

TACTICAL INCOME FUND

As at June 2023

Fund objective

The Fund seeks to achieve a total return after fees that exceeds the total return of the Benchmark, by investing in a diversified portfolio of predominantly Australian income producing assets.

Investment approach

The Fund is actively managed and designed to make tactical investment decisions between cash, longer duration fixed interest securities and higher yielding securities, through every step of the investment cycle.

Benchmark

Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted)

Risk profile

Low-medium

Suggested timeframe

3 years

Inception date[^]

30 June 2009

Fund size

\$4.8 billion

Minimum investment

\$25,000

Management cost (%)

0.45 p.a.

Buy/sell spread (%)

0.00/0.04^{^^}

Base currency

AUD

Distribution frequency (if any)

Quarterly

ARSN code

130 944 866

APIR code

IOF0145AU

ASX mFund

JHI02

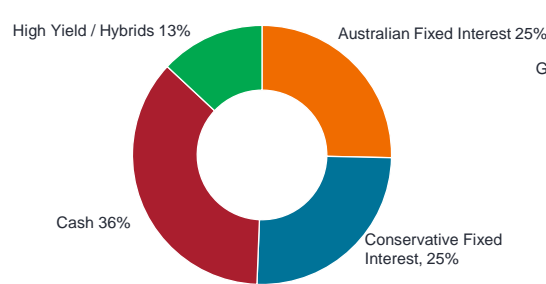
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.38	1.34	2.59	5.35	1.49	2.31	3.17	4.63
Fund (net)	0.34	1.23	2.36	4.88	1.05	1.84	2.71	4.16
<i>Growth (Net)</i>	-1.41	-0.54	0.38	2.26	-2.32	-1.13	-0.53	0.17
<i>Distribution (Net)</i>	1.75	1.77	1.98	2.62	3.37	2.98	3.23	3.99
Benchmark	-0.83	-1.03	1.63	2.11	-1.24	0.86	2.08	3.09
Excess return*	1.17	2.26	0.73	2.77	2.29	0.98	0.63	1.07

*Excess return is measured against net performance.

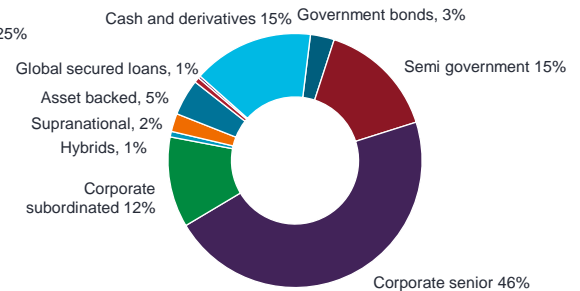
Gross performance is calculated gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

Asset allocation*

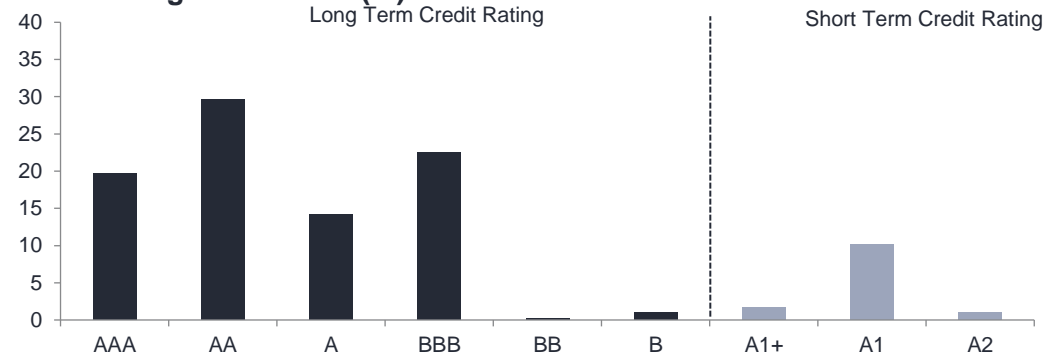


Sector allocation



*Asset allocation shown as effective exposure of asset classes. Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM) ¹	5.19
Running Yield	4.58
Benchmark EWAYTM	4.29
Weighted Average Credit Quality	AA
Number of Securities (on a look through basis)	489

¹Estimated Weighted Average Yield to Maturity is a measure of the average annual yield of all securities in the Fund (Grossed up for franking credits, where applicable)

Modified duration	Years
Fund	1.38
Benchmark	2.64
Active Position	-1.26

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

TACTICAL INCOME FUND

(continued)



**Head of Australian
Fixed Interest**
Jay Sivapalan

Fund performance

The Janus Henderson Tactical Income Fund (Fund) returned 0.34% (net) and 0.38% (gross). The Fund outperformed the 50% Bloomberg AusBond Bank Bill; 50% Bloomberg AusBond Composite 0+ Yr (Benchmark) by 1.17% (net) in June, which returned -0.83% on the month. The Fund continues its outperformance, beating the Benchmark over the longer term including by 2.77% (net) over the year, and 1.07% (net) since inception per annum.

