Janus Henderson

CASH FUND - INSTITUTIONAL

Janus Henderson INVESTORS

As at February 2021

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
$794.7 million

Minimum investment
$100,000

Management cost (%)
0.15 p.a.

Buy/sell spread (%)
0.00/0.00

Distribution frequency
Monthly

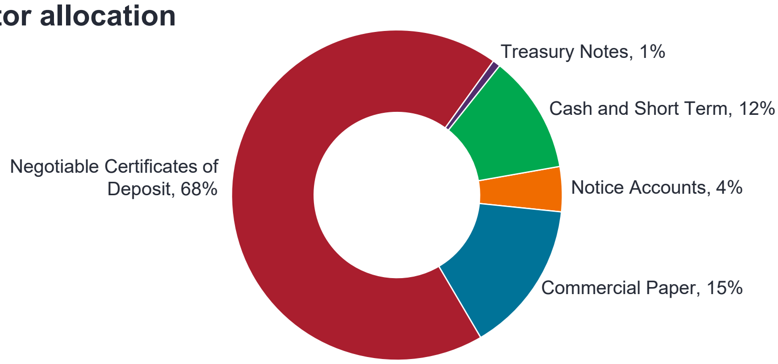
ARSN code
127 731 006

APIR code
IOF0141AU

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)	0.00	0.03	0.08	0.29	1.38	1.69	2.64	3.13
Fund (net)	-0.01	0.00	0.01	0.14	1.20	1.49	2.43	2.92
Benchmark	0.00	0.00	0.03	0.21	1.16	1.44	2.36	2.82
Excess return*	-0.01	0.00	-0.02	-0.07	0.04	0.05	0.07	0.10

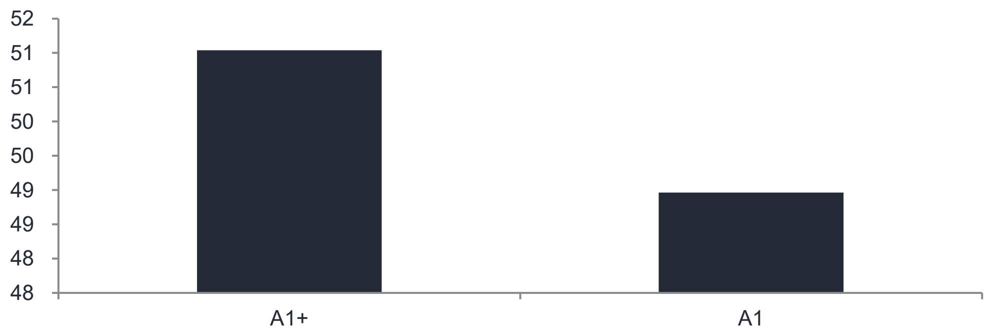
*Excess return is measured against net performance.
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM)[1]	0.08
Benchmark EWAYTM	0.03

[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	0.17
Benchmark	0.12
Active Position	0.05

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Head of Australian Fixed Interest
Jay Sivapalan

Fund performance

Money market yields rose for the first time since June 2020, as the market brought forward RBA cash rate tightening to start earlier than 2024, with hikes to a longer-term neutral cash rate above 3%. This lift in cash rate expectations in the out years has been underpinned by the growing confidence in the economic recovery story. Three-month bank bills and six-month bank bills ended the month higher by 2bps and 5bps at 0.03% and 0.06% respectively.

The Janus Henderson Cash Fund - Institutional (Fund) returned -0.01% (net), underperforming the Bloomberg AusBond Bank Bill Index (Benchmark) which was flat on the month. The Fund's sector allocation was accretive to performance. Interest rate strategies had a limited contribution to the Fund's relative performance against the Benchmark given the Fund's duration was relatively in line with the Benchmark.

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

Market review

The reflation trade gathered momentum over the month and bond markets sold-off sharply in February. Given the rapid pace of the vaccine rollout offshore and the commencement locally, markets responded to the idea that the global economic recovery will be strong as lockdowns end and inflation is expected to lift higher. This is buoyed by a backdrop of expansionary monetary and fiscal policies, with markets challenging central banks on whether they'll stay the course with forward guidance and yield curve control over the next three years.

