

# AUSTRALIAN FIXED INTEREST FUND

## As at November 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<sup>^</sup>

31 August 1994

### Fund size

\$703.2 million

### Minimum investment

\$25,000

### Management cost (%)

0.45 p.a.

### Buy/sell spread (%)

0.00/0.08<sup>^^</sup>

### Distribution frequency

(if any)  
Quarterly

### ARSN code

087 719 739

### APIR code

IOF0046AU

### ASX mFund

JHI05

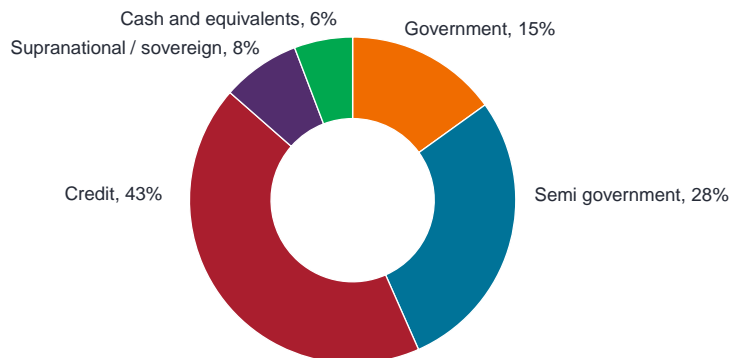
| Performance    | 1 month (%) | 3 months (%) | 6 months (%) | 1 year (%) | 3 years (% p.a.) | 5 years (% p.a.) | 10 years (% p.a.) | Since inception (% p.a.) |
|----------------|-------------|--------------|--------------|------------|------------------|------------------|-------------------|--------------------------|
| Fund (gross)   | 2.59        | -2.75        | 0.08         | -2.44      | 4.30             | 4.09             | 5.11              | 7.13                     |
| Fund (net)     | 2.55        | -2.85        | -0.14        | -2.89      | 3.80             | 3.59             | 4.61              | 6.57                     |
| Benchmark      | 2.08        | -3.04        | -0.56        | -3.23      | 3.35             | 3.30             | 4.22              | 6.32                     |
| Excess return* | 0.47        | 0.19         | 0.42         | 0.34       | 0.45             | 0.29             | 0.39              | 0.25                     |

\*Excess return is measured against net performance.

Gross return is Gross of Management costs and Sell Spread.

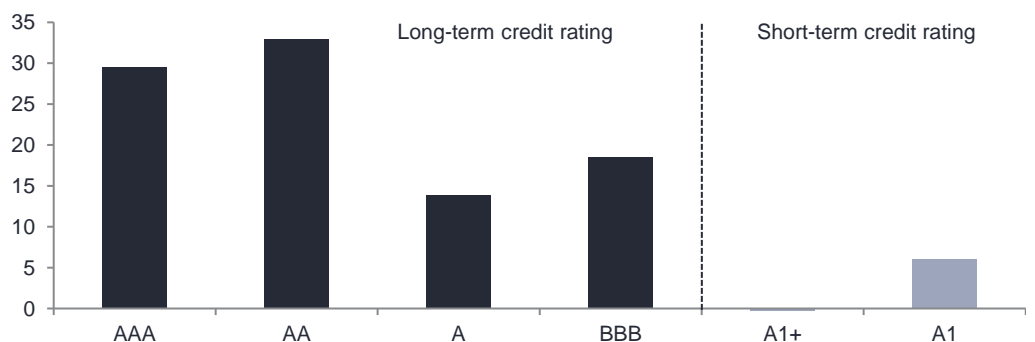
Past performance is not a reliable indicator of future performance.

## Sector allocation



Rounding accounts for small +/- from 100%.

## Credit rating distribution (%)



## Portfolio characteristics

|  |      |
|--|------|
| Estimated Weighted Average Yield to Maturity (EWAYTM) <sup>1</sup> | 1.70 |
| Benchmark EWAYTM   | 1.42 |
| Running Yield  | 1.79 |
| Weighted Average Credit Quality                                    | AA   |

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

| Modified duration | Years |
|-------------------|-------|
| Fund              | 6.20  |
| Benchmark         | 5.78  |
| Active Position   | 0.42  |

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

<sup>^</sup> Fund inception for performance reporting purposes is at end of month, whereby the actual fund inception date may be earlier in the month.

<sup>^^</sup> For more information and most up to date buy/sell spread information visit

[www.janushenderson.com/en-au/investor/buy-sell-spreads](http://www.janushenderson.com/en-au/investor/buy-sell-spreads)

# AUSTRALIAN FIXED INTEREST FUND

(continued)

Janus Henderson  
INVESTORS



**Head of Australian Fixed Interest**  
Jay Sivapalan

## Fund performance

The Janus Henderson Australian Fixed Interest Fund (Fund) returned 2.55% (net) and 2.59% (gross). The Fund outperformed the Bloomberg AusBond Composite 0+ Yr Index (Benchmark) by 0.47% (net) in November, which gained by 2.08% on the month. The Fund continues its outperformance, beating the Benchmark across most periods, including 0.34% (net) outperformance over the year, and 0.25% (net) since inception per annum.

