

TACTICAL INCOME FUND

As at August 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

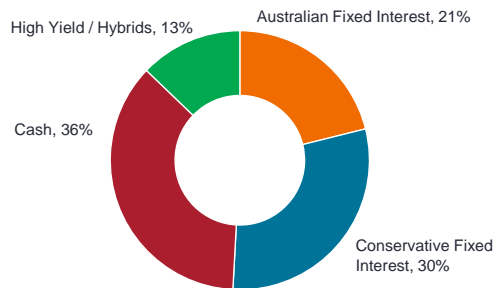
| Performance | 1 month (%) | 3 months (%) | 6 months (%) | 1 year (%) | 3 years (% p.a.) | 5 years (% p.a.) | 10 years (% p.a.) | Since inception (% p.a.) |
|---------------------------|-------------|--------------|--------------|------------|------------------|------------------|-------------------|--------------------------|
| Fund (gross) | -0.43 | 0.46 | -2.05 | -1.89 | 1.24 | 2.13 | 3.38 | 4.64 |
| Fund (net) | -0.47 | 0.34 | -2.27 | -2.33 | 0.77 | 1.67 | 2.91 | 4.17 |
| <i>Growth (Net)</i> | -0.47 | -2.52 | -5.70 | -5.92 | -2.80 | -1.41 | -0.75 | 0.13 |
| <i>Distribution (Net)</i> | 0.00 | 2.86 | 3.43 | 3.59 | 3.57 | 3.08 | 3.66 | 4.05 |
| Benchmark | -1.20 | -0.20 | -3.23 | -5.71 | -1.38 | 0.98 | 2.14 | 3.16 |
| Excess return* | 0.73 | 0.54 | 0.96 | 3.38 | 2.15 | 0.69 | 0.77 | 1.01 |

*Excess return is measured against net performance.

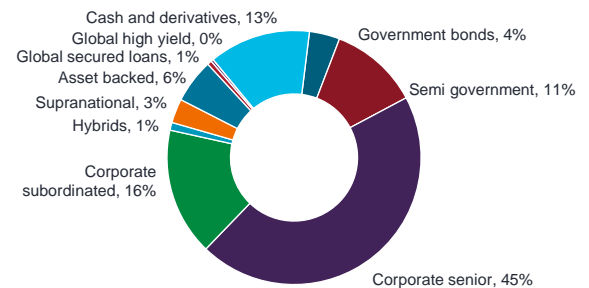
Gross performance is calculated gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

Asset allocation*



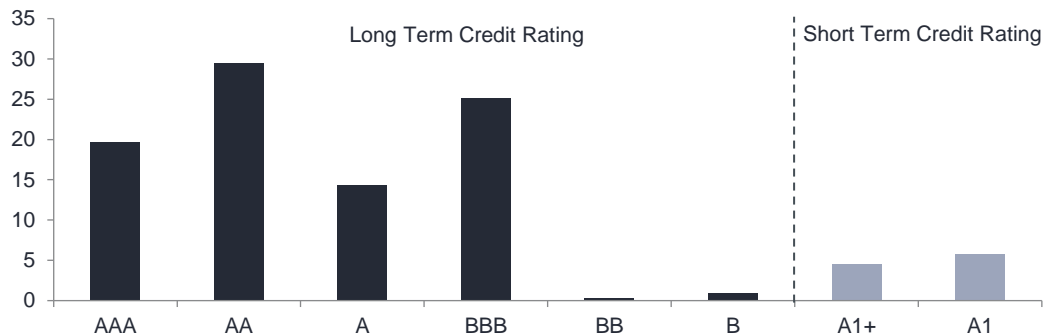
Sector allocation



*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 | 4.43 |
| Running Yield | 4.31 |
| Benchmark EWAYTM | 2.90 |
| Weighted Average Credit Quality | AA- |
| Number of Securities (on a look through basis) | 483 |

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 | 1.58 |
| Benchmark | 2.70 |
| Active Position | -1.12 |

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 -0.47% (net) and -0.43% (gross). The Fund outperformed the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark) by 0.73% (net) in August, which fell by -1.2% on the month. However, the Fund continues its outperformance, beating the Benchmark across all periods including by 3.38% (net) over the year, and 1.01% (net) since inception per annum.

