

TACTICAL INCOME FUND

As at February 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[^]

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^{^^}

Base currency

AUD

Distribution frequency (if any)

Quarterly

ARSN code

130 944 866

APIR code

IOF0145AU

ASX mFund

JHI02

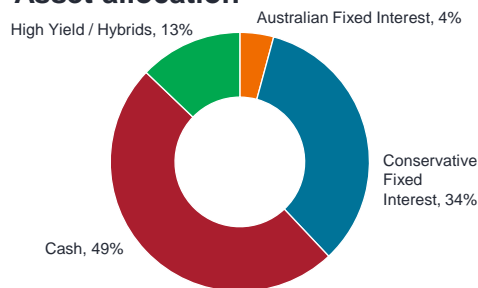
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	-0.07	-0.09	0.17	1.12	2.62	2.93	3.98	5.00
Fund (net)	-0.10	-0.21	-0.05	0.68	2.15	2.47	3.51	4.53
<i>Growth (Net)</i>	-0.10	-0.38	-0.23	-1.99	-0.45	-0.21	-0.05	0.60
<i>Distribution (Net)</i>	0.00	0.17	0.17	2.67	2.60	2.67	3.56	3.93
Benchmark	-0.60	-1.06	-2.56	-0.51	1.06	1.90	2.91	3.56
Excess return*	0.50	0.85	2.51	1.19	1.09	0.57	0.60	0.97

*Excess return is measured against net performance.

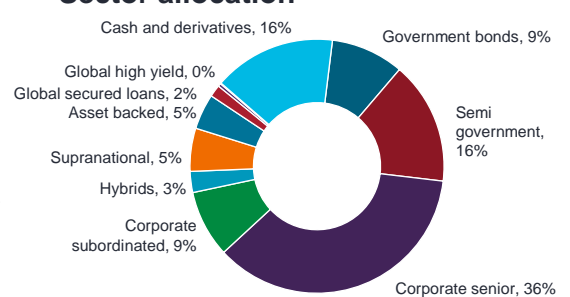
Gross performance is calculated gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

Asset allocation*



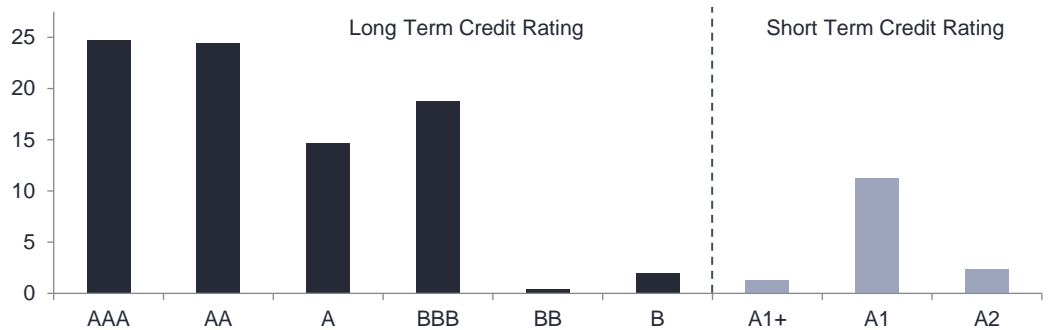
Sector allocation



*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	2.42
Running Yield	2.13
Benchmark EWAYTM	0.97
Weighted Average Credit Quality	AA-
Number of Securities (on a look through basis)	508

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	1.03
Benchmark	2.86
Active Position	-1.83

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

TACTICAL INCOME FUND

(continued)



**Head of Australian
Fixed Interest**
Jay Sivapalan

Fund performance

The Janus Henderson Tactical Income Fund (Fund) returned -0.10% (net) and -0.07% (gross). The Fund outperformed the Bloomberg AusBond Bank Bill and Bloomberg AusBond Composite 0+ Yr (equally weighted) (Benchmark) by 0.50% (net) in February, which fell by -0.60% on the month. However, the Fund continues its outperformance, beating the Benchmark across all periods including by 1.19% (net) over the year, and 0.97% (net) since inception per annum.

