

# TACTICAL INCOME FUND

**As at November 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

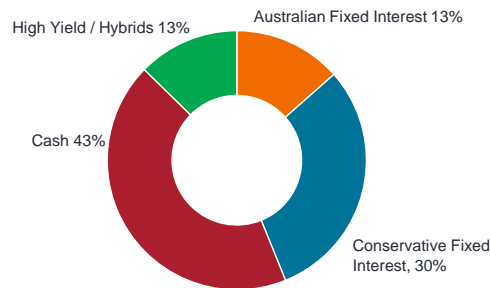
**ASX mFund**

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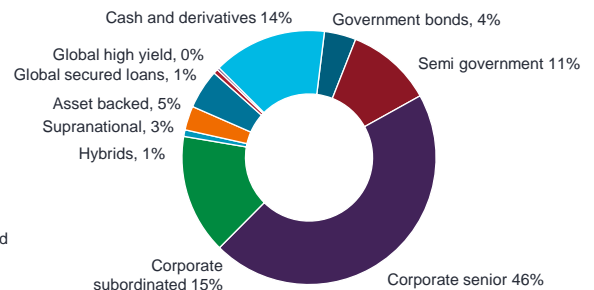
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	1.06	0.40	0.85	-1.76	1.17	2.01	3.13	4.59
Fund (net)	1.03	0.28	0.63	-2.20	0.70	1.54	2.67	4.12
<i>Growth (Net)</i>	1.03	-0.02	-2.54	-6.08	-2.92	-1.45	-0.85	0.12
<i>Distribution (Net)</i>	0.00	0.30	3.17	3.88	3.62	3.00	3.52	3.99
Benchmark	0.90	0.88	0.68	-3.41	-1.11	0.95	2.14	3.17
Excess return*	0.13	-0.60	-0.05	1.21	1.81	0.59	0.53	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\***

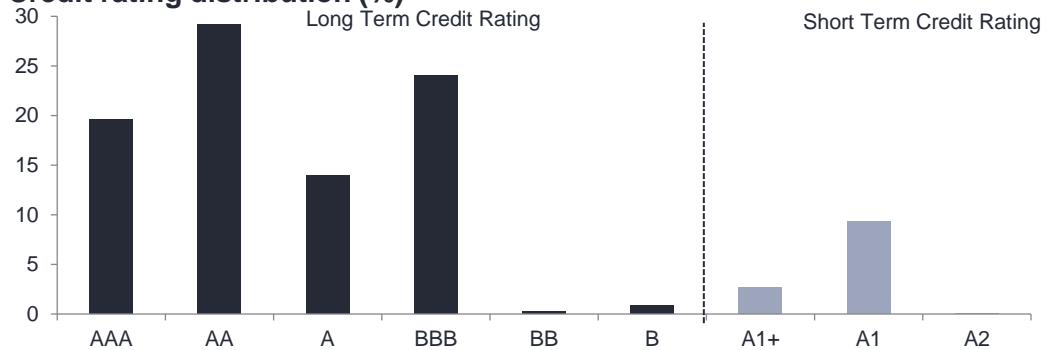


**Sector allocation**



\*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) <sup>1</sup>	4.68
Running Yield	4.26
Benchmark EWAYTM	3.34
Weighted Average Credit Quality	AA-
Number of Securities (on a look through basis)	488

<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	0.49
Benchmark	2.71
Active Position	-2.22

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 1.03% (net) and 1.06% (gross). The Fund outperformed the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark) by 0.13% (net) in November, which returned by 0.9% on the month. The Fund continues its outperformance, beating the Benchmark over the longer term including by 1.21% (net) over the year, and 0.95% (net) since inception per annum.

Duration and yield curve positioning played a positive role in November. When given the choice between buying duration through government bonds or positioning via the swap market, we have found the swap market to offer up more attractive pricing compared to bond yields. The Fund's exposure to swaps were a positive contributor in the month, outperforming on a relative basis.

Spread tightening in semi-government bonds aided performance in the month, outperforming government bonds on a relative basis.

A decent rally in credit spreads together with generous coupon income led to outperformance in investment grade credit. Fixed rate major bank senior outperformed floating rate notes. This proved to be a strong contributor given the Fund's recent active selection bias towards fixed rate securities which have been outperforming due to ongoing investor demand.

