

AUSTRALIAN FIXED INTEREST FUND

As at January 2023

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

\$755.9 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

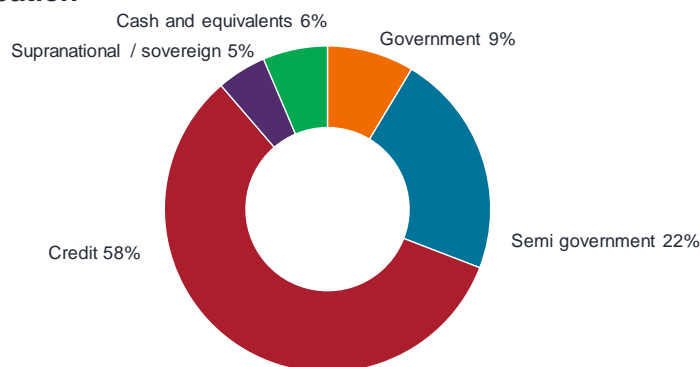
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	3.22	3.33	-0.37	-7.10	-1.96	1.53	3.11	6.51
Fund (net)	3.18	3.22	-0.59	-7.51	-2.43	1.05	2.62	5.96
Benchmark	2.76	2.20	-0.85	-6.26	-2.74	1.14	2.63	5.78
Excess return*	0.42	1.02	0.26	-1.25	0.31	-0.09	-0.01	0.18

*Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

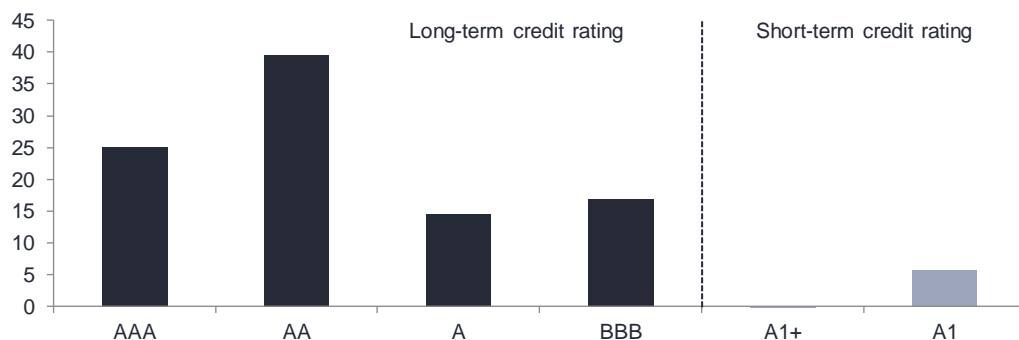
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM) ¹	4.42
Benchmark EWAYTM	3.69
Running Yield	3.50
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	5.20
Benchmark	5.21
Active Position	-0.01

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

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 3.18% (net) and 3.22% (gross). The Fund outperformed the Bloomberg AusBond Composite 0+ Yr Index (Benchmark) by 0.42% (net) in January, which returned 2.76% on the month.

The fall in bond yields was one of the main drivers of return in the month. The rally on the long end of the curve outpaced that of the short end, so active management in curve positioning also played a part.

While broadly remaining cautious on adding duration, the Fund did take advantage of higher yields on offer at the end of December. The Fund then took profit on these positions early in January, taking active duration broadly back to neutral.

The Fund's exposure to swaps was a positive contributor in January, outperforming on a relative basis.

Spreads on semi-government bonds were broadly unchanged versus treasuries, while swap spreads outperformed government bonds, contributing positively.

Credit spreads tightened over the month. This, together with generous coupon income, helped buoy performance in the month. Fixed rate credit outperformed floating rate notes given the fall in yields on the risk-free rate. We have favoured having larger positions in high quality assets rather than taking smaller positions in more volatile high beta sectors.

January was a strong month for relative performance, with value added through active management in both rates and credit. The rally on the long end of the curve outpaced that of the short end, so active management in curve positioning also played a part. While broadly remaining cautious on adding duration, the Fund did take advantage of higher yields on offer at the end of December. The Fund then took profit on these positions early in January, taking active duration broadly back to neutral. Selective rotation in subsectors of credit enhanced returns, especially the portfolio's weighting towards high quality investment grade credit in resilient, outperforming industries. 2022 was a tough environment for investors with a rare negative performance calendar year for defensive assets and growth 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 has a strong yield advantage versus the Benchmark, which could contribute to relative outperformance in 2023.

Market review

Signs of slowing growth led markets to factor in a slowing in the pace of monetary tightening, particularly in the United States. Domestic yields fell across the yield curve, even after a late month lift on a high December quarter inflation result. Risk appetite improved, with both equity and credit markets performing strongly.

Short-term money markets remained volatile as monetary tightening expectations shifted on data flows. The higher-than-expected inflation readings saw three-month bank bill yields end the month 11bps higher at 3.37% as tightening was brought forward. Six-month bank bill yields ended 4bps lower at 3.72%. In terms of the tightening cycle, markets are looking for the cash rate to peak around 3.75% mid-year.