Yields at the shorter end of the yield curve drifted higher than the Reserve Bank of Australia's (RBA) 0.10% cash rate and three-year government bond yield target. The three-year government bond edged up to 0.127% before ending the month at 0.117%.

Longer-dated government bond yields lifted to their highest level in two years, with fears that policy makers have over-stimulated. The Biden administration's US$1.9 trillion COVID-19 relief bill awaiting to be passed by the senate comes at a time when the private sector is rebounding and the labour market is recovering. Dovish central bank commentary by the US Federal Reserve (Fed) and RBA did little to ease the falling bond market.

New business capital expenditure rose by 3% in the December quarter to $29.4 billion, beating expectations of a 1% rise. Business investment on equipment, plant and machinery grew by 5.7%, indicating that the Federal government's business investment incentives may be having an impact. This is on top of the previous significant rise in residential building approvals.

Following the fall in the unemployment rate in the December quarter from 7.4% to 6.4%, domestic wages surprised to the upside, with a 0.6% rise. This exceeded expectations by double, pushing the annual wage growth rate up to 1.4%. Most of this was in the private sector as labour shortages were reported and many businesses lifted short-term wage reductions back to pre-pandemic levels.

Iron ore prices continued their upward trajectory over the month. While China still accounts for 50-60% of iron ore demand, growing demand has picked up outside of China. This fuelled the recovery story for the Australian economy, given the benefit to the budget from stronger company tax revenues, notwithstanding the negative impact from the stronger Australian dollar.

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 2bps higher at 3bps, while six-month bank bills rose 5bps to 6bps.

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We see 2021 as a reopening year, as the vaccine programs continue to roll out, lockdowns become obsolete or less frequent and policy settings remain supportive.

Market outlook

We see 2021 as a reopening year, as the vaccine programs continue to roll out, lockdowns become obsolete or less frequent and policy settings remain supportive. Cheap money will likely have a large effect on asset prices, as already demonstrated by the rise in the domestic housing market. Building approvals have risen sharply and this trend is set to continue. This has a multiplier effect as industries of design, planning, raw materials and furnishings benefit.

With the pick-up in economic activity comes a narrowing of spare capacity in the labour market. Adding to this is the build-up in household savings from government handouts, lockdowns, inability to travel overseas and cautionary savings. As the pressure valve is released on pent up savings, this is likely to give a sugar hit to discretionary goods and services, with figures already showing a lift in credit card spending on restaurants and cafés. Spending will likely discriminate, as businesses reliant on offshore tourism will continue to struggle. We look for the economy to lift by 5% this year, which should see the economy return to the same size it was at the end of 2019. Of course, risks around the effectiveness of vaccines against COVID-19 mutations and the vaccine's rollout remain.

The global and domestic yield curve (cash – 10-year spread) has steepened since late 2020 as markets factored in a cyclical rebound and greater tolerance by central banks for inflation to run higher. The violent sell-off in bond markets (yields materially higher) in February has markets pricing in an earlier return to the RBA tightening monetary policy than the 2024 conditional commitment. Bond yields rose despite the asset purchase programs and dovish rhetoric from central banks.

While a higher rate regime and steeper curve is somewhat expected given the improved outlook, we are mindful that the markets may have got ahead of themselves. A tightening of monetary conditions through the higher yields and currency strength should act as a drag on growth and require the RBA to keep monetary conditions accommodative. An expansion/extension of its quantitative easing program may be warranted to support medium-term growth prospects and support lower yields.

The broad macro-economic environment is positive for risk assets. A synchronised global growth recovery and fiscal and monetary policies that concur on "whatever it takes" should be supportive for credit. Corporates are in good health as liquidity buffers and debt tenors are extended and earnings recover. Notwithstanding, market dynamics are weakening. Rising bond yields have tightened financial conditions and valuations, and while still attractive to risk-free are now less compelling.

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Given the uplift in market expectations and RBA forward guidance, we expect money market yields to trade in range between zero and 10bps for the foreseeable future.

Investment strategy

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

Interest rates:

Neutral duration: Given the uplift in market expectations and RBA forward guidance, we expect money market yields to trade in range between zero and 10bps for the foreseeable future. Given this, we will opportunistically extend the duration of the Fund should bank bills rise close to 10bps.

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.

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.