EM rallied significantly on the hope of a weakening USD and lower path of US rates. Our reduced cautious allocation to less liquid and higher beta credit saw only a modest positive contribution as high yield and global loans followed EM higher in the positive risk momentum. We hold no emerging market debt due to ongoing volatility with concerns around genuine default risk due to global food and energy costs and pockets of global recession risk. We have also minimised our hybrid allocation, which on a relative basis appears extremely poor value. Our up in quality trade into higher yield Tier 2 bank securities outperformed and was a positive contributor to performance.

November was a strong month for performance, with value added through active management in both rates and credit. While the Fund was positioned with under one year duration, the Fund was still afforded a tailwind to performance as yields fell. Selective rotation in subsectors of credit enhanced returns, especially the Fund's weight towards high quality investment grade issuers in resilient outperforming industries.

## Market review

Yields drifted lower after an earlier lift as markets increasingly took the view that the pace of central bank tightening was set to moderate. Risk appetite continued to recover, with both equity and credit performing strongly. With few signs yet of a significant slowing in activity and the risk that the latest round of inflation pulses end up being recycled into a higher core inflation rate via pass-through effects, the Reserve Bank of Australia (RBA) has little choice but to tighten monetary conditions further.

The RBA lifted the cash rate by a widely expected 0.25% increment in early November, taking the cash rate to 2.85%. While noting monetary policy was not on a pre-set path, the RBA signalled that further tightening was likely over the period ahead. In a break from months of large gains in yields, and markets factored in a vigorous tightening cycle, short-term money market yields were flat to lower in November. Three-month bank bills ended largely unchanged at 3.09% while six-month bank bill yields ended the month 10 basis points (bps) lower at 3.56%. In terms of the tightening cycle, markets are looking for the cash rate to peak at around 3.85% in late 2023.

Against this backdrop, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, rose 1.55%.

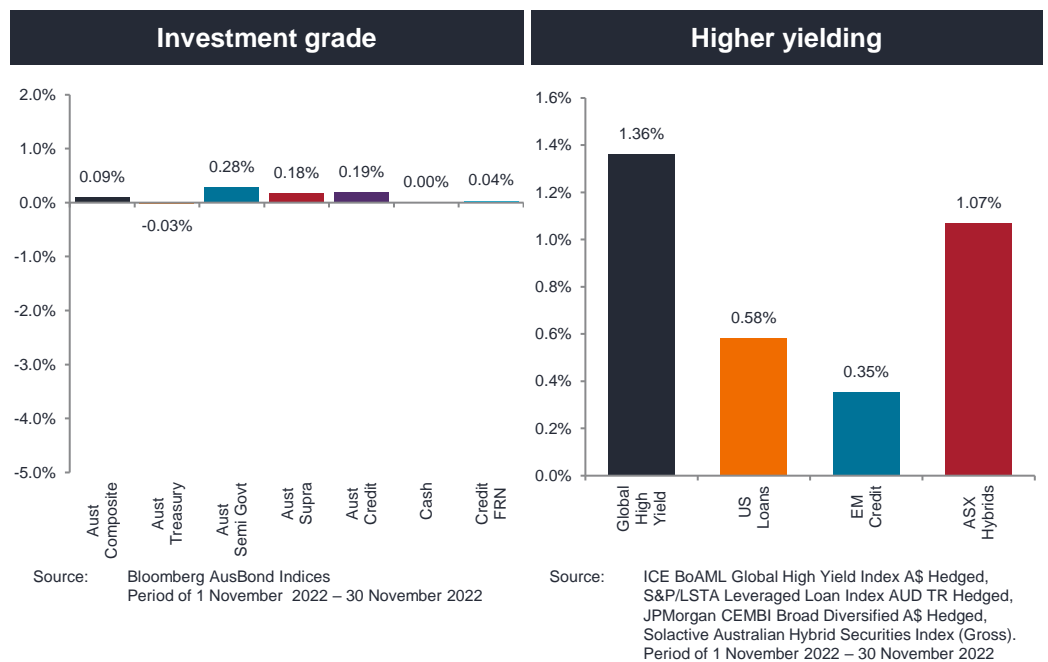
# TACTICAL INCOME FUND

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**In credit markets, investor focus is shifting from the macro to the micro.**

