Janus Henderson

CONSERVATIVE FIXED INTEREST FUND

Janus Henderson INVESTORS

As at April 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
$62.3 million

Minimum investment
$25,000

Management cost (%)
0.30 p.a.

Buy/sell spread (%)
0.00/0.02^^

Distribution frequency (if any)
Quarterly

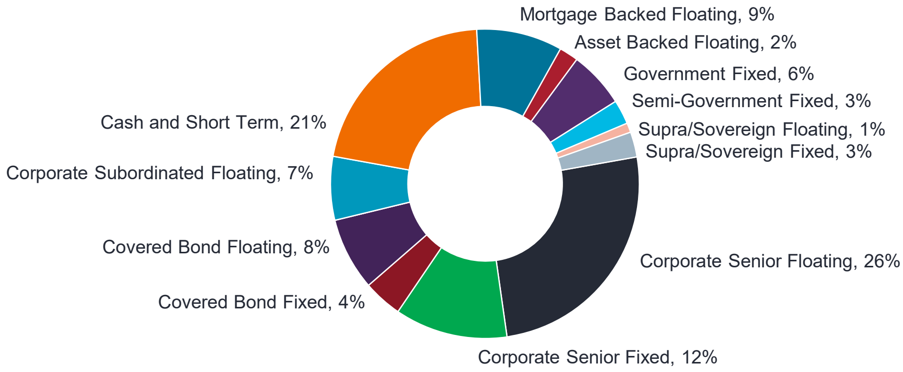
ARSN code
087 720 401

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)	-0.38	-0.77	-0.56	-0.55	1.13	1.75	2.85	4.96
Fund (net)	-0.41	-0.84	-0.71	-0.86	0.79	1.38	2.45	4.48
Benchmark	-0.02	-0.01	0.01	0.02	0.40	0.99	1.79	4.28
Excess return*	-0.36	-0.76	-0.57	-0.57	0.73	0.76	1.06	0.68

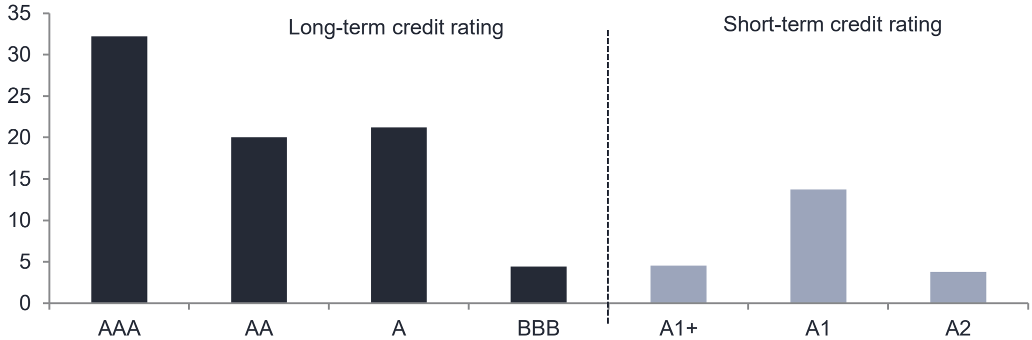
*In line with the fund objective, the excess return is measured against gross performance.
Gross return is gross of management costs and sell spread.
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity(EWAYTM)[1]	2.78
Benchmark EWAYTM	0.39
Running Yield	2.11
Weighted Average Credit Quality	AA

[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	0.73
Benchmark	0.12
Active Position	0.61

^ 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 continued to rise, reflecting inflation pressures and expectations for a more aggressive and front-end loaded central bank tightening cycle. Risk appetite soured, with equity and credit markets softer, while inflation expectations edged upwards. Three consecutively higher core inflation readings provide the Reserve Bank of Australia (RBA) with the smoking gun needed for a May lift-off in the cash rate.

The short-term money market continued to reflect the pivot to an earlier start to a large tightening cycle. The three-month bank bill yield ended the month 48 basis points (bps) higher at 0.71%, while six-month bank bills ended 75bps higher at 1.45%. The three-year government bond yield rose as tightening expectations were brought forward and ended 37bps higher at 2.71%.

In terms of the tightening cycle, markets have priced the cash rate lifting to 2.50% by December and 3.25% by mid-2023. Such a lift would take monetary conditions from accommodative to restrictive and runs the risk of creating financial instability via falling asset prices and outright recession. The nature of the current inflation pulse does not warrant such a strong response in our view.

