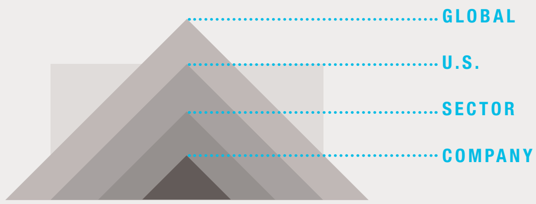
3Q: Consumers step up

The consumer is carrying the weight of the economy.

JANUS

COMPANY-INFORMED MACRO PERSPECTIVES FROM THE JANUS FIXED INCOME TEAM

A JANUS CAPITAL Group Company



Janus Company-Informed Macro Perspective

Fundamental credit research has been at the core of the Janus fixed income process for over 25 years. Not only does in-depth company research anchor our fixed income investment process, it also serves as the foundation for our macroeconomic views. While most macroeconomic forecasts originate from government data, we start at the bottom, aggregating individual company data from our fundamental credit research to arrive at a company-informed macro view at the firm, sector, U.S. and global levels. We believe this approach differentiates us from our peers and other macroeconomic data providers.

Each quarter, our fixed income team shares its company-informed outlook on key macroeconomic indicators and how that insight is applied in Janus' fixed income portfolios.

The opinions expressed are those of the authors as of July 2013 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.

3Q: Consumers step up

Janus has locations around the world: London, Singapore, Hong Kong, Tokyo and Paris, to name a few. Our home office is in Denver, Colorado, where I am lucky enough to live in the foothills of the Rocky Mountains. The view from my deck is all mountains and when the sun sets, the mountains are lit from behind and have a beautiful blue glow; the morning sunrise turns them pink.

This summer, the view seems particularly special. Our Co-Chief Investment Officer Gibson Smith often says that for those of us in fixed income the world is a dark place, full of risk. Our job is to see those risks and to help our clients avoid them. As people and as investors, we all have experienced some very dark times since the 2007–2008 financial crisis and subsequent global recession. However, it is this bond girl's opinion that in our hearts we all want to be optimists, and that we are more than ready to see the bright side of life after five years of fear. Consumers can only hold back for so long, and our micro view of the macro economy is showing us in spades that consumers are feeling better — way better. The current environment feels like the first summer evening out on the deck: the sun is shining, the breeze is soft, the wine is good and it's time to enjoy! Consumers drive the global economy, so this desire to throw off the cloak of winter and uncertainty of spring is driving economic growth around the world.

From a U.S. company perspective, we are hearing that people are spending on fancy purses, high-end clothes and trips, and that they don't mind paying full price. All of this speaks to confidence. It makes sense that individuals would be the first to feel confident and spend: their houses are worth more, their 401(k) balances are up, and layoffs have been down for months.

However, if the consumer is acting like a teenager finally free, business is the parent. This quarter, business is the focus of the Sector View, with a spotlight on lenders. Our micro analysis is showing us that business hasn't come to the party yet. Commercial and industrial lenders, still nursing hangovers from 2008, are scared to loosen loan standards to take risk. Business generally is not a leading indicator. Companies will require months of strong consumer spending and growth, and then will race to catch up.

Consumer optimism is gearing up to drive the U.S. economy. We expect U.S. gross domestic product (GDP) to expand by 1.8% for 2013, ending with a strong fourth quarter. Inflation continues to come down, driven by a housing recovery that lowers owners' equivalent rent, as well as lower commodity prices. The stage is being set for at or slightly above potential growth in 2014. Markets already are reacting to this projection. Our focus is on what could disrupt the show.

The U.S. consumer is world-renowned as a "spend today and worry tomorrow" type, but it turns out that the European consumer is ready to shake off the long winter, too. Our Global View section focuses on which countries are seeing the spending and what they are buying. European luxury cars, anyone?

The human spirit cannot be held down for long. Whether it's finally buying that new car, going on the first family vacation since the recession or fighting through illness, humans are optimistic and always eventually will see the bright side and find joy. The mountain view from my deck is spectacular, and while enjoying it, I think about the views my fellow employees at Janus have — for instance, Ryan Myerberg trading bonds in London, Carmel Wellso researching new investment opportunities in Singapore, or Hideki Marui and Sylvain Agar communicating with clients in Tokyo and Paris. The view for all of us, as people and investors, looks better now than it has in years.

