

AUSTRALIAN FIXED INTEREST FUND

As at December 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

\$732.8 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

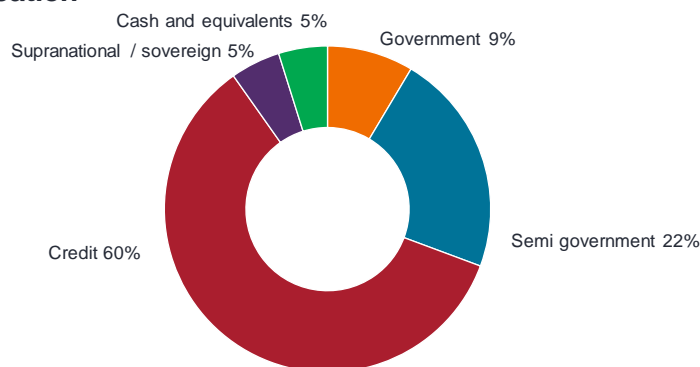
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	-1.85	0.73	0.42	-11.17	-2.22	0.84	2.78	6.42
Fund (net)	-1.89	0.62	0.19	-11.56	-2.69	0.36	2.29	5.86
Benchmark	-2.06	0.38	-0.27	-9.71	-2.87	0.54	2.33	5.70
Excess return*	0.17	0.24	0.46	-1.85	0.18	-0.18	-0.04	0.16

*Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

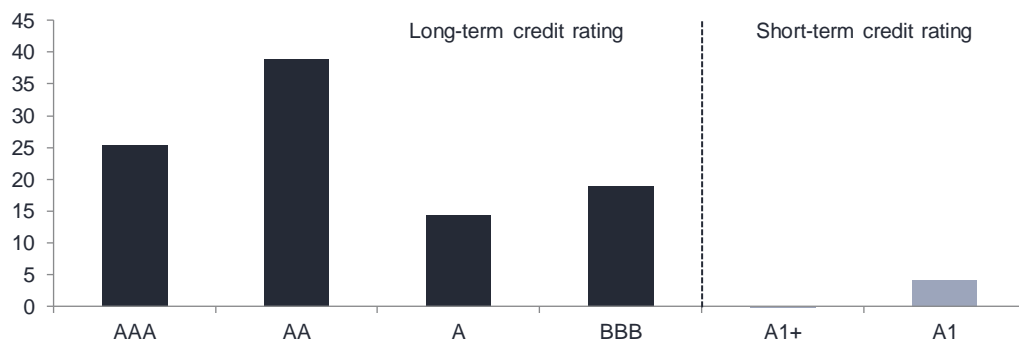
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM) ¹	4.95
Benchmark EWAYTM	4.08
Running Yield	3.69
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	5.27
Benchmark	5.18
Active Position	0.27

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 -1.89% (net) -1.85% (gross). The Fund outperformed the Bloomberg AusBond Composite 0+ Yr Index (Benchmark) by 0.17% (net) in December, which returned -2.06% on the month.

The rise in yields was a detractor for long dated fixed rate bonds over the month. However, active portfolio management including having neutral duration positions throughout most of the month aided performance on a relative basis. It was only when yields lifted significantly towards month end that portfolios added a limited amount of duration.

When given the choice between buying duration through government bonds or positioning via the swap market, we have found the swap market to offer up more attractive pricing compared to bond yields. The Fund's exposure to swaps were a positive contributor in December outperforming on a relative basis.

Spreads leaked slightly wider in semi-government bonds detracting from performance, while swap spreads outperformed government bonds contributing positively.

A decent rally in credit spreads together with generous coupon income led to outperformance in investment grade credit. Fixed rate underperformed floating rate notes given the rise in yields on the risk free rate.

December was a strong month for relative performance, with value added through active management in both rates and credit. A neutral weight to duration vs the benchmark prevented relative underperformance. Selective rotation in subsectors of credit enhanced returns, especially the portfolio's weight towards high quality investment grade credits in resilient outperforming industries. 2022 was a tough environment for investors with a rare negative performance calendar year for defensive assets and growth assets as the Australian Fixed Interest market, measured by Bloomberg comp was down almost 10%, driven primarily by a lift in yields, with magnitude not seen in four decades and a risk of environment, impacting credit assets.

Looking forward, with much of the heavy lifting in rates behind us, the outlook for the asset class is revitalised and the higher yields with defensive characteristics repaired may very well come in handy as growth slows later in the year from restrictive policy. Investors should expect the opposite of what has been the case over the past couple of years from central banks. Further, the Fund as a strong yield advantage vs the benchmark which should bode well for outperformance in 2023.

Market review

The decision by the Bank of Japan (BOJ) to lift its 10-year government bond yield curve control target from 0.25% to 0.5% roiled global bond markets. Australian government bond yields initially moved lower on signs that growth was slowing, before rapidly rising following the BOJ move. Flaring volatility saw risk appetite wane, with equity markets weaker and credit markets mixed.

The Reserve Bank of Australia (RBA) lifted the cash rate by a widely expected 0.25% increment in early December, taking the cash rate to 3.1%. While noting monetary policy was not on a pre-set path, the RBA signalled that further tightening was likely over the period ahead, with the interval and size of moves to be guided by incoming data and the RBA's assessment of the labour market and inflation outlook. Volatility returned to the short-term money market as markets reassessed the outlook for monetary policy. Three- and six-month bank bill yields lifted by 17.5bps and 20.5bps to end the month at 3.26% and 3.77%. In terms of the tightening cycle, markets are looking for the cash rate to peak close to 4.0% in late 2023.

