

AUSTRALIAN FIXED INTEREST FUND

As at September 2021

Fund objective

The Fund seeks to achieve a total return after fees that exceeds the total return of the Benchmark, over rolling three-year periods.

Investment approach

The Fund is an actively managed portfolio of high quality interest bearing securities that seeks to provide a high level of capital protection. The Manager's investment approach is fundamentally driven and seeks to take advantage of situations where market pricing has become misaligned with economic and investment fundamentals. The Manager seeks to add value to the benchmark using a combination of active strategies including duration and yield curve management, sector allocation and security selection.

Benchmark

Bloomberg AusBond Composite 0+ Yr Index

Risk profile

Medium

Suggested timeframe

3 years

Inception date[^]

31 August 1994

Fund size

\$696.6 million

Minimum investment

\$25,000

Management cost (%)

0.45 p.a.

Buy/sell spread (%)

0.00/0.08^{^^}

Distribution frequency

(if any)
Quarterly

ARSN code

087 719 739

APIR code

IOF0046AU

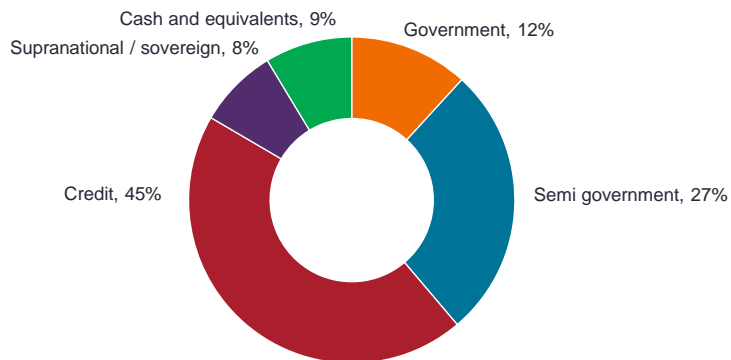
ASX mFund

JHI05

Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	-1.31	0.66	2.77	-0.07	5.07	3.88	5.34	7.24
Fund (net)	-1.34	0.53	2.53	-0.54	4.55	3.38	4.84	6.67
Benchmark	-1.51	0.31	1.84	-1.54	4.14	3.06	4.50	6.43
Excess return*	0.17	0.22	0.69	1.00	0.41	0.32	0.34	0.24

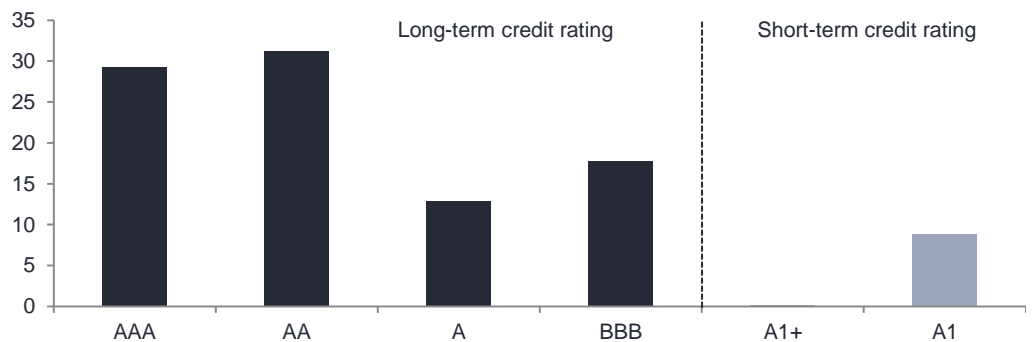
*Excess return is measured against net performance.
Gross return is Gross of Management costs and Sell Spread.
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM) ¹	1.32
Benchmark EWAYTM	1.04
Running Yield	1.67
Weighted Average Credit Quality	AA

¹ Estimated Weighted Average Yield to Maturity is a measure of the average annual yield of all securities in the Fund.

Modified duration	Years
Fund	5.63
Benchmark	5.84
Active Position	-0.21

Benchmark duration is as at month end and therefore does not include rebalancing.

[^] Fund inception for performance reporting purposes is at end of month, whereby the actual fund inception date may be earlier in the month.

^{^^} For more information and most up to date buy/sell spread information visit

www.janushenderson.com/en-au/investor/buy-sell-spreads

AUSTRALIAN FIXED INTEREST FUND

(continued)



Head of Australian Fixed Interest
Jay Sivapalan

Fund performance

The Janus Henderson Australian Fixed Interest Fund (Fund) returned -1.34% (net) and -1.31% (gross). The Fund outperformed the Bloomberg AusBond Composite 0+ Yr Index (Benchmark) by a solid 0.17% (net) in September, which fell -1.51% on the month. The Fund continues its outperformance, beating the Benchmark across all periods including by 1.00% (net) over the year, and 0.24% (net) since inception per annum. This outperformance demonstrates the very fruitful environment for active managers, in which superior relative returns can be delivered through active management of benchmark aware strategies.

