

# AUSTRALIAN FIXED INTEREST FUND

## As at December 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

\$716.9 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

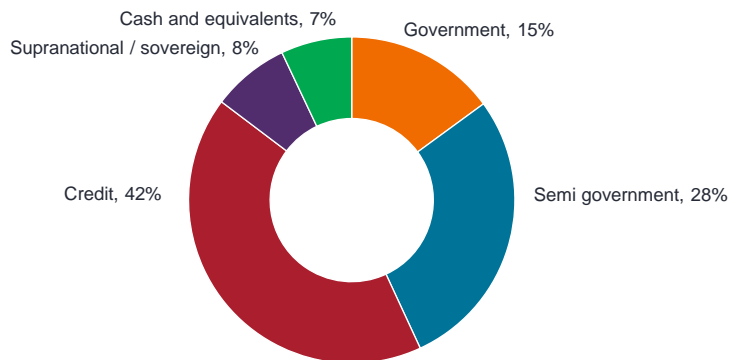
### ASX mFund

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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)	0.26	-1.20	-0.55	-2.15	3.98	4.17	5.06	7.12
Fund (net)	0.22	-1.31	-0.78	-2.60	3.47	3.67	4.56	6.56
Benchmark	0.09	-1.46	-1.15	-2.87	2.86	3.36	4.15	6.31
Excess return*	0.13	0.15	0.37	0.27	0.61	0.31	0.41	0.25

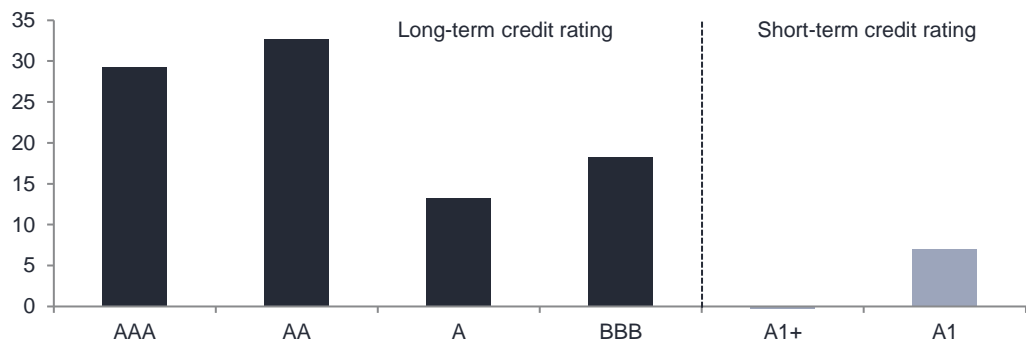
\*Excess return is measured against net performance.  
Gross return is Gross of Management costs and Sell Spread.  
Past performance is not a reliable indicator of future performance.

## Sector allocation



Rounding accounts for small +/- from 100%.

## Credit rating distribution (%)



## Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM) <sup>1</sup>	1.71
Benchmark EWAYTM	1.46
Running Yield	1.80
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	6.10
Benchmark	5.79
Active Position	0.31

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)



**Head of Australian Fixed Interest**  
Jay Sivapalan

## Fund performance

The Janus Henderson Australian Fixed Interest Fund (Fund) returned 0.22% (net) 0.26% (gross). The Fund outperformed the Bloomberg AusBond Composite 0+ Yr Index (Benchmark) by 0.13% (net) in December, which gained by 0.09% on the month. The Fund continues its outperformance, beating the Benchmark across all periods including by 0.27% (net) over the year, and 0.25% (net) since inception per annum.

December was the final episode of a tumultuous bond market environment, with bond yield movements mixed and volatile, while spread sectors slightly outperformed after November Omicron jitters.

Rates strategies in the Fund are actively managed. The Fund had a modest level of value add from rate strategies, yield curve positioning, duration and inflation-linked bonds. The long position in the 3-year part of the curve was modestly reduced, while the Fund maintained its broadly neutral duration position on the longer end.

In credit, sector positioning skewed towards the re-opening theme sectors and was relatively resilient as market participants looked through the Omicron variant. However, the December performance was somewhat hampered by some credit protection that was purchased at the onset of Omicron to protect the Fund should credit respond unfavourably to the new strain.

Reflecting on the whole year, 2021 had its trials and tribulations with a volatile rate environment, ultimately residing in a 70bp rise of yields in the 10-year part of the curve. An improvement in economic fundamentals and nearing of 'lift off' in monetary policy were the dominant drivers of the higher bond yields, which saw the bond market return -2.87% for the 2021 calendar year. Meanwhile, credit market returns were much more modest than the prior year. The Bloomberg AusBond Credit 0+ FRN Index returned a 0.32% return, in a year where coupon income was partially eroded from capital price falls (wider spreads).

Given this Fund is a benchmark aware strategy, the Fund was impacted by the significant bond market drawdown and underwhelming credit performance in 2021. However, pleasingly the Fund did manage to meaningfully outperform its Benchmark (by 0.27% net), demonstrating the value of active management.

