

# TACTICAL INCOME FUND

## As at January 2022

### 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<sup>^</sup>

30 June 2009

### Fund size

\$4.9 billion

### Minimum investment

\$25,000

### Management cost (%)

0.45 p.a.

### Buy/sell spread (%)

0.00/0.04<sup>^^</sup>

### Base currency

AUD

### Distribution frequency (if any)

Quarterly

### ARSN code

130 944 866

### APIR code

IOF0145AU

### ASX mFund

JHI02

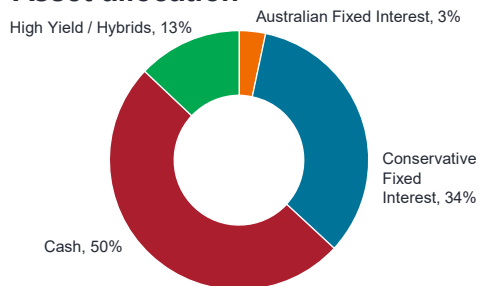
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	-0.10	0.52	0.18	0.30	2.76	3.02	4.07	5.04
Fund (net)	-0.14	0.41	-0.04	-0.14	2.29	2.55	3.60	4.57
<i>Growth (Net)</i>	-0.14	0.24	-0.22	-2.79	-0.31	-0.13	0.03	0.61
<i>Distribution (Net)</i>	0.00	0.17	0.17	2.65	2.60	2.68	3.57	3.96
Benchmark	-0.51	0.58	-1.93	-1.71	1.45	2.06	2.97	3.63
Excess return*	0.37	-0.17	1.89	1.57	0.84	0.49	0.63	0.94

\*Excess return is measured against net performance.

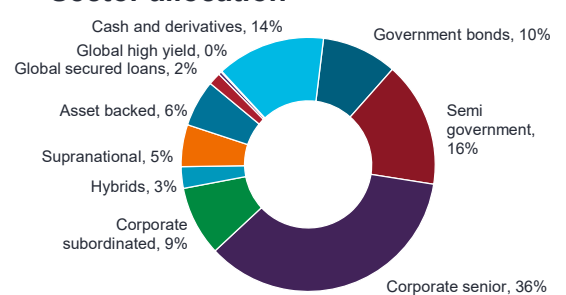
Gross performance is calculated gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

### Asset allocation\*



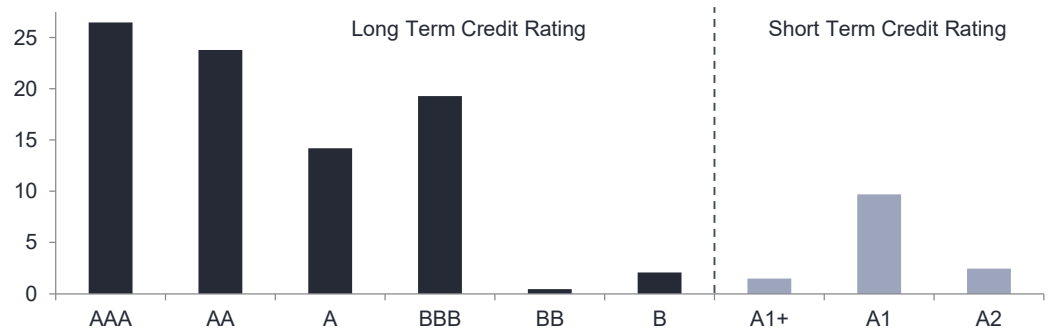
### Sector allocation



\*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) <sup>1</sup>	1.81
Running Yield	1.70
Benchmark EWAYTM	0.85
Weighted Average Credit Quality	AA
Number of Securities (on a look through basis)	438

<sup>1</sup>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	0.56
Benchmark	2.90
Active Position	-2.34

Benchmark duration is as at month end and therefore does not include rebalancing.

<sup>^</sup> Fund inception for performance reporting purposes is at end of month, whereby the actual fund inception date may be earlier in the month.

