

# TACTICAL INCOME FUND

## As at August 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<sup>^</sup>

30 June 2009

### Fund size

\$4.5 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)	-0.06	0.26	0.95	1.72	3.08	3.07	4.26	5.20
Fund (net)	-0.09	0.15	0.74	1.28	2.60	2.60	3.79	4.72
<i>Growth (Net)</i>	-0.09	-1.44	-1.77	-2.58	-0.28	-0.38	0.02	0.64
<i>Distribution (Net)</i>	0.00	1.59	2.50	3.86	2.88	2.98	3.77	4.08
Benchmark	0.05	1.28	2.11	0.56	2.68	2.28	3.44	3.93
Excess return*	-0.14	-1.13	-1.37	0.72	-0.08	0.32	0.35	0.79

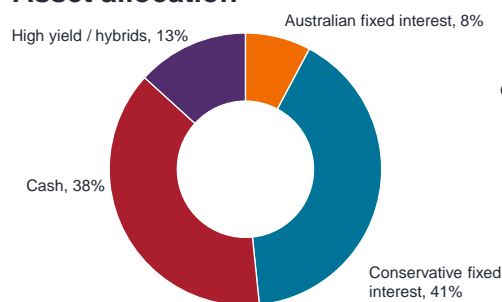
\*Excess return is measured against net performance.

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

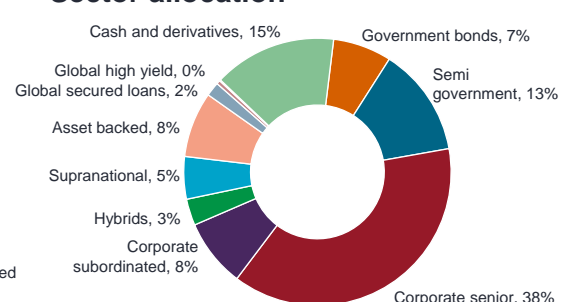
Past performance is not a reliable indicator of future performance.

<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.

### Asset allocation\*

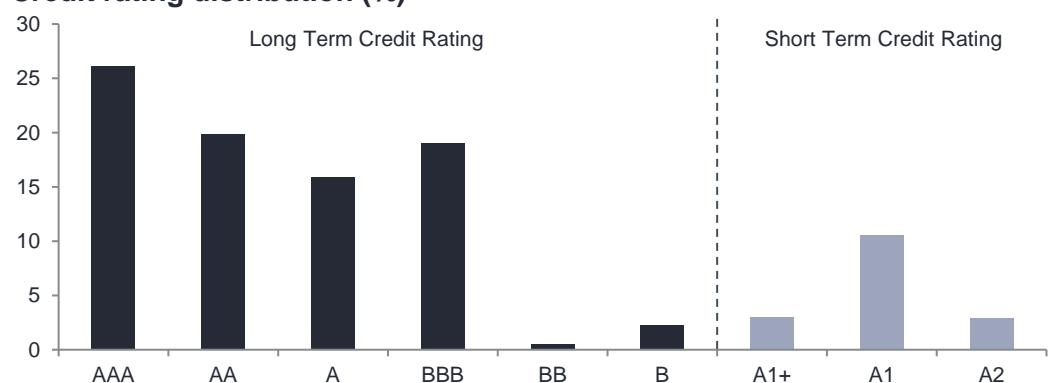


### Sector allocation



\*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>	1.07
Running Yield	1.52
Benchmark EWAYTM	0.43
Weighted Average Credit Quality	AA
Number of Securities (on a look through basis)	438

<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	0.42
Benchmark	3.06
Active Position	-2.64

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.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) delivered a small negative return in August, returning -0.06% (gross) and -0.09% (net). The Fund underperformed the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark), which returned 0.05%. While we reference against the above Benchmark, the Fund is actively managed and holds dynamic underweight and overweight positions compared to the Benchmark. This inevitably comes with periods of underperformance, but over the cycle the Fund has proven to preserve capital and deliver stable superior returns. This is demonstrated through our longer term results, with the Fund returning 1.28% (net of fees) over the last 12 months, while the Benchmark returned 0.56%.

