Janus Henderson

AUSTRALIAN FIXED INTEREST FUND

Janus Henderson INVESTORS

As at January 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
$644.6 million

Minimum investment
$25,000

Management cost (%)
0.47 p.a.

Buy/sell spread (%)
0.00/0.08^

Distribution frequency
Quarterly

ARSN code
087 719 739

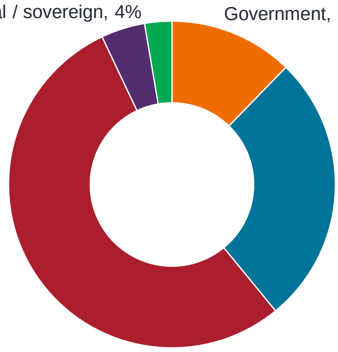
APIR code
IOF0046AU

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)	-0.46	-0.07	1.34	4.53	6.17	4.96	6.14	7.45
Fund (net)	-0.51	-0.20	1.12	3.96	5.64	4.45	5.63	6.88
Benchmark	-0.42	-0.80	0.12	1.68	5.36	4.22	5.45	6.63
Excess return*	-0.09	0.60	1.00	2.28	0.28	0.23	0.18	0.25

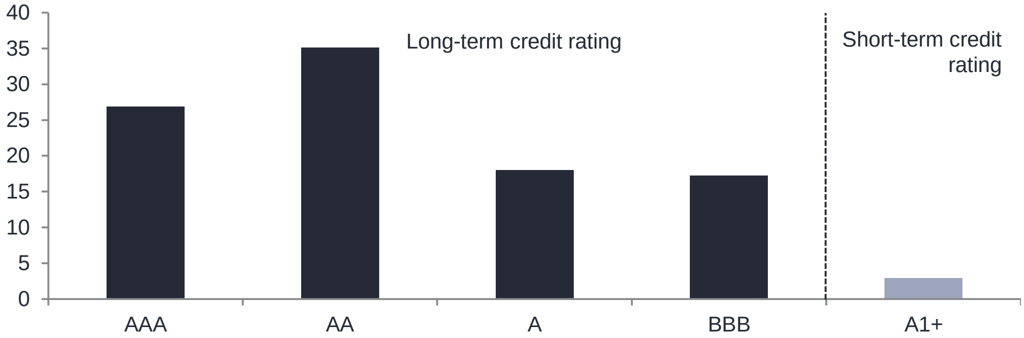
*Excess return is measured against net performance.
Gross return is Gross of Management costs and Sell Spread.
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM)[1]	1.24
Benchmark EWAYTM	0.74

[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	6.69
Benchmark	6.01
Active Position	0.68

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

^ 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)

Janus Henderson INVESTORS

Head of Australian Fixed Interest
Jay Sivapalan

Fund performance

The Janus Henderson Australian Fixed Interest Fund (Fund) returned -0.51% (net) and -0.46% (gross). The Fund slightly underperformed the Bloomberg AusBond Composite 0+ Yr Index (Benchmark) by 0.09% (net) in January, which fell -0.42% on the month. However, it continues its outperformance across all other periods beating the Benchmark net of fees by 0.60% over the quarter, 2.28% over the year, and 0.25% annualised since inception. Over the 2020 calendar year, the Fund also delivered very strong performance for investors against its objectives and Benchmark.

The Fund seeks to preserve capital during falling markets and enhance returns at other times. This is primarily achieved through active asset allocation across rates strategies (including long duration fixed interest and floating rate) and sector strategies (risk free and various spread products). Sector allocation contributed positively to overall outperformance in January versus the Benchmark, while a modest overweight duration position detracted from returns as bond yields rose in the month. The steepening of the yield curve in January lent to active intra-month management in interest rate (duration) management. We took advantage of the steep curves whilst reducing the Fund's sensitivity to rising bond yields.

Semi-government bond performance was down over the month, but outperformed treasuries. The rise in bond yields at the long end, offset the coupon income. Issuance was generally quiet over the month, until the RBA re-started its bond purchasing program and semi-government bonds began issuing again in the latter part of the month. This has resulted in the semi-government spreads tightening, following a period of stability in the aftermath of the budget announcements and ratings downgrade sell off towards the end of 2020.

Perhaps one of the biggest contributors to relative performance of late has been the Fund's exposure to inflation-linked bonds, where breakeven rates (inflation expectations) rose again during January. While the rollout of the vaccine in the US and Europe, together with a higher domestic CPI print lifted inflation expectations. The Fund has a good level of exposure to inflation protection via these securities.

Credit in its various forms had another good month in January. The spread tightening on corporate investment grade credit was a decent contributor for performance over the month. The recent addition of cyclical names benefitted the Fund as the vaccine draws near in Australia. The Fund continues to maintain a high allocation to recession-proof, sleep-well-at-night industries to balance out the cyclical issuers (major airports, toll roads, large diversified lowly geared property trusts) which will likely perform well in a post-vaccine world.