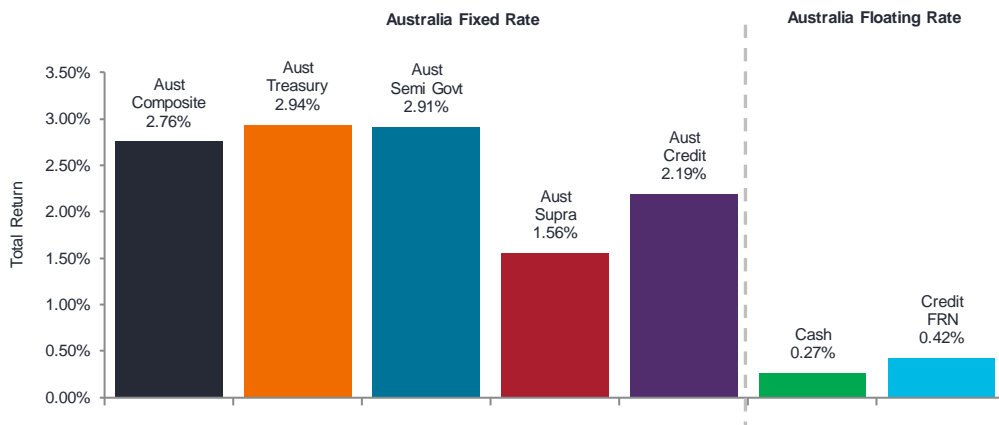
Against this backdrop, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, gained 2.76%, more than offsetting December's 2.06% fall.

Australian yields fell steadily as markets began to wind back monetary tightening expectations. Prior to the release of the December quarter Consumer Price Index (CPI), three and 10-year government bond yields fell to as low as 2.96% and 3.32%. The higher than expected 1.9% lift in the headline inflation rate saw market conviction of near-term monetary tightening firm and yields partially reversed earlier falls. Despite the late month lift, three and 10-year government bond yields still ended 32 basis points (bps) and 50bps lower at 3.18% and 3.55%.

AUSTRALIAN FIXED INTEREST FUND

(continued)

In credit markets, sentiment was buoyed by evidence of peaking inflation, together with tailwinds from the abrupt re-opening of the Chinese economy



Source: Bloomberg AusBond Indices
Period of 1 January 2023 – 31 January 2023

In credit markets, sentiment was buoyed by evidence of peaking inflation, together with tailwinds from the abrupt re-opening of the Chinese economy. Looking ahead, investors are anticipating a downshift in the pace of global central bank rate tightening, while concurrently monitoring corporate and consumer health as forward economic indicators deteriorate and tighter financial conditions start to grip. The Australian iTraxx Index closed 10bps tighter at 82bps, while the Australian fixed and floating credit indices returned +2.19% and +0.42%, respectively.

In the domestic primary credit market, supra-nationals and financials dominated issuance. Notable transactions included the Commonwealth Bank of Australia's jumbo \$5 billion senior unsecured issuance across three and 5-year tenors in both floating and fixed rate formats. Meeting solid demand (\$6.7 billion order book), these bonds priced at credit spreads of +90bps and +115bps, and fixed rate coupons of 4.75% and 5%, respectively – attractive levels for high quality liquid assets. Lastly, towards the end of the month, the Australian Prudential Regulation Authority (APRA) approved the call/redemption of a low spread Tier 2 subordinated bond issued by Westpac and in doing so lifting a significant regulatory overhang over the domestic bank capital market.

AUSTRALIAN FIXED INTEREST FUND

(continued)

Janus Henderson
INVESTORS

Attractive yields on high quality credit spreads have seen demand return from defensive income investors.

Market outlook and investment strategy

The Reserve Bank of Australia's (RBA) shift from the 'heavy lifting' to 'finesse' stage of the monetary tightening cycle wasn't made any easier by the breadth of inflation in the latest CPI release. The reason for finesse this year is that on the one hand, higher frequency activity-based data pointed to slowing growth towards the end of last year. To the extent that excess demand was behind inflation, a deceleration in growth suggests that the contribution to price pressures from this source will decline over the year ahead. Indeed, we look for economic growth to slow from 2.6% over 2022 to 1.4% for 2023. Our base case remains for a slowdown rather than a recession.

On the other hand, the breadth of inflation will be a source of concern for the RBA. While slowing demand and improving supply chains point to moderating inflation over the period ahead, direct and indirect pass through of higher gas prices and building wage pressures will act to limit the pace of deflation. Not responding to these price dynamics when policy settings are mildly restrictive would be a policy mistake.

Our base case cash rate view remains unchanged and has the RBA lifting the cash rate by 0.25% in February and then pausing to monitor the path of demand. Provided demand responds to earlier tightening, we look for a late tightening cycle 0.25% "inflation insurance" move in May. This would take the cash rate to a moderately restrictive 3.60%, making the current tightening cycle the largest and fastest in the monetary policy inflation targeting era.

The value we saw building up in the sharp lift in government bond yields over late December was released as yields fell over January. While we currently see yields as fairly valued, we would regard periods of higher yields, as we enter into the maturing phase of the current tightening cycle, as potential opportunities to add duration.

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. Attractive yields on high quality credit spreads have seen demand return from defensive income investors.

Domestically, we remain unimpressed by tight spreads on offer in the bank hybrid market relative to history, to tier 2 bonds, and to global bank capital markets.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Feb23

Environmental, Social and Governance (ESG)

2022 was a slower year for ESG issuance than the year prior, but this was in line with the broader bond market. Offshore issuance of green and sustainable bonds has already begun strongly, outpacing January of 2022. Domestically our year was kicked off with a sustainable bond from IBRD and a green bond from EIB. Our ongoing ESG-specific engagement meetings with companies remain a focus and we look to 2023 with optimism.

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.