

TACTICAL INCOME FUND

As at April 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

\$4.1 billion

Minimum investment

\$25,000

Management cost (%)

0.45 p.a.

Buy/sell spread (%)

0.00/0.04^{^^}

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	-0.31	0.68	3.98	3.39	3.39	4.39	5.32
Fund (net)	0.24	-0.42	0.45	3.63	2.91	2.92	3.92	4.84
<i>Growth (Net)</i>	0.24	-1.34	-1.02	-1.16	0.26	0.14	0.07	0.77
<i>Distribution (Net)</i>	0.00	0.91	1.47	4.80	2.64	2.78	3.84	4.07
Benchmark	0.28	-1.13	-1.52	-0.55	2.68	2.45	3.66	3.92
Excess return*	-0.04	0.71	1.97	4.18	0.23	0.47	0.26	0.92

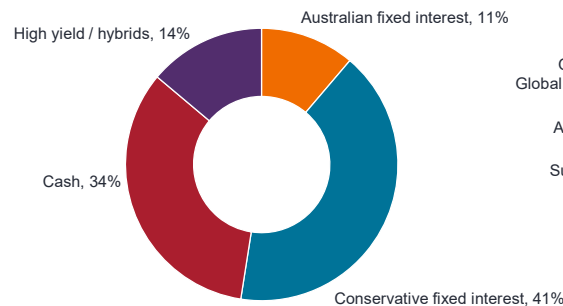
*Excess return is measured against net performance.

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

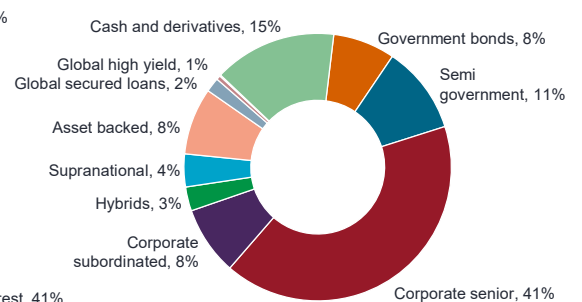
Past performance is not a reliable indicator of future performance.

[^] Fund inception for performance reporting purposes is at end of month, whereby the actual fund inception date may be earlier in the month.

Asset allocation*

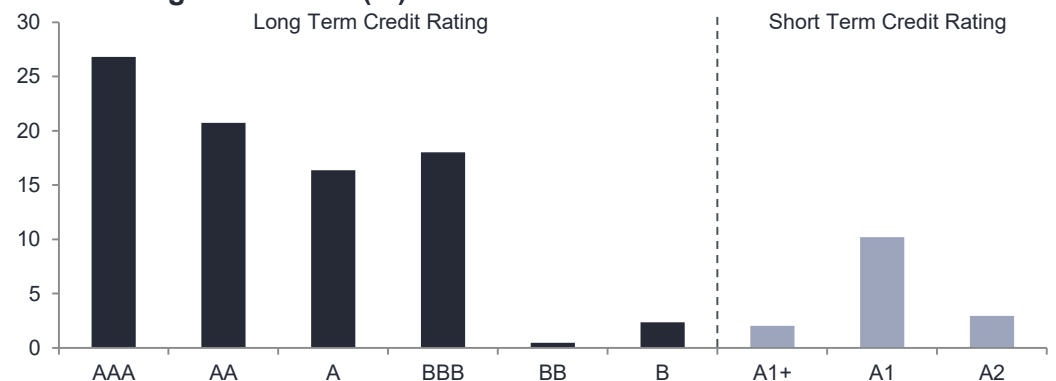


Sector allocation



*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	1.26
Running Yield	1.68
Benchmark EWAYTM	0.55
Weighted Average Credit Quality	AA
Number of Securities (on a look through basis)	438

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	1.12
Benchmark	2.96
Active Position	-1.84

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

^{^^} For more information and most up to date buy/sell spread information visit www.janushenderson.com/en-au/investor/buy-sell-spreads

