

# TACTICAL INCOME FUND

## As at March 2021

### 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

\$4.0 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

Quarterly

### ARSN code

130 944 866

### APIR code

IOF0145AU

### ASX mFund

JHI02

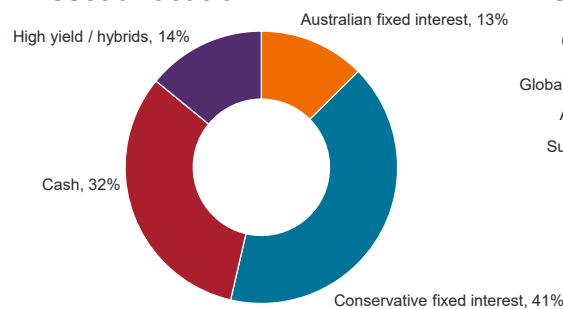
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.29	-0.54	0.83	4.68	3.36	3.45	4.44	5.33
Fund (net)	0.26	-0.65	0.61	4.62	2.89	2.98	3.97	4.85
<i>Growth (Net)</i>	-0.66	-1.56	-0.86	-0.22	0.24	0.20	0.12	0.76
<i>Distribution (Net)</i>	0.92	0.91	1.47	4.84	2.64	2.78	3.84	4.10
Benchmark	0.40	-1.61	-1.65	-0.84	2.55	2.44	3.68	3.92
Excess return*	-0.14	0.96	2.26	5.46	0.34	0.54	0.29	0.93

\*Excess return is measured against net performance.

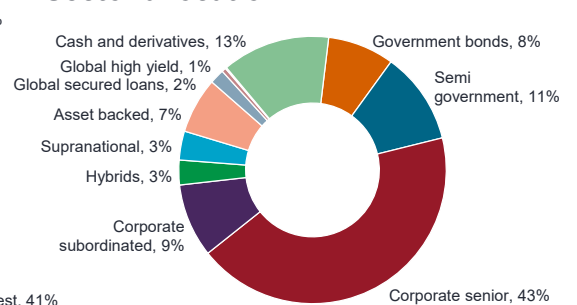
Gross performance is calculated gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

### Asset allocation\*



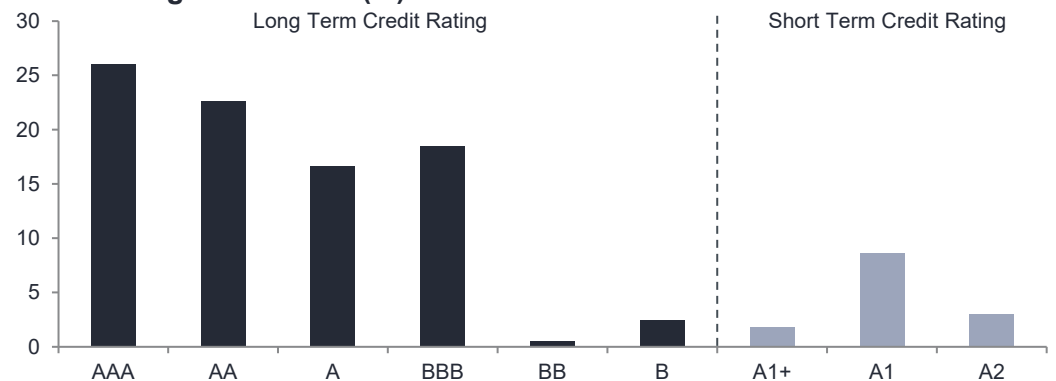
### Sector allocation



\*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>	1.37
Running Yield	1.74
Benchmark EWAYTM	0.58
Weighted Average Credit Quality	AA
Number of Securities (on a look through basis)	442

<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	1.30
Benchmark	2.96
Active Position	-1.66

Benchmark duration is as at month end and therefore does not include rebalancing.

<sup>^</sup> For more information and most up to date buy/sell spread information visit [www.janus Henderson.com/en-au/investor/buy-sell-spreads](http://www.janus Henderson.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) again preserved capital and delivered a positive return in March, returning 0.29% (gross) and 0.26% (net). The Fund underperformed the Bloomberg AusBond Composite 0+ Yr Index and AusBond Bank Bill Index (equally weighted) (Benchmark) this month but continues to outperform the Benchmark returns across all longer periods. The Fund outperformed the Benchmark net of fees by 0.96% over the quarter, significantly outperformed by 5.46% over the year, and 0.93% since inception.

