Janus Henderson

TACTICAL INCOME FUND

Janus Henderson INVESTORS

As at December 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
$4.8 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

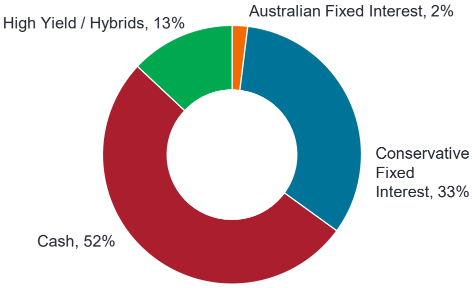
APIR code
IOF0145AU

ASX mFund
JHI02

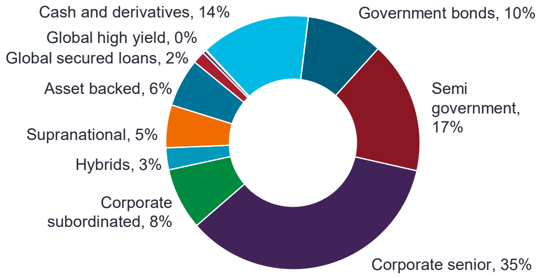
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a)
Fund (gross)	0.08	0.13	0.47	0.47	2.91	3.15	4.14	5.08
Fund (net)	0.04	0.01	0.24	0.02	2.44	2.68	3.67	4.61
Growth (Net)	-0.13	-0.16	0.07	-2.64	-0.16	0.00	0.10	0.62
Distribution (Net)	0.17	0.17	0.17	2.65	2.61	2.68	3.57	3.99
Benchmark	0.05	-0.72	-0.56	-1.41	1.76	2.24	3.05	3.70
Excess return*	-0.01	0.73	0.80	1.43	0.68	0.44	0.62	0.91

*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*

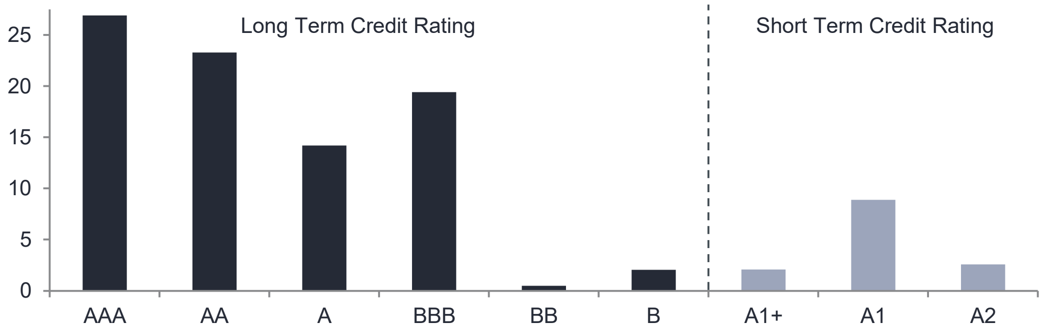


Sector allocation



*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]	1.54
Running Yield	1.58
Benchmark EWAYTM	0.75
Weighted Average Credit Quality	AA+
Number of Securities (on a look through basis)	438

[1]Estimated 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	0.38
Benchmark	2.96
Active Position	-2.58

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

December was the final episode of a tumultuous bond market environment, with bond yield movements mixed and volatile, while spread sectors slightly outperformed after November Omicron jitters. The Janus Henderson Tactical Income Fund (Fund) returned 0.04% (net) and 0.08% (gross). The Fund underperformed the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark) by -0.01% (net) in December, which gained by 0.05% on the month. The Fund continues its outperformance, beating the Benchmark across all other periods including by 1.43% (net) over the year, and 0.91% (net) since inception per annum.

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 had a modest level of value add from rate strategies, yield curve positioning, duration and inflation-linked bonds. The long position in the 3-year part of the curve was modestly reduced, while the Fund maintained its broadly neutral duration position on the longer end.

In credit, sector positioning skewed towards the re-opening theme sectors and was relatively resilient as market participants looked through the Omicron variant. However, the December performance was somewhat hampered by some credit protection that was purchased at the onset of Omicron to protect the Fund should credit respond unfavourably to the new strain.

In addition, the Fund is currently allocated on an opportunistic basis to higher yielding sectors. The Fund has favoured secured loans, which are a floating rate product, as well as major bank hybrids. These sectors have performed well and contributed positively to performance over the month and year.

Reflecting on the whole year, 2021 had its trials and tribulations with a volatile rate environment, ultimately residing in a 70bp rise of yields in the 10-year part of the curve. An improvement in economic fundamentals and nearing of ‘lift off’ in monetary policy were the dominant drivers of the higher bond yields, which saw the bond market return -2.87% for the 2021 calendar year. Meanwhile, credit market returns were much more modest than the prior year. The Bloomberg AusBond Credit 0+ FRN Index returned a 0.32% return, in a year where coupon income was partially eroded from capital price falls (wider spreads). Pleasingly, despite the bond market drawdown and underwhelming credit performance, the Fund still produced a small positive return in the year, demonstrating its ability to preserve capital. The Fund delivered 0.02% (net) in 2021, outperforming the Benchmark which returned -1.41%.

Of the underlying funds that the Janus Henderson Tactical Income Fund invests in, the Janus Henderson Australian Fixed Interest, Conservative Fixed Interest, Cash and Diversified Credit Funds all outperformed their respective benchmarks. The Diversified Credit Fund was the most notable with a 0.27% net outperformance to its benchmark.

