

# CONSERVATIVE FIXED INTEREST FUND

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

31 August 1994

### Fund size

\$71.4 million

### Minimum investment

\$25,000

### Management cost (%)

0.30 p.a.

### Buy/sell spread (%)

0.00/0.02<sup>^^</sup>

### Distribution frequency (if any)

Quarterly

### ARSN code

087 720 401

### APIR code

IOF0047AU

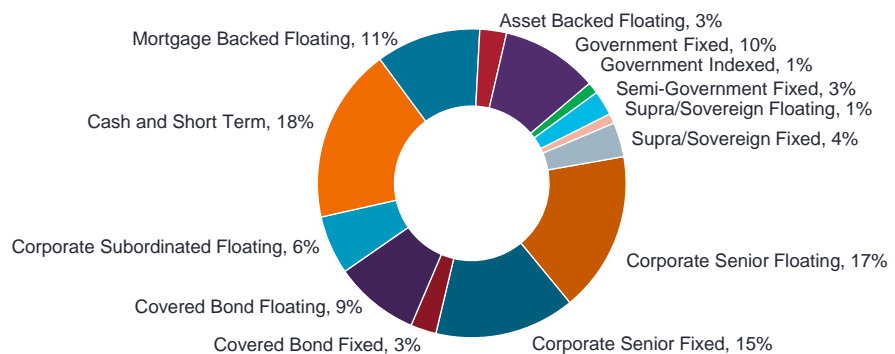
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	-0.26	-0.18	0.01	0.48	1.77	2.16	3.22	5.07
Fund (net)	-0.29	-0.26	-0.15	0.15	1.41	1.77	2.82	4.59
Benchmark	0.00	0.00	0.01	0.03	0.73	1.17	2.02	4.36
Excess return*	-0.26	-0.18	0.00	0.45	1.04	0.99	1.20	0.71

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

Gross return is gross of management costs and sell spread.

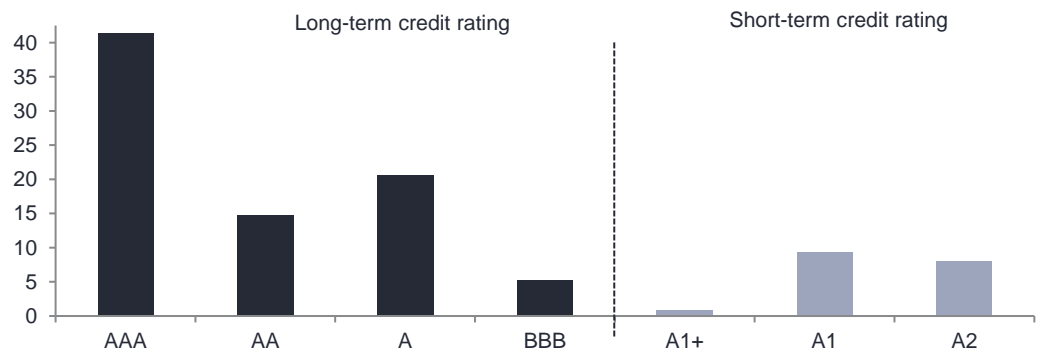
Past performance is not a reliable indicator of future performance.

## Sector allocation



Rounding accounts for small +/- from 100%.

## Credit rating distribution (%)



## Portfolio characteristics

Estimated Weighted Average Yield to Maturity(EWAYTM) <sup>1</sup>	1.31
Benchmark EWAYTM	0.05
Running Yield	1.01
Weighted Average Credit Quality	AA+

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

Modified duration	Years
Fund	0.63
Benchmark	0.12
Active Position	0.51

<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.

<sup>^^</sup> For more information and most up to date buy/sell spread information visit

[www.janus Henderson.com/en-au/investor/buy-sell-spreads](http://www.janus Henderson.com/en-au/investor/buy-sell-spreads)

# CONSERVATIVE FIXED INTEREST FUND

(continued)

Janus Henderson  
INVESTORS



**Portfolio Manager**  
Shan Kwee

## Fund performance

Inflation fears led markets to ignore Reserve Bank of Australia (RBA) forward guidance and bring forward 'lift-off' in the cash rate to mid next year. Yields rose sharply across the government yield curve, with the largest moves at the shorter end of the curve. Rates volatility buffeted risk markets, which had earlier found support from improving Northern Hemisphere corporate earnings.

