

TACTICAL INCOME FUND

As at June 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

\$4.6 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

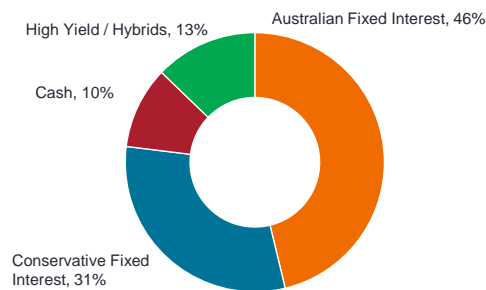
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	-1.13	-2.74	-3.77	-3.32	0.85	1.92	3.37	4.58
Fund (net)	-1.17	-2.85	-3.99	-3.76	0.39	1.46	2.90	4.11
<i>Growth (Net)</i>	-3.99	-5.62	-7.35	-7.29	-3.17	-1.62	-0.76	0.01
<i>Distribution (Net)</i>	2.82	2.77	3.37	3.54	3.56	3.08	3.66	4.09
Benchmark	-0.71	-1.87	-4.79	-5.32	-1.11	0.93	2.17	3.16
Excess return*	-0.46	-0.98	0.80	1.56	1.50	0.53	0.73	0.95

*Excess return is measured against net performance.

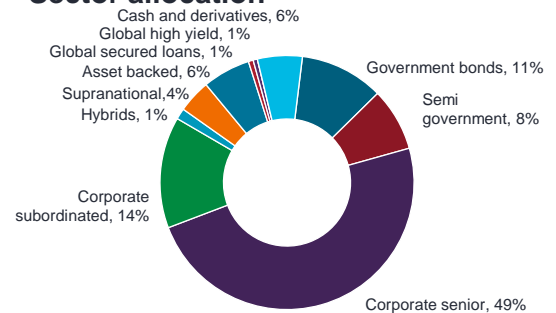
Gross performance is calculated gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

Asset allocation*



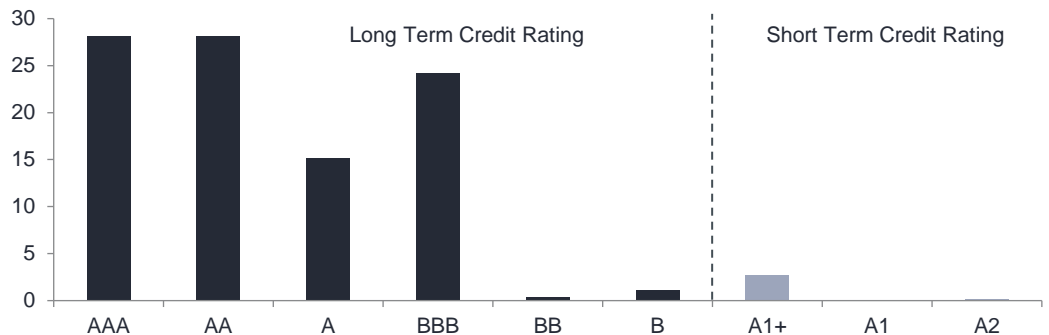
Sector allocation



*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	4.61
Running Yield	4.42
Benchmark EWAYTM	2.45
Weighted Average Credit Quality	AA-
Number of Securities (on a look through basis)	504

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	3.49
Benchmark	2.67
Active Position	0.82

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

The Janus Henderson Tactical Income Fund (Fund) returned -1.17% (net) and -1.13% (gross). The Fund underperformed the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark) by -0.46% (net) in June, which fell by -0.71% on the month. However, the Fund continues its outperformance, beating the Benchmark across all periods including by 1.56% (net) over the year, and 0.95% (net) since inception per annum.

Bond markets sold off in mid-June with the magnitude of yield movements resembling something that's normally witnessed over a one-year time frame, not one week! From when bond yields were at their lows to the peak mid-month, the drawdown of the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index (equally weighted) represented -15%. This was the largest fall observed in more than 40 years – a three standard deviation event. This complexity comes not only from a normalisation of cash rates but also an unwinding of unprecedented, unconventional policy that has artificially pushed bond yields to 100-year lows during the pandemic period.