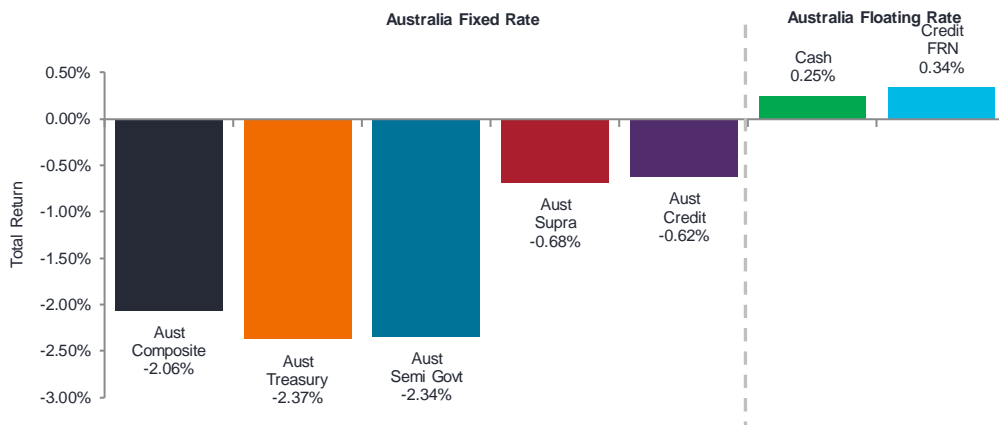
Against this backdrop, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, fell 2.06%.

Australian yields initially fell as markets saw the prospect of a 0.50% move in the US cash rate as signalling that the tightening cycle was slowing. While the US Federal Reserve (Fed) lifted the Fed funds rate by the expected 0.50%, forward guidance remained hawkish and halted the fall in yields. Thereafter, yields lifted dramatically before Christmas when the BOJ unexpectedly adjusted its yield curve control settings.

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(continued)

We anticipate Q1 2023 new issuance will resume strongly, with Australian banks looking to navigate their term funding facility refinancing early in the year.



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

At the shorter end of the yield curve, the three-year government bond yield fell to as low as 3.01%, before ending the month 34 basis points (bps) higher at 3.50%. Further out along the curve, 10- and 30-year government bond yields declined to 3.30% and 3.59%, before ending at 4.05% and 4.34%.

In credit markets, investors await further feedback as companies move into early 2023 reporting season. Cognisant of the impacts of tightening policy, slower growth will be unevenly distributed and disproportionately felt across sub-sector credit fundamentals. The grip of macro settings on corporate earnings outlooks and employment intentions will be closely scrutinised by central bankers and investors alike.

The Australian iTraxx Index closed largely unchanged at 91bps along with floating rate spreads, while fixed rate credit spreads rallied up to 8bps as swap yields tightened to government bonds. Australian fixed and floating credit indices returned -0.62% and 0.34% respectively, with benefits of credit excess returns offset by the rise in broader bond yields for the fixed rate market.

Primary markets moved into 'holiday mode', with Suncorp-Metway issuing a new five-year note early in December which was well received. The waning supply of new issuance allowed domestic spreads to firm and deliver some healthy excess returns from elevated spread levels via income advantage.

We anticipate Q1 2023 new issuance will resume strongly, with Australian banks looking to navigate their term funding facility refinancing early in the year. The strong level of income coming through from high quality credit securities provides investors some return buffer for likely concessions into primary supply.

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(continued)

Janus Henderson
INVESTORS

Our ongoing ESG specific engagement meetings with companies remained a focus over the year, and will continue to do so in 2023.

Market outlook and investment strategy

The move by the BOJ threw a curve ball at markets and resulted in higher yields at the longer end of the curve. The rally in yields across the yield curve in early December proved to be premature given the hawkish stance of central banks and no signs of a definitive softening in labour markets or gap down in inflation. However, the rally was a harbinger of what to expect once markets look through the final phase of the tightening cycle. Our base case has the RBA tightening by 0.25% in February and then pausing before delivering a late tightening cycle 0.25% “inflation insurance” move in May. This would take the cash rate to a moderately restrictive 3.6%, making the current tightening cycle the largest and fastest in the monetary policy inflation targeting era.

While we do not see the conditions in place for monetary easing in 2023, the window opens for the RBA to take its foot off the monetary brakes over 2024 provided core inflation eases in response to a period of sub trend growth. After pricing in a cash rate peak closer to our profile in early December, market pricing has pivoted back to a 4% cash rate peak later in 2023 and 4.4% long-run cash rate (using the eight-year rate two-years forward as a proxy). In our view such a cash rate is more in line with a cyclical peak rather than the ‘new’ long-run normal cash rate. Accordingly, we see the recent lift in yields as beginning to restore value.

In navigating the environment ahead, investors should be on the lookout for improved compensation for risk as monetary policy tightens further. We observe that the repricing across different pockets of credit and risk premia have not been simultaneous, providing outperformance opportunities through active rotation.

In our view, the more illiquid, structured, and levered sectors of the market are yet to adequately reprice. We believe this is a process that will occur in due course as earnings outlooks weaken. For in-depth economic analysis and the Australian Fixed Interest Team’s outlook, visit [go.janushenderson.com/Viewpoint-Jan23](https://www.janushenderson.com/Viewpoint-Jan23)

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. While issuance levels were lower in 2022 than the year prior, this was in line with the broader bond market. We look to 2023 with optimism in terms of growth. Our ongoing ESG specific engagement meetings with companies remained a focus over the year, and will continue to do so in 2023.

Important information

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