Janus Henderson

TACTICAL INCOME FUND

Janus Henderson INVESTORS

As at March 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
$4.8 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

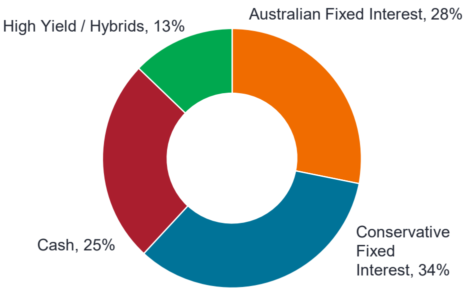
APIR code
IOF0145AU

ASX mFund
JHI02

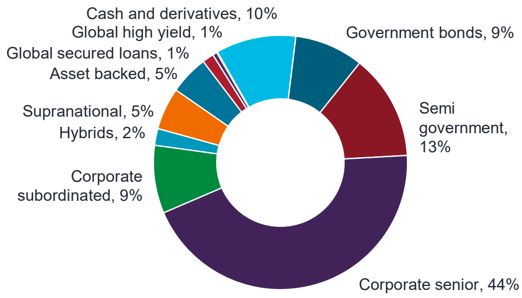
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a)
Fund (gross)	-0.89	-1.06	-0.94	-0.06	2.17	2.65	3.81	4.90
Fund (net)	-0.93	-1.17	-1.16	-0.51	1.70	2.19	3.34	4.42
Growth (Net)	-1.59	-1.84	-1.99	-2.91	-1.11	-0.42	-0.14	0.47
Distribution (Net)	0.67	0.66	0.83	2.40	2.80	2.60	3.48	3.96
Benchmark	-1.89	-2.97	-3.67	-2.77	0.09	1.46	2.65	3.38
Excess return*	0.96	1.80	2.51	2.26	1.61	0.73	0.69	1.04

*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*

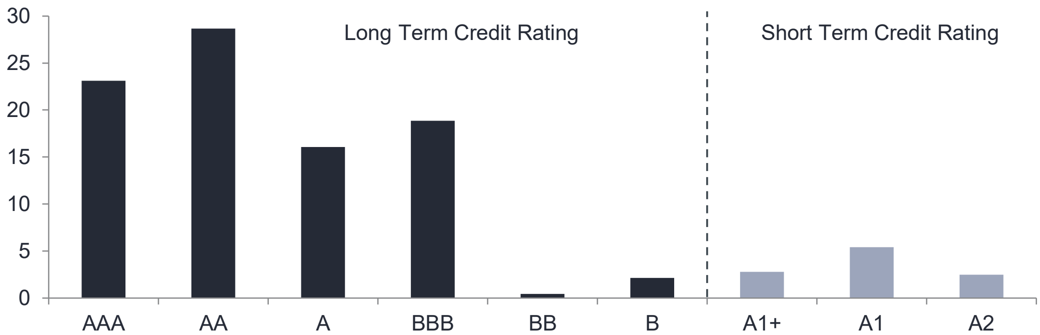


Sector allocation



*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]	2.98
Running Yield	3.46
Benchmark EWAYTM	1.35
Weighted Average Credit Quality	AA-
Number of Securities (on a look through basis)	526

[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	2.45
Benchmark	2.79
Active Position	-0.34

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)

Janus Henderson INVESTORS

Head of Australian Fixed Interest
Jay Sivapalan

Fund performance

The Janus Henderson Tactical Income Fund (Fund) returned -0.93% (net) and -0.89% (gross) in March. The Fund outperformed the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark) by 0.96% (net) in March, which fell by -1.89% on the month. The Fund continues its outperformance, beating the Benchmark across all periods including by 2.26% (net) over the year, and 1.04% (net) since inception per annum.

For the most part over the past year and indeed quarter, the Fund had preserved capital owing to its nimble interest rate strategy navigating this rising rate environment. In the month of March, whilst the Fund significantly outperformed its Benchmark, it was not immune to the dramatic drawdown in bond markets. In our view, amongst the volatility lie some targeted investment opportunities by taking both interest rate risk and spread risk. The recent lift in bond yields, swap spreads and credit spreads has created, in our assessment, a unique opportunity to 'lock in' investor outcomes at attractive levels.