Colleen Denzler, CFA
Global Head of Fixed Income Strategy

company-informed macro

THE COMPANY VIEW

The consumer comes back

- Consumer spending continues to drive the economy.
- Business and government spending have slowed.
- Stock market gains and rising home prices are buoying consumer confidence.

Passing the baton

Over the past few months, we've been hearing from companies that consumers have been spending again, particularly since March. This can be seen in robust **Ford** F-Series truck sales, higher **Visa** card credit volumes and rising sales of higher-priced goods from sellers such as **Michael Kors** and **Coach**. Meanwhile, **Starwood Hotels & Resorts** said that individual U.S. room bookings were up more than 5% in 1Q13.

It is good that consumers are spending, because businesses have pulled back. Whether reacting to government spending cuts or regulatory uncertainty, businesses have reined in capital expenditures and put projects on hold. The baton has been passed to consumers, and they are drawing on their resiliency — and savings — to keep spending.

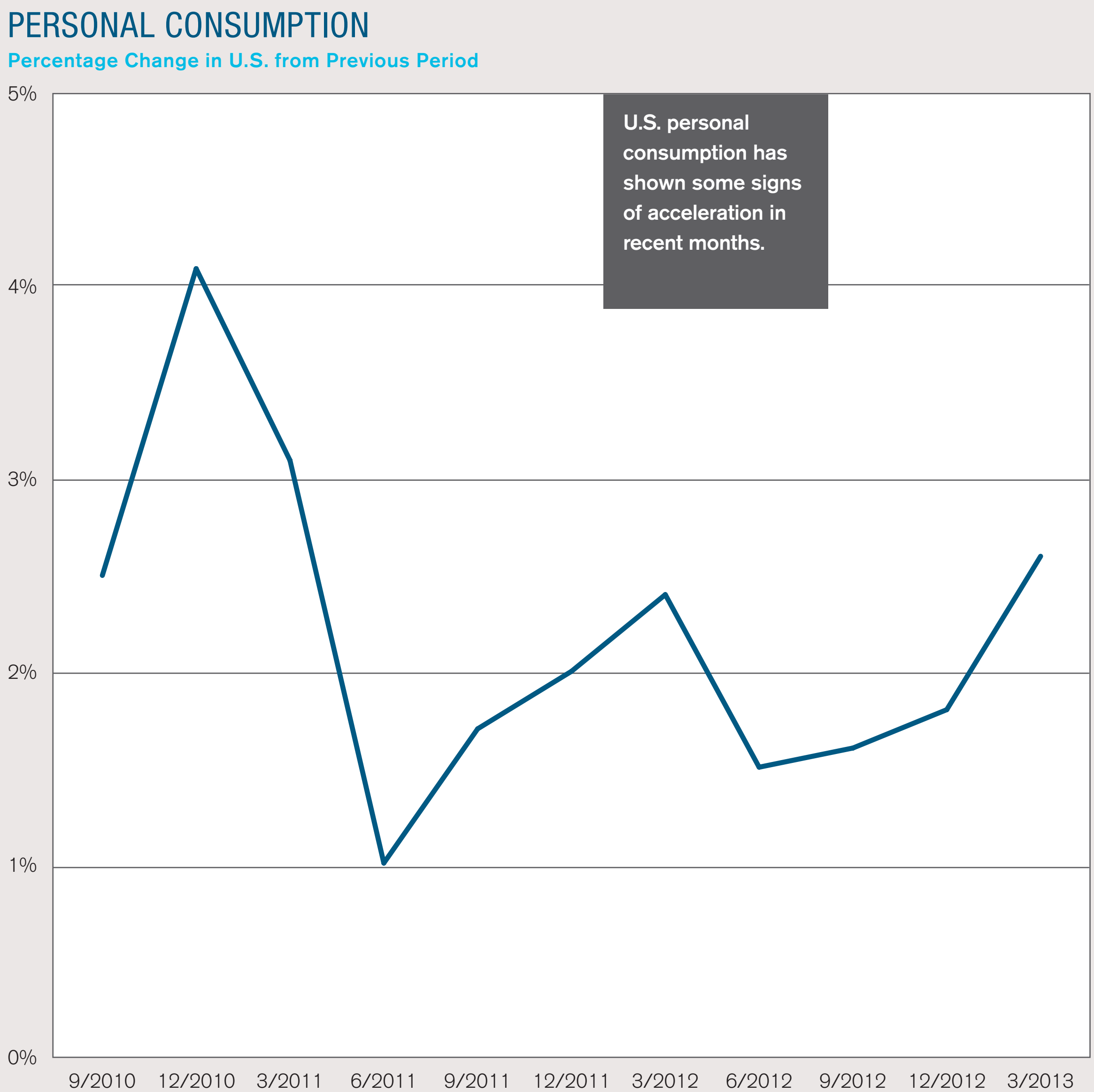
What is keeping the consumer in the race? Confidence. This year's stock market gains have helped. The other driver is home price appreciation: Even homeowners who are not planning to sell their homes are feeling more confident as personal balance sheets recover. "Housing is recovering, and our business and leisure customers are responding with higher spending," the chief executive of casino operator **MGM Resorts** said in May.

