

CONSERVATIVE FIXED INTEREST FUND – INSTITUTIONAL

As at October 2020

Fund objective

The Fund seeks to achieve a total return before fees that exceeds the total return of the Benchmark by 0.50% p.a., over rolling three-year periods.

Investment approach

The Fund is an actively managed portfolio of high quality interest bearing securities that seeks to provide returns in excess of cash and a high level of capital protection. 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 August 2002

Fund size

\$2.1 billion

Minimum investment

\$100,000

Management cost (%)

0.28 p.a.

Buy/sell spread (%)

0.00/0.02[^]

Distribution frequency

Quarterly

ARSN code

100 098 271

APIR code

IOF0111AU

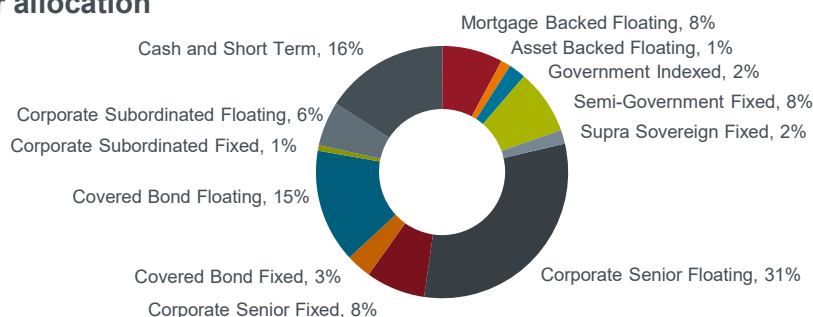
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.35	0.68	2.16	2.56	2.44	2.67	3.77	4.87
Fund (net)	0.33	0.62	2.09	2.25	2.15	2.38	3.47	4.58
Benchmark	0.01	0.03	0.05	0.51	1.35	1.59	2.52	3.88
Excess return*	0.34	0.65	2.11	2.05	1.09	1.08	1.25	0.99

*In line with the fund objective, the excess return is measured against gross performance.

Gross return is gross of management costs and sell spread.

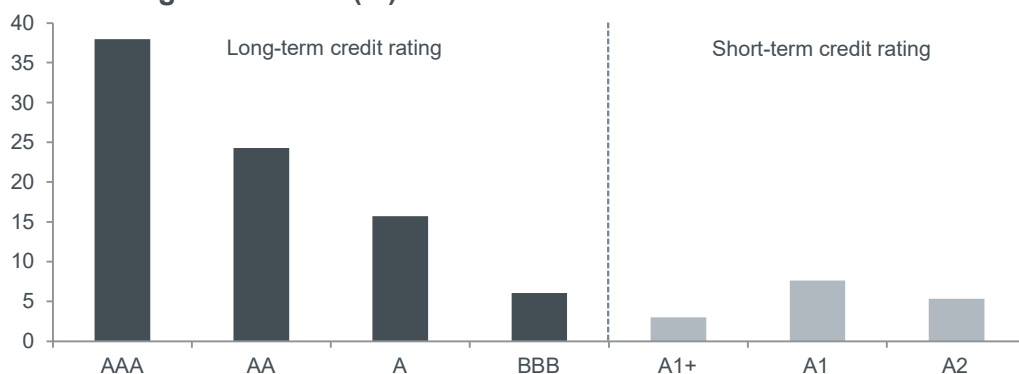
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM) ¹	0.64
Benchmark EWAYTM	0.08

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

Modified duration	Years
Fund	0.60
Benchmark	0.12
Active Position	0.48

Effective 28 August 2020, the Janus Henderson Cash Enhanced Fund – Institutional was renamed to the Janus Henderson Conservative Fixed Interest Fund – Institutional. The investment objective and investment strategy of the Fund will remain unchanged.

[^] 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)



Portfolio Manager
Shan Kwee

Fund performance

Fiscal and prospective conventional and unconventional monetary easing helped buffer Australian asset markets from rising volatility caused by a COVID-19 resurgence in the Northern hemisphere and the upcoming US election. The Australian equity market outperformed offshore markets, credit spreads continued to narrow and there was a modest lift in inflation expectations. The three-year government bond yield ended the month 4 basis points (bps) lower at 0.12%, three-month bank bills ended the month 3bps lower at 6bps, with markets factoring in a 3bps cash rate at the end of 2021. With the prospect of imminent near zero cash rates, high quality floating rate credit rallied strongly. The Bloomberg AusBond Credit FRN Index returned 0.32%.

The Janus Henderson Conservative Fixed Interest Fund (Fund) outperformed the Bloomberg AusBond Bank Bill Index (Benchmark) returning 0.35% (gross), while the Benchmark returned 0.01%. Over the year to 31 October 2020, the Fund returned 2.56% (gross), which is 2.05% above the Benchmark.

After a significant amount of Term Fund Facility (TFF) borrowing was drawn by the banking system at the end of September, the likelihood of Reserve Bank of Australia (RBA) Quantitative Easing (QE) in November saw the market seeking out high quality, liquid carry assets to put cash to work quickly. Having elected to hold onto our key overweight positions in high quality, liquid alpha strategies this drove further strong of outperformance. AAA rated semi-government securities continued to perform and major bank senior notes resumed their rally. This rally emanated into other credit assets like corporate bonds and major bank subordinated notes.

The extra income provided by the yield in the Fund remains a valuable contributor to return, and despite the decreases in interest rates, the Fund yield remains above 0.60%. Active strategies continue to enhance returns through capital gains in addition to the available income as demonstrated over the past 12 months.