While zero (or 0.1% to be precise) cash rate settings are no longer appropriate for the Australian economy and given that the first 100bps of tightening can occur quite briskly with consumers absorbing the lift, we question the subsequent 200bps without a pause. We believe there is a very real prospect that the full extent of current market pricing of the future path of cash rates isn't fully realised. Further, the risks of another 100bps of tightening to a cash rate of 4.25% inside the next 36 months is remote. Much of the capital loss in bond markets from rising yields occur before the first cash rate tightening. Where markets overshoot or get it wrong, bond yields can fall more sharply, delivering capital gains.

The Fund was very active on rates throughout the month. Rates strategies in the Fund are actively managed through exposure to the Janus Henderson Australian Fixed Interest Fund and interest rate derivatives. The Fund commenced the year with a strong capital preservation focus and a defensive low duration stance at around 0.5 years. Seeing the opportunity to lock in what we assess as attractive 'all-in yields' caused by dislocated markets reflecting a cash rate profile that is unlikely to be delivered by the Reserve Bank of Australia (RBA) over the next couple of years, we started adding meaningful duration to the Fund. Implementing this while bond yields continued to rise detracted from performance over the month. Conventional thinking would favour short duration or defensive strategies as rates rise. However, bond investing is rarely about the direction of cash rates, but rather about what's already priced in relative to how fundamentals may eventuate. As opportunities became clearer, we continued to add duration, taking the Fund's duration to 2.45 years by month end, which is one of the highest duration levels we've had in five years as we look to lock in the current attractive yields for investors.

In terms of credit, the strategy had a good level of credit protection going into 2022 through CDS as the tide that supported risk assets was likely to go out. Having initially employed an effective credit hedge, this was reduced, taking profit as CDS spreads widened earlier in the month. However, physical credit spreads continued to widen over the month, contributing to negative performance. During the month, we were highly active in markets, switching from capital preservation mode to actively seeking yield enhancement, with high levels of asset acquisition.

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 posted a positive month, outperforming other higher yielding sectors such as emerging market debt and global high yield.

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

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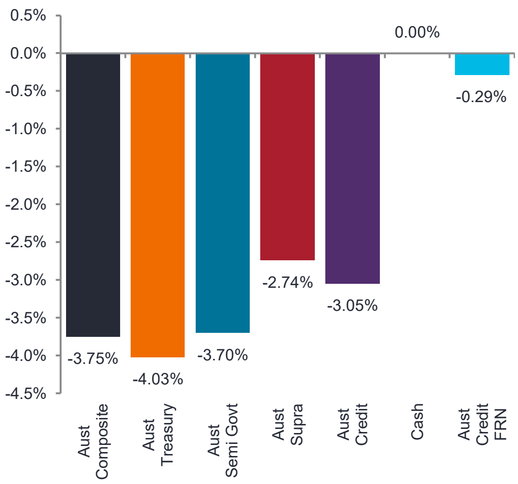
(continued)

Offshore and domestic yields rose sharply following hawkish commentary from the US Federal Reserve (Fed) after its first tightening. Inflation expectations rose as the impact of Russia's invasion of Ukraine on global supply chains, commodities and energy prices became more apparent.

Market review

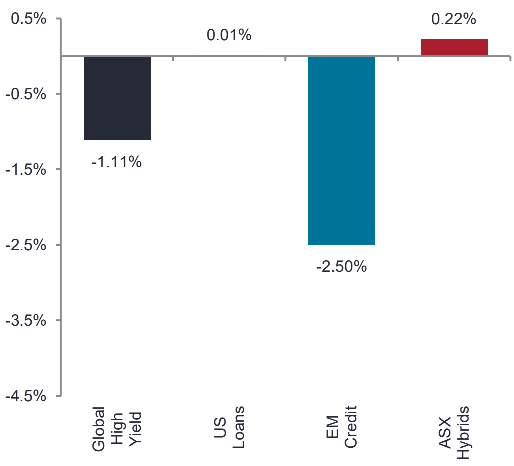
- Bond investors endured another near-record monthly sell-off in bond markets in March. The market, as measured by the Bloomberg AusBond Composite 0+ Yr Index was down -3.75%, the largest monthly fall in nearly four decades.
- Offshore and domestic yields rose sharply following hawkish commentary from the US Federal Reserve (Fed) after its first tightening. Inflation expectations rose as the impact of Russia's invasion of Ukraine on global supply chains, commodities and energy prices became more apparent.
- Markets have now fully priced in a 1.75% cash rate by year end and a 3.25% cash rate by the end of next year. To put this into context, a tightening cycle of 3% in such a short period of time has never occurred in Australia. Current pricing for this 300bps of tightening implies a mortgage rate by late next year of around 6%.
- Credit markets were volatile against the backdrop of shifting rate and inflation expectations, and the implications of a flatter-to-inverse US yield curve for the medium-term growth outlook and potential for future recession.
- Credit spreads on high quality financials (such as major banks) had been widening in a combination of needing to find natural market pricing following the ceasing of the RBA's term funding facility (TFF) last year, other policy withdrawal and the more recent 'risk-off' episode driven by the Russian invasion.

