Janus Henderson

CONSERVATIVE FIXED INTEREST FUND – INSTITUTIONAL

Janus Henderson INVESTORS

As at December 2020

Fund objective
The Fund seeks to achieve a total return before fees that exceeds the total return of the Benchmark by 0.50% p.a., over rolling three-year periods.

Investment approach
The Fund is an actively managed portfolio of high quality interest bearing securities that seeks to provide returns in excess of cash and a high level of capital protection. The Manager seeks to add value using a combination of interest rate and yield enhancement strategies.

Benchmark
Bloomberg AusBond Bank Bill Index

Risk profile
Low

Suggested timeframe
1 year

Inception date
31 August 2002

Fund size
$2.1 billion

Minimum investment
$100,000

Management cost (%)
0.28 p.a.

Buy/sell spread (%)
0.00/0.02^

Distribution frequency
Quarterly

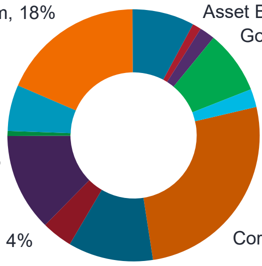
ARSN code
100 098 271

APIR code
IOF0111AU

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)	0.08	0.70	1.51	2.61	2.42	2.64	3.69	4.85
Fund (net)	0.06	0.63	1.38	2.30	2.13	2.34	3.40	4.56
Benchmark	0.00	0.02	0.05	0.37	1.26	1.52	2.44	3.85
Excess return*	0.08	0.68	1.46	2.24	1.16	1.12	1.25	1.00

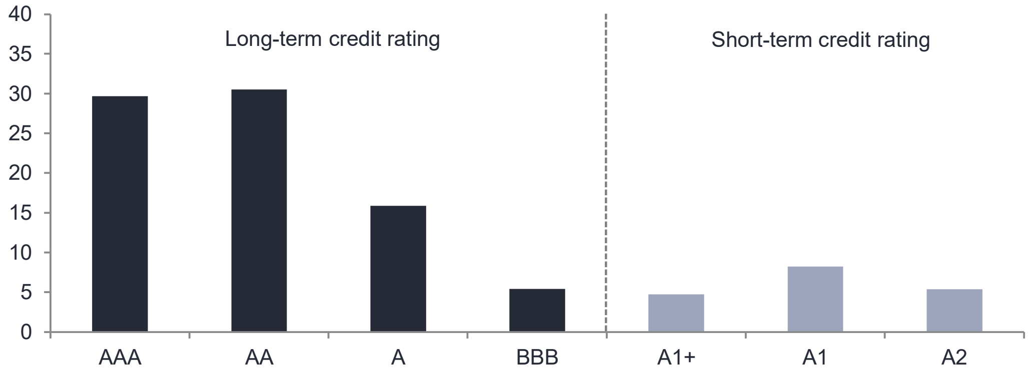
*In line with the fund objective, the excess return is measured against gross performance.
Gross return is gross of management costs and sell spread.
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM)[1]	0.62
Benchmark EWAYTM	0.02

[1]Estimated Weighted Average Yield to Maturity is a measure of the average annual yield of all securities in the Fund.

Modified duration	Years
Fund	0.80
Benchmark	0.13
Active Position	0.67

Effective 28 August 2020, the Janus Henderson Cash Enhanced Fund – Institutional was renamed to the Janus Henderson Conservative Fixed Interest Fund - Institutional. The investment objective and investment strategy of the Fund will remain unchanged.

^ 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)

Portfolio Manager
Shan Kwee

Fund performance

Despite ongoing COVID-19 outbreaks, the commencement of vaccination programs and another round of fiscal easing in the United States helped buoy investor sentiment. Equity markets had another strong month, while credit markets remained firm. Expectations for a post-vaccine global rebound and burgeoning sovereign debt supply saw yield curves steepen and inflation expectations lift.

Yields at the shorter end of the yield curve remained anchored as the Reserve Bank of Australia (RBA) reaffirmed its 0.10% cash and three-year government bond yield target. The three-year government bond drifted up to 0.14% before central bank action saw it end the month at 0.106%, in line with the target. Money market rates remained very low given high levels of deposits and ample market liquidity. Three-month bank bills ended the month 1bps lower at 0.01%, while six-month bank bills ended 0.5 basis points (bps) lower at 0.02%.

After a strong year of performance in high quality bonds, December saw the rally take a breather. The downgrade of both NSW and Victorian credit ratings to AA+ and AA respectively saw a very modest widening in semi government bond spreads. Whilst issuance is set to increase significantly to sustain budgeted deficits, RBA QE and decreases in the Committed Liquidity Facility (CLF) means the net increase in supply should be readily supported and we do not expect spreads to widen materially. Meanwhile bank floating rate note (FRN) spreads widened 4bps from very low levels on profit taking after a very strong year resulting in the Bloomberg Credit FRN Index generating a 0.00% return for December as income was offset by negative returns from spread widening. Again, we see this market likely to be well supported into 2021 as the RBA Term Funding Facility remains available and maturities will see cash looking to be reinvested with minimal primary available from the major banks.

The Janus Henderson Conservative Fixed Interest Fund – Institutional (Fund) outperformed the Bloomberg AusBond Bank Bill Index (Benchmark) returning 0.08% (gross), while the Benchmark was flat. Over the year to 31 December 2020, the Fund returned 2.61% (gross), which is 2.24% above the Benchmark in a volatile year where active management was able to add a lot of value.