While the Fund is managed with an absolute return mindset, active interest rate management plays a significant role in its performance. Over the month, the Fund gained performance by holding its largest overweight duration position at the turning point, after yields pushed to 2-year high at the end of February. This aided performance through March as bond markets settled. Once bond yields lowered, we trimmed our long position, taking profit. This also reduced the impact on the Fund as yields once again lifted towards the end of the month. Active rates management proved successful, coupled with a positive contribution from our modest allocation to hybrids and offshore higher yielding sectors. Our overweight position to inflation-linked notes was also a strong contributor to performance in the month. Meanwhile, exposures to spread sectors including investment grade credit detracted from performance.

Finally, the underlying funds that the Fund invests in which includes the Conservative Fixed Interest Fund, the Diversified Credit Fund, the Australian Fixed Interest Fund and the Cash Fund all outperformed their respective benchmarks.

### Market moves

Bond markets remained volatile in March. The recovery story picked up pace in the US market, backed by strong economic data, a rapid vaccine rollout, an expansion of the Biden stimulus package and a central bank that is willing to tolerate an inflation overshoot, whilst keeping interest rates at the lower bound. While Australia also showed promise of a strong recovery with some good economic data, the other contributing factors in the US opened a divergence between Australia and the US. Australian bond yields shifted lower (prices higher) over the month, while the US 10-year yield reached a 14-month intra-month high. Credit markets were relatively stable over the month. The Australian bond market recouped some of last month's losses, with the Bloomberg AusBond Composite 0+ Yr Index ending March 0.80% higher.

Yields at the shorter end of the yield curve drifted higher than the Reserve Bank of Australia's (RBA) 0.10% cash rate and three-year government bond yield target. The three-year government bond edged slightly higher, ending the month at 0.11%.

Longer-dated government bond yields retraced off two-year highs reached in February. While domestic data was still robust, with indications of a strong labour market recovery, buoyant housing market and improvements to the fiscal position, the slower than expected vaccine roll out (disruptions in the international vaccine supply), floods, unwavering commitment from the RBA and record market moves in the month prior tempered the enthusiasm to push yields to new highs. The 10-year Australian government bond yield ended the month 13 basis points (bps) lower at 1.79%. The 30-year Australian government bond finished 15bps lower at 2.76%.

Semi-government bond spread movements were mixed over the month as long end spreads tightened while the short end widened, in a backdrop of improvements in state economies. Overall semi-government bonds were a positive contribution given the fall in risk free yields. Inflation-linked notes performed strongly in March, benefitting from higher inflation expectations and the fall in bond yields.

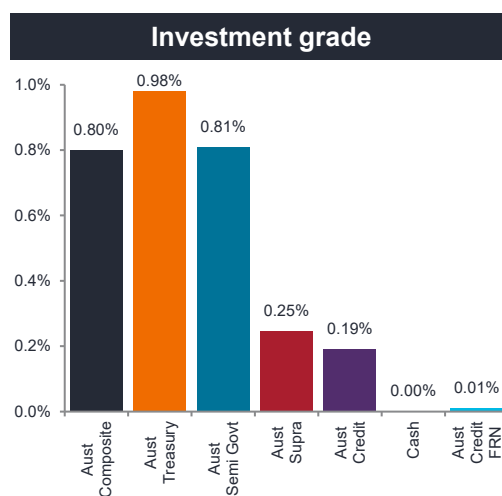
Money market rates remained very low given the 0.10% official cash rate and RBA forward guidance for an extended period of highly accommodative policy. Three-month bank bills ended the month slightly higher at 3.5bps, while six-month bank bills rose 6bps to 8bps.

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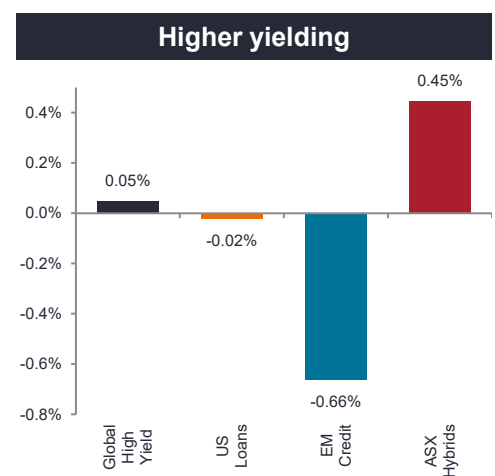
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During March, credit markets adjusted to the more volatile yield environment while absorbing a very busy period of primary issuance post-reporting season.

