



JANUS CAPITAL  
Group

# Investment Outlook

from Bill Gross

October 2014

Dear Friends,

Dancing, or better yet as the beginning of my *Investment Outlook* suggests, being asked to dance, seems to have become an important part of my life over the past month or so. Having first been asked by my wonderful wife, Sue, and now by Dick Weil and Janus from a business standpoint, I write to you today from my desk in a new Janus office in Newport Beach, California. I am excited to be here and to begin a new chapter of my career. Before I get on with the main business of markets and investing in the attached *Investment Outlook*, I am of course aware that my change of employment has raised a lot of questions. I hope that you will understand that I cannot answer all of your questions, but here is what I can share with you.

*I am competitive as ever, and I expect to win for my clients... I look forward to serving you from my new seat at Janus.*

Let me address the most obvious question first: **Why did I leave PIMCO?** Had there been a reasonable way to continue there, I would have stayed to my last breath. I was honored by the trust of the millions of clients and thousands of employees over decades. They have been the center of my life's work. I am very proud of my record there for more than 40 years. PIMCO is a great firm with lots of great people, and Allianz was a fine owner for many years. But slowly and with great hesitation, I came to understand that it was time for me to leave. It happens sometimes to founders! But that is water under the bridge, as they say. I don't plan to address it further. Now let's talk about the future.

The second question on your minds may be "**Why Janus?**" My first professional loves were markets, investing and competing in that framework. I want to return to a simpler role, completely focused on markets, investment performance and serving my clients. It seems like a good time to turn away from the complexity of helping to run a huge firm. I have had a 20-year relationship with Janus CEO Dick Weil (10 of which include his working for me as PIMCO's Chief Operating Officer). When I asked him whether Janus might provide me with that simple opportunity, he responded with a very enthusiastic "yes," let's dance together. I am excited to work in a true partnership environment with people I trust. I want to help this team succeed. Most importantly, I want to continue to help clients achieve their goals. I am not ready to retire, so here I am.

I am focused on looking ahead. I have met some wonderful people at Janus, and I see great opportunities for the Janus Global Unconstrained Bond strategy. As a brand new strategy it is tiny, certainly compared to anything I have been used to in recent decades. But that opens the door to a lot of new strategies and opportunities to generate outperformance for my new (and hopefully many continuing) clients. I am also looking forward to working with my old friend and Nobel-laureate Myron Scholes on asset allocation and with the existing Janus fundamental, credit-based fixed income team. It is exciting for me, and I hope for you as well.

Although these changes are significant, the most important things have not and will not change. I am competitive as ever, and I expect to win for my clients. You can count on me to deliver my usual global macro insights and hopefully excellent portfolio management in the years ahead. So that's it. I look forward to serving you from my new seat at Janus.

Now, on to my first Janus *Investment Outlook*.

Sincerely,

William H. Gross

# You Only Dance Twice

No marriage ever seems totally complete. There is a missing link in almost all of them. Picture perfection belongs only in fairy tales and when it happens it almost always comes at the end of the story, when the princess kisses her frog prince and they live happily ever after. My 30-year marriage with Sue has been one of those – me the frog and she the princess – but never one of ultimate completion or fulfillment – until now. Happy as we were for all those years, there was always something missing, a trivial last puzzle piece to be sure, but a noticeable one nonetheless, at least to me:

We had never danced!

Although we had figuratively waltzed through those three decades, I had from time to time wondered about the actual dancing. Oh, there had been the perfunctory wedding box-step in front of a gawking audience of 40 or so, but nothing much ever since. Blame it on me or Sue, or both of our reluctances to make fools of ourselves. Yet every so often Sue had hinted of her “disco” years before we had met – the flowing skirts, the Travolta “Stayin’ Alive” twirl – and somehow I felt that the missing link must somehow be me. Young Bill, as I explained to her during frequent missed dancing opportunities through the years, had taken ballroom dancing in the fifth grade and had learned to do a pretty fancy “bop” step as well. Yet somehow I never took the final step, the one where you ask your partner to dance!



That all changed on September 2, 2014 – the day Sue asked me to dance! Maybe it was that extra vodka martini on her side of the table, maybe, as she said later that night, it was my “fluffy hair.” or maybe it was just the fated last piece of a puzzle coming together on the perimeter of what to me has been a uniquely wonderful marriage. Whatever. We danced!

