

TACTICAL INCOME FUND

As at June 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

\$4.2 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)	0.14	0.54	0.00	2.65	3.25	3.25	4.31	5.26
Fund (net)	0.10	0.43	-0.22	2.22	2.77	2.78	3.84	4.79
<i>Growth (Net)</i>	-1.48	-1.16	-2.70	-1.68	-0.12	-0.20	0.07	0.65
<i>Distribution (Net)</i>	1.58	1.59	2.48	3.89	2.89	2.98	3.77	4.14
Benchmark	0.35	0.77	-0.86	-0.38	2.59	2.25	3.57	3.90
Excess return*	-0.25	-0.34	0.64	2.60	0.18	0.53	0.27	0.89

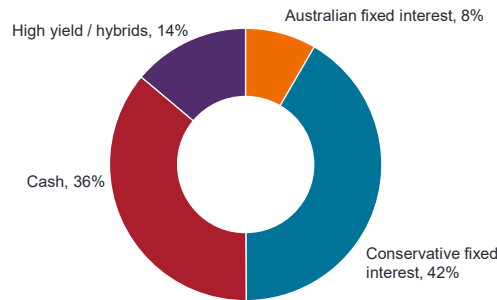
*Excess return is measured against net performance.

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

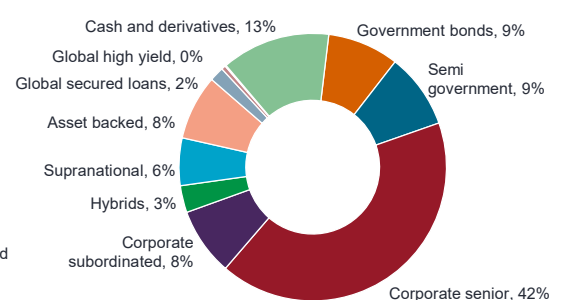
Past performance is not a reliable indicator of future performance.

[^] 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*

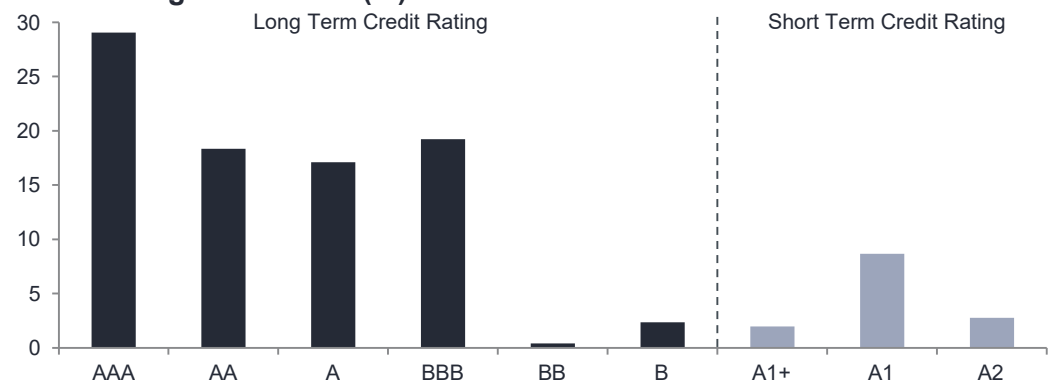


Sector allocation



*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	1.25
Running Yield	1.63
Benchmark EWAYTM	0.54
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	0.73
Benchmark	3.06
Active Position	-2.33

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

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(continued)



**Head of Australian
Fixed Interest**
Jay Sivapalan

Fund performance

The Janus Henderson Tactical Income Fund delivered a stable positive return in June, returning 0.14% gross and 0.10% net. The Fund slightly underperformed the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark), which returned 0.35% over the month. While we reference against the above Benchmark, this Fund is managed with an absolute return mindset and is designed to have an even return profile over the journey. This was evident over the last 12 months, where the Fund was able to deliver a positive return to investors of 2.22% (net of fees) while the Benchmark fell by -0.38% in this financial year. This performance also demonstrates the very fruitful environment for active managers in this CYTD and the successful year for investor outcomes when positive returns can still be delivered through bond portfolios even as the bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) return was negative.