<sup>^^</sup> For more information and most up to date buy/sell spread information visit

[www.janushenderson.com/en-au/investor/buy-sell-spreads](http://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 -0.14% (net) and -0.10% (gross) over January. The Fund outperformed the Bloomberg AusBond Bank Bill and Bloomberg AusBond Composite 0+ Yr (equally weighted) (Benchmark) by 0.37% (net) in January, which fell by -0.51%. The Fund continues its outperformance, beating the Benchmark across all longer time periods including by 1.57% (net) over the year, and 0.94% (net) p.a. since inception.

A change in narrative by the US Federal Reserve (Fed), a higher-than-expected domestic inflation read, and subsequent likelihood of rate hikes by the Reserve Bank of Australia (RBA) this year resulted in poor bond market performance in January.

While the Fund is a product with an absolute return focus, and capital was largely preserved in the context of the bond market drawdown, it was still not completely immune to the significant repricing that took place. Notwithstanding, the Fund did outperform the Benchmark.

Rates strategies in the Fund are actively managed through exposure to the Janus Henderson Australian Fixed Interest Fund and interest rate derivatives. Rates strategies, including a low duration position over the month of less than 0.5 years for most of January helped preserve capital in a relative sense, but was impacted by the large movement upwards in shorter to medium term bond yields. The Fund held a modest long position in the three-year part of the curve, which underperformed given the front end of the curve bore much of the brunt of the sell-off, as future rate hikes by the RBA were brought forward and priced in aggressively for this year. In an absolute sense, this alone meant that the Fund's performance was adversely impacted. While the Fund was affected by the lift in yields in the underlying Australian Fixed Interest Fund, it does utilise interest rate derivatives to maintain an overall short duration position. The Fund held a duration position of 0.56 years at the end of the month, leading to its outperformance versus the Benchmark.

All forms of duration were adversely affected by the rising yield environment, including semi-government bonds. The long duration nature of this product, a 'risk-off' tone in spread sectors due to the Omicron strain slowing the recovery and the expectation that Quantitative Easing (in which semi-government bonds are purchased) will be ceased by the RBA, were all factors that weighed on pricing in the month.

On a more positive note, physical credit was more resilient, with coupon income aiding returns while spreads were broadly unchanged. The volatility and 'risk-off' tone from Omicron and the Fed's pivot were expressed more assertively through the derivatives market, with the Australian iTraxx Index widening in January. We bought credit protection (via credit default swaps) in previous months, and this performed well on a revaluation basis given the wider move, providing further credit protection and contributing positively to the Fund.

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. The secured loans performed well and contributed positively to performance over the month, while the hybrids detracted.

Of the underlying funds that the Fund invests in, the Janus Henderson Australian Fixed Interest and Diversified Credit Fund underperformed their respective benchmarks, while the Conservative Fixed Interest and Cash Fund performed broadly in line with their benchmarks.

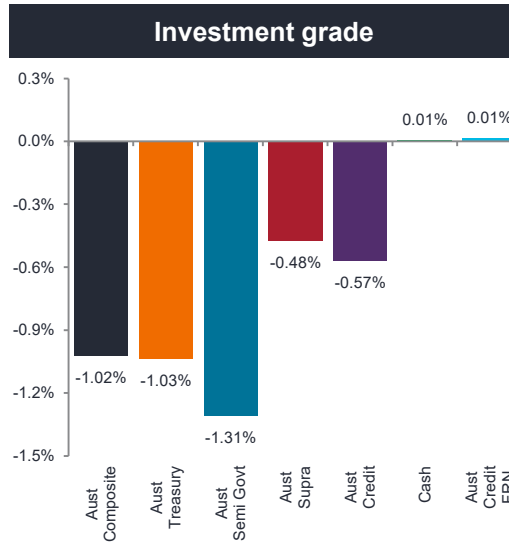
## Market review

- The first month of 2022 commenced with another installation of the 'great normalisation' theme of monetary policy withdrawal being priced in by market participants.
- A hawkish pivot by the US Federal Reserve (Fed) in the face of persistent inflation drove yields higher, resulting in poor bond market performance in January.
- The three-year government bond yield rose by 40bps to end at 1.31%.
- There was some flattening in the yield curve, with 10 and 30-year government bond yields lifting by 22.5bps and 7bps.
- The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index fell by 1.02% over January.
- The Australian iTraxx Index closed 12bps wider, while Australian fixed and floating rate credit indices closed unchanged and 1bps wider respectively.