Bond yields were a touch lower during the month, despite a lot happening from a health and economic perspective and returns from our rates positioning was relatively benign. 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. The Fund has been moving to a slightly underweight duration position from overweight, as we look to the committed reopening up of our economy led by NSW. Our base case is that, while the Reserve Bank of Australia (RBA) will stay on the side-lines during this lockdown phase and will maintain that safety net of support if required, the yield curve will steepen over time as vaccination rates increase.

Inflation-linked bonds also offered little in the way of returns in the month, as the gain from the slight dip in bond yields was offset by a slight fall in inflation break-even levels.

Sector strategies, particularly the Fund's allocation to semi-government bonds (semi's), was the biggest detractor to performance over the month. The Fund holds an overweight position to semi's, in particular the NSW government. Valuations have weakened in the Australian states most heavily impacted by the lockdowns and recent new supply has weighed on pricing. We have added to this position during the month, recognising that the states are in their darkest hour but there is a clear exit strategy in place. From a risk perspective, we are comfortable that an overweight to a AA+ rated government entity is prudent, and will result in better investor outcomes going forward.

Credit spreads were relatively flat in August, with weakness targeted to certain sectors and maturities. The broader weakness was in longer term credit, notably infrastructure and Real Estate Investment Trusts (REITs). These assets have been disproportionately impacted by the lockdowns particularly the property trusts with exposures to shopping centres and offices. The Fund's exposure to these assets detracted from performance. The Fund is currently allocated on an opportunistic basis to higher yielding sectors, with offshore high yield making a small positive contribution. The Fund also has exposure to domestic hybrids, with hybrids returning -0.01% for the month gross of franking. These securities are earning about 0.20% in income, but with a new issue completed in the month, some supply widening negatively impacted returns, which we view as somewhat temporary.

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

### Market review

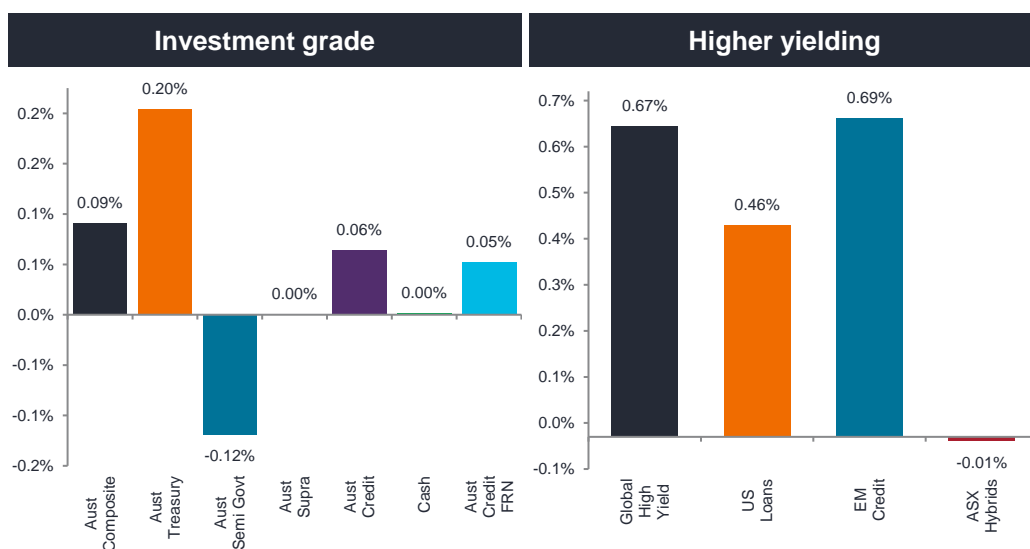
- Markets and central bankers shifted into a more cautious mode while awaiting more clarity on the tussle between the growth-dampening Delta COVID-19 variant and rising vaccination rates. Economic releases painted a picture of an economy losing momentum from mid-year following a period of rolling lockdowns and extended lockdowns in NSW and Victoria.
- While labour market outcomes were better than expected in July, with an unexpected small gain in employment and fall in the unemployment rate to 4.6%, large falls in weekly payroll data point to a sharp fall in hours worked and weaker labour market outcomes over the months ahead.
- Inflation expectations edged lower despite stressed supply chains. Yields edged marginally lower after some intra-month volatility, more so at the longer end of the government yield curve.

