

AUSTRALIAN FIXED INTEREST FUND

As at June 2022

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

\$724.0 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

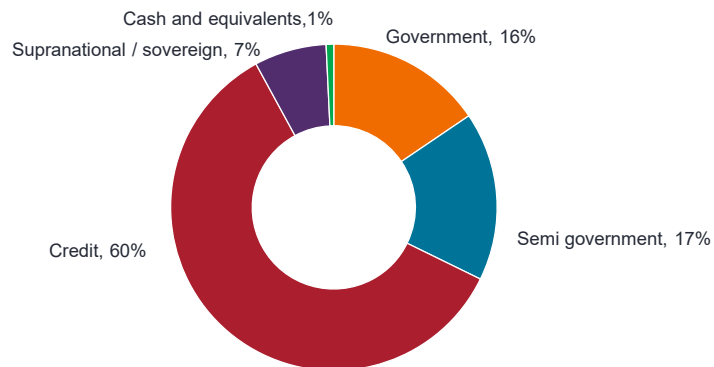
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	-1.98	-4.98	-11.54	-12.02	-2.13	1.11	3.20	6.52
Fund (net)	-2.00	-5.09	-11.73	-12.42	-2.60	0.63	2.71	5.96
Benchmark	-1.48	-3.81	-9.46	-10.51	-2.58	0.87	2.58	5.81
Excess return*	-0.52	-1.28	-2.27	-1.91	-0.02	-0.24	0.13	0.15

*Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

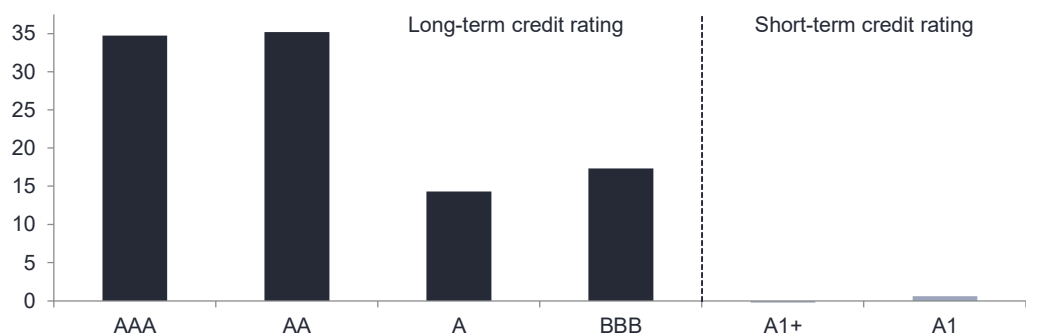
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM) ¹	4.56
Benchmark EWAYTM	3.55
Running Yield	3.29
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	6.61
Benchmark	5.22
Active Position	1.39

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

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(continued)



Head of Australian Fixed Interest
Jay Sivapalan

Fund performance

The Janus Henderson Australian Fixed Interest Fund (Fund) returned -2.00% (net) -1.98% (gross). The Fund underperformed the Bloomberg AusBond Composite 0+ Yr Index (Benchmark) by -0.52% (net) in June, which fell by -1.48% on the month. However, the Fund has returned 5.96% (net) since inception per annum.

Bond markets sold off in mid-June with the magnitude of yield movements resembling something that's normally witnessed over a one-year time frame, not one week! From when bond yields were at their lows to the peak mid-month, the drawdown of the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index (equally weighted) represented -15%. This was the largest fall observed in more than 40 years – a three standard deviation event. This complexity comes not only from a normalisation of cash rates but also an unwinding of unprecedented, unconventional policy that has artificially pushed bond yields to 100-year lows during the pandemic period.

Globally coordinated central banks, and a follow through of early action with higher rates should have sufficient impact to cool pockets of consumption and soften labour price bargaining. This need for central banks to keep raising rates will reduce thereafter. While markets are moving back towards our assessment of fair value, we still believe that the bond market has overpriced the actual tightening cycle that the Reserve Bank of Australia (RBA) will undertake. While market pricing has resulted in negative performance, it has given us the opportunity to 'lock in' very good yields for the Fund at elevated levels in the context of the last few years. We are prepared to ride this volatility as we 'lock in' these higher rates, noting there is plenty to go on the pathway for interest rates.

Inflation-linked bonds underperformed nominal bonds over the month as inflation expectations drifted lower.

The Fund has de-risked its semi-government exposure in previous month, taking profit and neutralising the position.

Global credit markets weakened further in June as recessionary fears gained momentum. Expectations of higher interest rates, increased cost of living pressures and easing property prices showed up with sharply falling levels of consumer confidence over May/June. The bigger falls were in the low quality credit sectors such as global high yield, emerging markets and loans. The Fund's credit exposure is in higher quality credit sectors which performed relatively better.