Our overweight positioning in semi government bonds, mostly via New South Wales, as well as overweight swap yields over government bond yields both were positive contributors to return and alpha as spreads continued to tighten.

It was a good month of outperformance from credit, returns benefitting from both additional income and some spread tightening. Overweight credit allocations were a positive contributor as a result, and we continued to actively take profit on active positions added during FY23 that have moved from cheap back towards fairer valuations.

In a stronger month for credit loans, emerging market debt, high yield and hybrids all performed well. We remain very modestly allocated across these sectors as conditions remain choppy, with asymmetric downside in our view. Australian Tier 2 also exhibited outperformance from spreads and income and has been our preferred substitute for lower quality sectors.

A positive return in June capped off a strong FY23 return for the Fund which delivered 4.88% (net of fees) outperforming bonds, cash and credit floating-rate note (FRN) market benchmarks over the past 12 months. Performance is pleasing when assessed against the fact that bond markets underperformed cash again in FY23, after a horrendous FY22. Bond markets also delivered a majority of negative monthly returns over the last 12 months with the largest monthly drawdown being -2.5%. Conversely, the Fund delivered investors a majority of positive monthly returns with less drawdown.

Turning points in policy can be tricky for markets to price, and over the FY we saw the bond market exhibit extremely volatile monthly returns. The Australian bond market returns were negative six times over the course of the past year, with a return range of -1.36% to -2.54% each time it occurred even with higher income yields. The results delivered by the Tactical Income Fund are a good reminder of the value of active duration management and credit selection, providing outperformance and a smoother journey for investors across the year.

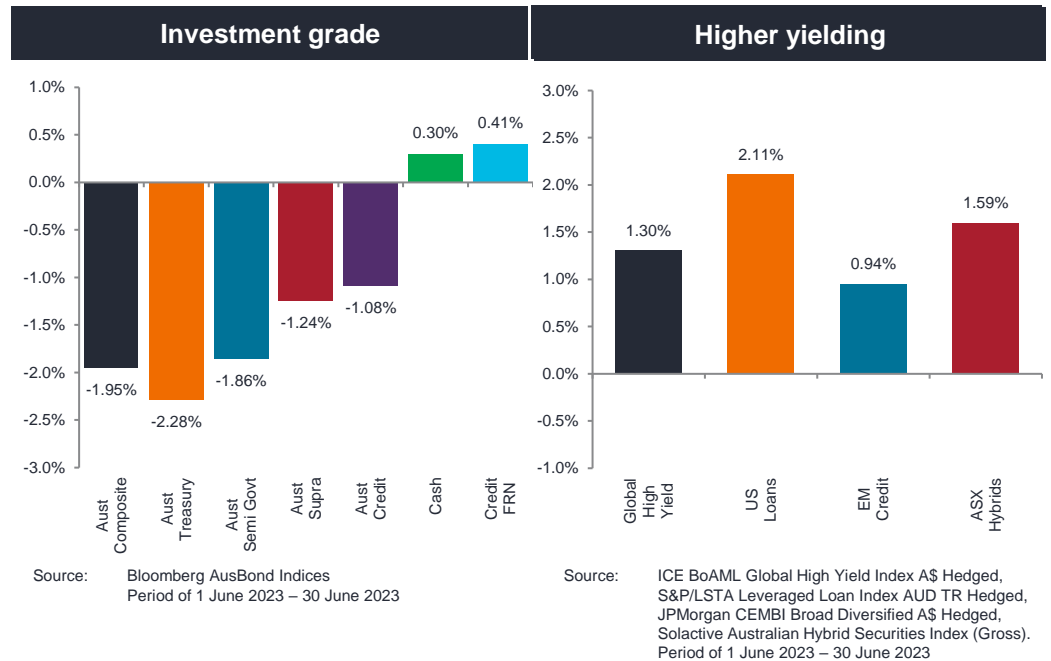
The decisions to add/take away duration are highly complex and challenging. Over the past 12 months we have managed through the largest duration adjustments since the Fund's inception. The Fund had almost 4 years interest rate duration at the start of FY23, then trimmed half of that taking profit on one of the strongest bond market rallies seen in years. This year, the Fund moved close to 0 years duration after Credit Suisse/SVB and whilst optically it was a non-consensus strategy, the positioning was vindicated as it protected investors capital against the bond market which has sold off heavily since then as three- and 10-year government bond yields ended the quarter 110bps and 73bps higher. The Fund delivered 1.23% (net) versus the bond market (Bloomberg AusBond Composite 0+ Year Index) falling by -2.95% over the quarter. Now that the Fund has maintained capacity, we are actively adding duration at much better yield levels. After beginning the quarter with a slight negative duration position, we have started to see some value presented in bond yields and accelerated repositioning late in June moving to 1.4 years.

