

TACTICAL INCOME FUND

As at July 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

\$4.3 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)	0.18	0.43	0.12	2.18	3.21	3.19	4.28	5.24
Fund (net)	0.14	0.33	-0.10	1.74	2.74	2.72	3.81	4.77
<i>Growth (Net)</i>	0.14	-1.26	-2.58	-2.14	-0.15	-0.26	0.04	0.65
<i>Distribution (Net)</i>	0.00	1.59	2.48	3.88	2.89	2.98	3.77	4.11
Benchmark	0.88	1.36	0.22	0.31	2.83	2.34	3.56	3.95
Excess return*	-0.74	-1.03	-0.32	1.43	-0.09	0.38	0.25	0.82

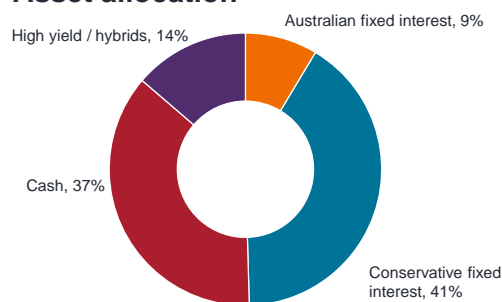
*Excess return is measured against net performance.

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

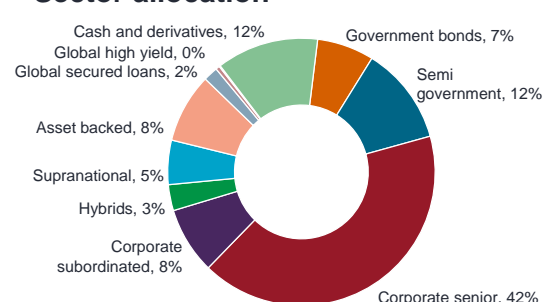
Past performance is not a reliable indicator of future performance.

[^] 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*

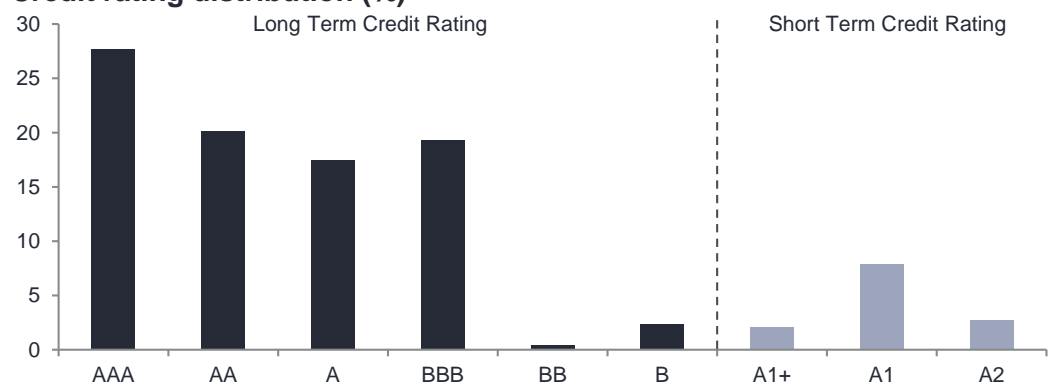


Sector allocation



*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	1.06
Running Yield	1.59
Benchmark EWAYTM	0.43
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	0.61
Benchmark	3.08
Active Position	-2.47

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) delivered a stable positive return in July, returning 0.18% (gross) and 0.14% (net). The Fund underperformed the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark), which returned 0.88% over the month driven by longer duration fall in yields. 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. Over the 2021 calendar year, the Fund has delivered similar results to the much longer duration bond market but without wild swings in monthly returns including the significant drawdown in February witnessed by the bond market. This is also demonstrated through our longer term results, with the Fund returning 1.74% (net over fees) over the last 12 months, while the Benchmark returned 0.31%.