Market moves

Bond markets began 2021 on a slightly softer tone after delivering a strong result in the 2020 calendar year for investors.

Expectations for a post-vaccine global rebound were buoyed by further proposed fiscal easing from the new Biden Administration and US Federal Reserve (Fed) signalling of a long period of accommodative monetary settings. Burgeoning sovereign debt supply saw yield curves steepen and inflation expectations edged higher. Credit markets were relatively solid.

Yields at the shorter end of the yield curve remained anchored around the Reserve Bank of Australia's (RBA) 0.10% cash and three-year government bond yield target. The three-year government bond edged up to 0.113% before ending the month at 0.111%.

Longer-dated government bond yields continued to lift, mimicking offshore moves as growth and inflation expectations were revised up and markets adjusted to significant sovereign issuance. Despite a brief risk-off period and Fed indications that there would be no premature end to its Quantitative Easing (QE) programme, the 10-year government bond yield ended the month 16 basis points (bps) higher at 1.13%. The 30-year government bond finished 19bps higher at 2.14%.

Money market rates remained very low given the 0.10% official cash rate and RBA forward guidance for an extended period of highly accommodative policy. Three-month bank bills ended the month unchanged at 1bps, while six-month bank bills ended 0.5bps lower at 1.5bps.

AUSTRALIAN FIXED INTEREST FUND

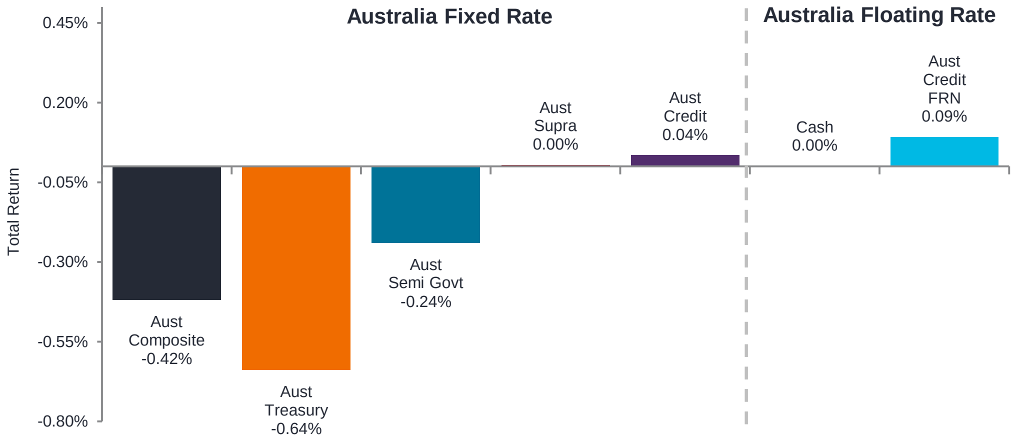
(continued)

Partial demand indicators pointed to strong momentum over the December quarter, with strong gains in business conditions and building approvals though the most recent round of border closure knocked consumer and business confidence lower.

After some profit taking activity seen heading into the new year, 2021 started on a positive note for credit market performance despite uncertainty over another round of state border closures. Reinvestment of bank senior maturities and cash built up over the holiday period saw spreads rally on both floating rate financials and corporate bonds as the alternative of sitting in cash at 0.0% remains undesirable for investors. Bank floating rate note (FRN) spreads rallied 3bps lifting returns to 0.09%, while spreads on corporate investment grade bonds tightened 5bps helping lift returns into positive territory.

Higher yielding spread sectors like bank hybrids and subordinated debt outperformed returning between 0.2-0.6% as a reasonable level of income remains in high demand. Cash bonds outperformed synthetic indices, with the iTraxx Australia Index widening 7bps in spread to 63bps following weakening in offshore derivatives over the month.

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, ended January 0.42% lower.



Source: Bloomberg AusBond Indices
Period of 1 January 2021 – 31 January 2021

Market review

Partial demand indicators pointed to strong momentum over the December quarter, with strong gains in business conditions and building approvals though the most recent round of border closure knocked consumer and business confidence lower.

Labour market conditions continued to improve with strong lifts in hiring intentions recorded. The number of jobs lifted by 50,000 in December, bringing the total number of jobs added since May's lockdown low to 784,000. The unemployment rate ended 2020 at a better than expected 6.6%.

On the prices side of the economy, the December quarter Consumer Price Index (CPI) came in stronger than expected. Headline inflation rose by 0.9% and was boosted by higher childcare costs as earlier support was withdrawn and higher tobacco prices. Most price gains reflected policy decisions rather than stronger demand. The average of the RBA's underlying inflation measure rose by 0.5% for a 1.3% yearly rate.

