Janus Global Diversified Risk Premia 8%

Strategy Update as of 12/31/16

JANUS CAPITAL® Group

Investment Philosophy

The Janus Global Diversified Risk Premia Strategy seeks to provide **positive absolute returns** with true diversification by offering **low correlation to stocks and bonds**. We invest in a portfolio of traditional and nontraditional investable risk premia derived from equity, fixed income, currency and commodity asset classes. By targeting a broad collection of statistically independent sources of return, we believe we are in a position to create a more robust portfolio that provides, over time, a generally more stable source of return with a targeted volatility of 7 – 9%, significantly less than the long-term volatility of stocks.

Market Environment

- Against the odds, the U.S. electorate upended the political establishment as well as the financial markets when they handed the U.S. presidency to Donald Trump on November 8th. The fear of another Brexit-like outcome steadily increased in days leading up to Election Day, as evidenced by the daily changes in the VIX Index. The latter began the quarter at 13.3 and peaked at 22.5 on November 4th before retracing its steps and ending the quarter back at about where it began.
- Even in hindsight, it is difficult to tell whether the election of Donald Trump or the fact that the uncertainty surrounding the outcome of the U.S. elections is now behind us was the reason behind the euphoria in U.S. equities. For the quarter, the S&P 500® Index rose 3.8%, almost repeating the third quarter's investment result.
- In sharp contrast, the government bond markets were an unmitigated disaster. The yields on 10-year U.S. Treasuries and German Bunds rose 85 and 33 basis points and ended the quarter at 2.45% and 0.20%, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index lost -3.0% and the Global Aggregate Index -7.0%, even while the U.S. credit OAS compressed 13 basis points during the quarter.
- Within commodities, both WTI and Brent broke free from the third quarter price range of $40 – $50/barrel. Overcoming broad market skepticism, on November 30th, OPEC members agreed to cut oil production by 1.2 million barrels a day, equating to about 1% of total global supply. Promptly following the announcement, both WTI and Brent broke through the $50/barrel price barrier and never looked back.
- The U.S. dollar had a banner quarter. As measured by the DXY Index, the dollar appreciated about 7.0% against a basket of major world currencies.

Composite Performance (%)

	4Q 2016	1 Year	3 Year	Since Inception (7/1/13)
Composite (Gross)	2.68	11.20	5.35	4.69
Composite (Net)	2.52	10.49	4.67	4.01
Benchmark	0.20	0.66	0.38	0.36
Difference	**+2.48**	**+10.54**	**+4.97**	**+4.33**

Portfolio Manager

John Fujiwara

- Portfolio Manager
- 30 years of financial industry experience

Strategy Characteristics

Investment Style
Diversified Risk Premia

Target Volatility
7 – 9%

Derivatives
Up to 100% of non-cash exposures

Benchmark
3-month USD LIBOR

Assets Under Management

Janus Liquid Alternatives
$121.5 million

Janus Global Diversified Risk Premia
$58.6 million

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. Composite returns are net of transaction costs and gross of non-reclaimable withholding taxes, if any, and reflect the reinvestment of dividends and other earnings.

The gross performance results presented do not reflect the deduction of investment advisory fees, and returns will be reduced by such advisory fees and other contractual expenses as described in the individual contract and 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 they do reflect the deduction of model investment advisory fees based on the maximum fixed fee rate in effect for the respective time period. Actual advisory fees may vary among clients invested in the strategy shown and may be higher or lower than model advisory fees. Composites may include accounts with performance-based fees. Returns for each client will be reduced by such fees and expenses as negotiated in any client contract as discussed in Form ADV Part 2A.

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.

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Performance Analysis – Contribution by Premia (Rep. Account)

4Q 2016 (9/30/16 – 12/31/16)	Contribution (%)
Equity Value	+2.74
Rates Momentum	+1.21
Currency Momentum	+1.03
Commodity Roll Yield	+0.80
Equity Size	+0.28
Currency Carry	+0.23
Equity Momentum	+0.07
Commodity Value	-0.60
Commodity Momentum	-0.79
Equity Emerging	-0.95
Credit	-1.30

One Year (12/31/15 – 12/31/16)	Contribution (%)
Equity Value	+4.45
Rates Momentum	+3.27
Commodity Roll Yield	+2.20
Credit	+1.26
Currency Carry	+1.01
Equity Emerging	+0.93
Equity Momentum	+0.91
Commodity Value	+0.70
Equity Size	-0.21
Commodity Momentum	-1.33
Currency Momentum	-1.67

Three Years* (12/31/13 – 12/31/16)	Contribution (%)
Commodity Roll Yield	+2.45
Credit	+1.52
Rates Momentum	+1.37
Commodity Value	+1.35
Currency Momentum	+0.58
Equity Size	+0.37
Currency Carry	-0.06
Equity Momentum	-0.10
Equity Value	-0.19
Commodity Momentum	-0.35
Equity Emerging	-0.71

Risk Premia Review (4Q16)

Janus Global Diversified Risk Premia Strategy (the 'Strategy') performed exceptionally well for the quarter and for the year: it gained about 240 basis points for the quarter and outpaced the 3-month USD LIBOR by almost 11% for the year. Seven out of 11 risk premia contributed positively to the Strategy's performance during the quarter.