Active interest rate management has been the primary driver of the lower volatility (and drawdown) of the Fund's monthly results relative to the bond market. Equally, during months like July when long duration assets performed exceptionally well, the Fund lagged this rally despite comfortably outperforming over longer periods. Rates strategies in this Fund are actively managed through the Fund's exposure to the Janus Henderson Australian Fixed Interest Fund and interest rate derivatives. 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. The Fund has been moving to a neutral duration position from overweight, taking profit as bond prices rallied. The underlying fund still held a slight yield curve flattening position in the month which contributed strongly to performance given the large market moves. Inflation-linked bonds have also contributed to performance, driven by the fall in yields even as break-evens have settled towards the bottom end of the Reserve Bank of Australia (RBA) target inflation range

Sector strategies including allocations to investment grade and higher yielding credit provided muted results over the month. Investment grade credit still produced a positive return despite some softening in credit spreads. The Fund is currently allocated on an opportunistic basis to higher yielding sectors, including domestic hybrids which overall were small positive contributors in the month. Following strong returns in June, domestic hybrids were more subdued in July. They produced another positive monthly return but didn't outperform their pure income carry.

Semi-government bonds also had a strong month of performance as yields fell. Our recent overweight position to the state of Victoria contributed to sector performance as Victorian government spreads narrowed in line with the lockdown ending. This is an active position that we have reduced in July, taking some profit and recycling to other states facing lockdown challenges where spreads are underperforming.

Finally, the Conservative Fixed Interest Fund, the Diversified Credit Fund and the Australian Fixed Interest Fund that the Tactical Income Fund invests in all outperformed their respective benchmarks, while the Cash Fund remained flat.