TACTICAL INCOME FUND

(continued)



Head of Australian Fixed Interest
Jay Sivapalan

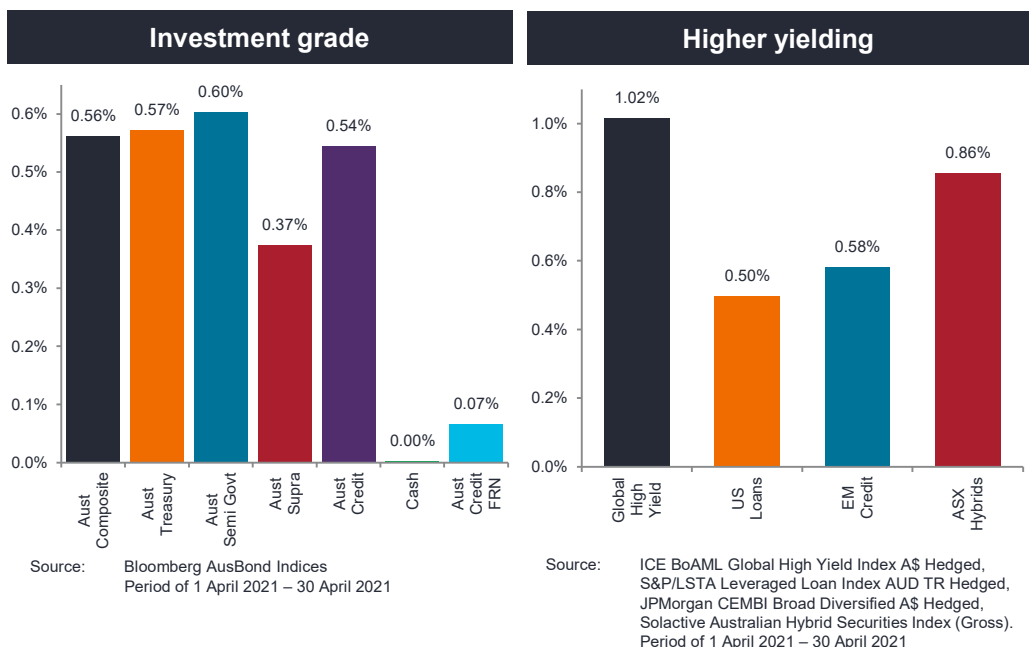
Fund performance

The Janus Henderson Tactical Income Fund (Fund) kept pace with market returns in April while also protecting capital in prior months as yields rose. The Fund delivered a good absolute return, returning 0.29% gross and 0.24% net. The Fund slightly outperformed the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark), which returned 0.28% over the month. Over the last 12 months, the Fund has significantly outperformed its Benchmark by 4.18% net of fees, with the Fund delivering 3.63% to investors compared to the Benchmark which fell by -0.55%.

While the Fund is managed with an absolute return mindset, active interest rate management plays a significant role in its performance. The rates market has been digesting and pricing in a lot of good news over the last few months with bond yields reaching their peak at the end of February. Since then the markets have pulled back, with yields lowering and levels approaching our fair value models. The Fund held its highest overweight duration position at the turning point and since then we have trimmed our long position, taking profit, and taking the Fund's duration to where we think is neutral. This has all been done while keeping up with market performance. We now await the next overshoot before we will apply a more meaningful position.

The Fund had 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, as this sector benefitted from a rise in break-even inflation levels and a lowering in nominal bond yields. Meanwhile, exposures to spread sectors including investment grade credit contributed to performance given spread tightening in credit markets.

Finally, the Conservative Fixed Interest Fund, the Diversified Credit Fund and the Australian Fixed Interest Fund that the Tactical Income Fund invests in outperformed their respective benchmarks, while the Cash Fund performance was broadly in line with its benchmark.



