Janus Henderson

CASH FUND - INSTITUTIONAL

Janus Henderson INVESTORS

As at June 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
$563.6 million

Minimum investment
$100,000

Management cost (%)
0.15 p.a.

Buy/sell spread (%)
0.00/0.00

Distribution frequency
Monthly

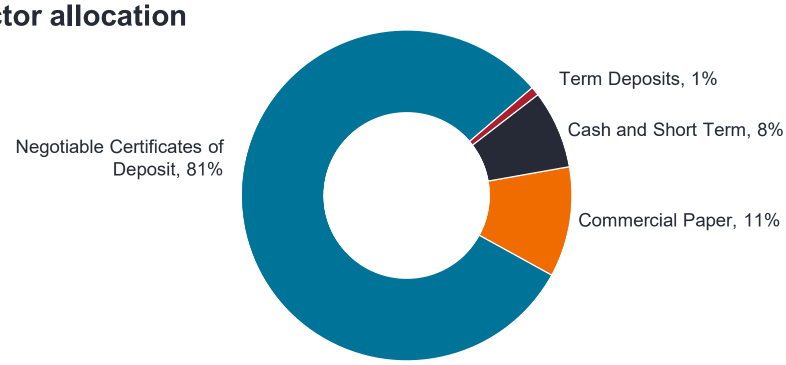
ARSN code
127 731 006

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)	0.01	0.03	0.06	0.16	1.16	1.53	2.47	3.05
Fund (net)	0.00	-0.01	-0.01	0.01	0.99	1.33	2.26	2.84
Benchmark	0.00	0.01	0.01	0.06	0.96	1.29	2.19	2.75
Excess return*	0.00	-0.02	-0.02	-0.05	0.03	0.04	0.07	0.09

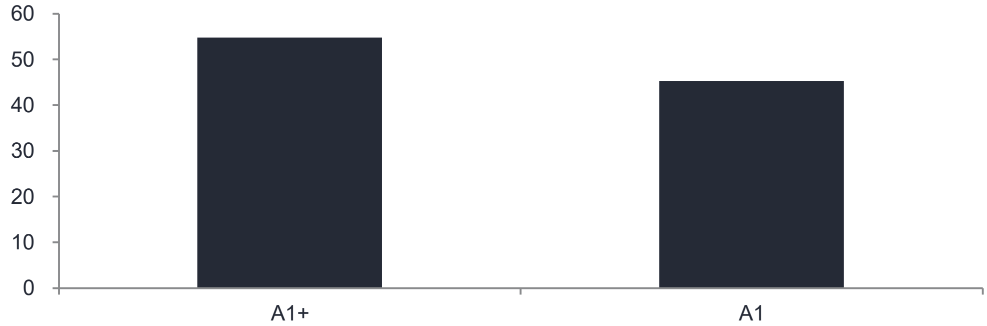
*Excess return is measured against net performance.
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM)[1]	0.07
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	0.15
Benchmark	0.13
Active Position	0.02

Head of Australian Fixed Interest
Jay Sivapalan

Fund performance

Short-term money market rates remained very low given the 0.10% official cash rate and Reserve Bank of Australia (RBA) forward guidance for an extended period of highly accommodative policy. Three-month bank bills ended the month 0.5 basis points (bps) lower at 3bps, while six-month bank bills ended 2bps lower at 6bps. Further out, markets began to build in monetary tightening towards the end of 2022, with the November 2022 30-day interbank cash rate future contract ending the month at 0.30%.

The Janus Henderson Cash Fund – Institutional (Fund) returned 0.01% (gross) outperforming the Bloomberg AusBond Bank Bill Index (Benchmark) which was flat for the month.

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

An earlier than expected pivot to a more hawkish stance by the US Federal Reserve (Fed) and strong domestic economic data saw a bringing forward of tightening expectations lift shorter-dated yields. Meanwhile, longer-dated yields fell as inflation expectations were wound back. Risk appetite held up as prospective tightening was not seen as derailing activity. Equity markets were generally firmer and credit markets remained well supported.

Volatility returned to the shorter end of the yield curve as cash tightening expectations were brought forward following stronger economic data and Federal Open Market Committee (FOMC) members building in the start of a US tightening cycle by the end of 2023. The yield on the November 2024 government bond rose to as high as 0.47% on the expectations shift, before ending the month 13bps higher at 0.41%.

Partial demand indicators showed the economy was on a tear before the latest round of rolling state lockdowns. The economy expanded by 1.8% over the March quarter to join the labour market in lifting to at least pre-COVID-19 levels. Business surveys point to another quarter of strong growth in the June quarter with activity, confidence, forward orders and labour demand at high levels. Consumer sentiment slipped in June from historically high levels following Victorian lockdowns and further near-term falls can be expected as more states experience lockdowns.

The labour market roared back after taking a breather in April. The number of jobs rose by a higher than expected 115,200, with most of the lift coming from full time jobs. The participation rate lifted to a very high 66.2% while the unemployment rate fell from 5.5% to 5.1%, the lowest rate since December 2019. Forward labour demand indicators remain strong and recent rapid improvement was a major factor in tightening expectations being brought forward.

Market outlook

It was often quipped pre-COVID-19 that monetary policy was more art than science. The renewed bout of rolling lockdowns, which began with Victoria, highlight the uncertain pandemic path ahead. Just as the economy was roaring and markets began to bring forward tightening, the latest round of lockdowns are a reminder that a post pandemic world is still some time away.

The RBA will be well aware of the art needed to balance recent economic strength and labour market improvement against the potential hit to momentum from the latest breakout of the more contagious 'Delta' variant.

We do not expect the RBA to follow the Fed's hawkish policy pivot at its monetary policy review meeting in early July. The broad messaging is likely to remain that accommodative policy settings will be needed until the tightening trifecta conditions have been met. These are: i) an unemployment rate close to 4%, ii) wages growth of at least 3% and iii) actual inflation at 2% or above on a sustainable basis.

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(continued)

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In a nod to stronger labour market conditions, we don't see the RBA extending its 3-year yield target from the April 2024 bond to the November 2024 bond. Our base case has the first tightening in H1 2024, with a tightening cycle that takes policy from easy to neutral, not easy to tight which markets had priced in when yields spiked in late February.

While recent strength tilts the balance of risks towards an earlier lift off, market pricing for a tightening cycle beginning in late 2022 seems premature and implicitly assumes that the tightening trifecta conditions will be met. The wages condition will be difficult to meet given that RBA liaison finds many companies adopting a "wait and ration" approach rather than adding to their cost base by paying higher wages.

To meet the tightening trifecta conditions, the RBA will most likely need to renew its current bond purchase program which ends in September. We suspect they will commit to another six-month tranche of buying before moving to a more frequent and data dependent approach from March 2022. Against this complex backdrop, bank funding will likely remain elevated which will keep the three-month bank bills trading under the RBA cash rate target for some time.

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 the RBA's forward guidance, we expect money market yields to trade in a range between zero and 10bps for the foreseeable future. Given this, we are currently neutral on duration and will opportunistically extend the duration of the Fund if bank bill rates rise above 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.

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.

Term deposits – The introduction of green term deposits that pay a margin over bank bills has been a positive development in the money market space to which the Fund takes advantage of. As the TFF comes close to an end, we have noticed that banks are beginning to revive their various funding programs in anticipation. This has resulted in term deposit margins over bank bills being re-instated though the margins remain relatively low.

Further information
www.janushenderson.com/australia