

CASH FUND - INSTITUTIONAL

As at December 2020

Fund objective

The Fund seeks to achieve a total return after fees that exceed the total return of the Benchmark, over rolling annual periods.

Investment approach

The Fund is an actively managed portfolio of high quality short term securities that seek to provide investors with low risk exposure to secure cash investments and returns that closely track the prevailing level of short-term interest rates. The manager seeks to add value using a combination of interest rate and yield enhancement strategies.

Benchmark

Bloomberg AusBond Bank Bill Index

Risk profile

Low

Suggested timeframe

1 year

Inception date

31 July 2008

Fund size

\$943.5 million

Minimum investment

\$100,000

Management cost (%)

0.15 p.a.

Buy/sell spread (%)

0.00/0.00

Distribution frequency

Monthly

ARSN code

127 731 006

APIR code

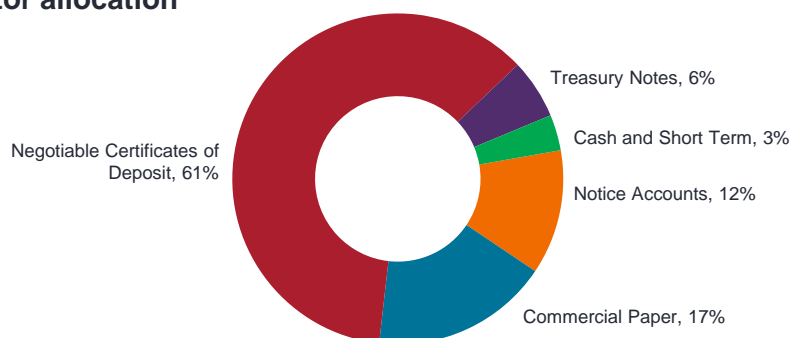
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Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.02	0.05	0.10	0.47	1.48	1.77	2.73	3.17
Fund (net)	0.00	0.01	0.02	0.32	1.30	1.57	2.52	2.95
Benchmark	0.00	0.02	0.05	0.37	1.26	1.52	2.44	2.86
Excess return*	0.00	-0.01	-0.03	-0.05	0.04	0.05	0.08	0.09

*Excess return is measured against net performance.

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	0.09
Benchmark EWAYTM	0.02

¹Estimated Weighted Average Yield to Maturity is a measure of the average annual yield of all securities in the Fund.

Modified duration	Years
Fund	0.17
Benchmark	0.13
Active Position	0.04

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**Head of Australian
Fixed Interest**
Jay Sivapalan

Fund performance

In contrast to recent months' declines in interest rates, money market yields were relatively stable during the month of December as the Reserve Bank of Australia (RBA) left monetary settings unchanged after their unprecedented easing actions in November. The three-month bank bill swap rate (BBSW3M) ended the month 1 basis point (bps) lower at 1bps and the six-month bank bill rate ended 0.4bps lower at 2bps.

The Janus Henderson Cash Fund - Institutional (Fund) returned 0.02% (gross) and flat on a net of fees basis, in line with the Bloomberg AusBond Bank Bill Index (Benchmark) which was also flat for the month. The Fund's sector allocation was accretive to performance. Whilst interest rate strategies had a limited contribution to the Fund's relative performance against the Benchmark as yields were stable through the month of December.

The key factors driving excess returns have been the Fund's allocation to notice period accounts and commercial paper issued by high quality corporates. These have been offering attractive margins over bank bill swap rates.

Market review

Despite ongoing COVID-19 outbreaks, the commencement of vaccination programs and another round of fiscal easing in the United States helped buoy investor sentiment. Equity markets had another strong month, while credit markets remained firm. Yields at the shorter end of the yield curve remained anchored as the RBA reaffirmed its 0.10% cash and three-year government bond yield target. The three-year government bond drifted up to 0.14% before central bank action saw it end the month at 0.106%, in line with the target.

Economic growth surged more than expected in the September quarter, with real output lifting by 3.3%. This move followed the significant lock-down related 7% plunge in the June quarter. Partial demand indicators pointed to strong momentum over the December quarter, with strong gains in business conditions and business and consumer confidence. Anecdotal reports suggest that retail spending was strong over the Christmas period.

Labour market outcomes were also better than expected with the number of jobs lifting by 90,000 in November, building on the previous month's 180,000 gain. The unemployment rate edged down to 6.8% from 7%, while the participation rate lifted to 66.1%, a level not seen since January 2020.

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 1bps lower at 1bps, while six-month bank bills ended 0.5bps lower at 2.0bps.

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It appears aggressive fiscal and monetary measures have limited the damage caused by public health measures and helped boost business and consumer confidence.

Market outlook

It appears aggressive fiscal and monetary measures have limited the damage caused by public health measures and helped boost business and consumer confidence. Growth and labour market outcomes at the end of 2020 were stronger than forecast six months ago and mid-year hopes for an effective vaccine were replaced by the commencement of vaccination programs, although these programs are expected to take years to complete.

While the Australian economy is recovering, the latest COVID-19 outbreaks in Sydney and Melbourne and simmering trade tensions with China are reminders that we are not completely out of the woods yet.

We still look for the Australian economy to rebound by around 5% over 2021, though the latest outbreaks and reintroduction of state border controls have increased downside risks. While a 5% growth rate looks very high, we don't expect the economy to reach end of 2019 levels until late 2021. This means that the economy will have built up considerable slack and this will continue to show up in an elevated unemployment rate, low rate of wages growth and inflation rate below the RBA's 2% to 3% target band.

With the cash rate now at 0.10% and the RBA reluctant to move into a negative rate regime, further easing, if needed, is likely to come in quantitative form. For example, the RBA could choose to increase the amount or extend the duration of its November 2020 program to buy government and semi-government bonds to the tune of \$100 billion over six months.

A key takeaway for investors is that the low risk-free interest rate regime will persist for at least the next couple of years and drive ongoing demand for income-producing assets. The preconditions for a shift in accommodative policy remain 'outcome' based. Fiscal policy will move from accommodation to consolidation only when the unemployment rate falls below 6%.

Monetary conditions will only normalise (first tightening in a new cycle) when actual inflation is sustainably in the 2% to 3% RBA target band and the labour market is at full employment. We do not see these outcomes being achieved over the next couple of years.

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Given current market expectations and RBA forward guidance, we expect money market yields to remain at current levels for the foreseeable future.

Investment strategy

The following is a summary of the key strategies in the Fund:

Interest rates:

Neutral duration: Given current market expectations and RBA forward guidance, we expect money market yields to remain at current levels for the foreseeable future. Given this, we are comfortable allowing the Fund's duration to remain in line with the Benchmark.

Sector allocation:

Non-major banks: Non-major banks pay a premium above major banks to compete for funding. The Fund has allocated a prudent proportion to this sector in order for investors to enjoy slightly higher yields. The Fund continues to maintain a limited exposure outside of the major banks in order to ensure good liquidity and extra security in a highly volatile environment.

Term deposits and notice accounts: Banks continue to pay a reasonable premium to take deposit funding in the form of notice accounts. As such, we remain invested with about a tenth of the Fund prudently allocated to notice accounts.

Commercial Paper: We favour a selective allocation to high quality commercial paper as the available yield premium is relatively attractive versus other money market instruments.

Important information

A new Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2020 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. 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. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.