

TACTICAL INCOME FUND

As at September 2021

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

\$4.6 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

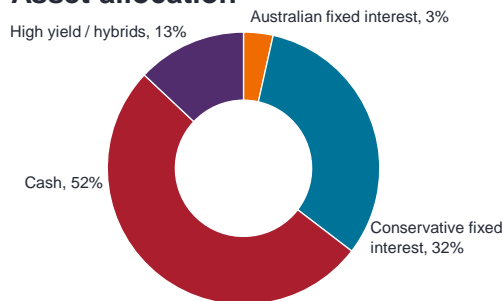
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.22	0.34	0.88	1.72	3.09	3.08	4.25	5.18
Fund (net)	0.18	0.23	0.66	1.27	2.62	2.61	3.78	4.71
<i>Growth (Net)</i>	0.18	0.23	-0.94	-1.79	-0.11	-0.24	0.10	0.65
<i>Distribution (Net)</i>	0.00	0.00	1.59	3.06	2.73	2.85	3.67	4.06
Benchmark	-0.76	0.16	0.93	-0.74	2.46	2.14	3.29	3.83
Excess return*	0.94	0.07	-0.27	2.01	0.16	0.47	0.49	0.88

*Excess return is measured against net performance.

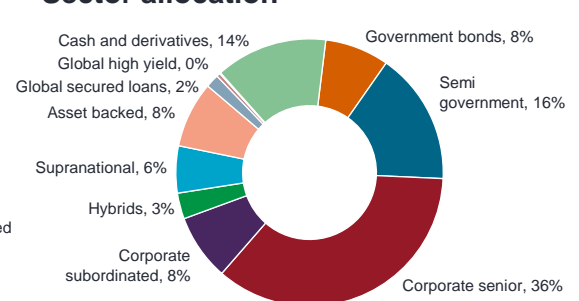
Gross performance is calculated gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

Asset allocation*



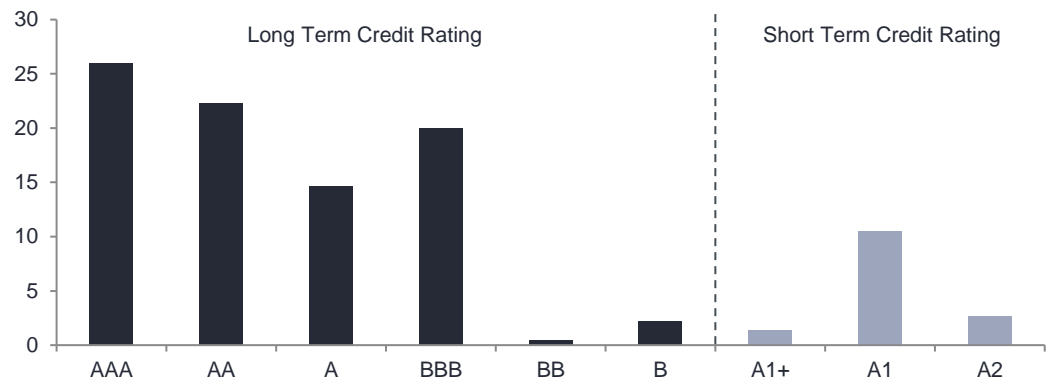
Sector allocation



*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	1.13
Running Yield	1.44
Benchmark EWAYTM	0.54
Weighted Average Credit Quality	AA
Number of Securities (on a look through basis)	438

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	0.16
Benchmark	2.99
Active Position	-2.83

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

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(continued)



**Head of Australian
Fixed Interest**
Jay Sivapalan

Fund performance

Against the backdrop of a notable drawdown in bond markets in September, in which the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark) fell by -0.76%, the Janus Henderson Tactical Income Fund (Fund) delivered investors a positive return of 0.22% gross and 0.18% net respectively. Overall, September was a fertile environment for active managers like Janus Henderson, in what was otherwise a low yield and income producing month. Over the cycle, the active strategies within the Fund have proven to preserve capital and deliver stable returns. This is also demonstrated through our longer term results, with the Fund returning 1.27% (net of fees) over the past 12 months, while the Benchmark has fallen -0.74%.

Bond yields finished the month significantly higher. Bond markets were initially on alert to an imminent Evergrande default, but later in the month these concerns eased, and the market started to focus on the inflationary pressures building in the system as well as a clearer path by some central banks. This resulted in upward pressure on rates and a negative drawdown for bond markets. Pleasingly, the Fund was geared towards benefiting from a higher yield environment and the reopening of the two largest states and Australia more broadly. Given markets are forward thinking, and a pathway out of lockdown is imminent, several active strategies employed over recent months to protect capital and enhance returns came to fruition in September. This resulted in capital preservation when the bond market returns were firmly negative, outperformance against the Benchmark and the delivery of a positive absolute return.