We are optimistic about the potential for continued strength in consumer spending. However, the consumer is currently the economy's only lifeline, and there is little margin for error.

Upscale fashion retailer Nordstrom said that full-price selling remains at all-time highs.

Global coffee company Starbucks reported a 6% rise in 2Q13 comparable-store sales in the Americas.

Retailer American Eagle Outfitters said its online business rose 24% in 1Q13.



Source: Bloomberg. As of 6/27/2013.

KEY IMPLICATIONS

- We believe that consumer spending will keep the recovery moving forward.
- Home price appreciation likely will continue to support consumer sentiment.
- However, there is little margin for error. Business and government activity is not strong enough to compensate for a consumer pullback.

Lenders on a slow track

→ Demand for commercial and industrial loans has softened.

→ While commercial real estate loan standards have eased, residential loan standards remain tight.

→ Banks have little incentive to take risks.

Discover Financial said it was keeping growth flat in both mortgage and student loan origination while watching how regulation evolves.

UBS was cautious about 2Q13 loan growth, noting that customer utilization remained low.

Banks remain cautious

Lenders have reported that they're easing standards on commercial and industrial (C&I) loans, including for small businesses, among the hardest hit in the recession. However, slowing demand for C&I loans suggests that businesses are tired of economic uncertainty and are putting plans on hold.

Banks have little incentive to take risk, and lending standards remain high. While lenders are easing terms for commercial real estate (CRE) loans, which should dovetail nicely with increased demand for commercial building projects, tight standards remain for residential mortgages. **Standard Pacific Homes**' chief operating officer recently said that 50% of its interested homebuyers couldn't qualify for a mortgage. The average FICO score for government-sponsored enterprise (GSE) qualified borrowers is 750; homebuyers who don't qualify for a GSE loan will need 80% loan to value to qualify.

