

CONSERVATIVE FIXED INTEREST FUND

As at March 2022

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

3 year

Inception date[^]

31 August 1994

Fund size

\$64.9 million

Minimum investment

\$25,000

Management cost (%)

0.30 p.a.

Buy/sell spread (%)

0.00/0.02^{^^}

Distribution frequency (if any)

Quarterly

ARSN code

087 720 401

APIR code

IOF0047AU

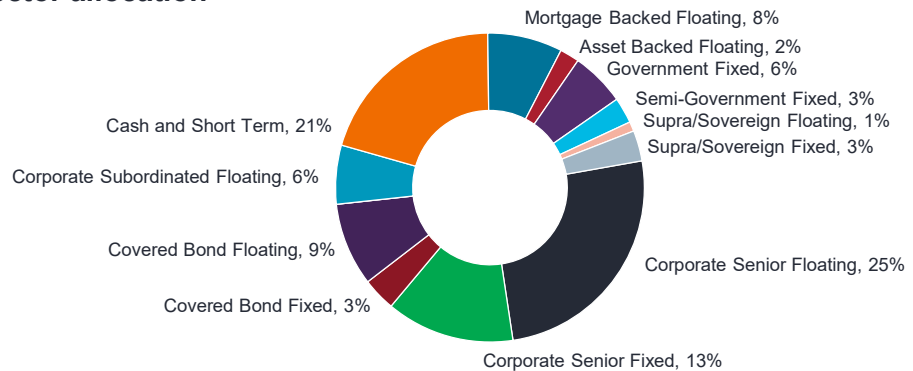
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	-0.34	-0.37	-0.44	-0.06	1.38	1.87	2.93	4.99
Fund (net)	-0.36	-0.44	-0.58	-0.35	1.04	1.50	2.53	4.51
Benchmark	0.00	0.01	0.02	0.04	0.46	1.02	1.83	4.29
Excess return*	-0.34	-0.38	-0.46	-0.10	0.92	0.85	1.10	0.70

*In line with the fund objective, the excess return is measured against gross performance.

Gross return is gross of management costs and sell spread.

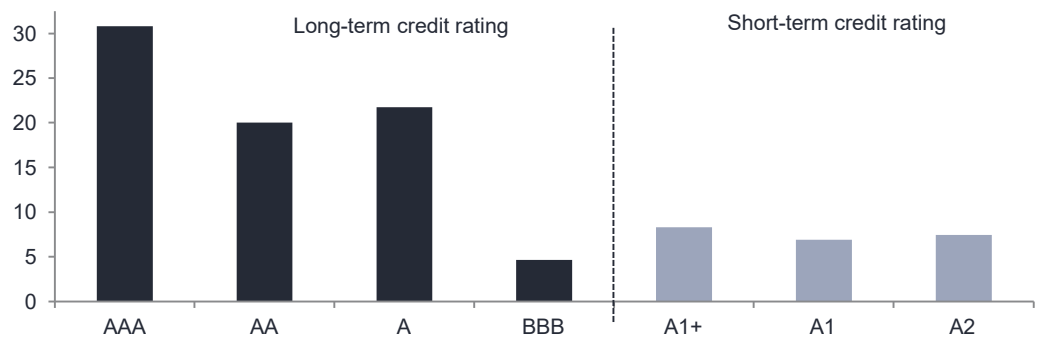
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity(EWAYTM) ¹	2.26
Benchmark EWAYTM	0.11
Running Yield	1.75
Weighted Average Credit Quality	AA

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

Modified duration	Years
Fund	0.58
Benchmark	0.13
Active Position	0.45

[^] Fund inception for performance reporting purposes is at end of month, whereby the actual fund inception date may be earlier in the month.

^{^^} 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

Offshore and domestic yields rose sharply following hawkish commentary from the US Federal Reserve (Fed) after its first tightening. Inflation expectations rose as the impact of Russia's invasion of Ukraine on global supply chains, commodities and energy prices became more apparent. Risk appetite initially fell, only to later recover.

Despite the Reserve Bank of Australia's (RBA) patient stance, the three-year Australian government bond yield rose to as high as 2.47% as inflation fears saw markets factor in aggressive RBA monetary tightening. Despite a late month rally, the three-year government bond yield ended an unprecedented 80 basis points (bps) higher at 2.34%. The short-term money market reflected the shift in expectations towards an earlier and larger tightening cycle. The three-month bank bill yield ended the month 15bps higher at 23bps, while six-month bank bills ended 45.5bps higher at 70.5bps.

Markets have now fully priced in a 1.75% cash rate in only 9 months' time to end 2022, and a 3.25% cash rate by the end of next year. To put this into context, a tightening cycle of 3% in such a short period of time has never occurred in Australia. While in the early 2000's, leading up to the Global Financial Crisis, policy was tightened by a cumulative 300bps, this was over a six-year period within the backdrop of a mining boom. This would also imply a mortgage rate by late next year of around 6%. Coupled with a highly indebted consumer (via housing debt) would create a perfect storm if it were to come to fruition, and likely put a handbrake on the economic recovery.

We suspect the most likely scenario is one where the RBA removes policy accommodation steadily with the goal to extend, not end, the current cycle. The disconnect between market pricing and likely RBA path has created a meaningful active opportunity to lock in elevated levels of yields to generate attractive levels of income over the coming years.

Credit markets were volatile due to shifting sentiment and US yield curve inversion signalling market concerns around future recession. Credit spreads pushed materially wider as the markets expressed concern for the inflationary supply shock from Russian sanctions and likely absence of Ukrainian exports. Domestically, Australian fixed and floating rate credit indices closed +18bps and +17bps wider. Reflecting rapidly shifting sentiment, the Australian iTraxx Index widened to 100bps before more than retracing through its opening level of 92bps, finally closing the month 19bps tighter at 73bps.