The Fund observed strong positive contributions from rates strategies including duration and yield curve positioning. Sector allocation, sub-sector themes and security selection were also favourable for performance.

Rates strategies in the Fund are actively managed through the Fund's exposure to the Janus Henderson Australian Fixed Interest Fund and interest rate derivatives. The Fund moved to a very short duration stance and a steepening bias, both of which occurred in September, resulting in positive contributions. Inflation-linked bonds dipped in the month as higher yields and steady inflation break-even levels offset the monthly income.

In previous months, the Fund deployed a substantial amount of capital to the largest and strongest states. Our largest overweight position is to NSW, with the holdings accrued when the state was in its darkest hour and spreads were wide. As case numbers have steadied, vaccination levels have risen and with a clear exit strategy in place, spreads on NSW government debt contracted in September contributing to an overall positive monthly return.

Credit spreads were slightly softer in September. Our focus has been on the sub-sectors that have been under pressure from the lockdowns such as airports, universities and REITs. These assets are starting to provide better overall total returns as the higher income is delivered whilst spread widening has steadied. The Fund is currently allocated on an opportunistic basis to higher yielding sectors, with offshore loans performing well in September. During the 2021 calendar year, we've avoided lower performing sectors such as global high yield and emerging market corporate debt in favour of loans which have continued to perform positively this year. The Fund has exposure to domestic hybrids which aided returns, with the market delivering 0.5% in September.

Finally, all of the funds that the Tactical Income Fund invests in outperformed their respective benchmarks. The Conservative Fixed Interest Fund, the Diversified Credit Fund, and the Cash Fund modestly outperformed their respective benchmarks while the Australian Fixed Interest Fund was the biggest outperformer beating its benchmark by 0.17% (net of fees) in a challenging month for bond markets.

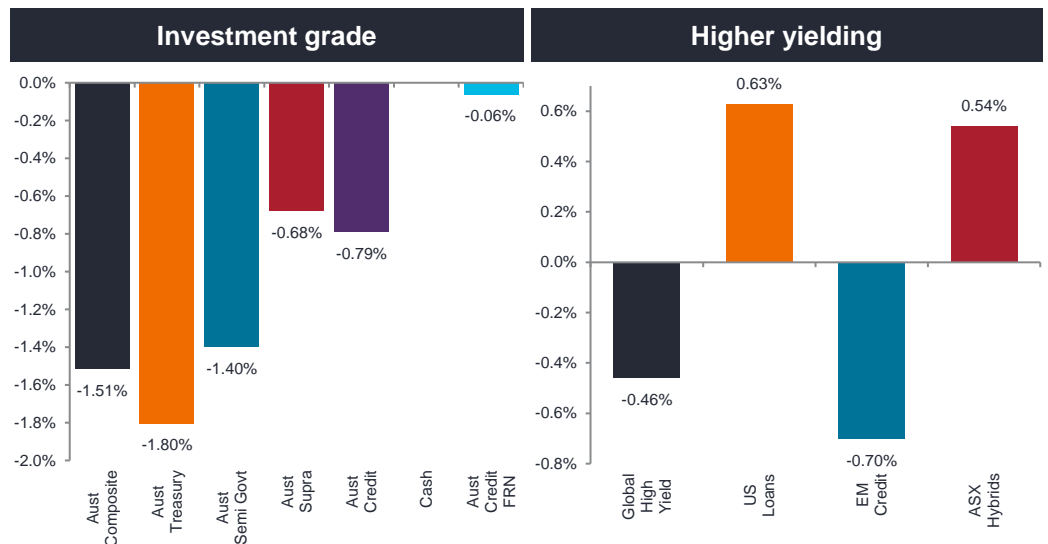
TACTICAL INCOME FUND

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A lift in term premia on more persistent than expected global inflation pressures saw 10-year and 30-year government bond yields end 33.5bps and 35bps higher at 1.49% and 2.37%.

Market review

- A shift to a more hawkish stance by offshore central banks, higher energy prices and disruptions to global supply chains led to heightened financial market volatility. Equity and credit markets were weaker while inflation expectations edged higher.
- Economic data painted a picture of an economy doing well pre-lockdowns followed by a sharp fall in activity looking to have troughed in August. Labour market conditions deteriorated in August with hours worked and employment down sharply.
- A lift in term premia on more persistent than expected global inflation pressures saw 10-year and 30-year government bond yields end 33.5bps and 35bps higher at 1.49% and 2.37%.
- Credit markets were cautious digesting the implications of US Federal Reserve tapering and the potential for the default of Evergrande, a major Chinese property developer.
- The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index had a notable drawdown in September returning -1.51%.