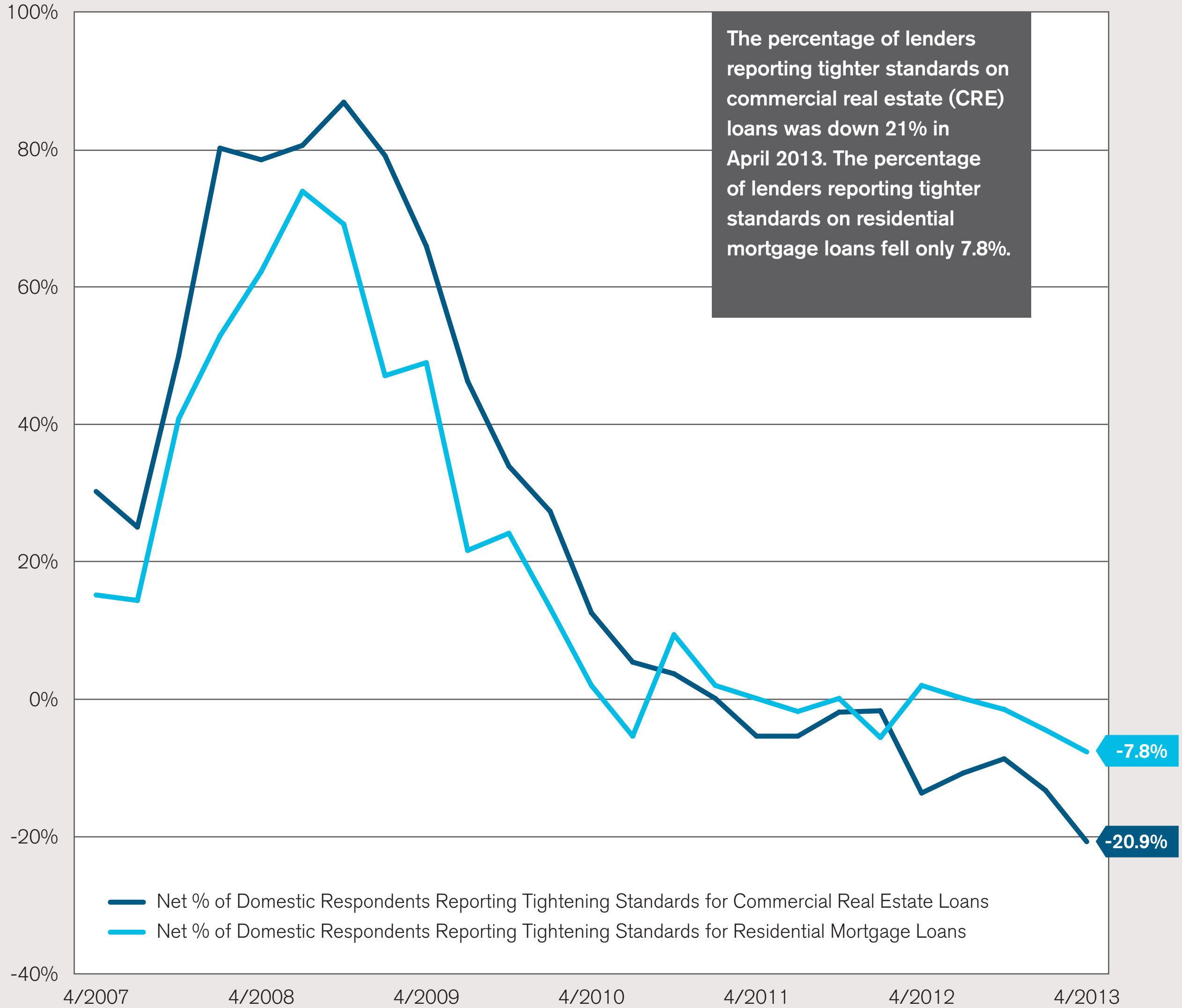
We believe lenders' reluctance may drag on the housing recovery, and that economic growth will be constrained until the lending markets fully reopen.

50% of Standard Pacific Homes' interested homebuyers can't qualify for a mortgage.

Raymond James Financial has said that it does not plan to increase its loan portfolio.

CAUTIOUS LENDERS

Percentage of Senior Loan Officers Reporting Tighter Loan Standards



Source: Bloomberg. Based on the Federal Reserve Board Senior Loan Officer Opinion Survey. As of 5/31/2013.

KEY IMPLICATIONS

- **While it is positive that lenders are easing standards on commercial and industrial loans, lending markets still have a long way to go.**
- **Tight lending standards for residential mortgages are likely to slow the housing recovery.**
- **The economy will have difficulty achieving at or above-potential growth rates until lending accelerates.**

Uneven recovery

- → The economy is uneven but growing.
- → Consumers are pulling from savings to continue spending, while businesses have turned cautious.
- → Inflation is softening.

Slow growth

As we have said for several quarters now, the U.S. economy continues to improve on the margins, but growth remains uneven.

Consumer spending and confidence are strong. This is good news, as consumption accounts for 70% of GDP. But can it last? Consumers have pulled from their savings (the U.S. savings rate is now down to 2.3%) to keep spending going, and this shows an element of confidence. However, without an increase in real economic growth or velocity of money, the consumer will bump up against a ceiling and the pace of spending will have to slow.

Inflation is softening. With inflation expectations anchored, the U.S. Federal Reserve (Fed) has some leeway to remain accommodative. Commodity prices have turned lower and global inflation indicators have slowed. Inflation expectations may follow, and if spending slows because consumers believe they will pay lower prices by waiting, it will be negative for growth.

We continue to believe that the U.S. economy can return to potential GDP growth (above 2%) in 2014. However, a major disruption — another chapter in Europe's ongoing fiscal saga, slowing growth in China, the possibility that Japan's stimulus plan will fail, even a natural disaster — could keep the U.S. locked in a subpotential growth environment next year.