The economic recovery continues to be robust with data surprising to the upside domestically (despite current State lockdowns) and in the US, Europe and Asia. Inflation expectations were curbed over the month as the inflation narrative by all central banks continues to be one of transitory cyclical inflation. That said, some of the supply chain bottle necks and lifting in commodity prices may mean that inflation in the near term tends to stick longer than policy makers expected. It appears that the Fed may be taking note of this as the Fed dot points forecasted higher rates and commented that it will start discussing the appropriateness of tapering quantitative easing (QE) soon. While we take heed of economic data and rhetoric by central banks, this needs to be viewed in terms of what is priced into markets. Bond yields have been restrained even with all that talk, and the 10 Year bond yield finished the month 38bps lower than where it was at the end of February.

Rates strategies in this Fund are actively managed through the Fund's exposure to the Janus Henderson Australian Fixed Interest Fund. Performance has been exceptionally strong in this underlying Fund, with returns benefitting from the fall in bond yields and alpha generation through active positioning in interest rate strategies. In particular, a yield curve flattening position has been a strong contributor to performance, and one the Fund has been gradually taking profit on during the month. The Fund has been moving slowly to a neutral curve position, in line with our broadly neutral/slightly short duration call. We don't hold a high conviction on rates at these levels as we feel the market is fairly priced. We have been trimming our overweight on inflation-linked notes which has also been a good contributor to performance, taking profit as inflation expectations have settled.

Meanwhile, exposures to spread sectors including investment grade credit contributed to performance given income generation and slight spread tightening in credit markets. The Fund is currently allocated on an opportunistic basis to higher yielding sectors, which overall were positive contributors in the month, especially given the above average performance of domestic hybrids. Finally, the Conservative Fixed Interest Fund, the Diversified Credit Fund, the Australian Fixed Interest Fund and the Cash Fund that the Tactical Income Fund invests in all outperformed their respective benchmarks for the month of June.

Market review

An earlier than expected pivot to a more hawkish stance by the US Federal Reserve (Fed) and strong domestic economic data saw a bringing forward of tightening expectations lift shorter-dated yields. Meanwhile, longer-dated yields fell as inflation expectations were wound back. Risk appetite held up as prospective tightening was not seen as derailing activity. Equity markets were generally firmer and credit markets remained well supported. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, ended June 0.69% higher, but was 0.84% lower over the year, even after allowing for February's 3.58% fall.

Volatility returned to the shorter end of the yield curve as cash tightening expectations were brought forward following stronger economic data and Federal Open Market Committee (FOMC) members building in the start of a US tightening cycle by the end of 2023. The yield on the November 2024 government bond rose to as high as 0.47% on the expectations shift, before ending the month 13 basis points (bps) higher at 0.41%.

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The signalling by the Fed that monetary policy could be normalised after the COVID-19 shock reduced term risk at the longer end of the yield curve. The 10-year government bond yield ended 18bps lower at 1.53%, while the 30-year government bond ended 36bps lower at 2.28%. Inflation expectations shifted lower, with the 10-year breakeven inflation rate falling 12bps to 2.06%.

Partial demand indicators showed the economy was on a tear before the latest round of rolling state lockdowns. The economy expanded by 1.8% over the March quarter to join the labour market in lifting to at least pre-COVID-19 levels. Business surveys point to another quarter of strong growth in the June quarter with activity, confidence, forward orders and labour demand at high levels. Consumer sentiment slipped in June from historically high levels following Victorian lockdowns and further near-term falls can be expected as more states experience lockdowns.

The labour market roared back after taking a breather in April. The number of jobs rose by a higher than expected 115,200, with most of the lift coming from full time jobs. The participation rate lifted to a very high 66.2% while the unemployment rate fell from 5.5% to 5.1%, the lowest rate since December 2019. Forward labour demand indicators remain strong and recent rapid improvement was a major factor in tightening expectations being brought forward.

