

# AUSTRALIAN FIXED INTEREST FUND

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

31 August 1994

### Fund size

\$737.0 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

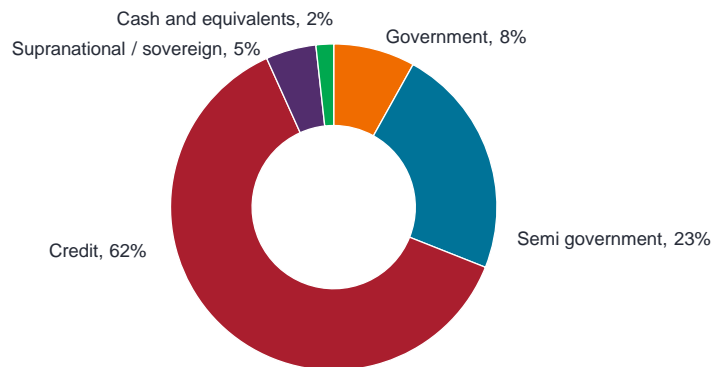
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	-2.60	-0.67	-7.93	-12.59	-2.41	1.30	3.16	6.53
Fund (net)	-2.63	-0.77	-8.14	-12.97	-2.88	0.82	2.67	5.97
Benchmark	-2.54	-0.76	-6.74	-11.50	-3.14	0.97	2.55	5.80
Excess return*	-0.09	-0.01	-1.40	-1.47	0.26	-0.15	0.12	0.17

\*Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

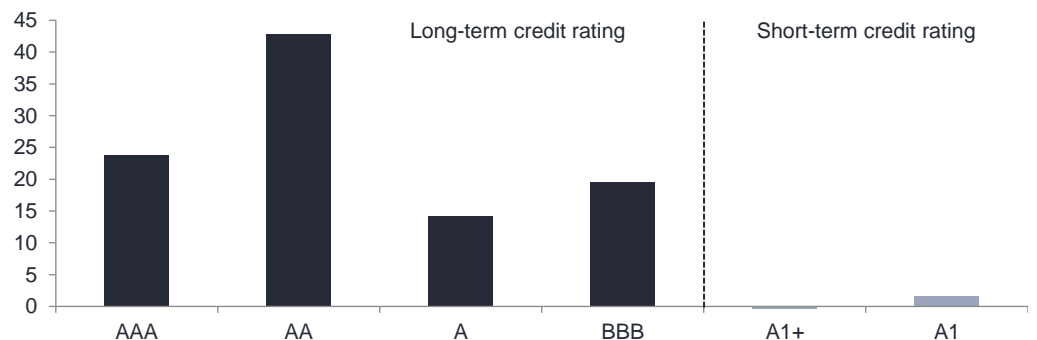
Past performance is not a reliable indicator of future performance.

## Sector allocation



Rounding accounts for small +/- from 100%.

## Credit rating distribution (%)



## Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM) <sup>1</sup>	4.56
Benchmark EWAYTM	3.64
Running Yield	3.56
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	5.79
Benchmark	5.27
Active Position	0.52

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 -2.63% (net) -2.60% (gross). The Fund underperformed the Bloomberg AusBond Composite 0+ Yr Index (Benchmark) by -0.09% (net) in August, which fell by -2.54% on the month..

During August the primary driver of any underperformance was bond yields rising, as well as some impact from semi governments, bond swap, and non financial credit. Following the big rally in bond markets from mid-June to mid-August, we cut duration across all of our strategies materially, in most cases by 50%. As yields started rising again in the latter part of August, we recommenced adding back in some duration. The environment we are in is not conducive to a 'set and forget' strategy on duration, in our view it needs to be actively navigated. The past four months are a good example of the importance of active management.

Healthy yield levels and increases in cash rates are beginning to generate stronger total returns from yield income each month. Favoured allocations to high quality credit sectors like bank senior and covered bonds performed well over the month and was a positive contributor to returns. Major bank Tier 2 allocations materially outperformed other corporate credit during the month contributing positively.

Whilst the Fund now employs a healthy 'Yield-To-Maturity' and income is coming through, the volatility in bond markets is still impacting performance. We have seen these events through other market cycles and patience is required to navigate this environment.

## Market review

Against this backdrop, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, fell 2.54%, unwinding some of July's 3.36% gain. Higher bond yields were the main detractor from the bond market performance over the month, somewhat cushioned by a reasonable return from Australian investment grade credit.

The Reserve Bank of Australia (RBA) lifted the cash rate by another widely expected 0.5% increment in early August to 1.85%. Short-term money market yields continued to rise as markets discounted further tightening. The three-month bank bill yield ended the month 34 basis points (bps) higher at 2.46%, while six-month bank bills ended 22bps higher at 3.01%. In terms of the tightening cycle, markets increased the quantum of tightening with a 3.20% cash rate priced by year end and 3.85% in mid-2023.