Market review

- Investor concerns shifted from fretting about inflation and the timing and speed of offshore central bank tightening, to calibrating the impacts of the rapidly spreading Omicron variant.
- There was some flattening in the yield curve, with shorter-dated yields higher and longer-dated yields mixed.
- In credit markets, sentiment was sensitive to Omicron news flow, which also coincided with reduced liquidity and conservative investor positioning ahead of the holiday season. While early findings are for lower severity as it relates to health outcomes, the sheer contagiousness of Omicron has resulted in mobility restrictions being reimposed globally, with associated negative impacts on economic activity expected going into the new year.
- The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index rose by 0.09% over December.

TACTICAL INCOME FUND

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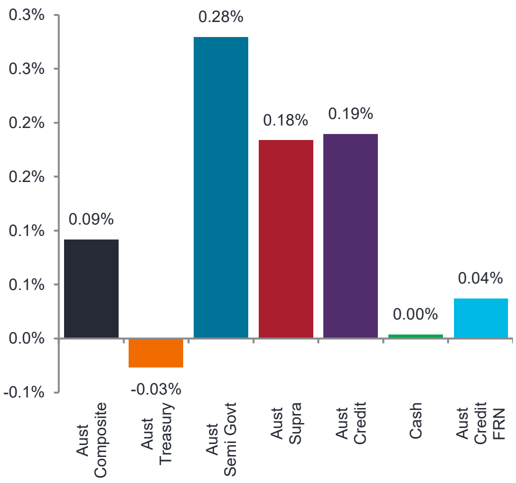
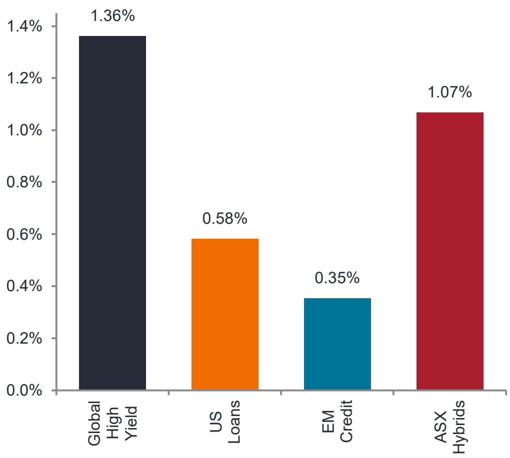
Markets are priced for a 0.75% cash rate by the end of 2022 and 1.25% by mid-2023.

Investment grade



Source: Bloomberg AusBond Indices
Period of 1 December 2021 – 31 December 2021

Higher yielding



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 December 2021 – 31 December 2021

Market outlook

- Markets are priced for a 0.75% cash rate by the end of 2022 and 1.25% by mid-2023. While we agree there will be some cash rate tightening (from accommodative to neutral settings), our view is that current market pricing for lift-off is too early.
- Instead, we look for the initial lift in the cash rate early in 2023 and for a 1% cash rate by the end of 2023. We have sympathy for the overall narrative but suspect more time will be needed for tightening labour market conditions to translate into higher wages.
- If health systems can cope with the Omicron caseload, spread sectors are likely to remain well-supported, with corporate fundamentals continuing to benefit from the tailwinds of a cyclical recovery and cashed-up consumers. Though monetary conditions are set to normalise, it is worth bearing in mind that overall settings still remain accommodative and pro-cyclical.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Jan22.

Investment strategy

Our north stars for investing are:

- A gradual 'normalising' in cash rates around the globe lifting risk free yields
- 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
- Remain active with the ability to pivot should a derailment to the recovery unfold

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(continued)

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We see the three-year government bond yield of 0.91% (at month end) as broadly fairly valued.

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

Interest rates:

We see the three-year government bond yield of 0.91% (at month end) as broadly fairly valued. At the longer end, we see the 10-year government bond yield at 1.67% (month end levels) as being modestly expensive with the recent rally eroding term premia at a time of heightened inflation risk.

Sector allocation:

Inflation-linked bonds: Our inflation protection strategies continue to bear fruit, with breakeven inflation rates moving up towards the middle of the RBA's 2-3% target band. We still see a role for some modest inflation protection given the risk of cyclical price pressures finding their way into both higher core inflation and inflation expectations.

Semi-government bonds: We continue to be attracted to semi-government securities, particularly those issued by NSW as it continues to come out of lockdown despite Omicron headwinds which are impacting economic activity. We hold a positive longer term macro-outlook for the state and the strong fiscal position of the NSW government. These are AA+ rated liquid government securities that are still supported by the RBA under their QE program.

Investment grade credit: We favour cautious positioning in sub-sectors set to benefit from the country re-opening theme with authorities currently looking to live with the Omicron variant. We remain mindful and attentive to opportunities that may arise as markets react to the variability posed by pandemic conditions. We have built up some credit protection via CDS which we will continue to hold as a tail risk hedge in the Fund.

Higher yielding credit: We continue to balance, adding credit income and capital gain opportunities into the Fund, favouring withholding risk capacity with spreads remaining broadly tight in offshore investment grade and high yield markets. We remain mindful of potential volatility in the highly levered segment as financial conditions are gradually normalised with global asset flows pointing to a reduction in credit appetite and equity market volatility is rising. We're happy to remain patient and anticipate spread widening will be largely manageable and should present an opportunity for investors to re-enter at fair value. As a result, global sub-investment grade allocations remain at low levels.

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 in 2021 as the trend towards ESG themed issuance continued and we seek to participate where valuations make sense.

Further information
www.janushenderson.com/australia