

# AUSTRALIAN FIXED INTEREST FUND

## As at October 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

\$727.7 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

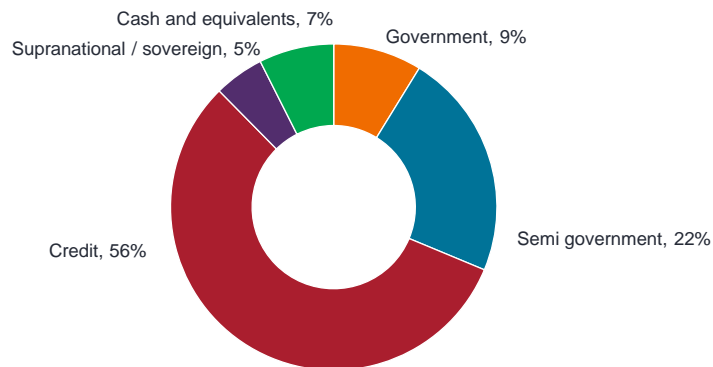
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.62	-3.59	-2.77	-8.73	-2.50	0.92	2.83	6.45
Fund (net)	0.58	-3.69	-2.98	-9.13	-2.97	0.44	2.34	5.89
Benchmark	0.93	-2.98	-2.08	-7.24	-2.97	0.72	2.41	5.75
Excess return*	-0.35	-0.71	-0.90	-1.89	0.00	-0.28	-0.07	0.14

\*Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

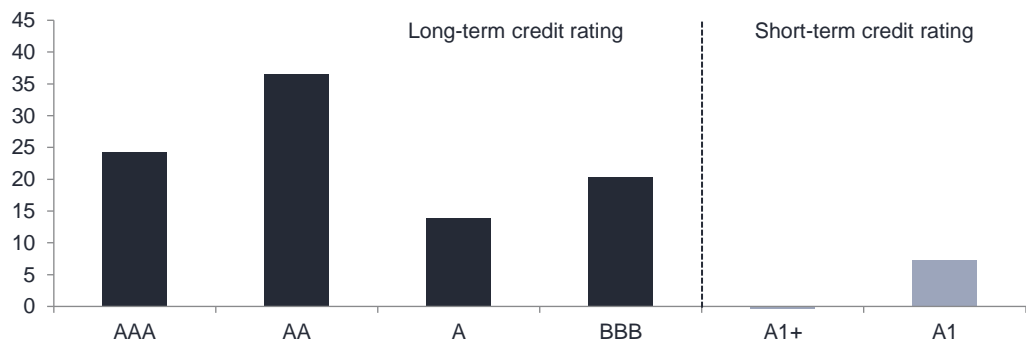
Past performance is not a reliable indicator of future performance.

## Sector allocation



Rounding accounts for small +/- from 100%.

## Credit rating distribution (%)



## Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM) <sup>1</sup>	4.81
Benchmark EWAYTM	3.87
Running Yield	3.66
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	5.52
Benchmark	5.18
Active Position	0.34

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 0.58% (net) 0.62% (gross). The Fund underperformed the Bloomberg AusBond Composite 0+ Yr Index (Benchmark) by -0.35% (net) in October, which gained by 0.93% on the month.

While October was a volatile month for equity, credit and high yield, interestingly bonds did play their role as a diversifier to risk assets, restoring its traditional role as 'portfolio insurance'. Bond yields finished the month lower and made a positive contribution to performance.

The underperformance against the Benchmark over the month came from the widening in credit spreads in high quality sectors including major bank senior, semi-government and bond swap spreads. The Fund did take profit on some of our overweight position to major bank senior debt early in October, which cushioned some of the impact as spreads widened later in the month, albeit the Fund was still not immune.

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

Hawkish US Federal Reserve (Fed) forward guidance and an ill-timed UK fiscal package that triggered Bank of England support saw yields lift sharply over the latter part of the month. Risk appetite fell as more aggressive policy tightening was seen as lifting recession risks. Equity markets fell sharply, while credit markets weakened with spreads widening.

Against this backdrop, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, fell 1.36%. Higher bond yields were the main detractor from the bond market performance over the month, while investment grade credit was also softer, albeit outperforming higher beta credit sectors in other markets.

The Reserve Bank of Australia (RBA) lifted the cash rate by another widely expected 0.50% increment in early September to 2.35%. Short-term money market yields continued to climb as markets discounted further tightening. The three-month bank bill yield ended the month 61 basis points (bps) higher at 3.06%, while six-month bank bills ended 56bps higher at 3.57%. In terms of the tightening cycle, markets increased the pace and quantum of tightening with a 3.32% cash rate priced by year end and 4.10% in mid-2023.