High-end retailer Saks said that its core customers had begun to spend again, despite higher taxes.

Homebuilder MDC Holdings cited pent-up demand for housing, including from foreign buyers who view the U.S. as a safe haven for capital.

Ford is expanding its Kansas City plant to meet demand for its F-150 pickup truck and new Transit van.

U.S. MACROSCAN

	FACTOR	TREND	OUTLOOK
CONSUMER			
	▪ Consumer confidence has bounced back up to the highest level since 2008. ▪ Home prices are up 12% year over year (YoY), based on the S&P/Case-Shiller 20-City Home Price Index. ▪ Spending is holding up, as consumers dip into savings and/or take advantage of home price appreciation or stock market gains. Core retail sales are up 3.5% YoY, while personal consumption within GDP is up 2.6% quarter over quarter. ▪ Nonfarm payroll growth rose to 175K in May. The unemployment rate rose to 7.6% as 420K people joined the labor force. As of May, we were averaging 189K/month job growth in 2013.	↑	▪ We expect confidence to recover as the economy stabilizes toward the end of 2013; lower commodity prices are boosting consumer-spending power and the stock market. ▪ We expect continued home price appreciation. This may boost personal net worth and spur job creation in the construction sector in the second half. ▪ We expect the unemployment rate to end the year at 7.5%, with a bumpy ride throughout the second half.
BUSINESS			
	▪ The pace of business capital expenditure has slowed amid uncertainty around federal tax policy. ▪ The Institute for Supply Management's (ISM) manufacturing index contracted in May.	↓	▪ Businesses remain cautious, but we believe they will begin to spend and invest when they have clarity on tax policy in the second half of the year. ▪ We believe full-year GDP growth will run near 1.8%, similar to the pace in 2012.
INFLATION			
	▪ Inflation is moving down and out of the pipeline, as reflected in the core Consumer Price Index (CPI) easing to a 1.7% YoY growth rate. The core Personal Consumption Expenditures (PCE) price index is even weaker, at 1.1%. ▪ Metals as well as many energy and agricultural commodity prices softened further in May; gold continues to trend down. ▪ Inflation expectations are also starting to soften, as reflected in the five-year, five-year forward breakeven rate.	↓	▪ We expect core CPI to end the year at 1.7% YoY, as the housing recovery reduces demand for rental property and slows growth in owners' equivalent rent, a major component of core CPI. ▪ Consumers should benefit from relatively low gas prices as well as the overall decline in prices for consumer goods. However, excess capacity is holding wage growth down.
FISCAL & MONETARY POLICY			
	▪ The U.S. government is operating under extraordinary funding measures, as the debt ceiling was capped on May 19. Treasury Secretary Jack Lew has said the government can be funded until Labor Day at the current spending pace. The continuing resolution ends on Sept. 30. ▪ The Fed is buying $45 billion in Treasury bonds and $40 billion in mortgage-backed securities (MBS) monthly.	↔	▪ We believe Congress will resolve or extend deadlines on remaining fiscal issues, allowing for accelerating growth by the end of 2013. ▪ We do not believe the Fed will be able to fully exit its Treasury bond or MBS purchase programs this year. There is talk that it may start reducing the amount of outright purchases, but the market does not see this happening until September at the earliest and we believe it may not happen until 4Q13.

Source: Janus.

KEY IMPLICATIONS

- **We expect GDP to run near 1.8% YoY growth, with the majority of the improvement in 4Q13.**
- **Core CPI growth likely will be 1.7%, below the Fed's inflation target.**
- **We believe that the U.S. economy can return to potential (above 2%) GDP growth in 2014. However, the recovery is fragile and any disruption could change the picture.**

European consumers venture forward

- → Europe is beginning to move toward pro-growth policies, as opposed to austerity.
- → Economic data is particularly strong in Germany, but the UK is also showing signs of improvement.
- → Improving confidence and auto sales data suggest the European consumer may be on the brink of recovery.

From austerity to growth

European politicians have begun to move from austerity toward pro-growth policies, a positive step toward getting the euro zone onto a stable and then upward glide path. Both fiscal and monetary policy should begin to stabilize and support growth in the near term, in our opinion.

