds at 0%. The central bank has now taken control of absolute yields as well as the shape of the yield curve, and is effectively dampening rate volatility and limiting the upside for yield in the developed world. We find this approach to monetary policy concerning, and question whether other central banks will follow suit as the benefits, or lack thereof, of negative interest rate policies come under scrutiny.

KEY TAKEAWAYS

- Keeping in mind the Fed's decision to lower the terminal rate and the trajectory for future rate hikes, we expect a very moderate pace for this Fed tightening cycle.
- We believe valuations in the U.S. remain full and the outlook for earnings remains stagnant. Yet, global demand for U.S. corporate credit is robust, and this dynamic has modestly improved our outlook for the asset class.
- The Bank of Japan has taken control of absolute yields as well as the shape of the yield curve, effectively dampening rate volatility and limiting the upside for yield in the developed world.

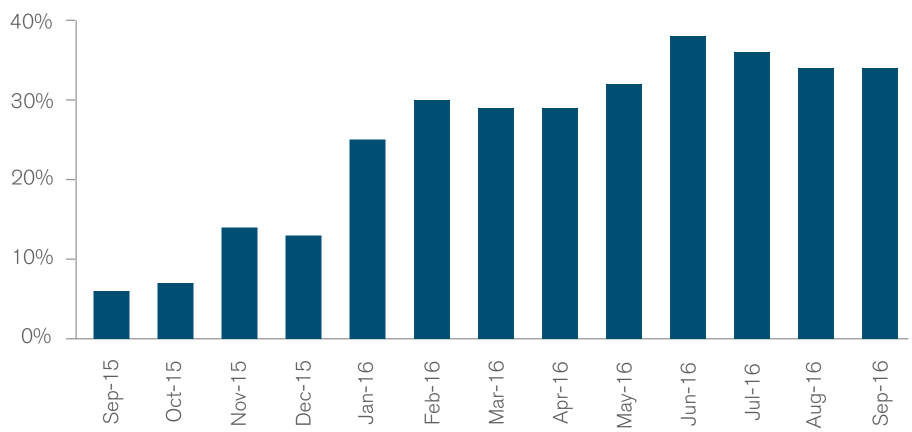
Approximately *one-third* of local currency, investment-grade sovereign bonds are negative yielding, according to Citi's World Government Bond Index. Our developed sovereign credit exposure is primarily focused on countries in which we anticipate accommodative monetary policy by local central banks. However, we generally do not believe there is value for our investors in negative-yielding debt.

In Europe, the ECB and the Bank of England (BoE) will need to evaluate the best way to stimulate growth moving forward. It is unlikely, in our view, that the ECB will delve further into negative rate territory due to the strain such policies have placed on the banking system. In the UK, we believe business investment will be the most disrupted from the country's vote to leave the European Union. Article 50, and the subsequent negotiation for terms of departure, will not be triggered until 2017, leaving companies in limbo as they wait to understand the impact the decision will have on margins. The BoE is likely to wait for a clearer picture of these economic implications before acting further.

Bond buying by the ECB and BoE has led to significant spread compression on European corporate credit. Value in investment-grade corporates has become difficult to identify, and parts of the high-yield market look incredibly rich. All-in yields on high-yield corporates are particularly eye opening, considering these assets are based off of a negative yielding five-year bund.

35% of Global Sovereign Bonds are Offering Negative Yields

Accommodative central bank policy has pushed yields into negative territory in many developed nations.



Source: Bloomberg Index Services Limited

EMERGING MARKETS

With a potential U.S. interest rate hike in play, our outlook for the emerging world remains cautious. If the Fed tightens, capital will likely flow out of emerging markets (EM) and into the U.S. until EM debt reprices to cheaper levels. In the event of a particularly hawkish hike – one in which the Fed alludes to imminent future hikes – the value of the dollar should rise. Appreciation of the dollar could pressure the price of crude oil and present difficulties for emerging economies with strong commodity ties. A hawkish hike is unlikely, in our view, and with minimal systemic risk in the space at the moment, any repricing of the market from a dovish hike could open the door for investment opportunities.