November offered a fertile environment for active management given the rates market volatility. Opposing themes throughout the month kept rates in a tug-of-war. At times, there was upward pressure on yields as the markets digested global inflationary pressures, positive economic activity as lockdowns were lifted, central banks such as NZ raising rates while noting the Bank of England's intention to do so, and the tapering of asset purchases (and the potential acceleration of this by the US Federal Reserve (Fed) as indicated by Jerome Powell at month-end). Despite these pressures, yields were lower in the month as dovish comments by the Reserve Bank of Australia, COVID-19 lockdowns in parts of Europe and the uncertainty surrounding the new Omicron strain ensured a dominating risk-off tone. We were extremely active, taking advantage of intra-day and intra-month volatility in the rates market.

Rates strategies in the Fund are actively managed. The Fund moved to a longer duration stance, weighted towards the front end of the curve (~3 years), following the rates market sell-off in October. Markets had priced in the RBA tightening monetary policy with implied cash rate rises in early 2022, which was not in line with our base case forecast. We assessed this as an overshoot representing good value, essentially enabling investors to 'lock in' higher yields that had an implied higher cash rate setting baked into valuations. We also assessed the risk to even higher yields from there as asymmetric compared to the prospects of markets reassessing cash rate expectations and yields lower. This strategy paid off early in the month as dovish rhetoric from the RBA indicated that rate rises in 2022 were 'extremely unlikely'. The COVID-19 concerns that came later in the month also reinforced the idea that the RBA will be in no rush to act given the uncertainties that exist.

In addition to our active rates strategy, the Fund maintained a dynamic sector allocation which supported performance in the month. Inflation-linked bonds performed strongly as lower yields, emphasised by the longer duration mechanics of these bonds, offset the drift lower in inflation break-even levels. We added inflation-linked bonds when break-even levels fell outside the RBA target range, down to 1.90%, taking some profit in November as inflationary pressures built and rate expectations hit 2.30%.

The Fund holds an active overweight position to the NSW and Victorian state governments which was accrued when the states were in lockdown and spreads were wide. This positioning for the reopening was initially rewarded, as early economic indicators showed promising signs of a strong recovery. However, the emergence of Omicron and its potential to delay the recovery weighed on spreads into the month-end. We view these AA+ and AA rated liquid government securities, which are still supported by the RBA under their QE program, as a cautious way to be positioned for the reopening theme and are unlikely to significantly underperform in an alternate mishap scenario.

Credit spreads were softer in November. Our focus leading into the month has been on the sub-sectors that have been under pressure from the lockdowns, such as airports, universities and REITs. The beginning of the month was encouraging for these sectors and we took the opportunity to slightly de-risk the portfolio, including lightening up on airport bonds and RMBS given the tight valuations and uncertainty risk. We also added more credit protection in the form of tail risk hedging via Credit Default Swaps (CDS). We are cognisant that the risk to further readjustments in the credit market is elevated given the current health situation.

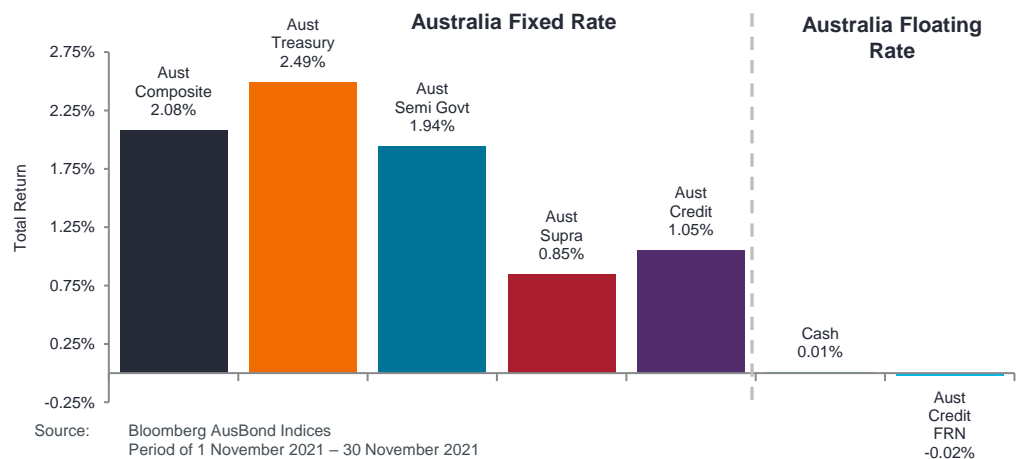
# AUSTRALIAN FIXED INTEREST FUND

(continued)

**Dovish commentary from the RBA and less hawkish than expected behaviour from offshore central banks was pegged against high inflation prints coming out of the US, Europe and Asia.**

