

# TACTICAL INCOME FUND

## As at May 2023

### 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

\$5.0 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

JHI02

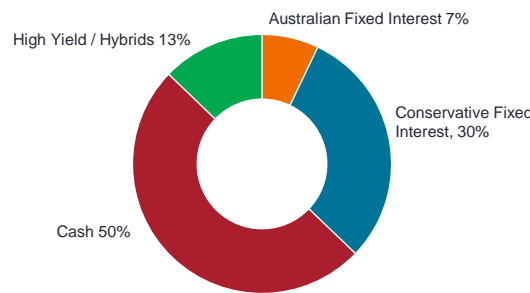
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.35	0.80	2.88	3.76	1.60	2.30	3.12	4.63
Fund (net)	0.32	0.68	2.65	3.29	1.17	1.83	2.65	4.16
<i>Growth (Net)</i>	0.32	0.48	2.17	-0.42	-2.42	-0.97	-0.54	0.27
<i>Distribution (Net)</i>	0.00	0.20	0.48	3.72	3.60	2.80	3.19	3.89
Benchmark	-0.46	1.51	1.55	2.24	-0.92	1.09	2.12	3.17
Excess return*	0.78	-0.83	1.10	1.05	2.09	0.74	0.53	0.99

\*Excess return is measured against net performance.

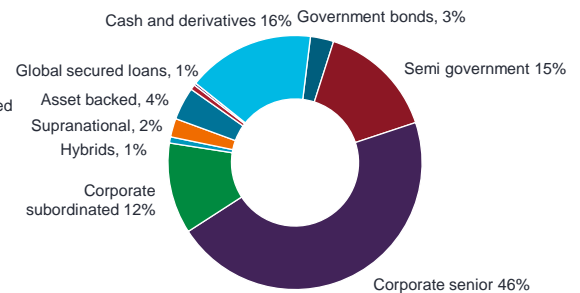
Gross performance is calculated gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

### Asset allocation\*

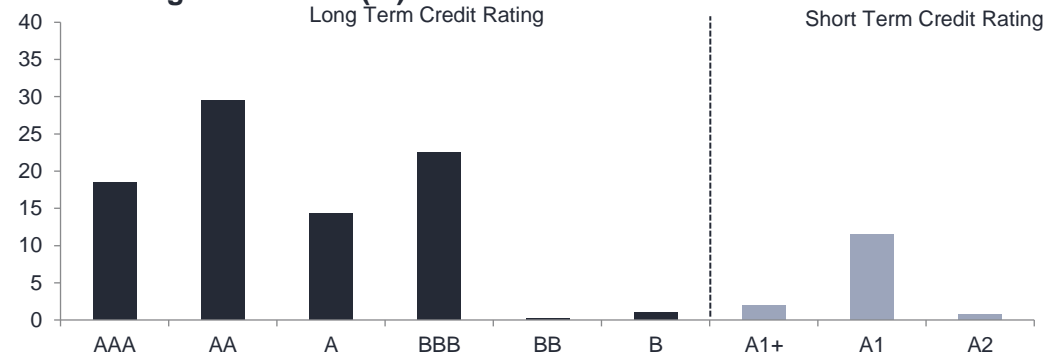


### Sector allocation



\*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>	4.67
Running Yield	4.07
Benchmark EWAYTM	3.88
Weighted Average Credit Quality	AA
Number of Securities (on a look through basis)	482

<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	0.71
Benchmark	2.68
Active Position	-1.97

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 0.32% (net) and 0.35% (gross). The Fund outperformed the 50% Bloomberg AusBond Bank Bill; 50% Bloomberg AusBond Composite 0+ Yr (Benchmark) by 0.78% (net) in May, which returned -0.46% on the month. The Fund continues its outperformance, beating the Benchmark over the longer term including by 1.05% (net) over the year, and 0.99% (net) since inception per annum.

Throughout the month we continued to favour overweight positions in semi government bonds, mostly via New South Wales. This position was increased opportunistically during March volatility when spreads became more elevated. Spreads have rallied about 15bps since then and during May we reduced overweights prior to the Victorian government budget announcement, taking profit and contributing positively to performance. Swap linked positions also outperformed government bond yields and overweight positioning added alpha as spreads continued to tighten.

Overweight credit allocations were a positive contributor, benefiting during the month mainly from additional income and constructive spread movements.

Higher yielding credit sectors largely were able to benefit from additional income in the more stable credit conditions. European Loans were the top performing sub sector, followed by Australian Tier 2 with floating rate credit classes outperforming in the rising bond yield environment. ASX listed hybrids underperformed due to new supply from CBA who issued new hybrids pushing market spreads higher. We remain patient and cautiously positioned with reduced allocations to sub investment grade, illiquid and heavily structured credit sectors moving into the latter stages of the credit cycle with pockets of repricing continuing through the year.

The strong performance result in May for the Fund, despite bond yields tracking higher, is a good reminder of why simply adding duration to portfolios isn't as straight forward as it sounds. Our tactical management of duration (kept very low over the last few months) was vindicated and has allowed duration to be modestly rebuilt during the sell-off towards the end of this month (moving from ~0.25 years to 0.7 years by month end). The Fund has also been active in de-risking into the rally, taking profit on credit and semi government positions and adding some credit protection at cheapened levels.