The companies we talk with say they are seeing signs of improvement. Auto parts suppliers, for instance, recently said cancellations had slowed and that they had better visibility into their order books.

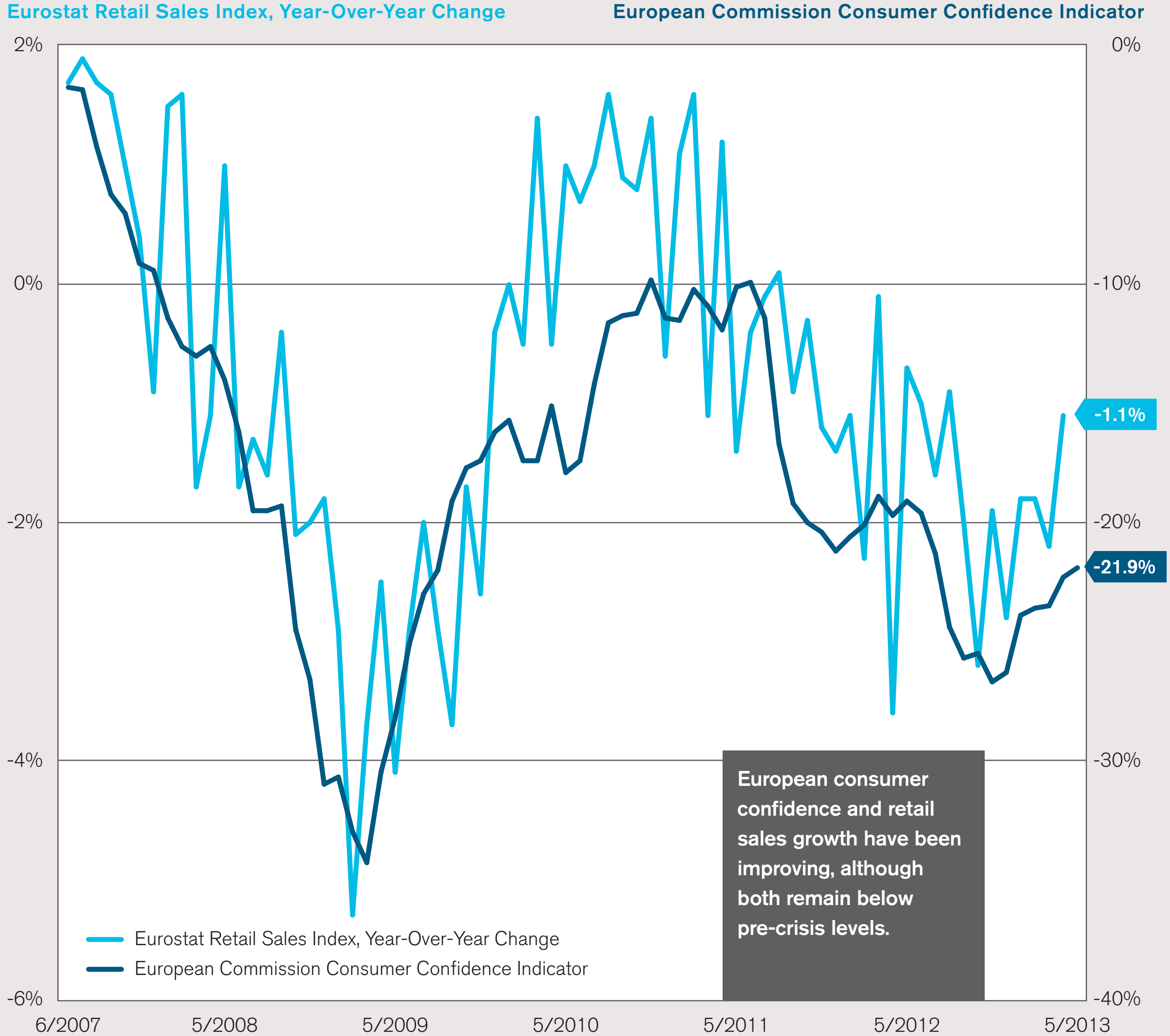
The key piece of the puzzle is the European consumer. Euro-zone consumer confidence has shown modest improvement, as have retail sales, although both remain below levels seen a few years ago. Swiss food giant **Nestlé** recently said that consumer sentiment remained subdued in Europe. On the other hand, **Jaguar/Land Rover** has said it is adding work shifts and capacity in the UK this summer, a positive sign. We believe signs are gradually improving and that the European consumer may be poised to lend support to the region's economy.