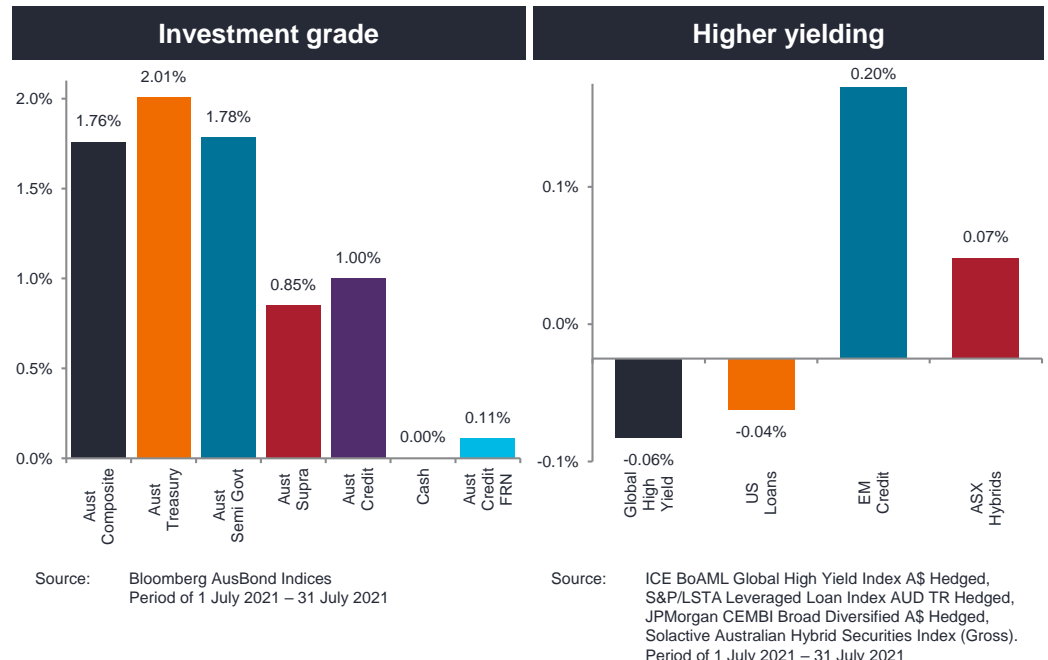
Market review

- A downward revision to the growth outlook following 'Delta' strain outbreaks led to sharp falls in domestic yields and a flattening in the yield curve. The 10-year government bond yield ended 34 basis points (bps) lower at 1.18%, while the 30-year government bond ended 24bps lower at 2.04%.
- Renewed lockdowns weighed on investor sentiment in credit markets, which had been buoyed by the rebound in growth and an improving outlook for corporate earnings. The Australian iTraxx Index ended the month 5bps wider, while Australian fixed and floating rate credit indices closed flat and 3bps tighter respectively.
- Inflation expectations edged slightly lower, with the 10-year breakeven inflation rate falling 6bps to 2.00%.
- The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, performed strongly, climbing by 1.76% over July and has since clawed back all of February's 3.58% fall.

TACTICAL INCOME FUND

(continued)

For 2022 we expect the economy to grow by around 3.5% and for the unemployment rate to fall to around 4.5%.



Market outlook

- Rolling ‘Delta’ lockdowns mean that the economy will hit a significant air pocket. With the Sydney outbreak proving more persistent, we look for the economy to contract by between 1%-1.5% over the September quarter. We still look for the economy to grow by around 3.75%-4% over 2021 (this was 4.75% pre lockdowns).
- For 2022 we expect the economy to grow by around 3.5% and for the unemployment rate to fall to around 4.5%.
- The near-term outlook has worsened and we expect that deterioration to be acknowledged at the upcoming August RBA Board meeting via dovish signalling and a less urgent wind-down of quantitative policies. Our base case still has the first tightening in a cycle that takes monetary conditions from accommodative to neutral starting in H1 2024.
- At the longer end of the curve, the fall in the 10-year government bond to 1.17% has taken them to outright expensive levels in our view and vulnerable to a lift in growth and inflation expectations as vaccination rates progress.
- 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.

For in-depth economic analysis and the Australian Fixed Interest Team’s outlook, visit go.janushenderson.com/Viewpoint-Aug21

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 it’s 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

TACTICAL INCOME FUND

(continued)

This month's bond rally, with yields falling through our assessment of 'fair value', sees a shift in our bias from neutral to short duration.

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

Interest rates:

This month's bond rally, with yields falling through our assessment of 'fair value', sees a shift in our bias from neutral to short duration. While this is not a high conviction short signal at current levels (at the time of writing), it is one we will look to build upon should yields continue their downward trajectory. As bonds become expensive, this has also tempered our enthusiasm for a flattening bias in portfolios and it's likely that in the next 12 months there will be a modest bear steepening in bond yields.

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 breakeven 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: Having neutralised our semi-government position a couple of months ago, we have started selectively adding back positions to the Fund where value has been restored. As previously mentioned, the Fund did well from buying semi-government bonds of the state of Victoria when spreads were at their widest during recent lockdowns and taking profit as they narrowed. We continue to look for relative value opportunities between the different states. These securities are still supported by the RBA under their QE program.

Investment grade credit: Spread sectors continue to resist pandemic pressures to move significantly wider. Persistent accommodative policy settings and a strong corporate fundamentals have supported credit markets, despite some slight spread widening in July. The Fund continues to remain invested in long dated, good quality corporate debt. In addition, the Fund has been active in recycling bonds, with a focus on identifying sub-sectors with good fundamentals and attractive relative value. We seek industries with improving credit fundamentals that will outperform over the coming 12 months. These include non-consensus industries where pricing reflects relative value in our assessment. Equally, while we hold a favourable view on the credit sector in general, we have built up some credit protection via Credit Default Swaps (CDS) for any unexpected large left field events should they occur.

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.

Environmental, Social and Governance

From an Environmental, Social and Governance (ESG) perspective, we are seeing more activity in this space and we are eagerly participating where it makes good financial sense to do so, including our exposures to positive impact bonds. With supply lagging demand for ESG labelled bonds, there is a strong return argument that these types of bonds will enjoy capital appreciation relative to peer assets. 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 opportunity for early adopters.

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(continued)

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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.