Source: Bloomberg AusBond Indices
Period of 1 September 2021 – 30 September 2021

Source: ICE BoAML Global High Yield Index A\$ Hedged, S&P/LSTA Leveraged Loan Index AUD TR Hedged, JPMorgan CEMBI Broad Diversified A\$ Hedged, Solactive Australian Hybrid Securities Index (Gross).
Period of 1 September 2021 – 30 September 2021

Market outlook

- The Australian economy will likely contract around 3% in the September quarter but rising vaccination rates and roadmaps out of NSW and Victorian lockdowns mean that the economy is far from out. We look for these two states to gradually reopen over the December quarter and enter into “catch up mode”.
- The sharp lift in longer government bond yields has restored significant value and compensation for term risk. We still see some modest upside risk as markets continue to adjust to conventional and unconventional monetary policy normalisation by a number of key offshore central banks.
- Spread sectors are likely to remain well-supported, with corporates in particular, continuing to benefit from the tailwinds of a cyclical recovery and persistent accommodative policy settings. We remain attracted to semi-government securities in the current low yield environment, particularly those issued by NSW which is close to coming out of lockdown.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Oct21

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(continued)

On strategy, the Fund continues to be positioned well to take advantage for further opportunities available to active managers centred around a theme of the reopening of the Australian economy.

Investment strategy

Our north stars for investing are:

- Zero to ultra-low risk-free cash rates
- Navigate the range within bond yields, adding duration when they overshoot to the upside and taking profit when yields retreat
- Inflation protection when it's cheap
- Income bid (spread sectors, including credit)
- Invest with a cautious mindset – managing ESG/stranded asset risk and deploying capital to positive impact opportunities
- Aim to participate in any cyclical growth uplift

The following is a summary of the key strategies in the Fund (at the time of writing):

On strategy, the Fund continues to be positioned well to take advantage for further opportunities available to active managers centred around a theme of the reopening of the Australian economy. In addition, the expected proper re-opening of international borders in 2022 will support the recovery of several sectors reliant on foreign travellers. These industries that have been disproportionately hit by the pandemic have strong long-term fundamentals and are likely to have the largest rebound coming from a lower base.

Interest rates:

The sharp lift in 10-year government bond yields to 1.49% has restored significant value and compensation for term risk. Our short duration and curve steepening bias has been a worthy contributor to performance in the month and we will monitor these positions closely now that rates have moved towards our view on fair value. We still see some modest upside risk as markets continue to adjust to conventional and unconventional monetary policy normalisation by a number of key offshore central banks.

Sector allocation:

Inflation-linked bonds: Although breakeven inflation rates have edged up towards the bottom end of the Reserve Bank of Australia's (RBA) 2-3% target band, we still see a role for some inflation protection given latent inflation pressures from a lower currency, challenged global supply chains and the wider opening up of the economy over 2022.

Semi-government bonds: We remain attracted to semi-government securities in the current low yield environment, particularly those issued by NSW which is close to coming out of lockdown. We recognise the risks of vaccines losing efficacy, or becoming ineffective against new strains, and the increased number of 'Delta' cases that are likely to eventuate as the states reopen. However, we weigh this against our positive macro-outlook for the reopening, strong fiscal position of the NSW government, the forward-looking political stance and the fact that these AA+ rated liquid government securities are still supported by the RBA under their QE program as overriding factors.

Investment grade credit: We remain positive about the outlook for credit, particularly those industries that have been hardest hit but offer high income while we wait for the recovery and inevitable capital gains. Tourism, airports, universities, and retail are set to benefit the most from the broader economic recovery as Australia gets a second wave of growth from pent up demand, latent savings and return to travel. We believe that the thematic is still strong and we expect these sectors to perform strongly as the economy opens. Equally, while we hold a favourable view on the credit sector in general, we have built up some credit protection via Credit Default Swaps (CDS) for any unexpected large left field events should they occur.

Higher yielding credit: We continue to balance, adding credit income and capital gain opportunities into the Fund, while withholding risk capacity with spreads remaining tight in offshore investment grade and high yield markets. We anticipate any spread widening will be largely manageable and would improve value for investors into a recovery that policy makers remain keen to support. Global allocations remained stable at low levels. We remain mindful of potential volatility in the highly levered segment as financial conditions are gradually normalised, with the equity and debt stress of China Evergrande serving as a timely reminder.

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From an ESG perspective, we continue to engage with intermediaries and issuers on growing Australia's positive impact bond market.

Environmental, Social and Governance (ESG)

From an ESG perspective, we continue to engage with intermediaries and issuers on growing Australia's positive impact bond market. It was pleasing to see more supply come to market as Woolworths Group issued its inaugural AUD sustainability-linked bond in 6 and 10-year tenors, Pricing at swaps +75 and +117 respectively. Each tranche was heavily over-subscribed by ~4x, demonstrating significant appetite for ESG labelled issuance from the domestic investor base.

Important information

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2021 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. 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.