Aerospace manufacturer Honeywell said that short-cycle order trends had recently improved in Europe.

German automaker Daimler posted strong sales in April, driven by gains in its luxury Mercedes-Benz brand.

Low-fare European airline Ryanair experienced a 5% increase in passenger traffic in its 2013 fiscal year.

EUROPEAN CONSUMER CONFIDENCE



Source: Bloomberg. As of 5/31/2013.

KEY IMPLICATIONS

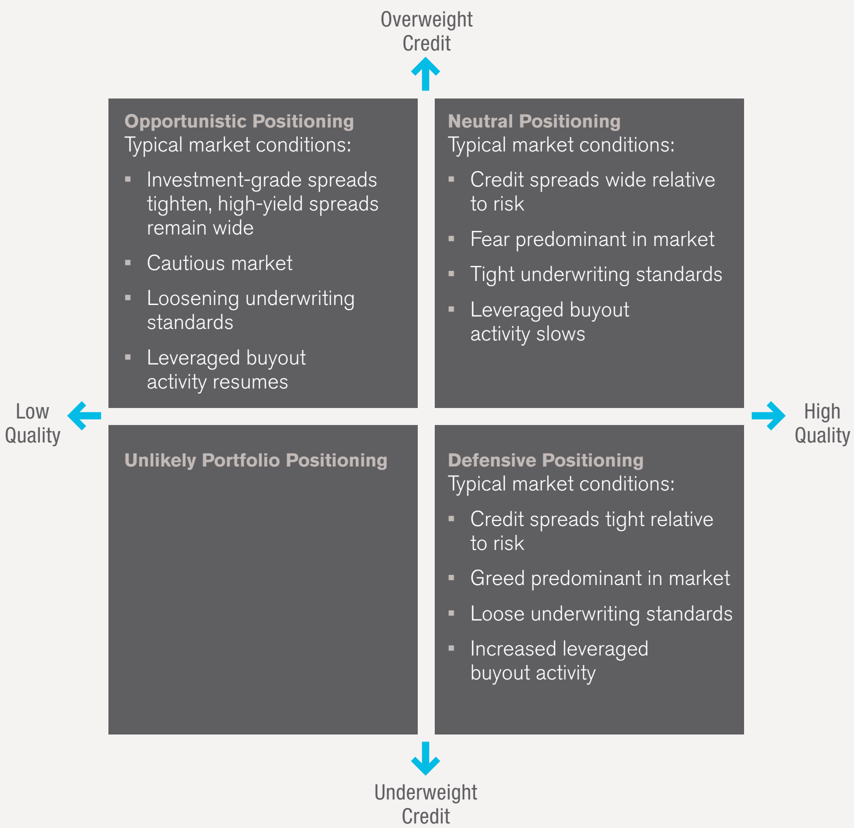
- **Both fiscal and monetary policies should begin to stabilize and/or support euro-zone growth this year.**
- **However, growth forecast downgrades, below-target inflation, high unemployment and accommodative monetary policies are likely to continue in the near term.**
- **We believe the European consumer is poised to lend support to the euro-zone economy this year.**

ROADMAP TO JANUS FIXED INCOME POSITIONING

Near-term credit neutral, interest rate bearish

Janus fixed income portfolios are overweight credit (as of 6/30/13), with a defensive stance on interest rate exposure.

PORTFOLIO POSITIONING SUMMARY



Sector Allocation

- We continue to trim richly valued corporate credit in favor of spread-alternative securities such as agency mortgage-backed securities (MBS). Our neutral stance on credit is reflective of valuation and interest rate sensitivity due to narrow spreads, not a specific increase in credit risk (i.e., default).
- Recent comments from the Fed roiled markets worldwide, negatively affecting both equity and bond markets. For this reason, we are bearish on interest rates due to their pronounced volatility. In addition, macroeconomic indicators continue to reflect uncertainty, further magnified by global political uncertainty.
- Positioning in agency MBS is biased toward higher-coupon issues, where we have seen considerably less volatility relative to lower-coupon bonds in response to comments from the Fed. Although we remain underweight to MBS compared with the Barclays U.S. Aggregate Bond Index (Agg), we have increased exposure marginally where appropriate to capture the positive effect.