During March, credit markets adjusted to the more volatile yield environment while absorbing a very busy period of primary issuance post-reporting season. Concerns that further bond yield rises might trigger credit spread widening saw a significant number of issuers access the primary market while yields and spreads were still low in outright terms. This bout of heavy primary supply saw credit spreads gently widen. In Australia, bank floating rate note (FRN) spreads rose by 3bps, while corporate credit spreads rose 12bps, which saw investment grade credit underperform. Higher yielding spread sectors like bank hybrids and subordinated notes remained relatively stable and returned between 0.3-0.5%. iTraxx Australia tightened 5bps adjusting for the roll, with the new index finishing at 64 reflecting more stable conditions in offshore risk markets versus the end of February.



Source: Bloomberg AusBond Indices  
Period of 1 March 2021 – 31 March 2021



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 2021 – 31 March 2021

## Market review

Australian fourth quarter 2020 GDP figures were released this month, with a stronger than expected lift in growth by 3.1%. The driver was a sharp rebound in production and a surge in commodity prices, particularly the price of iron ore. This flows into a significant improvement in the Australian Government budget, as tax receipts rose, coupled with lower than predicted expenditure.

Domestic employment figures were strong, with employment lifting by 88,000 in February, beating the consensus estimates of a rise of 30,000. The participation rate stayed at 66.1% in the month and hours worked returned to pre-pandemic levels. The unemployment rate dropped to 5.8% from 6.3% in the month prior.

Credit growth remained subdued in February, printing below expectations at 0.2% month on month (m/m), with investor credit disappointing. This was unsurprising given the current property boom as most of the credit growth came from the housing market, particularly owner-occupiers (+0.6% m/m). This coincides with a rise in residential building approvals up 21.6% m/m in February (consensus was for a 3.0% increase).

# TACTICAL INCOME FUND

(continued)

**We expect the recovery story to continue to play out, noting cracks in achieving global synchronisation.**

Primary issuance came in all the colours of the rainbow during March. In financials, we saw senior issuance from offshore banks like Toronto Dominion, OCBC and MUFJ. Meanwhile, ANZ was the first major Australian bank to issue senior notes since January 2020 as they managed upcoming maturities by issuing 1-1.5 year notes. CBA decided to focus on capital instruments post-reporting, issuing Tier 2 bonds into the USD market and raising a new Tier 1 hybrid through the ASX listed market, which will take the mantle of the lowest margin major bank hybrid issued at a spread of 275bps. Corporate issuers were also busy, with issuance from REITs like Mirvac, Stockland, BWP Trust, ALE and Centuria, auto finance companies Mercedes Benz, Toyota, Nissan and Volkswagen. Meanwhile, a range of other sectors were also keen to lock in long term funding, with 10-year issuance from Verizon, Westconnex and Lend Lease which issued their second green bond into very strong demand. Not to be outdone, the securitised market was also busy with Resimac, Pepper, Defence Bank and Zip all taking advantage of significant current demand for RMBS and ABS floating rate securities, which still offer a yield advantage versus senior bank notes.

## Market outlook

We expect the recovery story to continue to play out, noting cracks in achieving global synchronisation. The US looks set to steam ahead, with a further boost to the US economy from the Biden fiscal packages. The most recent announcements of an initial infrastructure package worth around US\$2.25 trillion, followed by another worth more than US\$1 trillion to be announced in April, cannot be underestimated. The 8-year roll out will not provide an immediate sugar hit to the economy, but instead a more measured and stable stimulus. Corporates will be the ones footing the bill, which will be paid for over 15 years by raising the corporate tax rate to 28% from 21% and increasing taxes on companies' foreign earnings to 21% from 10.5%. While the tax increase is significant, the rate is still lower than the 35% it was prior to the Trump administration.

The uneven roll out of the vaccine is also likely to affect the recovery pathway in some countries. The US has now given first doses to 73.1% of its over 65 years population, while the UK has administered more than 30 million first round doses and 4 million second doses. This is directly translating into fewer deaths and the easing of restrictions. In contrast, the European growth rebound is likely to be hampered as a slow vaccine rollout on the continent dampens economic activity. Restrictions continue, with France announcing a four-week nationwide lockdown, while Italy is expected to extend its current lockdown. While Australian economic data surprised to the upside in March, due to our lack of vaccine supply, snap lockdowns and hotspot border restrictions are still being relied upon to curb infections. This may ultimately widen the divergence between the US and Australian recovery story.

