

# TACTICAL INCOME FUND

## As at October 2020

### 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

\$3.5 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

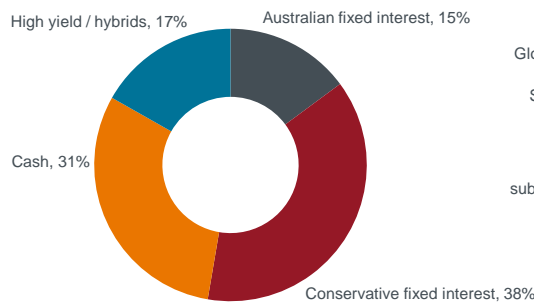
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.45	1.05	3.29	4.34	3.62	3.61	4.71	5.49
Fund (net)	0.40	0.95	3.17	3.82	3.14	3.14	4.24	5.02
<i>Growth (Net)</i>	0.40	0.13	-0.15	-0.12	0.48	0.23	0.26	0.90
<i>Distribution (Net)</i>	0.00	0.82	3.32	3.94	2.67	2.91	3.98	4.12
Benchmark	0.15	0.48	0.98	2.27	3.50	3.06	4.06	4.23
Excess return*	0.25	0.47	2.19	1.55	-0.36	0.08	0.18	0.79

\*Excess return is measured against net performance.

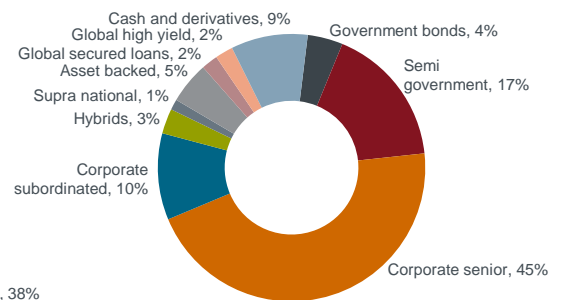
Gross performance is calculated gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

### Asset allocation\*



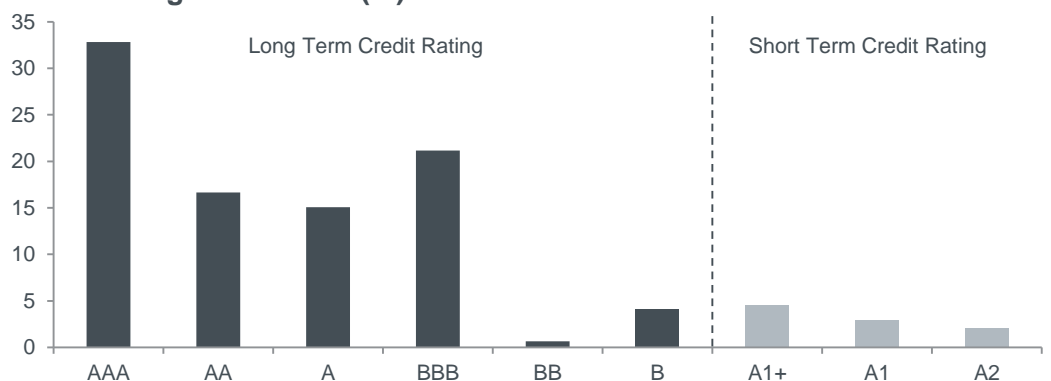
### Sector allocation



\*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>	1.28
Benchmark EWAYTM	0.36
Weighted Average Credit Quality	AA-
Number of Securities (on a look through basis)	432

<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	1.58
Benchmark	3.07
Active Position	-1.49

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 positive return in October whilst preserving capital, returning 0.45% (gross) and 0.40% (net). The Fund outperformed the Bloomberg AusBond Composite 0+ Yr Index and AusBond Bank Bill Index (equally weighted) (Benchmark) by 25 basis points (bps) in October, 47bps over the quarter, 155bps over the year, and 79bps since inception.