Short-term money market rates remained very low given the 0.10% official cash rate and Reserve Bank of Australia (RBA) forward guidance for an extended period of highly accommodative policy. Three-month bank bills ended the month 0.5bps lower at 3bps, while six-month bank bills ended 2bps lower at 6bps. Further out, markets began to build in monetary tightening towards the end of 2022, with the November 2022 30-day interbank cash rate future contract ending the month at 0.30%.

Domestic credit markets appeared to take major city lockdowns and increased volatility in bond yields in their stride. Buoyed by the economic recovery and increasing system liquidity as final Term Funding Facility (TFF) borrowings were drawn by the banks, credit spreads tightened 4bps providing a modest boost to returns. S&P's upgrade of Australia's AAA rating outlook to stable, combined with their favourable commentary around Australia's banking industry country risk assessment ("BICRA") provided fundamental support across bank capital notes, with the listed hybrid market posting a stellar month, returning 1.0%.

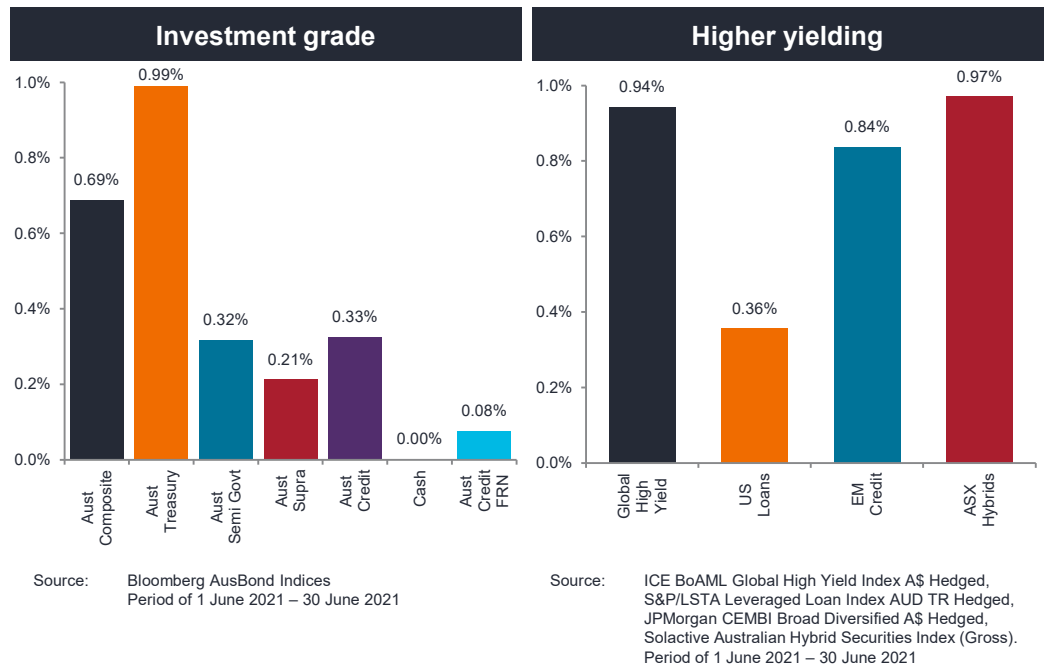
There was a flurry of primary market activity early in the month prior to financial year end. ANZ attracted strong demand for their new hybrid (ANZPI) priced attractively at a spread of 300bps, however they chose to issue offshore in Sterling for their Tier 2 needs. Macquarie saw the vacuum left behind and tapped strong local demand for Tier 2 notes at a reasonable spread of 155bps. Elsewhere corporates were also active, with Charter Hall Long WALE REIT and Australian Gas Infrastructure Finance returning to the market, while Lendlease International Towers Sydney Trust (Barangaroo Towers) issued an inaugural 9-year bond at a spread of 140bps.

Positive ESG impact issuance continued to pick up, the highlight being Wesfarmers issuing a Sustainability-Linked Bond (SLB), the first of its kind into the Australian market. This is a new style of security, whereby the coupon of the security is linked to future performance of the company in meeting contractual sustainability targets. In this case Wesfarmers chose two environment targets related to reducing their firmwide Scope 1 and 2 greenhouse gas emissions. Should they not deliver on their future targets by the end of 2025 the coupons on the bonds will increase by a maximum of 25bps for the remaining term of the securities. The Canadian Pension Plan Investment Board (CPPIB) also issued their first public Australian dollar bond, which is backed by their Green Bond framework and provided investors a healthy 0.5% additional spread above government bonds from a AAA rated issuer.