In the meantime, inaction by the Fed year to date and continued easy monetary policy in the rest of the developed world effectively dampened volatility for emerging markets. We anticipate investors will continue to flock to the space in search of higher yields as a result. The relatively benign EM environment is sustained by improved outlooks for GDP growth in both Russia and Brazil, the ascent of more fiscally responsible governments in Argentina, Peru and Brazil, and an all quiet from China as they prepared to join the International Monetary Fund's (IMF) Special Drawing Rights (SRD) currency basket.

Defensively Positioned

PORTFOLIO POSITIONING: DEFENSIVE

- With a potential U.S. interest rate hike on the horizon, and possible volatility emanating from the upcoming U.S. presidential election, we believe there is merit in maintaining our defensive stance.
- We have been cautious on credit year to date and our corporate credit positioning remains defensive due to concerns around tight valuations and the subdued outlook for earnings. Our analysts remain focused on identifying fundamentally sound opportunities while avoiding issues where risks outweigh potential reward. Our positioning reflects our client-focus and emphasis on capital preservation and strong risk-adjusted returns.

CORPORATE CREDIT

- As investors continue to reach for yield, strong global demand for U.S. corporate credit has stretched valuations further, although we believe fundamentals remain unchanged. Downgrades continue to outnumber upgrades and leverage on balance sheets continues to move higher.
- ECB and BoE bond buying programs led to significant spread compression on European investment-grade corporates, while all-in yields on high-yield corporates based off of a negative yielding five-year bund look alarming.
- We remain cautious on corporate credit, seeking to participate while keeping capital preservation at the forefront. Across the quality spectrum, our focus remains on higher quality issuers with balance sheet liquidity, strong free-cash-flow generation potential and a commitment to deleveraging.

YIELD CURVE/DURATION

- Rates are likely to remain range-bound through year-end due to muted inflationary expectations and central bank policy. We intend to maintain duration in a tight band relative to the index, opportunistically adjusting our positioning as we gain a clearer picture of Fed policy and U.S. election results.
- Our Treasury allocation is overweight the long end of the curve to hedge our credit exposure while in corporate credit we continue to favor shorter- to intermediate-term issuance in which we believe we have a clearer insight on the issuers' fundamentals and ability to pay down debt.

DEVELOPED & EMERGING SOVEREIGN

- Approximately one-third of developed world debt has negative yields, creating an investment dynamic that we generally do not believe adds value for our clients.
- A new yield-setting policy by the BoJ has effectively capped the upside for yield in the developed world.
- While we believe the ECB and BoE will ultimately need to consider further easing measures, we do not anticipate policy shifts during the remainder of the year.
- With a potential U.S. interest rate hike in play, our outlook for the emerging world remains cautious. However, systemic risks in the sector have declined, and recent inaction by the Fed may spur continued interest in the space as investors search for higher yields.
- Our sovereign exposure is generally concentrated in countries in which we are willing to take interest rate risk – those in which we anticipate accommodative monetary policy by local central banks.

TREASURY

- With two FOMC meetings remaining this year, the possibility of a U.S. interest rate hike prior to year-end is top of mind. We intend to maintain an active approach to duration and yield curve positioning with a focus on capital preservation.
- Our Treasury exposure is overweight the long end of the curve as a hedge to our credit exposure. We consider short-duration Treasurys as a source of liquidity, allowing us to potentially capitalize on attractive securities experiencing price dislocations.

SECURITIZED

- We view mortgage-backed securities as portfolio ballast for our core portfolios. Our exposure is concentrated in generic agency pass-throughs. We seek securities with high coupons, high loan-to-value and pre-payment resistant characteristics. We are closely monitoring the Fed's reinvestment into MBS as its existing holdings mature. We anticipate supply to stay moderate.
- We view commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) as opportunistic investments. Within CMBS, we allocate to higher quality, shorter duration positions with what we consider to be strong risk-adjusted return opportunities. In our view, single asset single borrower deals offer better relative value than conduit, or multi-loan, deals. Our allocation to ABS is generally focused on auto securitizations and whole business securitizations, including franchise revenue-backed securities.

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FOR MORE INFORMATION CONTACT JANUS

151 Detroit Street, Denver, CO 80206 / 800.668.0434 / www.janus.com

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