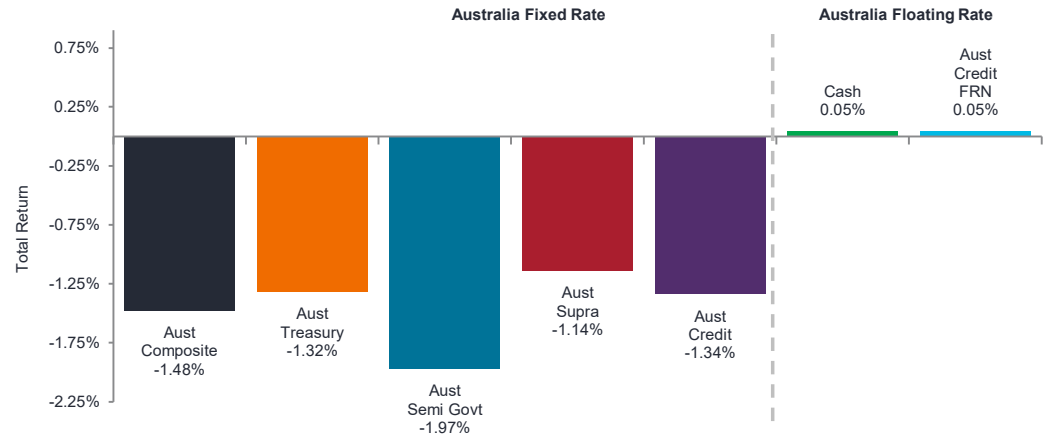
Market review

- The Reserve Bank of Australia (RBA) lifted the cash rate by a larger than expected 0.5% in early June.
- Domestic yields peaked following the RBA's decision to lift the cash rate by 0.50% to 0.85% early in the month and signal further moves over the period ahead.
- As a result, yields were higher in the month, despite a late month pull back. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index (equally weighted), remained in bear market territory falling by 1.48% over the month and 10.51% over the financial year.
- Risk appetite fell on rising recession risks with equity and credit markets significantly weaker. The Australian iTraxx Index widened sharply, closing the month 35bps wider at 130bps. The Australian fixed rate credit market returned -1.34%, negatively influenced by rising bond yields and spread.

AUSTRALIAN FIXED INTEREST FUND

(continued)

Our base case view is for the cash rate to lift by 50bps at the July and August meetings before tightening increments return to 'business as usual' 25bps increments.



Source: Bloomberg AusBond Indices
Period of 1 June 2022 – 30 June 2022

Market outlook

- With risks rising of higher cyclical inflation becoming entrenched, the Federal Reserve (Fed) moved to front-end load policy tightening. The RBA has joined the central bank pivot, with the Governor signalling that accommodative conditions were no longer required and to expect further tightening.
- However, we view that pricing is overdone. At one stage markets were discounting a 3.6% cash rate by December, lifting to 4.2% by mid-2023. While market pricing has pulled back somewhat, markets are still factoring in a 3.1% cash rate by December and 3.75% by mid-2023 and averaging just under 4% over the next decade, at the time of writing.
- Our base case view is for the cash rate to lift by 50bps at the July and August meetings before tightening increments return to 'business as usual' 25bps increments. We look for the cash rate to lift to 2.6% by December, and peak at 2.85% in H1 2023.
- Uncertainty about the durability of the current expansion and cyclical cost pressures are likely to contribute to ongoing volatility in credit markets.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Jul22.

Investment strategy

Interest rates:

We continue to see some value in the mid-part of the yield curve as market pricing does not see the Australian economy responding to an extended period of tight monetary policy. We remain agnostic on the longer end of the yield curve.

Sector allocation:

Inflation-linked bonds: We have taken profit on most of our inflation-linked securities. We expect tighter monetary conditions to grip, growth to slow and inflation to head back into the target band.

Semi-government bonds: We have de-risked our overweight to semi-government bonds, favouring high quality pockets of the credit market.

Investment grade credit: These periods of uncertainty can provide opportunities when spread widening is more than fundamentals. We remain active and selective, favouring relative value within sub-sectors, whilst being judicious on overall credit beta. Recent spread widening has allowed us to access high-quality, liquid names at attractive levels.

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(continued)

Issuance in the domestic sustainable bond market has risen rapidly this year.

Environmental, Social and Governance (ESG)

Issuance in the domestic sustainable bond market has risen rapidly this year. We participate in the deals where valuations make sense for our portfolios and we continue to engage with intermediaries and issuers on growing Australia's positive impact bond market. Additionally, ESG integration in our process has helped to avoid pitfalls. This limits the portfolio's risk to stranded assets and those assets susceptible to climate variability (e.g. floods).

Our investment focuses are:

- A 'normalising' in cash rates around the globe lifting risk-free yields;
- Navigating bond markets, adding duration when yields overshoot to the upside and taking profit when yields retreat;
- Inflation protection when it's cheap;
- Targeted income bid (spread sectors, including credit), but wary of the policy support tide going out;
- Using credit protection for left field events and policy mistakes;
- Investing with a cautious mindset – managing ESG/stranded asset risk and deploying capital to positive impact opportunities;
- Aiming to fully participate in the cyclical growth uplift;
- Remaining active and able to pivot should a derailment to the recovery unfold;
- Aiming to 'lock in' attractive yields for investors.

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.