- **Equity Value** (+2.7%) seeks to capture value premium by investing in value stocks and shorting growth stocks. This relative value, dollar -neutral premium gained on the backs of resurgent financial and oil-related stocks. As represented by the S&P Pure Style indices, value stocks bested growth stocks by 10% for the quarter. For the quarter and for the year, Equity Value risk premium was the top contributor to the Strategy's performance.
- **Rates Momentum** (+1.2%) is a trend-following strategy that can go long or short. The Strategy entered the quarter with short positions in U.S. Treasuries and German Bunds. As a result, this risk premium greatly benefitted from a sharp rise in U.S. and German interest rates. For the quarter and for the year, Rates Momentum was the second highest contributor to the Strategy's overall performance.
- **Currency Momentum** (+1.0%) a trend-following strategy, benefitted from an appreciating dollar. Expectations of rising interest rates in the U.S., combined with stimulative fiscal policies espoused by the President-elect Donald Trump, resulted in a dollar rally. As mentioned previously, the U.S. dollar (as proxied by the DXY Index) appreciated about 7.0% during the quarter. Despite the positive contribution during the quarter, Currency Momentum was the worst detractor for the year.
- **Credit** (-1.3%) was the laggard for the quarter. Credit risk premium attempts to replicate the total return of the investment-grade U.S. credit market. Credit suffered as gains from a tightening investment-grade OAS were not enough to offset losses associated with the rising U.S. interest rates. Despite the quarterly loss, Credit was one of the better performing strategies for the year.
- **Equity Emerging** (-1.0%) a relative value risk premium, bore the brunt of the President-elect's proposed protectionist policies targeted against China, Mexico and other countries. As measured by MSCI, the World Index outpaced the EM Index by over 6.0% during the quarter. The latter fell 4.6% in November alone in direct response to the results of the U.S. presidential election and a rising U.S. dollar. Despite the quarterly setback, Equity Emerging contributed 93 basis points to the Strategy's annual performance.
- **Commodity Momentum** (-0.8%) a trend following strategy, entered the quarter with a short position in oil. Intra-quarter, the momentum signal switched directions, forcing the strategy to close out the short oil position and go long sugar futures contracts. Given OPEC members' agreement to cut production, which was announced at the end of the November, closing out the short oil position was absolutely the right investment decision. However, the long sugar position detracted from the Strategy's performance. Generally speaking, 2016 was not a good year for the Commodity Momentum strategy.

*Date range shown includes equity momentum risk premium, which was added to the strategy on July 1, 2014.

Risk premia contribution is based on a representative account, and may differ from actual contribution. It is calculated using an internal, manual process, and is gross of fees. Risk premia contribution is intended to demonstrate the impact of each risk premia strategy within the portfolio, and is supplemental information. The representative account is the account in the composite that we believe most closely reflects the current portfolio management style for this strategy.

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Correlation (7/1/14 – 12/31/16)*

- Generating returns with low correlation to stocks and bonds is one of the Strategy's key objectives. Since inception, the Strategy's realized correlation to the S&P 500® Index and Bloomberg Barclays U.S. Aggregate Bond Index were -0.03 and 0.24, respectively.

	Commodity Momentum	Commodity Roll Yield	Commodity Value	Credit	Currency Carry	Currency Momentum	Equity Emerging	Equity Momentum	Equity Size	Equity Value	Rates Momentum
Commodity Momentum	**1.00**										
Commodity Roll Yield	0.30	**1.00**									
Commodity Value	0.26	0.26	**1.00**								
Credit	0.09	0.07	0.13	**1.00**							
Currency Carry	-0.11	0.05	-0.06	-0.03	**1.00**						
Currency Momentum	0.17	0.04	0.01	-0.07	0.05	**1.00**					
Equity Emerging	-0.09	0.04	0.02	0.04	0.02	0.01	**1.00**				
Equity Momentum	-0.12	-0.09	-0.18	-0.03	0.21	0.07	-0.29	**1.00**			
Equity Size	0.00	-0.08	-0.03	0.05	0.00	0.04	0.11	-0.07	**1.00**		
Equity Value	-0.22	-0.32	-0.23	-0.17	-0.07	-0.06	-0.01	0.05	0.07	**1.00**	
Rates Momentum	0.00	0.04	0.12	0.30	0.01	-0.07	0.03	-0.18	0.06	0.00	**1.00**

*Date range shown reflects the point at which equity momentum risk premium was added to the Strategy.

Source: Janus Liquid Alternatives Analytics, Janus Analytics and FactSet.

Risk premia correlation analysis is based on a model portfolio, and may differ from actual correlation. It is based on end-of-day holdings in the model portfolio.

The views expressed are those of the portfolio managers and do not necessarily reflect the views of others in Janus' organization. They are subject to change, and no forecasts can be guaranteed. The comments may not be relied upon as recommendations, investment advice or an indication of trading intent.

Global Diversified Risk Premia 8% portfolios, benchmarked to 3-Month USD LIBOR, seek absolute return with low correlation to stocks and bonds while targeting annualized volatility of 7-9%. Portfolios seek to generate returns by identifying and isolating diverse sources of potential return drivers, or risk premia, and combining these into a liquid portfolio. The Portfolio managers allocate according to risk across various premia that exist within traditional equity, fixed income, commodity, and currency asset classes. The composite was created in July 2013.

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