The Janus Henderson Conservative Fixed Interest Fund (Fund) underperformed the Bloomberg AusBond Bank Bill Index (Benchmark) by -0.34% (gross) in March, while the Benchmark was flat. Over the past 12 months, the Fund has delivered an excess return of -0.10% (gross) below the Benchmark during a significant period of normalisation and return headwinds across the bond, and floating rate credit market. By way of contrast, the fixed and floating rate Australian credit indices have returned -4.86% and -0.08% respectively versus bank bills over the past year. Income was the main positive contributor along with a modest gain from inflation protection, while duration exposure and credit allocations both delivered negative contributions to returns given the significant moves in yields and weakness in credit spreads.

The significant price movements within the universe for conservative investors has demanded a nimble and active approach to protect and then capitalise on opportunities as risk reward improves. During the month, the Fund added 0.21 years to duration locking in two-year yields above 2.1%. Having maintained more cautious credit positioning, credit spread duration was also increased by 0.34 to 1.58 years as volatile markets offered opportunities to both unwind credit protection positions, as well as move from cash into attractive credit spreads which have swiftly improved this year.

The combination of significant market movements as well as active repositioning to increase available yield has substantially increased the yield of the Fund to 2.26%, an increase of 0.79% from the prior month. We see this as immediately improving the forward-looking return outlook for investors, albeit, there may be some month to month variability in returns as markets adjust.

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(continued)

Janus Henderson
INVESTORS

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Market review

- Bond investors endured another near-record monthly sell-off in March. The market, as measured by the Bloomberg AusBond Composite 0+ Yr Index was down -3.75%, one of the largest monthly falls in four decades.
- The economy grew by 3.4% over the December quarter, with most of the gain driven by a post-lockdown surge in consumption. The unemployment rate fell from 4.2% to 4.0% as the labour market continued to tighten up.
- The impact of higher fuel prices, talk of higher mortgage rates and Russia's Ukraine invasion was evident in a sharp fall in consumer sentiment over March. In a pre-election Federal Budget, fiscal policy responded to rising cost of living measures via a range of tax breaks and a temporary reduction in the fuel excise.
- Credit spreads on high quality financials (such as major banks) had been widening due to a combination of needing to find natural market pricing following the ceasing of the RBA's term funding facility (TFF) last year, other policy withdrawal and this momentum was accelerated by 'risk-off' sentiment driven by the Russian invasion.

Market outlook

- Markets have now fully priced in a 1.75% cash rate by year end and a 3.25% cash rate by the end of 2023. We suspect the most likely scenario is one where the RBA removes policy accommodation steadily with the goal to extend, not end, the current cycle.
- While we still look for policy normalisation, we remain sceptical of the speed and quantum of tightening currently priced in. Our base case view has the cash rate lifting from 1% at the end of this year to 1.75% by the end of 2023 and to 2% by the end of 2024.
- We continue to expect further bouts of volatility caused by geo-political events, pandemic machinations, and central bank actions to roil credit markets. These periods can provide opportunities when spread widening is in excess of fundamentals. We continue to remain very active and selective in this transitional environment, favouring relative value within sub-sectors whilst being cautious on overall credit beta.
- 2022 market movements continue to improve available running yield, which will lead to better investment outcomes for fixed interest investors in the period ahead.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Apr22.

Investment strategy

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

Interest rates:

Overweight duration – Labour market improvements and the receding grip of the pandemic suggest that the time is coming for the RBA to unwind emergency policy settings. We look for the RBA to lift the cash rate to 1% by the end of this year. Our view is that the economy can absorb such a move, but we suspect that market pricing for a higher than 3% cash rate by late 2023 as too much and offers an opportunity for investors to access elevated yields by extending duration and “locking in” income at current levels. The best value opportunity is at the shorter end of the yield curve where the pace of cash rate rises appears most mispriced. We increased duration to 0.58 years utilising two-year swaps as yields peaked above 2.15%, which offers healthy levels of income above likely money market opportunities over the next 18 months. Exacerbated global inflation concerns also drove us to take profit and fully exit our inflation-protected bonds as long-term inflation expectations rose above 2.5% and now appear fairly priced.

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(continued)

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Sector allocation:

Recent spread widening has provided opportunity for us to begin accessing high quality names at attractive levels. Combining the two developments of elevated bond yields and rising high quality senior debt spreads has allowed the Fund to access securities with yields of 3-3.5%. The same combination of high-quality credit and swap rates just 18 months ago was yielding around 0.5%. While the potential exists for risk-free yields and credit spreads to rise further, our assessment is that the risks are asymmetric at present and provide investors reasonable defence from income generation over a 12-month investment period. We continue to expect credit valuations to gradually cheapen into the year ahead as further supply and normalising global liquidity conditions cause investors to command improved compensation for risk premia. Credit spread duration was increased by 0.34 to 1.58 years as we sought to embed additional yield into the Fund at elevated credit spreads, while also retaining future risk capacity.

While we remain mindful of bouts of volatility caused by geo-political events and central bank actions and remain on the lookout for periods of excessive spread widening given the favourable medium-term economic outlook and policy focus on extending, rather than ending, the current recovery phase. Markets will also have to adjust from having lenders of last resort with deep pockets, to finding market-based clearing levels for risk and liquidity. This creates an environment of potentially inconsistent month to month returns, though capturing this value in our positioning from overshoots in market pricing provides high levels of conviction in higher investment returns over the coming year for investors.

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. We seek to participate where valuations make sense. The Fund currently maintains a 7.9% exposure to positive impact labelled bonds.

Important information

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2021 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. Target Market Determinations for funds issued by Janus Henderson are available here: www.janushenderson.com/TMD. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.