I must tell you though that this was no ordinary dance. She – the ex-Disco Queen – and I the young student of Arthur Murray, strutted, boogied, discoed with moves that neither of us thought we could ever do – sober or even mildly inebriated. We dipped, we twirled, I even did a bop or two. Travolta would have been proud. We were “Stayin’ Alive!” Most of all, however we smiled! Not the perfunctory smile of our self-conscious wedding dance three decades before, but big, huge, free-flowing grins of having fun – real fun on a dance floor!

Midnight came as it does in most fairy tales, but I wondered no more what I had missed in the years before we had met and the 30 years since. My puzzle was complete. Sue had asked me to dance, and it turned out to be just like a fairy tale. Picture perfect.

Picture perfection or fairy tale endings do not describe the global economy or even its financial markets more than five years after its Minsky/Lehman moment. While U.S. bond and equity markets have been thrust into a seemingly safe outer orbit, the same cannot be said for other developed and developing nations. Many economies in turn have entered or are bordering on recessions with limited monetary firepower remaining to promote real growth. The dancing has begun to resemble the last stages of a 1920s marathon with partners clinging to each other in a desperate attempt to keep from falling down. The Charleston is a faded memory from yesteryear and the long ago apparition of the “Great Moderation.” What are policy makers, and more to the point, investors to do?

I have the following tough love advice – somewhat resembling the counsel given to me in recent weeks: there is a new financial era. Accept it and modify your behavior accordingly, so that your future is safe, secure, and you look forward to a brighter tomorrow. I will explain.

*I have the following  
tough love advice:  
there is a new  
financial era.*

*Accept it and modify  
your behavior  
accordingly...*

---

Financial markets are artificially priced. In the bond market, there is nothing normal about a three year German Bund yielding a “minus” 10 basis points. Similarly, UK Gilts and U.S. Treasurys have in recent years never experienced such low yields and therefore high prices. The same comparison can be applied to stocks. While profits in many cases are at record highs, the discounting of future profit streams by an artificially low interest rate results in corresponding high P/E ratios. Real estate cap rates, which help to price homes and commercial shopping centers, are affected in the same way. While monetary policy with its Quantitative Easing and forward guidance for low future interest rates have salvaged a semblance of growth and job gains – especially in the U.S. – they have brought prosperity forward in the financial markets. If yields can't go much lower, then bond market capital gains are limited. The same logic applies in other asset categories. We have had our Biblical seven years of fat. We must look forward, almost by mathematical necessity, to seven figurative years of leaner: Bonds – 3% to 4% at best, stocks – 5% to 6% on the outside. That may not be enough for your retirement or your kid's college education. It certainly isn't for many private and public pension funds that still have a fairy tale belief in an average 7% to 8% return for the next 10 to 20 years! What do you do?

Well the obvious advice on a personal level: Retire later, save more, accept a revised standard of living. But the financial advice varies with your age and willingness to take risk. Younger investors with a Texas Hold'em “all in” attitude could push all of their chips onto the equity table. Boomers nearing retirement probably cannot afford to. A lengthy bear market could force them permanently out of the game. So, one size does not fit all here. It never has.

What might be applicable for most generations, however, is an “unconstrained strategy” that I managed well for the past few years at PIMCO and which now provides me the opportunity for 100% of my time at Janus. An unconstrained strategy sounds very open-ended, and it is. But it allows a professional and experienced investment firm like Janus to select the most attractive alternatives across many asset categories while hopefully diminishing the risk of bond and stock bear markets. The strategy seeks to protect principal while providing an acceptable return in this low yielding, low returning world that I have just described. Unconstrained investors should expect a shorter average maturity for bonds; an ability to profit from currency movements currently taking place with the euro and the yen fits the description as well; taking advantage of what is known as “optionality” and investing in what I have successfully applied in the past with what is called “structured alpha,” would be an important component too. The simple explanation of an unconstrained strategy:

Take your best ideas within the context of a low duration/short maturity portfolio and try to help investors achieve what they consider to be an acceptable return. Watch the fees as well.