After troughing early in the month, yields surged higher on the pivot to more hawkish central bank commentary and strong activity data. At the shorter end, the three-year government bond yield rose 55 basis points (bps) to end the month at 3.21%. Further out along the curve, 10- and 30-year government bond yields ended 54bps and 39bps higher at 3.60% and 3.82%.

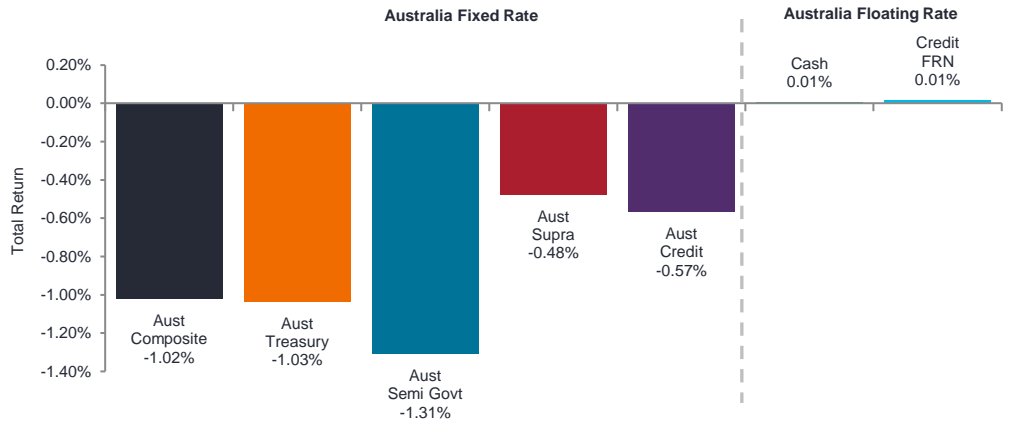
Early signs of moderating inflation increased hopes of a dovish pivot by central banks, supporting sentiment and sustaining a weeks-long risk rally throughout most of August. These hopes were dashed by an unequivocally hawkish speech from the Fed Chair at the Jackson Hole symposium towards the end of the month, causing a sell-off in risk markets. The Australian iTraxx Index closed 2bps tighter at 109bps, while the Australian fixed and floating credit indices returned -1.42% and 0.35% respectively.

The local market saw significant primary supply early in the month with ANZ issuing Tier 2 in quick succession after NAB in late July, and CBA issuing the largest senior bank deal in Australian market history. The deals were well received and oversubscribed allowing financial sector spreads to outperform through the remainder of the month. Senior notes tightened 6-10bps in spread, while recently issued fixed rate Tier 2 bonds were the clear outperformer rallying 40-50bps post issuance generating up to 2% capital gains.

# AUSTRALIAN FIXED INTEREST FUND

(continued)

Central bank inflation fighting narratives have become more urgent and hawkish.



Source: Bloomberg AusBond Indices  
Period of 1 August 2022 – 31 August 2022

## Market outlook and investment strategy

Central bank inflation fighting narratives have become more urgent and hawkish. At his Jackson Hole speech, Fed Chair Powell noted that the costs of bringing inflation down rise the more entrenched it becomes. To avoid higher inflation expectations becoming entrenched, the Fed signalled that it would take policy settings to as restrictive levels as needed, for as long as is needed.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Sep22](https://go.janushenderson.com/Viewpoint-Sep22).

### Interest rates:

With demand still strong in the Australian economy, we look for the Reserve Bank of Australia (RBA) to lift the cash rate by 50bps in September to 2.35%, just below estimates of the neutral cash rate. With much of the heavy lifting done, the RBA is likely to shift to 'business as usual' 25bps tightening increments thereafter, and we look for the cash rate to peak at 3.10% by late 2022/early 2023 and hold at that level until early 2024. Market pricing is more aggressive, building in a 3.85% cash rate mid-2023. We therefore maintain a modest overweight to duration, focusing on the front to mid part of the yield curve.

### Sector allocation:

**Investment grade credit:** Commitment to tackle high inflation through tightening in global liquidity will continue to generate volatility in credit markets. To navigate the environment ahead investors should command improved compensation for risk. We observe that the repricing across different pockets of credit and risk premia have not been simultaneous, providing outperformance opportunities through active rotation. Attractive yields on high quality credit has seen demand return from defensive income investors. In our view the more illiquid, structured, and levered sectors of the market are yet to adequately reprice. We continue to favour being positioned up in quality, liquidity and seniority in capital structures leaving powder dry for when compensation for investors escalates.

# AUSTRALIAN FIXED INTEREST FUND

(continued)

**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. New issuance on sustainable debt has slowed in recent months, albeit noting that 2021 was a particularly strong year for issuance of these securities.

We cornerstoned University of Melbourne's inaugural Green Bond during August, the first public corporate ESG bond for Q3. Proceeds are slated to contribute to green buildings which includes new builds, upgrades and energy efficiencies, and renewable energy investment. The new seven year bond was issued at a 4.6% yield and is rated AA+.

## **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.