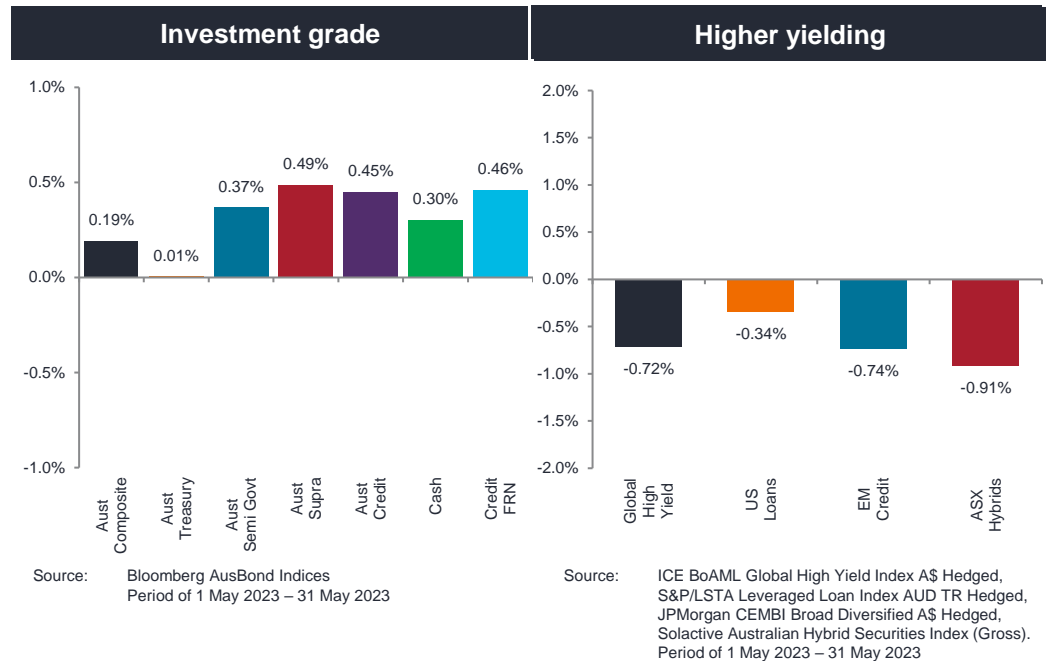
### Market review

Bond yields lifted across the month as growing concerns over the US debt ceiling negotiations came up against inconsistent signals from the local and global economy. Markets were leaning towards the more positive data sets, inflation concerns, and downplaying signs of policy gripping. This drove a rise in volatility, and a re-pricing of higher terminal cash rates. Short and longer dated government bond yields rose sharply after last month's modest moves. Against this backdrop, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, fell 1.20%. The Australian fixed and floating credit indices returned -0.51% and +0.34% respectively.

# TACTICAL INCOME FUND

(continued)

After the rally in financials spreads this year, we looked to lock in profits and rebuild liquidity positions.



## Market Outlook and Investment Strategy

As we approach the end of the RBA’s extraordinary tightening cycle, the immediate path is often murky. The economic data tends to be inconsistent, as the famous long and variable lags tend to grip some sectors sooner than others. This drives market volatility, amid policy uncertainty. As the news starts to come in consistently, that enables markets to price the next, downward, phase.

We see the RBA raising the cash rate twice more, to a peak of 4.60%. The RBA raised the stakes at their June meeting, with a rise in emphasis on the risks from higher wages and low productivity on inflation. They acknowledge the pressures on households but have warned of the risks to the whole economy if inflation does not moderate to target as expected. We have a modest tilt to further tightening by the RBA, which is contingent on a more resilient economy than expected.

As the cumulative impact of tighter financial conditions continues to grip and the cycle ages, our focus in the credit space is towards defensiveness, with a keen focus on risk-adjusted returns. Our strong bias is towards high-quality, liquid credit and issuers that can survive and thrive through a range of macro-economic scenarios. After the rally in financials spreads this year, we looked to lock in profits and rebuild liquidity positions. By adopting a patient and disciplined approach to extending risk and reserving ample investment capacity, we will be well placed to take advantage of any further market dislocations.

Despite ongoing widening in 2023, we remain unimpressed by relatively tight spreads on offer in the bank hybrid market and remain in favour of allocations in investment grade corporates and higher up in the bank capital structure in Tier 2 and senior debt. We continue to look for opportunities within securities producing higher yields as the broader market more rationally reprices risk, with conservatively geared Australian real estate investment trust (REIT) senior spreads showing attractive relative value.

# TACTICAL INCOME FUND

(continued)

**As the global macro environment continues to weaken, we remain cautious of high credit beta sectors.**

As the global macro environment continues to weaken, we remain cautious of high credit beta sectors. In this environment we remain patient, earning reasonable income in high quality credit with strong roll down potential. Our expectation remains for lower quality credit spreads to incrementally widen as investors digest weakening corporate fundamentals in a higher cost of capital and slowing growth environment. We continue to favour withholding some risk and liquidity capacity in anticipation of further volatility and more attractive entry points for global high yield and loans.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Jun23](https://go.janushenderson.com/Viewpoint-Jun23)

### **Environmental, Social and Governance (ESG)**

May brought with it a green bond deal roadshow from the Western Australian government, a sustainability bond from Australia Post and confirmation that the Australian Office of Financial Management (AOFM), the funding arm of the federal government, will launch the nation's first sovereign green bond in 2024.

### **Important information**

The Product Disclosure Statement for the Fund, dated 30 September 2022, and the Additional Information Guide, dated 30 May 2023, are available at [www.janushenderson.com/australia](https://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](https://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](https://www.janushenderson.com/TMD). Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.