- Corporate conservatism and capital structure prudence remain core tenets within corporate America. While downside risk in earnings appears increasingly probable due to below-potential growth, we believe businesses will be able to navigate a sustained period of below-potential growth with limited default risk.
- Given the recent market weakness and well-funded corporate balance sheets, we believe a compelling case exists for careful selection in corporate credit.
- From a global perspective, we remain underweight emerging-market sovereign debt. We are also concerned that continued slow economic activity in developed markets could result in fundamental deterioration for emerging markets dependent on exports.
- With uncertainty remaining across much of Europe, we remain underweight euro-denominated sovereigns with a bias toward the U.S. dollar.

Credit Spreads

- Credit spreads reversed course following recent comments from the Fed that the market perceived to be negative. This widening of spread was notable because it compounded the rise in U.S. Treasury rates, rather than absorbing a portion of the volatility.
- A decline in bond dealer inventory has coincided with an increase in indiscriminate buyers, now indiscriminate sellers, such as fixed income exchange-traded funds. This combination of factors has made liquidity analysis increasingly important to avoid price gaps caused by large momentum moves and to take advantage of opportunities caused by illiquidity. We believe these factors explain a large part of the behavior in spreads during the second quarter.
- We believe the market's panic-driven dislocation across almost every asset class is providing a singular opportunity to bond investors with expertise in security selection.

Duration*

- Duration contribution from U.S. Treasurys, and sovereigns where applicable, remains notably less than that of the Agg, consistent with our concerns around interest rate volatility. We do maintain certain short-duration Treasury positions for the sake of liquidity.

** Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to interest rates will be, all else being equal.*

Janus Global Macro Team

Colleen Denzler, CFA
Global Head of
Fixed Income Strategy

Lindsay Bernum
U.S. Macro Analyst

Chris Diaz, CFA
Head of Global Rates

David Spilsted
Global Macro Analyst

Seth Meyer, CFA
Global Fixed Income
Research Analyst

Ryan Myerberg
Global Co-Portfolio Manager
and Fixed Income Trading

Aspen Large
Risk Analyst

Follow us on Twitter for up-to-the-minute market and investment insights.
Twitter.com/JanusCapital

Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus containing this and other information, please call Janus at 800.525.3713 or download the file from janus.com. Read it carefully before investing or sending money.

Past performance is no guarantee of future results.

Investing involves market risk. Investment return and value will fluctuate, and it is possible to lose money by investing.

There is no assurance that the investment process will consistently lead to successful investing.

Bonds in a portfolio are typically intended to provide income and/or diversification. In general, the bond market is volatile. Bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Credit spread: A credit spread is the yield spread, or difference in yield between different securities, due to different credit quality. The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk.

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.

The Consumer Price Index (CPI) represents changes in prices of all goods and services purchased for consumption by urban households.
The core CPI represents changes in prices of all goods, excluding volatile food and energy prices.

Case-Shiller Home Price Indices are constant-quality house price indexes for the United States. There are multiple Case-Shiller home price indexes: a national home price index, a 20-city composite index, a 10-city composite index and 20 individual metro area indexes.

Barclays U.S. Aggregate Bond Index is made up of the Barclays U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

In preparing this document, Janus has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources.

Statements in this piece that reflect projections or expectations of future financial or economic performance of the markets in general are forward-looking statements. Actual results or events may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements. Important factors that could result in such differences, in addition to the other factors noted with such forward-looking statements, include general economic conditions such as inflation, recession and interest rates.

Janus makes no representation as to whether any illustration/example mentioned in this document is now or was ever held in any Janus portfolio. Illustrations are only for the limited purpose of analyzing general market or economic conditions and demonstrating the Janus research process. Janus may have a business relationship with certain entities discussed herein. References to specific securities should not be construed as recommendations to buy or sell a security or as an indication of holdings.

Investment products offered are: NOT FDIC-INSURED. MAY LOSE VALUE. NO BANK GUARANTEE.

Funds distributed by Janus Distributors LLC (07/13)

FOR MORE INFORMATION CONTACT JANUS

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

C-0613-39536 07-30-14

188-15-14918 07-13