The Fund seeks to actively asset allocate across rates strategies (including long duration fixed interest and floating rate) and sector strategies, with all contributing to overall performance. Rates (including duration ending the month at 1.58 years) contributed positively driven by the fall in bond yields in the front end of the curve, as the outlook for a rate cut by the Reserve Bank of Australia (RBA) was priced into markets. Despite the month ending with a lift in yields on longer-dated maturities, the coupon income in the period together with capital gains on the short end resulted in an overall positive return from bonds in the Fund.

Allocations to spread sectors, including exposure to semi-government bonds, was a positive for the Fund. An overweight to semi-government bonds added value as they outperformed treasuries, even with the potential for a ratings downgrade to the state of Victoria. Communication from the RBA indicating they want to keep borrowing costs low for the state governments supported pricing, resulting in a positive contribution to the Fund's return in the month. Returns from Inflation-linked bonds were broadly flat October. However, we maintain a long-term view on these securities, as they offer a cheap hedge against rising inflation down the track beyond the current recession.

Deviating from offshore trends, the Australian credit market performed strongly in October as credit spreads tightened. The Fund maintains a high allocation to corporate senior debt (45% of the Fund) which benefitted from these price moves. As discussed above, senior bank notes were the real winner over the month. An above average allocation to opportunistic higher yielding credit also proved to be a successful strategy with hybrids, loans and high yield all performing well.

Finally, all of the underlying Janus Henderson Funds that the Tactical Income Fund invests in including the Australian Fixed Interest, Conservative Fixed Interest, Diversified Credit and Cash Funds outperformed their respective benchmarks.

### Market moves

Bond markets delivered strong returns in October. The Australian equity market outperformed offshore markets, credit spreads continued to narrow and there was a modest lift in inflation expectations. Australian government bond yields fell at the shorter end of the yield curve, while longer-dated yields edged higher.

Yields at the shorter end of the Australian government yield curve rallied following a seminal mid-month speech by the RBA Governor in which the RBA updated its reaction function to include a greater emphasis on full employment and shift from targeting expected inflation to actual inflation. The three-year government bond yield ended the month 4bps lower at 0.12%.

Longer-dated government bond yields were very volatile and traded the month in a 17bps range. The 10-year government bond yield rose to as high as 90bps before rallying to as low as 72bps following the RBA Governor's speech, which also raised the prospect of an asset purchase program. Yields then rose from their lows, with the 10-year government bond yield ending 4bps higher at 0.83%, while the 30-year government bond ended 8bps higher at 1.80%.

Money market rates moved to factor in an imminent easing in monetary conditions. Three-month bank bills ended the month 3bps lower at 6bps, while six-month bank bills ended 5.5bps lower at 6.5bps.

The December 30-day cash futures contract fell from 8bps to 4.5bps, with markets factoring in a 3bps cash rate at the end of 2021.

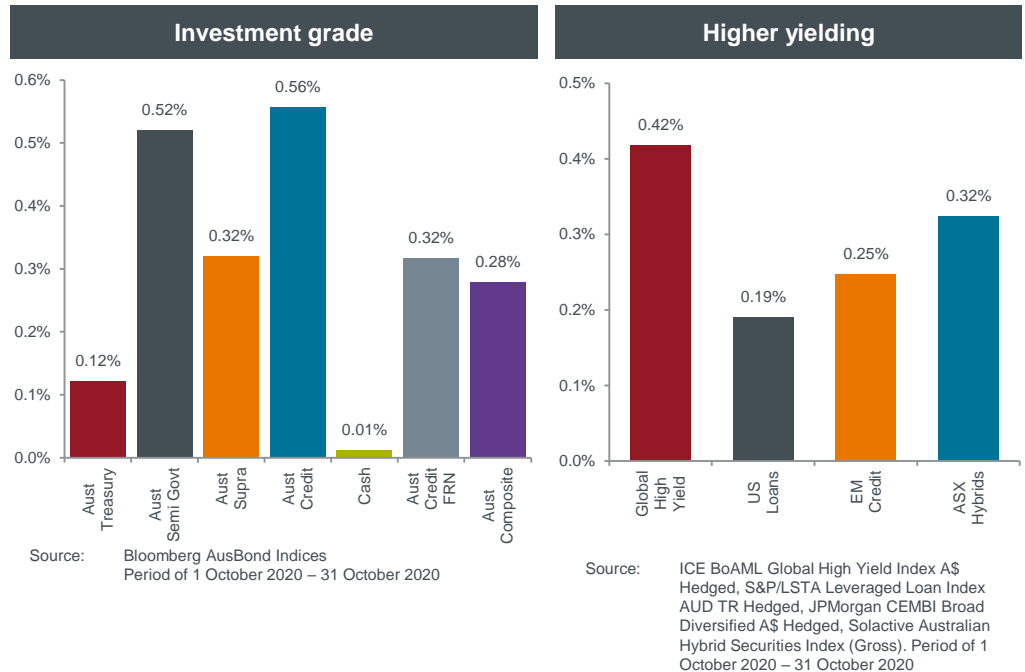
Despite jitters offshore, Australian credit markets regained their mojo with the iTraxx Index tightening 6bps to 70bps and corporate bond spreads rallying 8bps, generating healthy returns for credit investors.