The past six months have been a challenging environment for fixed interest investors with a number of episodes of rising bond yields and credit spreads either tracking sideways or drifting up. Against this backdrop, the Fund has been able to preserve capital for investors. For context, over the past six months, the Fund delivered 0.17% (gross) while the Australian bond market as measured by the Bloomberg Composite 0+ Yr Index delivered -5.1%.

In truly 'risk-off' market events, portfolios are likely to have some negative impact from mark-to-market valuations. In this case, weaker credit markets weighed on corporate bond pricing, while rates have been volatile – tussling with the negative impact of sanctions on global growth versus the inflationary pressures from supply-side shock. However, the latter concerns led rates higher which negatively weighed on performance.

While the Fund is a product with an absolute return focus, and capital was largely preserved again this month within 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 meaningfully. Whilst too early to tell how developments around Ukraine and Russia could escalate into something bigger across Europe and the globe and any further impact on markets, the focus for this Fund remains on capital preservation during these episodes.

Rates strategies in the Fund are actively managed through exposure to the Janus Henderson Australian Fixed Interest Fund and interest rate derivatives. As inflation pressures built earlier in the month, rates initially sold off as future rate hikes by the Reserve Bank of Australia (RBA) were brought forward and priced in aggressively for this year. We added to our duration position during this weakness enabling us to have peak levels of duration at the peak in bond yields. This ensured that we went into this latest round of Russian invasion and turmoil well positioned with a longer duration stance. Despite the pull back in rates towards the end of the month, yields were still higher in February.

While the Fund was impacted slightly by the higher rate moves in the underlying Australian Fixed Interest Fund, it does utilise interest rate derivatives to maintain an overall shorter duration position. The Fund held a duration position of 1.03 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. They did however outperform treasuries given semi-government's slightly less duration profile.

The Fund went into this 'risk-off' period well positioned with ample protection through credit default swaps (CDS) and having some credit exposures trimmed over the last few months. The reduced credit beta cushioned portfolios during the initial phase of this invasion and ensuing market reaction. The pattern of CDS to often outpace the physical bond market in a 'risk-off' scenario, with the ability to temporarily overshoot, presented opportunities to take some profit on our CDS holding.

In addition, the Fund is currently allocated on an opportunistic basis to higher yielding sectors but well below maximum capacity limits. The Fund has favoured secured loans, which are a floating rate product, as well as major bank hybrids. While these assets were still negatively impacted by the 'risk-off' sentiment in credit markets, they did outperform global high yield and emerging market debt which we have been avoiding for quite some time now. That said, we are monitoring these markets closely given the drawdown and may add some exposure should value be restored.

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

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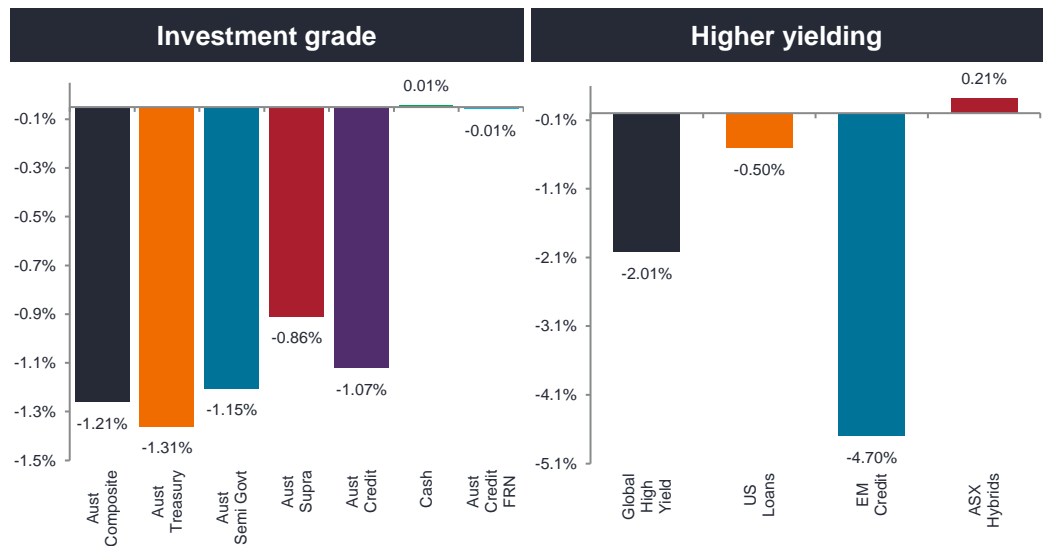
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It should also be noted that the funds and portfolios managed by the Janus Henderson Australian Fixed Interest Team have no direct exposure to Russia and little to no direct exposure to broader peripheral Europe / Emerging markets that have close economic ties with Russia.