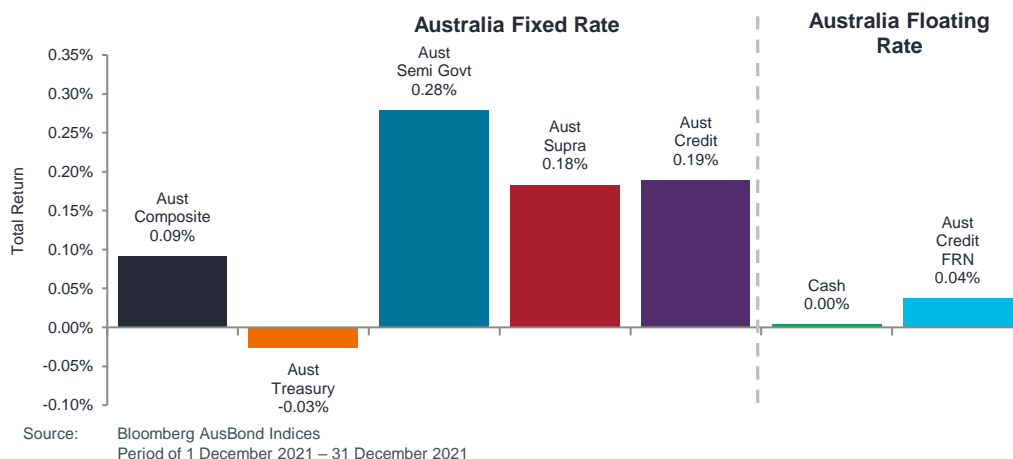
## Market review

- Investor concerns shifted from fretting about inflation and the timing and speed of offshore central bank tightening, to calibrating the impacts of the rapidly spreading Omicron variant.
- There was some flattening in the yield curve, with shorter-dated yields higher and longer-dated yields mixed.
- In credit markets, sentiment was sensitive to Omicron news flow, which also coincided with reduced liquidity and conservative investor positioning ahead of the holiday season. While early findings are for lower severity as it relates to health outcomes, the sheer contagiousness of Omicron has resulted in mobility restrictions being reimposed globally, with associated negative impacts on economic activity expected going into the new year.
- The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index rose by 0.09% over December.

# AUSTRALIAN FIXED INTEREST FUND

(continued)

Markets are priced for a 0.75% cash rate by the end of 2022 and 1.25% by mid-2023.



### Market outlook

- Markets are priced for a 0.75% cash rate by the end of 2022 and 1.25% by mid-2023. While we agree there will be some cash rate tightening (from accommodative to neutral settings), our view is that current market pricing for lift-off is too early.
- Instead, we look for the initial lift in the cash rate early in 2023 and for a 1% cash rate by the end of 2023. We have sympathy for the overall narrative but suspect more time will be needed for tightening labour market conditions to translate into higher wages.
- If health systems can cope with the Omicron caseload, spread sectors are likely to remain well-supported, with corporate fundamentals continuing to benefit from the tailwinds of a cyclical recovery and cashed-up consumers. Though monetary conditions are set to normalise, it is worth bearing in mind that overall settings still remain accommodative and pro-cyclical.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Jan22](https://go.janushenderson.com/Viewpoint-Jan22).

### Investment strategy

Our north stars for investing are:

- 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):

#### Interest rates:

We see the three-year government bond yield of 0.91% (at month end) as broadly fairly valued. At the longer end, we see the 10-year government bond yield at 1.67% (month end levels) as being modestly expensive with the recent rally eroding term premia at a time of heightened inflation risk.

# AUSTRALIAN FIXED INTEREST FUND

(continued)

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**Our inflation protection strategies continue to bear fruit, with breakeven inflation rates moving up towards the middle of the RBA's 2-3% target band.**

## Sector allocation:

**Inflation-linked bonds:** Our inflation protection strategies continue to bear fruit, with breakeven inflation rates moving up towards the middle of the RBA's 2-3% target band. We still see a role for some modest inflation protection given the risk of cyclical price pressures finding their way into both higher core inflation and inflation expectations.

**Semi-government bonds:** We continue to be attracted to semi-government securities, particularly those issued by NSW as it continues to come out of lockdown despite Omicron headwinds which are impacting economic activity. We hold a positive longer term macro-outlook for the state and the strong fiscal position of the NSW government. These are AA+ rated liquid government securities that are still supported by the RBA under their QE program.

**Investment grade credit:** We favour cautious positioning in sub-sectors set to benefit from the country re-opening theme with authorities currently looking to live with the Omicron variant. We remain mindful and attentive to opportunities that may arise as markets react to the variability posed by pandemic conditions. We have built up some credit protection via CDS which we will continue to hold as a tail risk hedge in the Fund.

## 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 in 2021 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.