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) rose by 0.28% in October.

# TACTICAL INCOME FUND

(continued)

Fiscal and prospective conventional and unconventional monetary easing helped buffer Australian asset markets from rising volatility caused by a COVID-19 resurgence in the Northern hemisphere and the upcoming US election.



## Market review

Fiscal and prospective conventional and unconventional monetary easing helped buffer Australian asset markets from rising volatility caused by a COVID-19 resurgence in the Northern hemisphere and the upcoming US election. The brightest economic news was the gradual release of the Victorian economy from severe lockdown measures, which had been a drag on national growth. Retail sales fell by 4% in August, while employment dropped by 29,500 in September and the unemployment rate edged up to 6.9%.

There were also signs of policy support working with business conditions and confidence improving in the September NAB Business Survey. The Budget appears to have been well received, with consumer confidence bouncing strongly in October. There was also a lift in prices, with the unwinding of childcare support and working from home-related spending pushing the Consumer Price Index up 1.6% over the September quarter and lifting the yearly rate to 0.7%. Core inflation remained subdued, with the average of the RBA statistical measures lifting by 0.4% over the quarter for a 1.2% yearly rate.

Credit spreads were tighter over the month resulting in solid returns from this sector in the Fund. With the initial allocation of the Term Fund Facility (TFF) fully drawn upon by domestic banks, and three of the major banks passing their September reporting balance dates, there was strong demand for credit across the spectrum. Appetite was further fuelled by the prospect of imminent easing measures from the RBA, which saw senior bank note spreads tighten 9bps to their lowest level since before the Global Financial Crisis in 2007. All maturities up to five years were trading inside 30bps at the time of writing.

Primary markets remained active, with non-bank Residential Mortgage Backed Securities (RMBS) issuers and offshore banks filling the void in supply left behind by the domestic banks. Challenger, Bank of Queensland and Bendigo & Adelaide Bank all used the firmer conditions to launch smaller hybrid deals, the former two were refinance deals delayed from earlier in the year. Corporate issuers were also active, with an inaugural deal from Charter Hall for their Prime Industrial Fund and annual issuance from Port of Melbourne seeing continued strong investor demand.

# TACTICAL INCOME FUND

(continued)

**Australian policy remains highly accommodative, with the October Federal Budget pivoting fiscal policy from playing a 'support' role to a 'rebuilding' role.**

## Market outlook

Australian policy remains highly accommodative, with the October Federal Budget pivoting fiscal policy from playing a 'support' role to a 'rebuilding' role. The widening in the budget deficit to \$213.7bn or 11% of GDP in 2020-21 provides a strong positive fiscal pulse at a time when the economy needs help in recovering from the damage caused by the COVID-19 lockdown measures.

While the RBA held off moving in October to allow fiscal policy to take centre stage, we see a slightly better than expected inflation outcome, the RBA calling a positive quarter of growth in Q3 and the opening up of the Victorian economy, as no barrier to a November easing.