Bond yields finished the month significantly higher. Bond markets were initially on alert to an imminent Evergrande default, but later in the month these concerns eased, and the market started to focus on the inflationary pressures building in the system as well as a clearer path by some central banks. This resulted in upward pressure on rates and a negative drawdown for bond markets. Given this Fund is a benchmark aware strategy, returns were still negatively impacted by the sell-off in bonds. However, pleasingly, the Fund was geared towards benefiting from a higher yield environment and the reopening of the two largest states and Australia more broadly. Given markets are forward thinking, and a pathway out of lockdown is imminent, several active strategies employed over recent months to limit drawdowns came to fruition in September. This resulted in a meaningful outperformance against the Benchmark.

The Fund's rates strategies are actively managed. The Fund was positioned with a shorter duration stance (versus the Benchmark) and a steepening bias, both of which occurred in September. This positive contribution cushioned some of the impact in what was a notable drawdown in bond markets in September. Inflation-linked bonds dipped in the month as higher yields and steady inflation break-even levels offset the monthly income.

In previous months, the Fund deployed a substantial amount of capital to the largest and strongest states. Our largest overweight position is to NSW, with the holdings accrued when the state was in its darkest hour and spreads were wide. As case numbers have steadied, vaccination levels have risen and with a clear exit strategy in place, spreads on NSW government debt contracted in September contributing favourably to the monthly return.

Credit spreads were slightly softer in September. Our focus has been on the sub-sectors that have been under pressure from the lockdowns such as airports, universities and REITs. These assets are starting to provide better overall total returns as the higher income is delivered whilst spread widening has steadied.

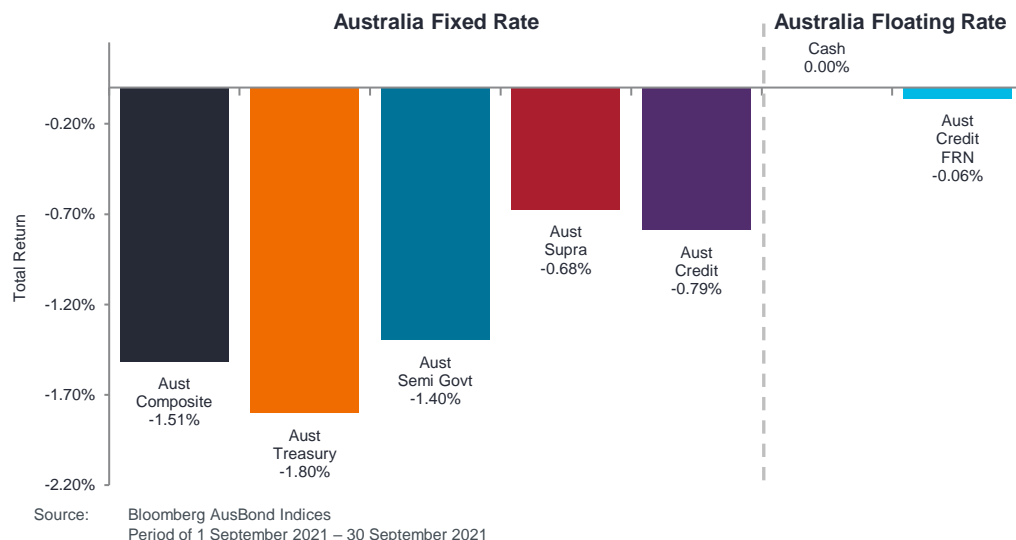
Market review

- A shift to a more hawkish stance by offshore central banks, higher energy prices and disruptions to global supply chains led to heightened financial market volatility. Equity and credit markets were weaker while inflation expectations edged higher.
- Economic data painted a picture of an economy doing well pre-lockdowns followed by a sharp fall in activity looking to have troughed in August. Labour market conditions deteriorated in August with hours worked and employment down sharply.
- A lift in term premia on more persistent than expected global inflation pressures saw 10-year and 30-year government bond yields end 33.5bps and 35bps higher at 1.49% and 2.37%.
- Credit markets were cautious digesting the implications of US Federal Reserve tapering and the potential for the default of Evergrande, a major Chinese property developer.
- The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index had a notable drawdown in September returning -1.51%.

AUSTRALIAN FIXED INTEREST FUND

(continued)

Spread sectors are likely to remain well-supported, with corporates in particular, continuing to benefit from the tailwinds of a cyclical recovery and persistent accommodative policy settings.