The Fund has also been profit taking into the rally in spread sectors. We actively moved overweight in bank credit, longer semi government positions, and swap rate positions during 2022 when spreads were cheap and elevated well above average. These all added strongly to the FY result via higher income and capital gains from spreads tightening. At this juncture we remain overweight but have moderated positioning as we look forward for further opportunities. The future looks challenging from a number of fronts, we remain guarded on taking excessive low-quality risks favouring actively managing better credit quality assets with plenty of powder dry to add exposure into any weakness.

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(continued)

The positive income pulse is added to by population growth, which boosts the economy.



Another popular strategy had been to access term deposits (TDs) and whilst they are not a directly comparable investment (as they are not liquid and government guaranteed up to \$250k), the Fund continues to comfortably outperform TDs on an after fees basis whilst providing daily liquidity to investors.

Finally, now that bond yields have reached higher ground, returns in Fixed Interest and products like the Tactical Income Fund should continue to move higher by virtue of its starting point and with successful active management it has the potential to deliver even stronger returns.

Market review

Persistent core inflation is keeping central banks guessing and became the biggest worry for markets in June. Central banks reassessed their risks and came down on the side of higher policy rates. Markets responded by moving yields higher and pushing back the easing cycle. Short and longer dated government bond yields rose sharply after last month's modest moves. Three and 10-year government bond yields ended the month 68bps and 42bps higher at 4.05% and 4.02%. Against this backdrop, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, fell 1.95%. The Australian fixed and floating credit indices returned -1.08% and +0.41% respectively.

Market Outlook and Investment Strategy

The positive income pulse is added to by population growth, which boosts the economy. This feeds into inflation, and the monthly CPI came in at 5.6% year on year (yoy) with services inflation remaining sticky. The higher policy profile leads us to believe there is more downside to the rates path through 2024, as the RBA will need to set policy for an economy nearing stall speed.

We raised our peak RBA cash rate, to incorporate a further 50bps of hiking, to 4.60%, as the RBA warned of a bias toward reining in inflation faster than they had previously been comfortable with. We anticipate that these hikes are likely to come over the months ahead and may be interspersed with pauses as the RBA waits for more feedback from the economy. We currently see the Australian yield curve as slightly under-valued. We remain on the lookout for tactical opportunities to add further duration on spikes in yields triggered by central bank signalling and data flows.

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(continued)

WA and Transpower both priced Green bonds, while the Supranationals both issued Social bonds.

As the cumulative impact of tighter financial conditions continues to grip and the cycle ages, our focus in the credit space is towards defensiveness, with a keen focus on risk-adjusted returns. Our strong bias is towards high-quality, liquid credit and issuers that can survive and thrive through a range of macro-economic scenarios. We are avoiding illiquidity, complexity and leveraged sectors, where we anticipate balance sheets will have to contend with a painful period of adjustment in a higher cost of capital environment. By adopting a patient and disciplined approach to extending risk and reserving ample investment capacity, we believe we will be well placed to take advantage of any further market dislocations.

Despite ongoing widening in 2023, we remain unimpressed by relatively tight spreads on offer in the bank hybrid market and remain in favour of allocations in investment grade corporates and higher up in the bank capital structure in Tier 2 and senior debt. Both Senior and Tier 2 spreads rallied strongly during FY23 from elevated levels and we have trimmed some active positions as a result. We continue to look for opportunities within securities producing higher yields as the broader market more rationally reprices risk, with conservatively geared Australian real estate investment trust (REIT) senior spreads showing attractive relative value.

We remain patient on sub investment grade and more illiquid credit, with a strong preference to earn reasonable income up in quality for now. Our expectation remains for lower quality credit spreads to widen as investors digest weakening corporate fundamentals in a higher cost of capital and slowing growth environment. We are withholding risk and liquidity capacity in anticipation of more attractive entry points for global high yield and loans. After the June rally Credit Default Swaps are now providing cheaper entry points for credit protection and we have increased levels of protection as we approach the point in the cycle where policy tightening is intended to grip more forcefully.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Jul23

Environmental, Social and Governance (ESG)

In June four new ESG bond deals hit the local market, with \$2.8 billion in primary issued by Western Australia (WA), Supranationals and Transpower New Zealand. WA and Transpower both priced Green bonds, while the Supranationals both issued Social bonds.

Important information

The Product Disclosure Statement for the Fund, dated 30 September 2022, and the Additional Information Guide, dated 30 May 2023, are 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.