## Market review

- Dovish commentary from the RBA and less hawkish than expected behaviour from offshore central banks was pegged against high inflation prints coming out of the US, Europe and Asia. Domestically, the reopening of the eastern states saw early-stage recovery underway with promising economic activity. Higher COVID-19 cases entering winter in the Northern Hemisphere resulted in lockdowns for the Netherlands, Slovakia and Austria and rising cases elsewhere in Europe and parts of Asia. These factors added volatility.
- The start of November saw the bond markets quickly retreat (from October's fall) and reprice as yields fell across the curve, while rates have continued to be buffeted around throughout the month. Yields took a further leg down as the threat of the new COVID-19 variant Omicron spooked markets towards the end of the month. In the final hours of trade for the month the Fed chair stirred up markets further by commenting that bond purchases might be tapered earlier, and it was time to retire the word 'transitory' regarding inflation.
- The story of rising global inflation continued as economies open up, commodity prices, shortages of key inputs and shipping disruptions, labour shortages and elevated energy prices have sustained inflation pressures.
- Credit markets grappled with inflation pressures, higher rate expectations, and a surge of COVID-19 cases in the northern hemisphere. A noticeable risk-off tone developed towards month-end.
- The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index rose by 2.08% over November, recovering more than half of the fall from October.



## Market outlook

- Our expectation for a fall in yields was realised over November. Even with the pullback, we see the three-year government bond yield at 0.90% at the time of writing as still offering some value given our view on the likely tightening profile by the RBA.
- The fall in 10-year government bond yields to 1.69% (at time of writing) is where we consider fair value and offers adequate compensation for term risk. Markets appear unsure of the next direction, as the current uncertainties from the COVID-19 situation tussles against global inflationary forces.
- Pockets of credit have begun widening from tight spread levels, and we expect some further softening as markets reconcile the ongoing threat of the pandemic while seeking greater liquidity premium as unconventional policies are being unwound.
- We continue to remain very active and selective in this environment, favouring relative value in sub-sectors set to benefit from reopening in Australia, whilst being cautious on overall credit beta, in preparation to access higher spreads should further volatility emerge.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Dec21](https://go.janushenderson.com/Viewpoint-Dec21)

# AUSTRALIAN FIXED INTEREST FUND

(continued)

The profound shift in market expectations for rate rises by the end of October was overdone in our view, with markets pricing in an overly buoyant pathway by the RBA.

## Investment strategy

- A gradual 'normalising' in cash rates around the globe lifting risk free yields
- 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
- Remain active with the ability to pivot should a derailment to the recovery unfold

The following is a summary of the key strategies in the Fund (at the time of writing):

The profound shift in market expectations for rate rises by the end of October was overdone in our view, with markets pricing in an overly buoyant pathway by the RBA. While we have been optimistic about the re-opening, we were cognisant of markets over pricing the RBA's pathway for rates, with or without the Omicron variant proving to be a threat to the global recovery. While it is too early to comment on the effect this strain will have, we are reminded of the pre-conditions for the RBA to raise rates, which is consistent with the timeline outlined in dovish commentary that a rate rise in 2022 is 'extremely unlikely', which was echoed in this month's monetary policy statement.

### Interest rates:

Our expectation for a fall in yields was realised over November. Even with the pullback, we see the three-year government bond yield at 0.90% at the time of writing as still offering value. The fall in 10-year government bond yields to 1.69% (at time of writing) is where we consider fair value and offers adequate compensation for term risk.

### Sector allocation:

**Inflation-linked bonds:** Though breakeven inflation rates have moved into the bottom end of the RBA's 2-3% target band, we still see a role for some modest inflation protection given cyclical pressures from challenged global supply chains and the wider opening up of the economy from late 2021. Recent comments by the Fed Chairman on inflation and retiring the word 'transitory' lends to the theory that the central bank is concerned about the emergence of persistent inflationary pressures.

**Semi-government bonds:** We remain attracted to semi-government securities, particularly those issued by NSW as the state comes out of lockdown. While the outlook is now a little less certain and we acknowledge that states are facing potential setbacks, we still hold a positive longer term macro-outlook for the reopening and view the 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 supportive factors.

**Investment grade credit:** If fears regarding the Omicron variant settle, spread sectors are likely to remain well-supported, with corporate fundamentals continuing to benefit from the tailwinds of a cyclical recovery and accommodative policy settings. That said, some pockets of credit have widened as we end November, and we expect some further softening as markets reconcile the ongoing threat of the pandemic and seek liquidity premium in a backdrop of unconventional policies being unwound. We continue to remain very active and selective in this environment, noting that it is not a time to be reliant on credit beta. We favour cautious positioning in sub-sectors set to benefit from the reopening theme, whilst being ready to act should the alternate scenario play out. We have built up some credit protection via CDS which we will continue to hold as a tail risk hedge in the Fund.

# AUSTRALIAN FIXED INTEREST FUND

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From an ESG perspective, we continue to engage with intermediaries and issuers on growing Australia's positive impact bond market.

## 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 the trend towards ESG themed issuance continued and we seek to participate where valuations make sense.

## Important information

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2021 is available at [www.janushenderson.com/australia](http://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](http://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](http://www.janushenderson.com/TMD). Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.