The Australian Q3 CPI release in late October showed that underlying measures of inflation ran at 2.1% over the past 12 months to September. This was the first time since 2015 that core inflation was back within the RBA's 2-3% target band. Higher energy, timber, and durable goods prices were major contributors, with supply chain pressure evident as economies open up.

This triggered outsized volatility in bond yields as the market began to speculate on aggressive and early tightening of RBA cash rates as soon as early 2022, very much in conflict with the RBA's expectations of when wage growth would permit core inflation to be "sustainably" at 2.5% or higher. After the RBA's November meeting, they are still of the opinion that this point may not be reached until late 2023 or early 2024. Despite this, markets moved to price in a 0.25% cash rate by May 2022 and a 1.25% cash rate by the end of 2022.

Three-year government bond yields ended the month 0.91% higher at 1.22%, which compared to the last 10 years, represents a 5.5 standard deviation rise in yields. Compared to three-month money market yields, which remained below 0.1%, the yield advantage between these two points has not been this high since 2009. At this point, we believe there is some decent compensation for taking modest duration risk even in conservative strategies. Forward-looking returns can be generated through additional yield advantage and there is some potential for capital gains if the RBA does not deliver what we perceive to be a very aggressive tightening cycle as priced by the market.

Undoubtedly it was a more challenging environment for the Australian bond market in October, various pockets of the conservative fixed interest investment universe saw impacted returns. Bank bill returns were slightly negative, credit FRNs returned -0.10%, and 1-5 year government bonds returned -2.38%.

The Janus Henderson Conservative Fixed Interest Fund (Fund) returned -0.26% (gross), with the last three trading days of October shifting returns from positive into negative territory as bond yields became illiquid and overshot. In the first few days of November, the market has resettled, and returns are recovering. Over the past 12 months, the Fund has delivered an excess return of 0.45% (gross) above the Bloomberg AusBond Bank Bill Index (Benchmark).

The main portfolio change for the month was a gradual increase in duration from neutral to 0.63 years overweight as yields rose sharply and we sought to add yield advantage into the Fund. The Fund was positioned cautiously to begin October which provided scope to add yield into mispricing opportunities presented by market volatility. This was performed by buying 2-to-5-year tenor duration through government bonds and derivatives. Unfortunately, this change in interest rate risk position was the main detractor from performance in the near term as shorter term bond yields continued to rise and materially overshoot beyond fair value. Inflation protected positions were a positive contributor of 0.05%, while negative contributions from rises in credit spreads offset against natural income.

On a forward-looking basis return opportunities in the conservative fixed interest universe have markedly improved. An investor holding a 3-year government bond today can earn over 1.2% per annum on a hold to maturity basis, while the normalisation in major bank senior funding spreads have brought both senior and prime RMBS and ABS spreads closer to fair value. This is against a backdrop where we expect the RBA to make haste slowly, initially exiting unconventional policy measures and commencing a tightening cycle from mid-2023 onwards, around a year later than current market pricing.

The Fund yield has now risen to around 1.31% while maintaining a low duration profile and high liquidity, with potential capital gains as alpha opportunities have arisen through volatile markets.

# CONSERVATIVE FIXED INTEREST FUND

(continued)

## Activity indicators point to a turnaround late in the September quarter.

### Market review

- The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index fell by 3.55% over October as 10-year and 30-year government bond yields ended 60 basis points (bps) and 41bps higher at 2.09% and 2.78%. Inflation expectations surged, with the 10-year breakeven inflation rate rising 18bps to 2.15%.
- Activity indicators point to a turnaround late in the September quarter. Labour markets have yet to turn, with jobs down a more than expected 138,000 over September. A sharp fall in the participation rate limited the rise in the unemployment rate to 4.6%. A slightly higher than expected core inflation reading saw the market shorten the timeframe to the start of the next tightening cycle.
- Corporate earnings for the most part were strong. Notwithstanding generally improving corporate fundamentals, inflation concerns buffeted global fixed interest markets. Local credit was not spared. Australian fixed and floating rate credit indices both ended the month 5bps wider, while the trend towards ESG themed issuance continued.