Easing is most likely to take the form of a cut in the cash rate, three-year government bond yield target and TFF rate by 15bps from 0.25% to 0.10%. Negative rates remain highly unlikely and we believe the door remains wide open to the RBA extending its Quantitative Easing (QE) program to include a Large-Scale Asset Purchase Program (LSAP) targeting government and semi-government bonds in the five- to 10-year part of the yield curve.

Greater use of its balance sheet would help it meet its revised reaction function, where the RBA placed a stronger emphasis on reaching full employment and targeting actual, rather than expected inflation. A LSAP targeting the five- to 10-year part of the curve would help support jobs growth by lowering the term structure and economy-wide borrowing rates at a time when Federal and State governments are borrowing heavily.

We still regard cyclical and structural factors as pointing to many years of ultra-low cash rates and remain attracted to duration while the yield curve is positively sloped. We see periods of excessive curve steepening as opportunities.

Despite ever-present solvency risks, we expect spread sectors to be shored up by the outlook for an extended period of low yields on government securities, unprecedented levels of central bank support for both sovereign and non-sovereign debt markets and investor demand for income.

We remain mindful that massive fiscal easing, burgeoning money supplies, geo-strategic supply chain reconfigurations and the blurring between monetary and fiscal policy in some jurisdictions raises medium to longer term inflation risks. Against this mix of cyclical and structural factors, we think it remains prudent to hold a modest core exposure to inflation-protected securities while inflation protection remains relatively cheap.

## Investment strategy

Last month's budget has set the stage for fiscal policy to carry the burden of pivoting policy from a 'support' to a 'rebuilding' role. We expect that the solution will also come from state governments who will play a bigger role in the recovery with large fiscal spends. The reopening of Victoria should see a shift towards a focus on the rebound versus surviving the recession. Given the amount of support on offer, we see the default cycle in Australia as becoming shallower but extending longer.

Our concerns have eased regarding defaults in RMBS. The leniency of banks and government cash handouts, plus other measures in the federal budget to reduce delinquencies, should see the mortgage market stay firm.

Our north stars for investing remain:

- 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

## TACTICAL INCOME FUND

(continued)

The continued easing of conditions by the RBA reiterates our confidence in lower bond yields and flatter curves.

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

**Interest rates:** The continued easing of conditions by the RBA reiterates our confidence in lower bond yields and flatter curves. Bond buying by the RBA will lower borrowing costs for the sovereign and its states and yields out to 10 years will remain suppressed. Higher yields on offer beyond 10 years remain attractive relative to the shorter tenors, and we like duration while the yield curve is positively sloped. We see periods of excessive curve steepening as buying opportunities.

While our base is for inflation to remain suppressed, we maintain an allocation to inflation-linked bonds given it offers a cheap hedge against rising inflation down the track beyond the current recession.

**Sector Allocation:**

**Semi-government bonds:** We continue to maintain an overweight exposure to the state of Victoria and NSW. In October, NSW and Vic had strong performance with the virus restrictions easing. The RBA's newly announced bond buying of semi-government bonds will keep these securities well bid. We like the AAA rated semi-government bonds, as they offer good relative value to sovereign bonds, even after considering downgrade risk on TCV's.

**Investment grade credit:** With loose fiscal and monetary policy working together, we are confident in our credit conviction. We remain attracted to spread sectors but with a recession mindset. This credit strategy has been working well with security selection performing strongly. We continue to weight the Fund towards recession proof 'safe at night' names but on a longer tenor. We note likely value deriving from capital gains as the hunt for yield continues.

Generally, in credit, we prefer fixed rate bonds over floating rate, with the view that long dated rates will be contained while offering a pick-up to the low rates of floating rate securities which are set against the Bank Bill Swap Rate (BBSW).

**Higher yielding credit:** We are comfortable with our above average allocation to higher yielding credit. Spread sectors to be shored up by the outlook for an extended period of low yields on government securities and unprecedented levels of central bank support for both sovereign and non-sovereign debt markets. Notwithstanding volatility around the election in the US and eventual completion of JobKeeper/JobSeeker in Australia, we still expect credit to perform well. The Fund accesses this sector via the Janus Henderson Diversified Credit Fund.

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

**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.