The recent floods in NSW and QLD are likely to detract from GDP in the near term, as well as leading to sectorial imbalances (e.g. the insurance sector). Disruptions to coal production (as QLD's primary coal producing region was impacted) and the loss of crop (and lowering of quality) for the agricultural sector will be the largest detractors. The RBA has forecasted a 0.5% hit to GDP growth in the March quarter as a result. However, over a longer time frame, the rebuilding process will provide a boost. Houses need to be repaired, cars and household contents replaced, and farms, businesses and public infrastructure will need to be restored.

It is unsurprising that the bond market unwound some of the violent sell-off from February as markets are known to overshoot. While we do expect the cyclical rebound and greater tolerance by central banks for inflation to run higher to keep the rates curve relatively steep, we are mindful of the market getting ahead of itself as the global road to recovery is not straightforward. A further tightening of monetary conditions through higher yields and currency strength should act as a drag on growth and require the RBA to keep monetary conditions accommodative. An expansion/extension of its quantitative easing program may be warranted to support medium-term growth prospects and support lower yields.

# TACTICAL INCOME FUND

(continued)

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## Investment strategy

Generically, we can say that 2021 will be a year that the bond market is likely to deliver a number of negative monthly returns as higher bond yields get tested, so it is prudent to tread with a sense of caution and preserve capital for our investors.

As a manager that incorporates rates (duration, curve, relative value) strategies, we see the biggest opportunity to enhance returns through interest rate strategies, as yields push higher and the curve is likely to overshoot. We note the challenge of picking turning points, but our focus is on averaging in as yields lift, with the view of having the largest active position at the turning point whenever that occurs.

Our north stars for investing are:

- Zero to ultra-low risk-free rates
- Inflation protection when its cheap
- Income bid (spread sectors, including credit)
- Invest with a recession mindset – avoid default heavy areas
- Aim to participate in any cyclical growth uplift

The following is a summary of the key strategies in the Fund (at the time of writing):

### Interest rates:

Given our market outlook, we perceive the opposing directional pull of yields as an opportunity. Rather than taking a directional view on bond yields, once markets have priced in a strong path either way, we are looking for overshoots. At these turning points, we seek to have our largest/lowest duration positions and resize active duration positions promptly once markets reprice on a reassessment of economic fundamentals and the future path of cash rates.

### Sector allocation:

#### Inflation-linked bonds:

Inflation expectations rose in March, with the 10-year break even rate reaching its highest level in 5.5 years mid-month. The Fund has long held inflation hedges in the portfolio, with the purchases made when inflation was cheaply priced and/or investors were being paid to own inflation protection. We believe it is worth maintaining these bonds in the Fund as the reflation trade momentum continues.

#### Semi-government bonds:

Given the significant rally in semi-government spreads over the past year despite some credit ratings downgrades and having participated in this with a meaningful overweight, we have chosen to take profit and trimmed our position by some 60-70%. That said, we look for any weakness in spreads to allocate again as we believe the fundamentals will likely surprise on the upside with state tax revenue lifting quickly as the economic recovery takes hold.

#### Investment grade credit:

Throughout the month, we consolidated our credit exposure in the Fund to a lower level. This takes the position back to where it was previously in the last few months and provides spare capacity for when opportunities arise. Within this positioning, we are gradually shifting from 'sleep easy' high quality names to cyclical issuers as it is here that we expect the growth and outperformance will come from in a recovering economy. We were active in participating in some primary issuances of these cyclical names through March and will continue to add where we see fit.

Generally, in credit, we prefer fixed rate bonds over floating rate, as we take advantage of the steeper curve and the pick-up to the low rates of floating rate securities which are set against the Bank Bill Swap Rate (BBSW). We are comfortable with the reward for risk premium that the longer maturities offer.

# TACTICAL INCOME FUND

(continued)

**Our outlook for 2021 includes confidence in active fixed interest management being able to deliver above average returns, although noting that some performance volatility is inevitable.**

## Higher yielding credit:

The Fund took profit on selective sectors of the higher yielding market last month after a strong run of spread tightening, selling at peak valuations. Despite the trimming, we still maintain an above average allocation to higher yielding credit. We expect that the Biden stimulus package and positive economic momentum will be supportive for US high yield markets which we participate in. The Fund accesses this sector via the Janus Henderson Diversified Credit Fund. We complement this with domestic hybrids, which have performed well given bank senior debt issuance has been in short supply and investors search for yield.

The Fund remains appropriately positioned to take advantage of these themes.

Our outlook for 2021 includes confidence in active fixed interest management being able to deliver above average returns, although noting that some performance volatility is inevitable.

## Important information

A new Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2020 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. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.