### Market outlook

- The economy is only just turning the corner after a likely fall of around 3% in the September quarter. We expect growth to surge late this year and early next year as mainland South East Australia exits lockdowns and makes up for lost time, but should ease back towards trend levels quickly over 2023.
- Our view is that the tightening profile implied by the market risks triggering a major slowdown over 2023, making it difficult for the RBA to meet its tightening pre-conditions of an unemployment rate below 4% and wages growth above 3%. Premature tightening will make it harder for inflation to sustainably stay in the target band.
- We have lift-off in the cash rate around a year later than current market pricing. We see value in a three-year government bond at month end levels of 1.22%. At the longer end, we also see value beginning to emerge with the ten-year government bond yield at 2.09% at the end of the month.
- Spread sectors are likely to remain well-supported, with corporate fundamentals continuing to benefit from the tailwinds of a cyclical recovery and accommodative policy settings, however we expect some normalisation in spreads and liquidity premia as unconventional policies are unwound. We continue to remain very active and selective in this environment

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Nov21](https://go.janushenderson.com/Viewpoint-Nov21)

### Investment strategy

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

#### Interest rates:

**Overweight duration** – The Fund utilised the significant repricing in shorter term bond yields to reposition into an overweight duration position at 0.63 years, with a yield curve steepening bias. How quickly growth eases over 2023 will be determined by a range of factors. Recent macro-prudential tightening will act as a break on housing. Fiscal policy will also act as a drag on growth as pandemic income support is removed and the budget deficit shrinks. Then the stance of monetary policy and its famous long and variable lags has to be added to the mix. An argument could be made that inflation will stay in the RBA target band while supply chain issues are resolved, but once they are, a source of prices impetus will be removed. Premature tightening will make it harder for inflation to sustainably stay in the target band. Faced with these uncertainties, we expect the RBA to make haste slowly. Markets are challenging this by pricing in a 2% cash rate by mid-2024 which seems overly aggressive even if the RBA were to bring forward some tightening. We see value in 2-4 years bond yields. The Fund duration also remains partially inflation-protected with 0.14 years contribution from inflation-linked securities. We still see a role for some inflation protection should wage growth emerge as the RBA wishes to see, inflation expectations should rise from current levels.

# CONSERVATIVE FIXED INTEREST FUND

(continued)

Janus Henderson  
INVESTORS

**Credit valuations continued to improve during October with financial spreads continuing to normalise from very tight levels as the market adjusts to the return of supply in the coming months, while fixed rate corporate credit spreads weakened in sympathy with the government bond market illiquidity.**

## Sector allocation:

Credit valuations continued to improve during October with financial spreads continuing to normalise from very tight levels as the market adjusts to the return of supply in the coming months, while fixed rate corporate credit spreads weakened in sympathy with the government bond market illiquidity. We have steered clear of any recent major bank senior or RMBS issuance anticipating a 25-35bp spread repricing, of which 20bps has already occurred since August.

We remain attracted to credit fundamentals as vaccination rates crescendo, and as the economic outlook remains positive over the medium term. Our favoured positioning has been into sub-sectors set to benefit from increased people movement that present good relative value, and those issuers with idiosyncratic catalysts for spread compression and rating upgrades. As valuations normalise in the financials space, this could present opportunities to re-enter senior and prime MBS markets which from a credit quality perspective, should benefit from tightening local macro-prudential measures and amendments to the capital framework for the Australian banks.

## 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. It was pleasing to see more supply come to market as the trend towards ESG themed issuance continued and we seek to participate where valuations make sense. The Fund has an allocation of 10% to positive impact securities at the end of October, as we supported investment into a new Green ABS transaction from Brighte Capital which is collateralised by lending for residential homeowner solar installations supporting the generation of renewable energy.

## Important information

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