Market review

Prospects for an extended period of accommodative fiscal and monetary policy settings, along with positive economic news, helped support risk appetite. Equity markets performed strongly, while credit markets were well-supported. There was some flattening in the domestic yield curve as longer-dated government bond yields edged lower. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, ended April 0.56% higher.

Yields at the shorter end of the yield curve remained anchored around the Reserve Bank of Australia's (RBA) 0.10% cash rate and three-year government bond yield target, but lifted beyond that as markets began to discount future tightening. The November 2024 government bond yield ended the month at 0.297%, 4 basis points (bps) below its intra-month peak.

TACTICAL INCOME FUND

(continued)

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After February's sharp lift, longer-dated government bond yields continued to trade in a relatively narrow range even though economic and prices data printed on the stronger side. The 10-year government bond yield traded in a 14bps range to end the month 4bps lower at 1.75%. The 30-year government bond finished 9bps lower at 2.67%.

Partial demand indicators point to strong March quarter momentum spilling over into the June quarter. Business conditions, along with business and consumer confidence, have roared back, in some cases to record high levels.

Labour market conditions continued to improve despite the Jobseeker program concluding at the end of March. The number of jobs lifted by a stronger than expected 70,700 over March, while the participation rate lifted to a record high of 66.3% and the unemployment rate fell to 5.6%. In line with improving business conditions, hiring intentions remained very strong.

On the prices side of the economy, the March quarter Consumer Price Index (CPI) came in a weaker than expected 0.6%, with government housing and education policies limiting gains. The yearly rate lifted to 1.1%, still well below the RBA's 2% to 3% target band. Core inflation was also relatively subdued, with the average of the RBA's underlying inflation measures lifting by 0.4% for a 1.3% yearly rate.

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 0.5bps higher at 4bps, while six-month bank bills ended 1bps higher at 9.5bps.

Credit markets outperformed over the month even though there was significant global primary supply as corporate issuers sought to take advantage of the low yield environment to lock in longer-term borrowing. In Australia, bank floating rate note (FRN) spreads tightened by 3bps, while corporate credit spreads rallied 6bps, regaining some of the ground lost in March. Higher yielding spread sectors, like bank hybrids continued to perform well, returning between 0.4% and 0.7%, while fixed rate corporate credit generated 0.4% excess returns above government bonds, with investors benefiting from additional income and positive capital return.

As we anticipated, primary issuance has more recently shifted to opportunistic borrowing, often with longer maturity issuance, as issuers seek to lock investors in at lower spreads for longer. This has resulted in a shift away from the strong post deal performance we saw in 2020 and earlier this year as issuers reduce new issue concessions. We believe investor demand should be more selective in this market environment.

Corporate issuers generally issued in longer maturities, with a number of infrastructure and utilities represented, including 7 to 10-year bonds from Transgrid, Australian Gas Networks, NBN Co, Transurban Queensland and an inaugural deal from Charter Hall Group. With the pickup in activity in the residential housing market, securitisation activity and issuance of residential mortgage backed securities (RMBS) from both prime and non-conforming borrowers remains elevated. This is due to issuers seeking to take advantage of tighter market pricing as the domestic bank sector remains largely absent from primary issuance due to the fact that access to the Term Funding Facility (TFF) is due to expire at the end of June. We expect primary issuance from the bank sector will resume in earnest over the next 6-12 months, which poses some risk for senior ranking financial notes and RMBS pricing to normalise.

Market outlook

The global economy is in an uneven expansion phase, supported by procyclical policy settings and vaccination programs. The IMF are looking for world growth of 6% in 2021 after a 3.3% contraction in 2020. World growth of 4.4% is forecast for 2022.

Though goods and services PMIs are rebounding strongly, central banks have signalled that they will look through any near-term inflation pressures from restocking. Rather, the tone of central bank messaging has been on the dovish side, with the focus on supporting activity and full employment goals.

The Australian economy looks to be at peak growth rates as it makes up for lost time spent in lockdown. Businesses and consumers are bullish on the outlook and the labour market has improved quicker than expected, limiting hysteresis effects. We look for the economy to expand by around 5% over 2022 before growth moderates to just under 3% the year after.

