

CONSERVATIVE FIXED INTEREST FUND

As at September 2021

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

\$72.2 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

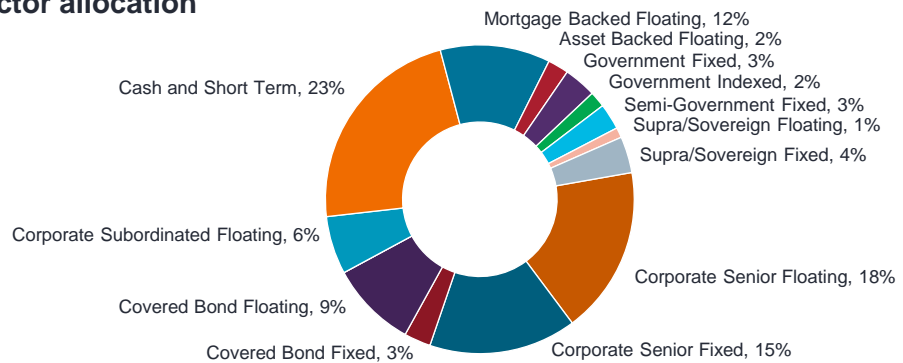
APIR code

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)	0.04	0.16	0.39	1.11	1.94	2.26	3.30	5.10
Fund (net)	0.02	0.09	0.23	0.77	1.57	1.87	2.90	4.62
Benchmark	0.00	0.01	0.01	0.04	0.78	1.20	2.07	4.37
Excess return*	0.04	0.15	0.38	1.07	1.16	1.06	1.23	0.73

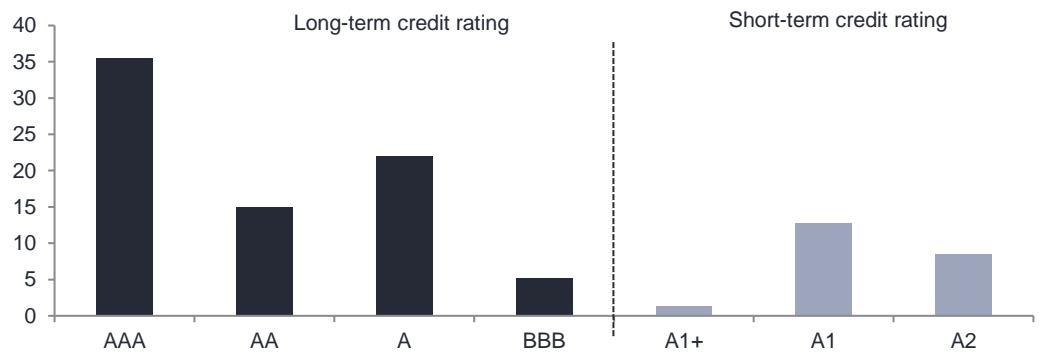
*In line with the fund objective, the excess return is measured against gross performance. Gross return is gross of management costs and sell spread. Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity(EWAYTM) ¹	0.71
Benchmark EWAYTM	0.03
Running Yield	0.98
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	0.11
Benchmark	0.13
Active Position	-0.02

[^] 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.janus Henderson.com/en-au/investor/buy-sell-spreads

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(continued)



Portfolio Manager
Shan Kwee

Fund performance

Despite the Reserve Bank of Australia (RBA) Governor questioning the early timing amount of tightening priced into markets, markets are still pricing the first tightening by end 2022. Three-year government bond yields traded in a 12 basis points (bps) range, falling on dovish RBA guidance, before ending the month 7bps higher at 0.31% as NSW and Victoria announced roadmaps out of lockdown. Meanwhile, three-month bank bills ended the month 1bp higher at 2bps as money market rates remain very low. In a more challenging return environment the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index fell by 1.51% over September, while the floating rate credit market fell by 0.06% and equities indices were also down.

The Janus Henderson Conservative Fixed Interest Fund (Fund) outperformed the Bloomberg AusBond Bank Bill Index (Benchmark) returning 0.04% (gross), while the Benchmark was flat. Over the past 12 months, the Fund has delivered an excess return of 1.07% (gross) above the Benchmark.