Strong central bank messaging, especially after the US Federal Reserve (Fed) lifted the Fed Fund's rate by 0.75%, pushed yields higher early in the month. Thereafter, yields began to drift lower as markets reassessed the amount and pace of further monetary tightening following better than expected inflation readings. At the shorter end of the yield curve, the three-year government bond yield rose to as high as 3.51%, before ending the month 13 basis points (bps) lower at 3.17%. Further out along the curve, 10- and 30-year government bond yields peaked at 4.04% and 4.37%, before ending at 3.53% and 3.88%.

In credit markets, investor focus is shifting from the macro to the micro. Cognisant that the impacts of slower growth will be unevenly distributed and disproportionately felt, the trajectory of corporate earnings and credit fundamentals across sectors and sub-sectors are being closely scrutinised. Early indications of a slowing in the pace of rate tightening globally, broadly conservative balance sheet settings, combined with attractive all-in yields, drove strong demand for credit into month-end. The Australian iTraxx Index closed 40bps tighter at 90bps, while the Australian fixed and floating credit indices returned 1.35% and 0.43% respectively.



Domestically, primary markets were active, but limited to the financials and government-linked sectors, while non-financial corporates remained on the side-lines. Notable transactions included Westpac, NAB, Airservices Australia and Transpower New Zealand issuing senior unsecured bonds, and ING Bank issuing covered bonds, all at attractive levels. CBA also issued a large Tier 2 transaction at a margin of 2.7% (just 15bps lower than their recent hybrid), with a generous fixed rate coupon of 6.9%, just prior to APRA serving a reminder to the market about navigating capital instrument risks through a potentially challenging market environment ahead.

# TACTICAL INCOME FUND

(continued)

In navigating the environment ahead, investors should be on the lookout for improved compensation for risk as monetary policy tightens further.

## Market outlook and investment strategy

With few signs yet of a significant slowing in activity and the risks that the latest round of inflation pulses end up being recycled into a higher core inflation rate via pass-through effects, the RBA has little choice but to tighten monetary conditions further. Our base case view is that the cash rate peaks at a moderately restrictive 3.6% in mid-2023. That would make the current tightening cycle the largest and fastest in the monetary policy inflation targeting era. As we expect to see growth and inflation to decelerate over 2023, the door opens for the RBA to take its foot off the monetary breaks over 2024 and begin bringing monetary settings back towards more neutral levels.

After pricing in a 4.4% long run cash rate (using the eight-year rate two-year forward as a proxy) in mid-November, markets appear to be finally acknowledging that tight monetary conditions will have an impact. At the time of writing, this rate had fallen to 3.91%, releasing a large chunk of the value that we had seen building up. We continue to remain active in interest rate management, taking advantage of overshoots to add duration and having the discipline to ease positions when yields fall.

In navigating the environment ahead, investors should be on the lookout for improved compensation for risk as monetary policy tightens further. 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 spreads have seen demand return from defensive income investors. We look for opportunities to actively recycle credit risk as value is being presented in new issue concessions in primary market deals.

In our view, the more illiquid, structured, and levered sectors of the market remain less attractive. An adjustment in compensation for risk is a process that will occur in due course as global growth slows responding to tight policy settings, and earnings outlooks weaken.

We anticipate that as conditions tighten further, global spreads will suffer decompression where high quality liquid credit outperforms lower quality as compensation for default risk and illiquidity needs to increase. We continue to favour being positioned up in quality and seniority in capital structures, leaving powder dry for when compensation for investors escalates. While global high yield and Emerging market debt had positive performance in the month, they have underperformed better quality assets over the year. Both Emerging Market Corporate debt and Global High Yield have had double digit draw downs this calendar year. These are two sectors of the market we have avoided. We remain patient waiting for attractive entry levels to take on higher credit beta positions.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Dec22](http://go.janushenderson.com/Viewpoint-Dec22).

## 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. A benchmark sized green bond by Transpower NZ was issued in November, a welcome addition to the corporate bond market. Our ongoing ESG specific engagement meetings with companies remained a focus in the month.

### Important information

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2022 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.