During August the primary driver of any underperformance was bond yields rising, as well as some impact from semi governments, bond swap, and non financial credit. Following the big rally in bond markets from mid-June to mid-August, we cut duration across all of our strategies materially, in most cases by 50%. As yields started rising again in the latter part of August, we recommenced adding back in some duration. The environment we are in is not conducive to a 'set and forget' strategy on duration, in our view it needs to be actively navigated. The past four months are a good example of the importance of active management.

Rates strategies in the Fund are actively managed through exposure to the Janus Henderson Australian Fixed Interest Fund and interest rate derivatives. While the broad bond market experienced a large sell off in August, the Fund was cushioned by its heavily reduced duration position, thus significantly preserving capital albeit not immune to the market reaction. The Fund finished July with duration above three years, which was aggressively reduced to 1.5 years by early August just before the latest downturn.

Healthy yield levels and increases in cash rates are beginning to generate stronger total returns from yield income each month. Favoured allocations to high quality credit sectors like bank senior and covered bonds performed well over the month and was a positive contributor to returns. Major bank Tier 2 allocations materially outperformed other corporate credit during the month contributing positively.

Allocation to European loans was the top performing sector returning north of 2%, while global high yield and EM returns were dragged lower by rising US bond yields. We further reduced exposure to high yield during August taking advantage of improved risk conditions prior to Jackson Hole.

Whilst the Fund now employs a healthy 'Yield-To-Maturity' and income is coming through, the volatility in bond markets is still impacting performance. We have seen these events through other market cycles and patience is required to navigate this environment.

Market review

Renewed central bank inflation-fighting resolve, and a preparedness to bear the costs of tighter monetary conditions, pushed global and domestic yields higher. Equity and credit markets gave back earlier gains following a hawkish Jackson Hole speech made by US Federal Reserve (Fed) Chair Powell.

Against this backdrop, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, fell 2.54%, unwinding some of July's 3.36% gain. Higher bond yields were the main detractor from the bond market performance over the month, somewhat cushioned by a reasonable return from Australian investment grade credit.

The Reserve Bank of Australia (RBA) lifted the cash rate by another widely expected 0.5% increment in early August to 1.85%. Short-term money market yields continued to rise as markets discounted further tightening. The three-month bank bill yield ended the month 34 basis points (bps) higher at 2.46%, while six-month bank bills ended 22bps higher at 3.01%. In terms of the tightening cycle, markets increased the quantum of tightening with a 3.20% cash rate priced by year end and 3.85% in mid-2023.

After troughing early in the month, yields surged higher on the pivot to more hawkish central bank commentary and strong activity data. At the shorter end, the three-year government bond yield rose 55 basis points (bps) to end the month at 3.21%. Further out along the curve, 10- and 30-year government bond yields ended 54bps and 39bps higher at 3.60% and 3.82%.

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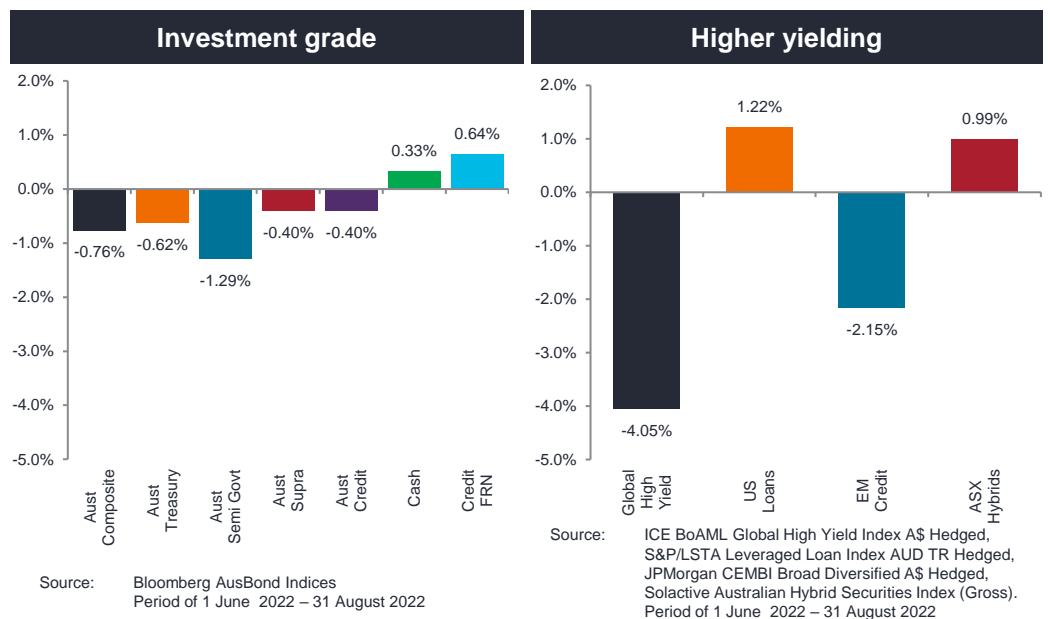
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Early signs of moderating inflation increased hopes of a dovish pivot by central banks, supporting sentiment and sustaining a weeks-long risk rally throughout most of August. These hopes were dashed by an unequivocally hawkish speech from the Fed Chair at the Jackson Hole symposium towards the end of the month, causing a sell-off in risk markets. The Australian iTraxx Index closed 2bps tighter at 109bps, while the Australian fixed and floating credit indices returned -1.42% and 0.35% respectively.