Income advantage was the main contributor to excess return, as credit spread movements were a negative contributor with Australian fixed and floating rate credit indices closing the month 3bps and 7bps wider respectively. The confirmation in September of an early wind-down of the Committed Liquidity Facility (CLF) for the banking system was a market moving event as balance sheet demand shifted to support semi-government bonds at the expense of senior bank notes and RMBS. Allocations to semi-government securities was also a modest positive for returns. A neutral duration position with a curve steepening bias was a positive contributor as yields rose and the curve steepened with longer bond yield rising faster.

Woolworths Group issued its inaugural AUD sustainability-linked bond in 6 and 10-year tenors, pricing at swaps +75 and +117 respectively. Each tranche was heavily over-subscribed by over 4x, demonstrating significant appetite for ESG labelled issuance from the domestic investor base. The Fund participated in the 6-year bond issuance, and as at the end of September, the Fund has a 9.7% allocation to positive impact sustainable bonds.

The Fund maintains a yield of around 0.71%, providing a reasonable return advantage versus other liquid, low volatility alternatives which we continue to complement with alpha opportunities. The Fund is positioned cautiously with regard to interest rate duration and credit allocations, providing scope to add further yield into mispricing opportunities presented by market volatility.

Market review

- A shift to a more hawkish stance by offshore central banks, higher energy prices and disruptions to global supply chains led to heightened financial market volatility. Equity and credit markets were weaker while inflation expectations edged higher.
- Economic data painted a picture of an economy doing well pre-lockdowns followed by a sharp fall in activity looking to have troughed in August. Labour market conditions deteriorated in August with hours worked and employment down sharply.
- A lift in term premia on more persistent than expected global inflation pressures saw 10-year and 30-year government bond yields end 33.5bps and 35bps higher at 1.49% and 2.37%.
- Credit markets were cautious digesting the implications of US Federal Reserve tapering and the potential for the default of Evergrande, a major Chinese property developer.

Market outlook

- The Australian economy will likely contract around 3% in the September quarter but rising vaccination rates and roadmaps out of NSW and Victorian lockdowns mean that the economy is far from out. We look for these two states to gradually reopen over the December quarter and enter into “catch up mode”.
- The sharp lift in longer government bond yields has restored significant value and compensation for term risk. We still see some modest upside risk as markets continue to adjust to conventional and unconventional monetary policy normalisation by a number of key offshore central banks.

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- Spread sectors are likely to remain well-supported, with corporates in particular, continuing to benefit from the tailwinds 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 which is close to coming out of lockdown.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Oct21

Investment strategy

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

Interest rates:

Neutral duration – The Fund maintained a cautious duration position at 0.11 years, with a yield curve steepening bias. Both strategies paid dividends in the more volatile market environment as our expectation for a lift in yields and curve steepening were largely realised over September. We see the three-year government bond yield at 0.30% at the time of writing as beginning to offer a hint of value. Our base case still has the first tightening in a cycle that takes monetary conditions from accommodative to neutral starting in H1 2024. The introduction of further housing macro-prudential measures and upcoming fiscal tightening also argue for a later lift off in the cash rate. The Fund duration remains inflation-protected with 0.15 years contribution from inflation-linked securities. We still see a role for some inflation protection given latent inflation pressures from a lower currency, challenged global supply chains and the broader opening of the economy over 2022.

Sector allocation:

Credit valuations improved slightly over the September quarter. We remain attracted to spread sectors as vaccination rates crescendo, in particular corporate credit, as the economic outlook remains positive over the medium term and corporate earnings and government deficit positions should recover over time. We continued to use the tight pricing environment to reduce senior and covered financial notes exposures with the expectation that primary supply should accelerate and there is the potential for further widening in spreads over the coming six months. Semi-government spreads were the beneficiary of the CLF announcement, and longer tenor semi's remain a high-quality income and capital gain opportunity.

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.