With the RBA Term Funding Facility (TFF) substituting supply of senior bank notes, the local primary market had a very quiet start to the year. University of Melbourne (AA+ rated) issued a $150m of 10-year bonds at a yield of 1.97% to refinance their upcoming 2021 maturity, while Mercedes Benz issued $150m of a 3-year maturity at 0.75% yield. The main primary supply of note was Westpac issuing $1.25bn of a new 10 non-call 5-year subordinated note at a spread of 1.55%. In total, the $1.55bn of Australian dollar credit supply was materially less than the $4.2bn of credit maturities for the month. NAB, Macquarie Group and ANZ all chose to issue in offshore markets, with a combined $4.4bn of TLAC eligible supply finding very robust demand from global investors.

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Market outlook

The global and Australian economies are entering a recovery year as vaccination programmes are rolled out and policy settings remain supportive. In their latest forecast run, the International Monetary Fund (IMF) look for 2021 world growth to lift by 5.5% after falling by 3.5% in 2020. For 2022, they forecast 4.2% growth.

Following stronger domestic partial demand data, we have lifted our 2020 Australian economy growth forecast and now look for the economy to contract by 2.75%. For 2021, we look for the economy to lift by 5% which should see the economy return to the same size it was at the end of 2019 towards the end of the year.

Spare capacity remains though, and when combined with weak wages growth and a stronger currency, should act to keep medium term underlying inflation low. There is scope for a near-term lift in goods prices as strong consumer demand meets low stock levels, but this should fade as domestic and global production ramps up.

The global and domestic yield curve (cash 10-year spread) has steepened since late 2020 as markets factored in a cyclical rebound. This steepening occurred despite central bank asset purchase programmes and represents a tightening in financial conditions cet par. Market conviction in the recovery story is high with five-year, five-year forward rates (a proxy for the longer run cash rate) in the US rising back to pre-COVID-19 levels and in Australia's case, to levels not consistently seen since mid-2019.

While some curve steepening should be expected given the improved outlook, we are mindful of periods where markets can get ahead of themselves. Recent currency strength and an eventual shift in the fiscal pulse from positive to negative should act as drags on growth and require the RBA to keep monetary conditions accommodative. An expansion/extension of its QE programme may be warranted to support medium term growth prospects.

Investment strategy

Generically, we can say that 2021 will be a year that the bond market is likely to deliver quite a few negative monthly returns as higher bond yields get tested, so it is prudent to tread with a sense of caution and preserve capital for our investors.

The policy makers will be mindful of facilitating a sustainable recovery and responding to any vulnerabilities that may arise, such as new COVID-19 strains, effectiveness of the vaccine, delays in the distribution, and the uneven roll out to certain countries. Domestically, near term issues will be the trading disputes with China and the direct impacts of on and off border closures. It will be a while away before we can expect freedom of travel and large contributors to the economy from export sectors such as education and tourism, that will continue to struggle throughout 2021.

Our north stars for investing are:

- Zero to ultra-low risk-free rates
- Inflation protection when its cheap
- Income bid (spread sectors, including credit)
- Invest with a recession mindset – avoid default heavy areas
- Aim to participate in any cyclical growth uplift

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

Interest rates:
We expect that the vaccine roll-out will continue to see markets price in better growth prospects, with bond yields to remain elevated and the curve steep. We are generally running a lower level of interest rate duration than otherwise and are opting for a cautious approach in order to preserve capital. But equally when the cash rate is at 0.10%, investors are being adequately compensated for term risk and therefore, we have some embedded yield curve exposures to take advantage of this. The play of central banks hasn't changed materially, and money will remain cheap in 2021.

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(continued)

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Sector allocation:

Semi-government bonds: An overweight position on these low risk assets was a strong contributor to performance throughout 2020. Just prior to the ratings downgrade, we trimmed some of our holdings on NSW and Vic. With the downgrade risk resolved, and the RBA buying semi-government bonds, pricing has tightened further on these securities. Whilst our base case is that stimulus driven liquidity will keep a lid on spreads, the cushion from spread carry and also the potential for spread compression has now largely been diminished. We will use opportunities to continue trimming.

Investment grade credit: In credit, solvency risks have somewhat eased, which should bode well for corporate debt assets. We expect spread sectors to be supported by a continued accommodative stance from governments and central banks and investor demand for income. But caution needs to be had when investing in industries that have been disproportionately hit from the pandemic and those that will naturally recover.

Generally, in credit, we prefer fixed rate bonds over floating rate, as we take advantage of the steeper curve and the pick-up to the low rates of floating rate securities which are set against the Bank Bill Swap Rate (BBSW). We are comfortable with the reward for risk premium that the longer maturities offer.