While markets recovered somewhat towards the end of the month, the Fund was not immune to the sell off. However, comparatively, the Fund has limited the drawdown this financial year returning -3.76% (net of fees) versus the bond market at -10.51%

Rates strategies in the Fund are actively managed through exposure to the Janus Henderson Australian Fixed Interest Fund and interest rate derivatives.

Globally coordinated central banks, and a follow through of early action with higher rates should have sufficient impact to cool pockets of consumption and soften labour price bargaining. This need for central banks to keep raising rates will reduce thereafter. While markets are moving back towards our assessment of fair value, we still believe that the bond market has overpriced the actual tightening cycle that the Reserve Bank of Australia (RBA) will undertake. While market pricing has resulted in negative performance, it has given us the opportunity to 'lock in' very good yields for the Fund at elevated levels in the context of the last few years. We are prepared to ride this volatility as we 'lock in' these higher rates, noting there is plenty to go on the pathway for interest rates.

Inflation-linked bonds underperformed nominal bonds over the month as inflation expectations drifted lower. The Fund has virtually no exposure to these bonds after taking profit in earlier months when inflation expectations were at their peak.

The Fund has de-risked its semi-government exposure in previous month, taking profit and neutralising the position.

Global credit markets weakened further in June as recessionary fears gained momentum. Expectations of higher interest rates, increased cost of living pressures and easing property prices showed up with sharply falling levels of consumer confidence over May/June. The larger falls were in the low quality credit sectors such as, global high yield, emerging markets and loans. The Fund's credit strategies have been weighted towards higher quality credit sectors which performed relatively better.

While the Fund does allocate on an opportunistic basis to higher yielding sectors, we had earlier de-risked exposure in these more volatile sectors as recessionary fears from higher rates dampen our enthusiasm for these assets. Our repositioning to hold reduced exposure to higher beta sub-sectors of the credit market such as high yield, leveraged loans and hybrids was beneficial as the market commanded increasing spread compensation for illiquidity, likely rising defaults and tail risks. The Fund currently holds a very small allocation to below investment-grade securities.

Of the underlying funds that the Fund invests in, the Janus Henderson Australian Fixed Interest Fund, Diversified Credit Fund, Conservative Fixed Interest Fund and Cash Fund – Institutional underperformed their respective benchmarks.

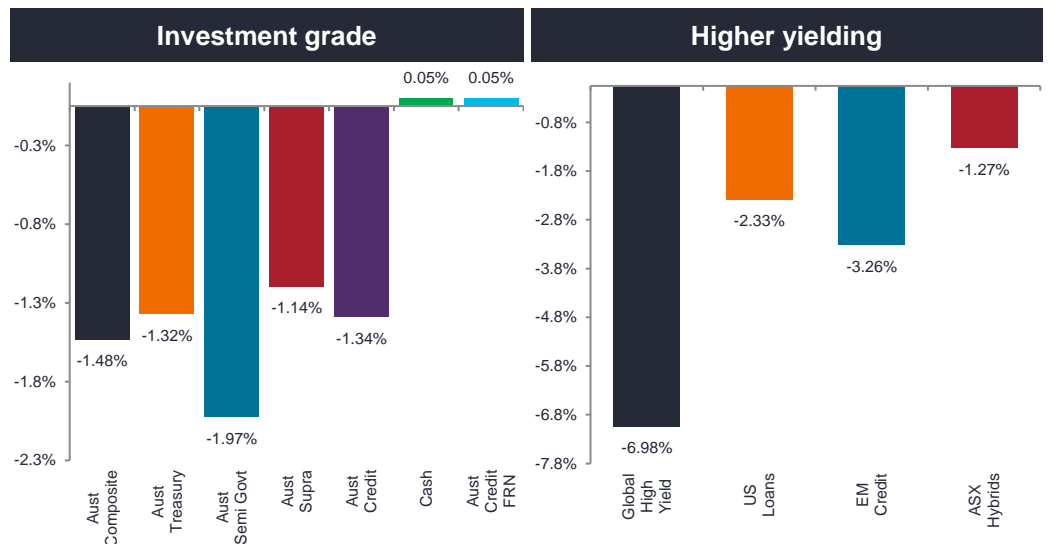
TACTICAL INCOME FUND

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The Reserve Bank of Australia (RBA) lifted the cash rate by a larger than expected 0.5% in early June.