Market outlook

- The Australian economy will likely contract around 3% in the September quarter but rising vaccination rates and roadmaps out of NSW and Victorian lockdowns mean that the economy is far from out. We look for these two states to gradually reopen over the December quarter and enter into “catch up mode”.
- The sharp lift in longer government bond yields has restored significant value and compensation for term risk. We still see some modest upside risk as markets continue to adjust to conventional and unconventional monetary policy normalisation by a number of key offshore central banks.
- Spread sectors are likely to remain well-supported, with corporates in particular, continuing to benefit from the tailwinds of a cyclical recovery and persistent accommodative policy settings. We remain attracted to semi-government securities in the current low yield environment, particularly those issued by NSW which is close to coming out of lockdown.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Oct21

Investment strategy

Our north stars for investing are:

- Zero to ultra-low risk-free cash rates
- Navigate the range within bond yields, adding duration when they overshoot to the upside and taking profit when yields retreat
- Inflation protection when it's cheap
- Income bid (spread sectors, including credit)
- Invest with a cautious mindset – managing ESG/stranded asset risk and deploying capital to positive impact opportunities
- Aim to participate in any cyclical growth uplift

On strategy, the Fund continues to be positioned well to take advantage for further opportunities available to active managers centred around a theme of the reopening of the Australian economy. In addition, the expected proper re-opening of international borders in 2022 will support the recovery of several sectors reliant on foreign travellers. These industries that have been disproportionately hit by the pandemic have strong long-term fundamentals and are likely to have the largest rebound coming from a lower base.

AUSTRALIAN FIXED INTEREST FUND

(continued)

The sharp lift in 10-year government bond yields to 1.49% has restored significant value and compensation for term risk.

Sector allocation:
Interest rates:

The sharp lift in 10-year government bond yields to 1.49% has restored significant value and compensation for term risk. Our underweight duration and curve steepening bias has been a worthy contributor to performance in the month and we will monitor these positions closely now that rates have moved towards our view on fair value. We still see some modest upside risk as markets continue to adjust to conventional and unconventional monetary policy normalisation by a number of key offshore central banks.

Inflation-linked bonds: Although breakeven inflation rates have edged up towards the bottom end of the Reserve Bank of Australia's (RBA) 2-3% target band, we still see a role for some inflation protection given latent inflation pressures from a lower currency, challenged global supply chains and the wider opening up of the economy over 2022.

Semi-government bonds: We remain attracted to semi-government securities in the current low yield environment, particularly those issued by NSW which is close to coming out of lockdown. We recognise the risks of vaccines losing efficacy, or becoming ineffective against new strains, and the increased number of 'Delta' cases that are likely to eventuate as the states reopen. However, we weigh this against our positive macro-outlook for the reopening, strong fiscal position of the NSW government, the forward-looking political stance and the fact that these AA+ rated liquid government securities are still supported by the RBA under their QE program as overriding factors.

Investment grade credit: We remain positive about the outlook for credit, particularly those industries that have been hardest hit but offer high income while we wait for the recovery and inevitable capital gains. Tourism, airports, universities, and retail are set to benefit the most from the broader economic recovery as Australia gets a second wave of growth from pent up demand, latent savings and return to travel. We believe that the thematic is still strong and we expect these sectors to perform strongly as the economy opens. Equally, while we hold a favourable view on the credit sector in general, we have built up some credit protection via Credit Default Swaps (CDS) for any unexpected large left field events should they occur.

Environmental, Social and Governance (ESG):

From an ESG perspective, we continue to engage with intermediaries and issuers on growing Australia's positive impact bond market. It was pleasing to see more supply come to market as Woolworths Group issued its inaugural AUD sustainability-linked bond in 6 and 10-year tenors. Pricing at swaps +75 and +117 respectively. Each tranche was heavily over-subscribed by ~4x, demonstrating significant appetite for ESG labelled issuance from the domestic investor base.

Important information

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2021 is available at www.janushenderson.com/australia.

Past performance is not a reliable indicator of future performance. Performance source: Morningstar, Janus Henderson. Performance figures are calculated using the exit price net of fees and assume distributions are reinvested. The Gross performance methodology was updated at the end of March 2020 to reflect the Gross return to be Gross of Management costs and Sell Spread. Due to rounding the figures in the holdings, breakdowns may not add up to 100%. The information in this monthly report was prepared by Janus Henderson Investors (Australia) Funds Management Limited ABN 43 164 177 244, AFS Licence 444268 and should not be considered a recommendation to purchase, sell or hold any particular security. Securities and sectors mentioned in this monthly report are presented to illustrate companies and sectors in which the Fund has invested. Holdings are subject to change daily. This monthly report contains general information only and does not take account of your individual objectives, financial situation or needs. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. None of Janus Henderson Investors (Australia) Funds Management Limited nor any of the Janus Henderson group entities nor their respective related bodies corporate, associates, affiliates, officers, employees, agents or any other person are, to the extent permitted by law, responsible for any loss or damage suffered as a result of any reliance by any reader or prospective investor. You should consider the current PDS, available at www.janushenderson.com/australia, before making a decision about the Fund. Target Market Determinations for funds issued by Janus Henderson are available here: www.janushenderson.com/TMD. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.