The local market saw significant primary supply early in the month with ANZ issuing Tier 2 in quick succession after NAB in late July, and CBA issuing the largest senior bank deal in Australian market history. The deals were well received and oversubscribed allowing financial sector spreads to outperform through the remainder of the month. Senior notes tightened 6-10bps in spread, while recently issued fixed rate Tier 2 bonds were the clear outperformer rallying 40-50bps post issuance generating up to 2% capital gains.

Floating rate credit sectors outperformed the more volatile yield environment. Global loans were the top performer, recovering after weakness in recent months. While domestically subordinated bank Tier 2 notes outperformed after recent primary activity, followed by listed hybrids which managed to also outperform cash and bonds.



Market outlook and investment strategy

Central bank inflation fighting narratives have become more urgent and hawkish. At his Jackson Hole speech, Fed Chair Powell noted that the costs of bringing inflation down rise the more entrenched it becomes. To avoid higher inflation expectations becoming entrenched, the Fed signalled that it would take policy settings to as restrictive levels as needed, for as long as is needed.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Sep22.

TACTICAL INCOME FUND

(continued)

With demand still strong in the Australian economy, we look for the Reserve Bank of Australia (RBA) to lift the cash rate by 50bps in September to 2.35%, just below estimates of the neutral cash rate.

Interest rates:

With demand still strong in the Australian economy, we look for the Reserve Bank of Australia (RBA) to lift the cash rate by 50bps in September to 2.35%, just below estimates of the neutral cash rate. With much of the heavy lifting done, the RBA is likely to shift to 'business as usual' 25bps tightening increments thereafter, and we look for the cash rate to peak at 3.10% by late 2022/early 2023 and hold at that level until early 2024. Market pricing is more aggressive, building in a 3.85% cash rate mid-2023. We therefore maintain a modest overweight to duration, focusing on the front to mid part of the yield curve.

Sector allocation:

Investment grade credit: Commitment to tackle high inflation through tightening in global liquidity will continue to generate volatility in credit markets. To navigate the environment ahead investors should command improved compensation for risk. We observe that the repricing across different pockets of credit and risk premia have not been simultaneous, providing outperformance opportunities through active rotation. Attractive yields on high quality credit has seen demand return from defensive income investors. In our view the more illiquid, structured, and levered sectors of the market are yet to adequately reprice. We continue to favour being positioned up in quality, liquidity and seniority in capital structures leaving powder dry for when compensation for investors escalates.

Higher yielding credit (ex-global): We have continued divesting from hybrids over recent months, with a significant reallocation into Tier 2 which offers investors similar spreads for less downside drawdown and structural risk. In Australia, as outright yields on credit securities have reached attractive levels we are seeing stronger demand for fixed rate tranches as investors seek to lock in high yields on investment grade debt. We have been favouring fixed rate tranches of credit as a result, positioning for superior capital gains from spread compression.

Higher yielding credit (global): We remain cautious on sub investment grade, emerging markets and lower tranches of structured or illiquid credit. We anticipate that as conditions tighten further, global spreads will suffer decompression where higher quality liquid credit outperforms lower quality as compensation for default risk and illiquidity needs to increase.

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. New issuance on sustainable debt has slowed in recent months, albeit noting that 2021 was a particularly strong year for issuance of these securities.

We cornerstoned University of Melbourne's inaugural Green Bond during August, the first public corporate ESG bond for Q3. Proceeds are slated to contribute to green buildings which includes new builds, upgrades and energy efficiencies, and renewable energy investment. The new seven year bond was issued at a 4.6% yield and is rated AA+.

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.