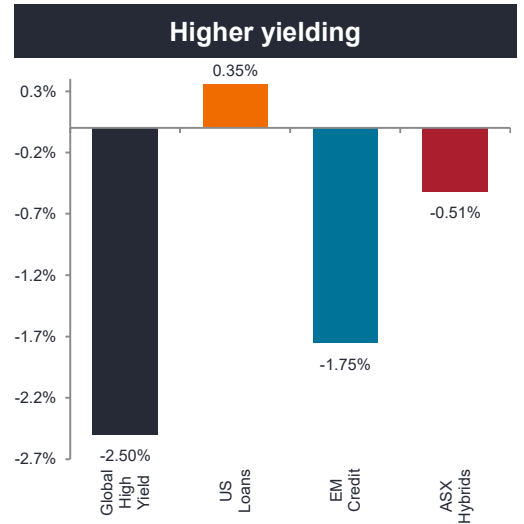
# TACTICAL INCOME FUND

(continued)

We also expect the RBA to pivot to a more hawkish stance following upward trending core inflation readings, we remain in the cash rate 'lift-off', not 'blast-off' camp.



Source: Bloomberg AusBond Indices  
Period of 1 January 2022 – 31 January 2022



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 January 2022 – 31 January 2022

## Market outlook

- We also expect the RBA to pivot to a more hawkish stance following upward trending core inflation readings, we remain in the cash rate 'lift-off', not 'blast-off' camp.
- We have brought forward the timing of the first tightening from early 2023 to November this year and look for a steady tightening cycle that takes the cash rate to 1.75% by early 2025. Markets are pricing an earlier and more aggressive tightening cycle, with the cash rate topping at 2.25% by mid-2025.
- With fiscal stimulus waning, tightening too aggressively runs the risk of choking off any post-pandemic bounce.
- We continue to remain very active and selective in this transitional environment, favouring relative value within sub-sectors, whilst being cautious on overall credit beta.
- We continue to be attracted to semi-government securities, particularly those issued by NSW as market pricing has adjusted with the impending removal of formal QE from the RBA.
- 2022 does commence with an improved running yield, which should lead to better investment outcomes than experienced in 2021.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Feb22](http://go.janushenderson.com/Viewpoint-Feb22).

## 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.

# TACTICAL INCOME FUND

(continued)

**Current market pricing at the shorter end of the yield appears too aggressive in our view and we see the three-year government bond yield of 1.31% (at month end) as beginning to offer value.**

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

**Interest rates:**

Current market pricing at the shorter end of the yield appears too aggressive in our view and we see the three-year government bond yield of 1.31% (at month end) as beginning to offer value. At the longer end, we see the 10-year government bond yield at 1.895% (month end levels) as being broadly fairly valued with the recent sell-off restoring 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 reopens 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. Market pricing has adjusted with the impending removal of formal QE from the RBA.

**Investment grade credit:** We continue to remain very active and selective in this transitional environment, favouring relative value within sub-sectors whilst being cautious on overall credit beta. We retain capacity and liquidity to access higher spreads should volatility permeate across credit markets as corporate demand for capital and primary supply ramps up. We have built up some credit protection via CDS which we will continue to hold as a tail risk hedge in the Fund. This position performed well in January as the iTraxx Index widened.

**Higher yielding credit:** We continue to favour 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 elevated. 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 higher spreads and higher yields. We have been shortening spread duration in higher beta subsectors of the credit market, as well as employing some credit protection using CDS.

**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. We seek to participate where valuations make sense.

**Important information**

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2021 is available at [www.janushenderson.com/australia](http://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](http://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](http://www.janushenderson.com/TMD). Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.