The Fund outperformance was generated through positive return contributions from income advantage above bank bills, bolstered with capital gains from security selection in corporate credit and Tier 2 bank notes, as well as a positive contribution from inflation-linked securities as market pricing of inflation expectations rose quickly.

Market review

Longer-dated government bond yields rose, mimicking offshore moves as growth expectations were revised up, US fiscal policy eased and the US Federal Reserve (Fed) and RBA didn't increase their current QE programs. After lifting to as high as 1.04%, the Australian 10-year government bond ended the month 7bps higher at 97bps. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, ended December 0.27% lower.

Economic growth surged more than expected in the September quarter, with real output lifting by 3.3%. This move followed the significant lock-down related 7% plunge in the June quarter. Partial demand indicators pointed to strong momentum over the December quarter, with strong gains in business conditions and business and consumer confidence. Anecdotal reports suggest that retail spending was strong over the Christmas period.

Labour market outcomes were also better than expected with the number of jobs lifting by 90,000 in November, building on the previous month's 180,000 gain. The unemployment rate edged down to 6.8% from 7%, while the participation rate lifted to 66.1%, a level not seen since January 2020.

The environment remained supportive for credit assets, with spreads on corporate investment grade bonds tightening 5bps during the month to finish 12bps tighter over 2020. Bank FRNs widened slightly on profit taking, but over the year spreads tightened 29bps thanks largely due to the RBA's Term Funding Facility supporting bank liquidity.

It appears aggressive fiscal and monetary measures have limited the damage caused by public health measures and helped boost business and consumer confidence.

Issuers remained active in the domestic primary market in the early part of the month before market liquidity slowed into the holiday season. The market saw strong demand for higher credit quality spreads, with Western Sydney University, University of Wollongong and SMHL RMBS (ME Bank) pricing 10-15bps tighter than initial price guidance, while NBN Co. managed to come back to the market for the second time in as many months and Macquarie Bank issued $1.45bn of a five-year FRN. Industrial property exposure continued to be highly sought after by investors due to the relative lack of impact from the pandemic and a rare issuer, Goodman Australia Industrial Fund, raised $400 million but left a further $1.3 billion of demand from investors unfilled.

Market outlook

It appears aggressive fiscal and monetary measures have limited the damage caused by public health measures and helped boost business and consumer confidence. Growth and labour market outcomes at the end of 2020 were stronger than forecast six months ago and mid-year hopes for an effective vaccine were replaced by the commencement of vaccination programs, although these programs are expected to take years to complete.

While the Australian economy is recovering, the latest COVID-19 outbreaks in Sydney and Melbourne and simmering trade tensions with China are reminders are that we are not completely out of the woods yet.

We still look for the Australian economy to rebound by around 5% over 2021, though the latest outbreaks and reintroduction of state border controls have increased downside risks. While a 5% growth rate looks very high, we don't expect the economy to reach end of 2019 levels until late 2021. This means that the economy will have built up considerable slack and this will continue to show up in an elevated unemployment rate, low rate of wages growth and inflation rate below the RBA's 2% to 3% target band.

With the cash rate now at 0.10% and the RBA reluctant to move into a negative rate regime, further easing, if needed, is likely to come in quantitative form. For example, the RBA could choose to increase the amount or extend the duration of its November 2020 program to buy government and semi-government bonds to the tune of $100 billion over six months.

A key takeaway for investors is that the low risk-free interest rate regime will persist for at least the next couple of years and drive ongoing demand for income-producing assets. The preconditions for a shift in accommodative policy remain 'outcome' based. Fiscal policy will move from accommodation to consolidation only when the unemployment rate falls below 6%.

Monetary conditions will only normalise (first tightening in a new cycle) when actual inflation is sustainably in the 2% to 3% RBA target band and the labour market is at full employment. We do not see these outcomes being achieved over the next couple of years.

While vaccine euphoria has led markets to price in better growth prospects, we see the current steepness in the Australian yield curve where the 10-year government bond is around ten times the cash rate, as providing investors more than adequate compensation for term risk. Nearer term inflation risks are low, with the stronger currency acting as a break on both activity and inflation.

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.

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(continued)

We remain attracted to spread sectors as a means of generating excess income and capital gains where the market is likely to continue to chase yield in a protracted low cash rate world.

Investment strategy

The following is a summary of the key strategies in the Fund:

Interest rates:

Overweight duration: Money market yields provide minimal income opportunity at 0.01% p.a. The slope in the yield curve however provides some attractive roll down return opportunities that present return potential that are materially above money market yields, with the benefit of suppressed volatility due to central bank intervention. While our base case is for inflation to remain suppressed, we remain attracted to maintaining a modest exposure to inflation-protected securities as global policy makers continue to experiment with further stimulatory measures.

Sector allocation:

Whilst the starting point for valuations appears less attractive to start 2021, we remain attracted to spread sectors as a means of generating excess income and capital gains where the market is likely to continue to chase yield in a protracted low cash rate world. As the economic recovery gains traction and financial conditions remain extremely accommodative for years, we anticipate spreads will be able to be sustained at levels below average. Our activity remains focused on extracting income and capital gains from this opportunity where scarce supply and strong demand underpins markets and entry valuations remain fairly priced.

Further information
www.janushenderson.com/australia