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Market outlook

It was often quipped pre-COVID-19 that monetary policy was more art than science. The renewed bout of rolling lockdowns, which began with Victoria, highlight the uncertain pandemic path ahead. Just as the economy was roaring and markets began to bring forward tightening, the latest round of lockdowns are a reminder that a post pandemic world is still some time away.

The RBA will be well aware of the art needed to balance recent economic strength and labour market improvement against the potential hit to momentum from the latest breakout of the more contagious 'Delta' variant.

We do not expect the RBA to follow the Fed's hawkish policy pivot at its monetary policy review meeting in early July. The broad messaging is likely to remain that accommodative policy settings will be needed until the tightening trifecta conditions have been met. These are: i) an unemployment rate close to 4%, ii) wages growth of at least 3% and iii) actual inflation at 2% or above on a sustainable basis.

In a nod to stronger labour market conditions, we don't see the RBA extending its 3-year yield target from the April 2024 bond to the November 2024 bond. Our base case has the first tightening in H1 2024, with a tightening cycle that takes policy from easy to neutral, not easy to tight which markets had priced in when yields spiked in late February.

While recent strength tilts the balance of risks towards an earlier lift off, market pricing for a tightening cycle beginning in late 2022 seems premature and implicitly assumes that the tightening trifecta conditions will be met. The wages condition will be difficult to meet given that RBA liaison finds many companies adopting a "wait and ration" approach rather than adding to their cost base by paying higher wages.

To meet the tightening trifecta conditions, the RBA will most likely need to renew its current bond purchase program which ends in September. We suspect they will commit to another six-month tranche of buying before moving to a more frequent and data dependent approach from March 2022. Against this complex backdrop we see the 10-year government bond yield of 1.52% at the time of writing as being mildly expensive.

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Spread sectors are likely to remain well-supported, with corporates in particular, benefitting 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:

The Fund is now positioned broadly neutral on rates and took profit in the month on our previous high conviction curve flattening bias. 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.

Sector allocation:

Inflation-linked bonds: The cheapness of inflation protection has diminished, with breakeven inflation rates holding in the lower end of the RBA's 2% to 3% target band despite their retreat over the month. We trimmed much of our overweight inflation-linked note exposure when break even rates moved higher in recent months however we continue to maintain some allocation to these bonds as a hedge to a further inflation break to the upside.

Semi-government bonds: After benefitting from holding a meaningful overweight to semi-government (semi's) position for much of the last year, we have now trimmed this exposure, also taking this position close to neutral. This was a good decision given semi's underperformed government bonds in June. While these securities are still supported by the RBA under the QE program, and could benefit from a twist to the current bond purchase program by the central bank at the next meeting, spreads have been widening to levels where we are starting to see value being restored.

Investment grade credit: Spread sectors are likely to remain well-supported, with corporates in particular, benefitting from the tailwinds 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 and seeking overweight positions to certain industries that will participate in a credit spread rally.

Higher yielding credit: We maintain capacity in sub investment grade sectors should opportunities re-emerge from relatively tight valuation levels and low outright yield levels, which the Fund accesses via the Janus Henderson Diversified Credit Fund. Alongside this, we have held a favourable outlook on major bank hybrids since late last year and have continued to build an allocation based on improving fundamentals, rating outlook and regulatory capital review.

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Environmental, Social and Governance

With supply lagging demand for ESG labelled bonds, there is a strong return argument that these types of bonds will enjoy capital appreciation. While only investing in approved issuers, our Fund has appetite for more of these green and social bonds given their positive impact attributes and our view on outperformance capabilities.

We continue to carefully analyse issuers on their ESG risks and seek to deploy capital to positive impact opportunities. We were a firm supporter of the first Australian sustainability-linked bond (Wesfarmers) this month and we look to participate and support the growth of more of these types of transactions.

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.