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Market review

- Volatility returned as markets tried to discount the impact of Russia’s invasion of the Ukraine on the global growth and inflation outlook and on central bank tightening timelines.
- Australian yields rose as rising inflation concerns more than offset periodic safe-haven flows. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index fell by 1.21% over February.
- Russia’s invasion of the Ukraine, persistent inflation concerns and expectations of aggressive near-term rate hikes by developed market central banks led to risk-off conditions in credit markets. The Australian iTraxx closed 18bps wider, while Australian fixed and floating rate credit indices closed 7bps and 5bps wider, respectively.



Source: Bloomberg AusBond Indices
Period of 1 February 2022 – 28 February 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 February 2022 – 28 February 2022

Market outlook

- Whilst the journey in bond markets need to be navigated as policy normalises, we are gradually approaching healthy levels of bond yields which should benefit investors in terms of future performance. Very importantly, the asset class now has sufficient yield to play that defensive role against risk assets in the next downturn.
- The breakout of the latest war brings with it seismic shifts in the global power balance and relevance of rules-based systems along with more ‘mundane’ supply side shocks and the negative impact of sanctions on global growth.
- We suspect that faced with this additional uncertainty, the RBA will leave monetary settings ‘on hold’ until later in the year before commencing ‘lift-off’ in November. Once the tightening cycle commences, we look for a fairly rapid transition from accommodative to more neutral settings, with the cash rate projected to reach 1.75% by H1 2024.
- 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.

For in-depth economic analysis and the Australian Fixed Interest Team’s outlook, visit go.janushenderson.com/Viewpoint-Mar22.

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(continued)

We see some value at the shorter end of the yield curve.

Investment strategy

Our current investment focuses are:

- A 'normalising' in cash rates with 'lift off', not 'blast off'.
- 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.
- Policy support tide going out, a constructive but discerning approach to credit.
- Employ tail risk credit protection.
- 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.
- Good opportunities for active risk taking.
- Yields and income lifting bodes well for future returns and diversification benefits.

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

Interest rates:

We see some value at the shorter end of the yield curve. We see 10-year government bond yields at month end levels of 2.14% as broadly fairly valued, providing investors with term premia at a time of heightened inflation risk.

Sector allocation:

Inflation-linked bonds: We hold onto our inflation protection strategies, especially as the Russian invasion elevates oil prices and exacerbates supply chain pressures.

Semi-government bonds: We remain attracted to semi-government securities, particularly those issued by NSW, as market pricing has adjusted to the removal of formal Quantitative Easing 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 during periods of volatility as corporate demand for capital and primary supply ramps up over 2022. In addition, we continue to monitor levels in CDS and look for opportunities to trim our position further should this market overreach.

Higher yielding credit: Our decision to withhold risk capacity and limit sensitivity to offshore investment grade and high yield markets is being validated in current market conditions. Volatility is rising in the highly levered segments and more acutely in Europe as the market grapples with impacts of sanctions and inflation pressures. We have remained patient and look to take advantage of further spread widening as spreads reach more attractive levels, offering higher income and total return opportunities for investors. After employing credit protection positions via CDS late in 2021, we look to unwind the positions as they have served their purpose well, buffering investors from current spread conditions..

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.

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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.

Further information

www.janushenderson.com/australia