After remaining relatively steady, yields surged higher following hawkish Fed signalling and dislocation in the UK bond market following the release of an expansionary mini budget. At the shorter end, the three-year government bond yield rose to as high as 3.72% before ending the month 32 basis points (bps) higher at 3.52%. Further out along the curve, 10- and 30-year government bond yields ended 29bps and 26bps higher at 3.89% and 4.08%.

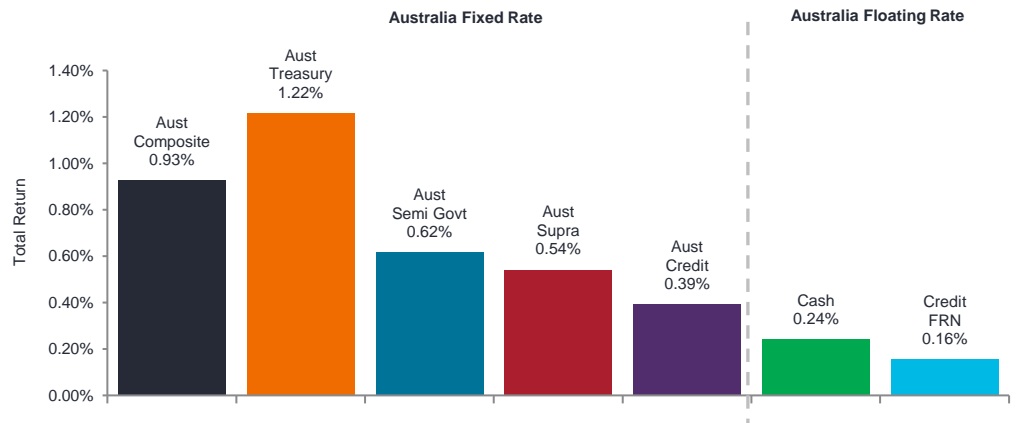
Domestically, Investment Grade issuers are mostly flush with liquidity and are facing into a difficult near-term environment from a position of balance-sheet strength. Reflecting challenging market conditions, the Australian iTraxx Index (adjusted for rolls) closed 27 bps wider at 144bps, while the Australian fixed and floating credit indices returned -1.01% and +0.12% respectively.

Already showing signs of increasing fragility, risk markets were further rattled by a material escalation in the Russia/Ukraine conflict. On the corporate front, investors keenly await Northern Hemisphere third quarter earnings. Several high-profile companies pre-reported disappointing numbers and outlooks. Expectations are for rapidly tightening financial conditions to drive weaker top and bottom-line results, lowered guidance, and earnings downgrades.

# AUSTRALIAN FIXED INTEREST FUND

(continued)

While much of the heavy lifting has been done, persistent and broad-based price pressures, evident in the latest CPI, mean that the RBA will need to push monetary conditions into restrictive territory



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

### Market outlook and investment strategy

While much of the heavy lifting has been done, persistent and broad-based price pressures, evident in the latest CPI, mean that the RBA will need to push monetary conditions into restrictive territory. We have revised our base case view to build in 25bps of tightening in November, December and February. This would take the cash rate to 3.35% and into moderately restrictive territory and we expect the RBA to keep policy tight until the first half of 2024.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Nov22](https://go.janushenderson.com/Viewpoint-Nov22).

#### Interest rates:

Market pricing remains more aggressive, with the cash rate priced to peak at around 4.00% in H2 2023. As has been the case for several months, domestic markets continue to price the cyclical peak in the cash rate as the new normal, with forward rates projecting around a 4% cash rate for the next decade. During the spike in yields mid-October, this rate rose to 4.5%, making the mid-to-longer part of the yield curve attractive. While some of the value we saw then has been released, this type of volatility is a source of value for investors with a longer-term focus. We continue to remain active in interest rate management, taking advantage of overshoots to add duration and having the discipline to ease positions when yields fall.

#### Sector allocation:

**Investment grade credit:** The commitment by central banks to tackle high inflation through tightening global liquidity conditions continues to generate volatility in credit markets. To navigate the environment ahead, investors should look for 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.

# 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. October offered little in the way of opportunities in new deals due to weaker market environment for primary issuance. Our ongoing ESG specific engagement meetings with companies was a large focus.

## Important information

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2022 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.