Market review

Australian government bond yields fell at the shorter end of the yield curve, while longer-dated yields edged higher. Yields at the shorter end of the Australian government yield curve rallied following a seminal mid-month speech by the RBA Governor in which the RBA updated its reaction function to include a greater emphasis on full employment and shift from targeting expected inflation to actual inflation. The three-year government bond yield ended the month 4bps lower at 0.12%, with the 10-year government bond yield ending 4bps higher at 0.83%.

The brightest economic news was the gradual release of the Victorian economy from severe lockdown measures, which had been a drag on national growth. Retail sales fell by 4% in August, while employment dropped by 29,500 in September and the unemployment rate edged up to 6.9%.

There were also signs of policy support working with business conditions and confidence improving in the September NAB Business Survey. The Budget appears to have been well received, with consumer confidence bouncing strongly in October. There was also a lift in prices, with the unwinding of childcare support and working from home-related spending pushing the Consumer Price Index up 1.6% over the September quarter and lifting the yearly rate to 0.7%. Core inflation remained subdued, with the average of the RBA statistical measures lifting by 0.4% over the quarter for a 1.2% yearly rate.

Money market rates moved to factor in an imminent easing in monetary conditions. Three-month bank bills ended the month 3bps lower at 6bps, while six-month bank bills ended 5.5bps lower at 6.5bps.

The December 30-day cash futures contract fell from 8bps to 4.5bps, with markets factoring in a 3bps cash rate at the end of 2021.

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Despite jitters offshore, Australian credit markets regained their mojo with the iTraxx Index tightening 6bps to 70bps and corporate bond spreads rallying 8bps, generating healthy returns for credit investors. With the initial allocation of the TFF fully drawn upon by domestic banks, and three of the major banks passing their September reporting balance dates, there was strong demand for credit across the spectrum. Appetite was further fuelled by the prospect of imminent easing measures from the RBA, which saw senior bank note spreads tighten 9bps to their lowest level since before the Global Financial Crisis in 2007. All maturities up to five years were trading inside 30bps at the time of writing.

Primary markets remained active, with non-bank Residential Mortgage Backed Securities (RMBS) issuers and offshore banks filling the void in supply left behind by the domestic banks. Challenger, Bank of Queensland and Bendigo & Adelaide Bank all use the firmer conditions to launch smaller hybrid deals, the former two were refinance deals delayed from earlier in the year. Corporate issuers were also active, with an inaugural deal from Charter Hall for their Prime Industrial Fund and annual issuance from Port of Melbourne seeing continued strong investor demand.

Market outlook

While the RBA held off moving in October to allow fiscal policy to take centre stage, we see a slightly better than expected inflation outcome, the RBA calling a positive quarter of growth in Q3 and the opening up of the Victorian economy, as no barrier to a November easing.

Easing is most likely to take the form of a cut in the cash rate, three-year government bond yield target and TFF rate by 15bps from 0.25% to 0.10%. Negative rates remain highly unlikely and we believe the door remains wide open to the RBA extending its QE program to include a Large-Scale Asset Purchase Program (LSAP) targeting government and semi-government bonds in the five- to 10-year part of the yield curve.

Greater use of its balance sheet would help it meet its revised reaction function, where the RBA placed a stronger emphasis on reaching full employment and targeting actual, rather than expected inflation. A LSAP targeting the five- to 10-year part of the curve would help support jobs growth by lowering the term structure and economy-wide borrowing rates at a time when Federal and State governments are borrowing heavily.

We still regard cyclical and structural factors as pointing to many years of ultra-low cash rates and remain attracted to duration while the yield curve is positively sloped. We see periods of excessive curve steepening as opportunities.

We expect spread sectors to be shored up by the outlook for an extended period of low yields on government securities, unprecedented levels of central bank support for both sovereign and non-sovereign debt markets and investor demand for income.

We remain mindful that massive fiscal easing, burgeoning money supplies, geo-strategic supply chain reconfigurations and the blurring between monetary and fiscal policy in some jurisdictions raises medium to longer term inflation risks. Against this mix of cyclical and structural factors, we think it remains prudent to hold a modest core exposure to inflation-protected securities while inflation protection remains relatively cheap.

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(continued)

Given our outlook for further easing and ultra-low cash rates for the foreseeable future, we see the fair value for bond yields lower.

Investment strategy

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

Interest rates:

Overweight duration: Given our outlook for further easing and ultra-low cash rates for the foreseeable future, we see the fair value for bond yields lower. The slope in the yield curve also creates attractive roll down return opportunities presenting returns that are materially above money market yields, with the benefit of suppressed volatility due to central bank intervention. While our base case is for inflation to remain suppressed, we remain attracted to maintaining a modest exposure to inflation-protected securities as global policy makers continue to experiment with further stimulatory measures.

Sector allocation:

We remain attracted to high quality spread sectors as a means of generating excess income and capital gains where the market is likely to continue to chase yield in a protracted low cash rate world. Semi-government bonds, high quality bank notes from domestic and major foreign banks, and quality corporate credit still provide an opportunity for investors to meaningfully outperform cash. As the economic recovery gains traction and financial conditions remain extremely accommodative for years, we anticipate spreads will be able to be sustained at levels well below those prevailing at the start of the year. Our activity remains focused on extracting income and capital gains from this opportunity where scarce supply and strong policy support underpins markets.

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. 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. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.