# TACTICAL INCOME FUND

(continued)

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- The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index rose by 0.09% over August.



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

## Market outlook

- The economy will contract sharply in the September quarter, with both NSW and Victoria locked down and the fall in the level of activity occurring then. As vaccination rates rise to 70-80% during the middle of the December quarter and restrictions begin to ease, activity will rebound quickly as the economy makes up for lost time.
- Faced with increasing uncertainty about the near-term outlook, we expect the RBA to be 'data', not 'date' driven. Our base case still has the first tightening in a cycle that takes monetary conditions from accommodative to neutral starting in H1 2024.
- We see the balance of risks tilted towards yield curve steepening over time as growth and inflation expectations are revised up as vaccination rates lift.
- 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.
- We remain attracted to semi-government securities in the current low yield environment, particularly those issued by NSW.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Sept21](http://go.janushenderson.com/Viewpoint-Sept21)

# TACTICAL INCOME FUND

(continued)

This month's consolidation of bond yields has them at the lower end of our assessment of 'fair value', strengthening our bias from neutral to slightly short duration.

## 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

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

### Interest rates:

This month's consolidation of bond yields has them at the lower end of our assessment of 'fair value', strengthening our bias from neutral to slightly short duration. Bond markets are forward looking and while more lockdown pain will weigh on the country's economic performance, we see the high vaccination rates and reopening to result in a shift higher in rates across the whole curve. Our enthusiasm for a flattening bias in portfolios has tempered and it is likely that in the next 12 months there will be a modest bear steepening which we look to represent in our duration positioning.

### Sector allocation:

**Inflation-linked bonds:** Inflation protection has cheapened, with breakeven inflation rates falling below the bottom of the RBA's 2-3% target band. This was despite latent inflation pressures from a lower currency, challenged global supply chains and the wider opening up of the economy over 2022. We will continue to monitor levels and will look to add should breakeven rates fall further.

**Semi-government bonds:** We remain attracted to semi-government securities in the current low yield environment, particularly those issued by NSW where value has been restored. We recognise the risks of vaccines losing efficacy, or becoming ineffective against new strains, together with the potential seasonal impact from winter which may alter the reopening outlook of the states. However, we weigh this against our positive macro-outlook for the reopening, the compelling valuations, strong fiscal position of the NSW government, the forward-looking political stance and the fact that these liquid securities are still supported by the RBA under their QE program as overriding factors. Some positions are creating temporary volatility and drawdown, but we envision decent capital uplift and solid investment returns to take over in the next 6-12 months. We are a net buyer into any weakness in selective semi-government spreads.

**Investment grade credit:** As confidence of a vaccine-led recovery builds momentum and with this current lockdown potentially marking the end, this has investment implications for those industries that have taken longer to recover. Tourism, airports, universities, retail are set to benefit the most from the broader economic recovery as Australia gets a second wave of growth from pent up demand, latent savings and return to travel. The Fund previously sought to preserve capital, with the focus now shifting to how we can participate in the reopening as we get vaccinated and join the Northern Hemisphere in a somewhat return to normality. While momentum will not necessarily go one way, as seen by the recent softening of these industries, the thematic is still strong and we expect these sectors to perform strongly as the economy opens. 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.

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(continued)

We continue to balance, adding credit income and capital gain opportunities into the Fund, while withholding risk capacity with spreads remaining tight in offshore investment grade and high yield markets.

**Higher yielding credit:** We continue to balance, adding credit income and capital gain opportunities into the Fund, while withholding risk capacity with spreads remaining tight in offshore investment grade and high yield markets. We anticipate any spread widening will be largely manageable and would improve value for investors into a recovery that policy makers remain keen to support. Global allocations remained stable at low levels. We remain mindful of potential volatility in the highly levered segment as financial conditions are gradually normalised, with the equity and debt stress of China Evergrande serving as a timely reminder.

## Environmental, Social and Governance (ESG)

From an ESG perspective, we continue to engage with intermediaries and issuers on growing Australia's positive impact bond market. 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.

### 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.