Market review

- The Reserve Bank of Australia (RBA) lifted the cash rate by a larger than expected 0.5% in early June.
- Higher than expected inflation in the United States saw the Federal Reserve (Fed) respond with an outsized tightening of 75 basis points (bps) lift in the US cash rate.
- As a result, yields were higher in the month, despite a late month pull back. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index (equally weighted), remained in bear market territory falling by 1.48% over the month and 10.51% over the financial year.
- Risk appetite fell on rising recession risks with equity and credit markets significantly weaker. The Australian iTraxx Index widened sharply, closing the month 35bps wider at 130bps. The Australian fixed rate credit market returned -1.34%, negatively influenced by rising bond yields and spread.



Source: Bloomberg AusBond Indices
Period of 1 June 2022 – 30 June 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 June 2022 – 30 June 2022

Market outlook

- With risks rising of higher cyclical inflation becoming entrenched, the Federal Reserve (Fed) moved to front-end load policy tightening. The RBA has joined the central bank pivot, with the Governor signalling that accommodative conditions were no longer required and to expect further tightening.
- However, we view that pricing is overdone. At one stage markets were discounting a 3.6% cash rate by December, lifting to 4.2% by mid-2023. While market pricing has pulled back somewhat, markets are still factoring in a 3.1% cash rate by December and 3.75% by mid-2023 and averaging just under 4% over the next decade, at the time of writing.
- Our base case view is for the cash rate to lift by 50bps at the July and August meetings before tightening increments return to 'business as usual' 25bps increments. We look for the cash rate to lift to 2.6% by December, and peak at 2.85% in H1 2023.
- Uncertainty about the durability of the current expansion and cyclical cost pressures are likely to contribute to ongoing volatility in credit markets.
- For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Jul22.

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We still see market pricing as extreme with value in the front end of the curve.

Investment strategy

Interest rates:

We still see market pricing as extreme with value in the front end of the curve. We expect that the path of interest rates will be shallower than that factored in by markets. While we remain agnostic on the longer end of the yield curve, we are mindful that term compensation is improving and that there is ultimately scope for capital gain if central banks overdo the tightening cycle and trigger a recession.

Sector allocation:

Inflation-linked bonds: We have taken profit on most of our inflation -linked securities. We built up this position when inflation expectations were low and trimmed as inflation break evens peaked. We clutch onto a small holding of our inflation protection strategies, given the Russian invasion continues and as a tail risk should the labour market overheat and lead to an upward wage/price spiral.

Semi-government bonds: We have de-risked our overweight to semi-government bonds, favouring high quality pockets of the credit market.

Investment grade credit: Recent spread widening has allowed us to access high quality names at attractive levels. We remain active and selective, favouring relative value within sub-sectors, whilst being judicious on overall credit beta. Uncertainty about the durability of the current expansion and cyclical cost pressures are likely to contribute to ongoing volatility.

Higher yielding credit: We continued to reduce sensitivity to higher beta subsectors of the credit market. We reduced exposure to leveraged loans and hybrids where relatively expensive valuations are not adequately compensating for the lack of liquidity and tail risks. While investment grade spreads have normalised swiftly this year, we expect widening pressure to endure as global liquidity conditions are tightened. We expect that lower quality and illiquid credit subsectors will be more impacted as investors should command greater spreads to compensate for risk premia, and has not yet been adequately reflected in more structured, levered and illiquid sectors of the market. We favour moving up in quality and seniority in capital structures in anticipation, retaining capacity to add risk when yields are appropriately higher.

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.

Our focuses for investing 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.

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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.