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(continued)

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A much stronger than anticipated recovery gives the Government more headroom in the upcoming May Budget. While the budget deficit will be significantly lower than projected, the Treasurer has already signalled there will be no premature shift to austerity, with Budget repair contingent on the unemployment rate falling to below 5%.

While we expect the RBA to upgrade their forecasts in the upcoming May Monetary Policy Statement, we don't expect them to shift from their dovish outcomes-based stance.

In our view, the stance of monetary policy will only change once the tightening trifecta conditions have been met. These are:

1. an unemployment rate close to 4%;
2. actual inflation at 2% or above on a sustainable basis; and,
3. wages growth of at least 3%.

While the RBA has signalled it doesn't see policy tightening until 2024, markets are looking at 2023. With the domestic yield curve steepening significantly over recent months, markets have the future cash rate lifting to over 2% from 2026 and above our estimates of the neutral cash rate. This implies restrictive policy settings over the second half of the decade and is premature in our view.

We suspect that an emerging grand bargain between fiscal and monetary policy will help limit the upside on longer-dated yields from cyclical pressures as central banks use forward guidance and quantitative easing measures to keep term structures low and provide governments with fiscal space. We see the ten-year government bond yield of 1.74% at the time of writing as being broadly fairly valued.

Spread sectors are likely to remain well-supported, with corporates in particular benefiting from the tail winds of a cyclical recovery and persistent accommodative policy settings. Nevertheless, with the spread cushion for investors within pockets of credit having narrowed substantially, we remain very active and selective in this environment. While the market searches for any yield advantage, we remain discriminate, avoiding lower quality borrowers. The need for inflation protection has diminished with breakeven inflation rates moving back into the lower end of the RBA's 2% to 3% target band.

Investment strategy

Our north stars for investing are:

- Zero to ultra-low risk-free cash rates
- Navigate the range within bond yields, adding duration when they overshoot to the upside and taking profit when yields retreat
- Inflation protection when its cheap
- Income bid (spread sectors, including credit)
- Invest with a cautious mindset – managing ESG/stranded asset risk and deploying capital to positive impact opportunities
- 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:

We see government bond yields, at the time of writing, as fairly valued. We will look for overshoots, in either direction, away from our current neutral view on rates to alter our duration position. In terms of the yield curve, we will take advantage of pockets of steepness in the yield curve, positioned through relative value trades.

Sector allocation:

Inflation-linked bonds: Inflation expectations rose in April, with the 10-year break even rate lifting 7bps over the 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. The Fund has taken profit on a good proportion, whilst retaining a smaller level for any overshoots in the next few months. We believe inflation protection is still reasonably priced, especially given inflation risks are skewed to the upside.

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(continued)

Given the significant rally in semi-government spreads over the past year despite some credit ratings downgrades, we currently have a lower conviction on semi-government bonds.

Semi-government bonds: Given the significant rally in semi-government spreads over the past year despite some credit ratings downgrades, we currently have a lower conviction on semi-government bonds. 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: The sub-sector themes we like in credit are those assets that are not priced consistent with a recovering economy. These include universities, property trust, airports and consumer finance, and companies that will benefit from an improvement in unemployment. We have reduced our overall credit exposure in the Fund over recent months, taking it to a lower level that provides spare capacity for when opportunities arise.

We continue to carefully analyse issuers on their ESG risks and seek to deploy capital to positive impact opportunities.

Higher yielding credit: The Fund took profit on selective sectors of the higher yielding market in the last few months after a strong run of spread tightening. We maintain a modest exposure, which the Fund accesses via the Janus Henderson Diversified Credit Fund. We complement this with domestic hybrids, which have performed well given senior bank debt issuance has been in short supply and investors are in search for yield.

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

Our outlook for the remainder of 2021 includes confidence in active fixed interest management delivering 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.

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. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.