Whatever your risk/return persuasion, whether it be stocks, bonds, unconstrained, real estate, or “other,” an “intelligent investor” (as initially described by Benjamin Graham in the late 1940s) should be aware that returns almost necessarily cannot equal the magnificent prior decades that some of you might have experienced during my days at PIMCO. But I/we look forward, with the same intensity and “client comes first” attitude that led to my second marriage at Janus. James Bond famously said that “you only live twice.” I hope to emulate Mr. Bond as Janus Denver and Janus Newport Beach link hands and ideas to improve your financial balance sheet, and ultimately provide a better life for you and your family. Perhaps you only dance twice too. Sue and I would like that.

*-William H. Gross*

---

Issued in Europe by Janus Capital International Limited, authorised and regulated by the U.K. Financial Conduct Authority and by the Dubai Financial Services Authority as a Representative Office and also issued by Janus Capital (Switzerland) LLC, authorised and regulated in Switzerland by FINMA.

Issued in: (a) Taiwan R.O.C by Janus Capital Taiwan Limited, licensed and regulated by the Financial Supervisory Commission R.O.C., (b) Hong Kong and Australia by Janus Capital Asia Limited (ARBN 122 997 317), which is incorporated in Hong Kong, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Securities and Futures Commission of Hong Kong under Hong Kong laws which differ from Australian laws, and (c) Singapore by Janus Capital Singapore Pte. Limited (Company Registration No. 200617443N), holder of a capital markets services licence issued by the Monetary Authority of Singapore to conduct the regulated activities of fund management and dealing in securities.

In Australia, for wholesale client use only; In Taiwan R.O.C and the PRC, only available to select targeted institutional investors. In Singapore, only available to accredited and institutional investors as defined under section 4A of the Securities and Futures Act (Cap.289), and may not otherwise be distributed in Singapore.

The information contained in this document has not been submitted to or approved by the China Securities Regulatory Commission or any other governmental authorities in China. Janus Capital Group and its subsidiaries are not licensed or approved to publicly offer investment products or provide investment advisory services in the PRC. This document and the information contained in it is only available to select targeted institutional investors in the PRC. Not for public distribution or use in the PRC.

This document does not constitute investment advice or an offer to sell, buy or a recommendation for securities, other than pursuant to an agreement in compliance with applicable laws, rules and regulations. Janus Capital Group and its subsidiaries are not responsible for any unlawful distribution of this document to any third parties, in whole or in part, or for information reconstructed from this presentation and do not guarantee that the information supplied is accurate, complete, or timely, or make any warranties with regards to the results obtained from its use. As with all investments, there are inherent risks that each individual should address.

The distribution of this document or the information contained in it may be restricted by law and may not be used in any jurisdiction or any circumstances in which its use would be unlawful. Should the intermediary wish to pass on this document or the information contained in it to any third party, it is the responsibility of the intermediary to investigate the extent to which this is permissible under relevant law, and to comply with all such law.

This presentation does not constitute a public offer of securities in the Sultanate of Oman, as contemplated by the Commercial Companies Law of Oman (Royal Decree No. 4/74) or the Capital Market Law of Oman (Royal Decree No. 80/98), or an offer to sell or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman, as contemplated by Article 6 of the Executive Regulations to the Capital Market Law (issued by Ministerial Decision No. 4/2001).

This presentation is strictly private and confidential. It is being provided to a limited number of sophisticated investors solely to enable them to decide whether or not to make an offer to strategy to enter into commitments to invest in the Partnership Interests upon the terms and subject to the restrictions set out herein and may not be reproduced or used for any other purpose or provided to any person other than the original recipient.

Additionally, this presentation is not intended to lead to the making of any contract within the territory of the Sultanate of Oman.

The Capital Market Authority and the Central Bank of Oman take no responsibility for the accuracy of the statements and information contained in this presentation or for the performance of strategy nor shall they have any liability to any person for damage or loss resulting from reliance on any statement or information contained herein.

THE CENTRAL BANK OF BAHRAIN AND THE BAHRAIN STOCK EXCHANGE ASSUME NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS DOCUMENT AND EXPRESSLY DISCLAIM ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS DOCUMENT.

Past performance is not a guarantee of future results. There is no assurance that the investment process will consistently lead to successful investing.

The opinions are those of the authors 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.

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

This material may not be reproduced in whole or in part in any form, or referred to in any other publication, without express written permission. Send email requests to mediarequests@csg-pr.com. Janus is a registered trademark of Janus Capital International Limited. © Janus Capital International Limited.

For Institutional use, authorised persons and wholesale client Only. Not for public viewing or distribution. AS-1014(1)1114 EAPM Inst