Investment grade



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

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 March 2022 – 31 March 2022

Market outlook

- We suspect the most likely scenario is one where the RBA removes policy accommodation steadily with the goal to extend, not end, the current cycle. Our base case view has the cash rate lifting from 1% at the end of this year to 1.75% by the end of 2023 and to 2% by the end of 2024.
- While we still look for policy normalisation, we remain sceptical of the speed and quantum of tightening currently priced in.
- We continue to expect further bouts of volatility caused by geo-political events, pandemic machinations, and central bank actions to roil credit markets. These periods can provide opportunities when spread widening is in excess of fundamentals.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com\Viewpoint-Apr22.

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(continued)

In terms of positioning, combining the above two developments of elevated bond yield / swap rates and elevated high quality senior debt spreads has allowed the Fund to access yields of around 3% with a carry, rolldown and potentially move (lower all-in yields) benefit suggesting the potential for total returns of 3-4.5% over a 12-month period.

Investment strategy

In terms of positioning, combining the above two developments of elevated bond yield / swap rates and elevated high quality senior debt spreads has allowed the Fund to access yields of around 3% with a carry, rolldown and potentially move (lower all-in yields) benefit suggesting the potential for total returns of 3-4.5% over a 12-month period. The same combination of high-quality credit and swap rates just 18 months ago was yielding around 0.5%, with heavy investor demand at that time. While the potential exists for risk-free yields and credit spreads to rise further, our assessment is that the risks are asymmetric at present and provides investors some defence over a 12-month investment period.

This has manifested in the estimated weighted average yield to maturity of the Fund reaching a healthy 2.98% by quarter end, lifting 1.44% and 1.61% over the quarter and past year, respectively.

This forward-looking yield of the Fund, as well as capturing this value in our positioning from an overshot of market pricing, provides us with high levels of conviction for investment outcomes over the coming year for investors.

Our investment focuses are:

- A ‘normalising’ in cash rates around the globe lifting risk-free yields;
- Navigating bond markets, adding duration when yields overshoot to the upside and taking profit when yields retreat;
- Inflation protection when it’s cheap;
- Targeted income bid (spread sectors, including credit), but wary of the policy support tide going out;
- Using credit protection for left field events and policy mistakes;
- Investing with a cautious mindset – managing ESG/stranded asset risk and deploying capital to positive impact opportunities;
- Aiming to fully participate in the cyclical growth uplift;
- Remaining active and able to pivot should a derailment to the recovery unfold;
- Aiming to ‘lock in’ attractive yields for investors.

Interest rates:

Our base case view has the cash rate lifting from 1% at the end of this year to 1.75% by the end of 2023 and to 2% by the end of 2024, which is slower than what the market is pricing. With this in mind, we see some value at the shorter end of the yield curve. We see 10-year government bond yields at month end levels of 2.84% as beginning to offer value, 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. Furthermore, there remains the tail risk that the RBA allows the labour market to overheat and lead to an upward wage/price spiral.

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. 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.

Investment grade credit: Recent spread widening has allowed us to access high quality names at attractive levels. As macro policy settings transition from accommodative to more neutral levels, we remain very active and selective, favouring relative value within sub-sectors, whilst being judicious on overall credit beta.

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(continued)

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Our expectation of widening spreads and volatility in the highly levered segments came to the fore in March.

Higher yielding credit: Our expectation of widening spreads and volatility in the highly levered segments came to the fore in March. We held reduced sensitivity to higher beta subsectors of the credit market, and had credit protection in place via CDS to offset weakness in broader credit markets. The CDS market was one of the larger movers and we took the opportunity to unwind the majority of credit hedges as fear was most prevalent across equities and credit early in March. Opportunities in physical credit were fairly nuanced and short lived and did not present a strong opportunity to add meaningful risk over the medium-term. We still retain capacity to add yield via credit segments as global central banks tighten financial conditions later in the year, which should present some better opportunities across higher yielding credit segments.

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.