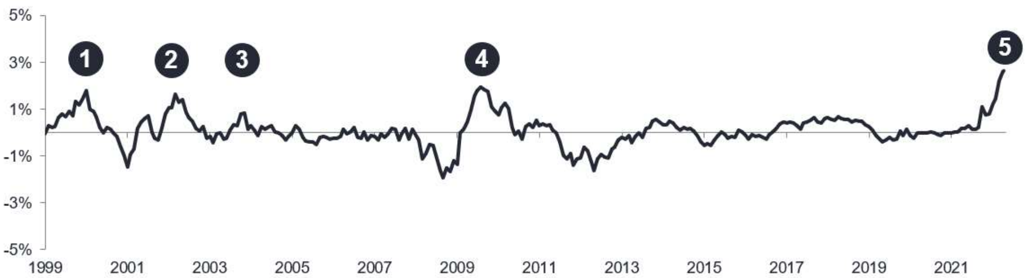
Furthermore, by tightening sooner than expected several months ago, the RBA reduces the risk of getting too far behind the inflation curve. We currently see value at the shorter end of the yield curve as we anticipate a more moderate tightening cycle through to end 2023, and the market is currently offering yields above our assessment of fair value.

Below we note that historically the bond market tends to bring forward cash rate tightening expectations, and often 3-year bond yields peak around the time of the first cash rate movement. As the cash rate then progressively rises, bond yields can begin to rally from already elevated levels as actual delivery of monetary tightening lowers the growth outlook. This presents investors an opportunity to “lock in” higher yields at the turning point than may be available just investing in cash over the same period.

Market prices path of future cash rates too quickly at the turning point

Yield: RBA Cash Rate and the 3-year government bond

Spread: RBA Cash Rate vs 3-year government bond



Source: Janus Henderson Investors, Bloomberg, as at 6 May 2022

In April the theme was higher rates, wider spreads and increasingly appealing outright yields on very high quality bonds. Notable domestic primary transactions included CBA issuing a Tier 2 subordinated debt transaction (callable in five years) at an attractive yield of 4.95%, while NBN Co. issued its inaugural green bond (rated A1) with a yield of 4.24%. We anticipate after half year reporting in May the other major banks will return to the primary market at increasingly attractive spread and outright yield levels between 4-5%. Whilst the near-term environment has been challenging for returns, the normalisation in markets now presents some very attractive yield entry points in high quality fixed interest.

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Furthermore, by tightening sooner than expected several months ago, the RBA reduces the risk of getting too far behind the inflation curve.

The Janus Henderson Conservative Fixed Interest Fund (Fund) underperformed the Bloomberg AusBond Bank Bill Index (Benchmark) by -0.38% (gross) in April, while the Benchmark fell by -0.02%. Over the past 12 months, the Fund has delivered an excess return of -0.57% (gross) below the Benchmark.

In the very near-term, month-to-month variability in returns remains more likely as markets adjust to geo-political events, pandemic machinations, and central bank actions of normalisation. The benefit to investors as yield profiles and spreads have risen swiftly is the Fund has access to return opportunities as risk reward improves. On a buy and hold basis, conservative fixed interest investors are offered yields approaching 4.0% p.a. on 3-year tenors in AA- rated senior major bank bonds. We have to look back to 2013 when this was last the case, a period where cash rates were 2.5% at the time.

As the RBA begins to lift the cash rates, we anticipate a scenario where banks will be quick to charge higher mortgage rates for borrowers, but slow to increase interest rates for deposits and savers. The current pricing available in the broader bond market allows savers to access higher rates of income starting immediately.

Market review

- Higher yields across the curve meant that the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index fell 1.49%, taking the market fall to over 10% during the last 8 months.
- The key economic release was the March quarter Consumer Price Index (CPI). A much higher than expected 2.1% quarterly rise in the headline rate and 1.4% quarterly lift in the trimmed mean pointed to broad based price rises.
- The rate of improvement in the labour market slowed in March, with a 17,900 lift in employment below market expectations. The unemployment rate lifted from 3.9% to 4.0%. Forward-looking labour market indicators point to ongoing near-term labour market strength.
- Risk sentiment continued to be impacted by the prospect of aggressively tightening financial conditions to tackle inflation, with consequent negative implications for medium-term growth. Global credit markets led the domestic market lower. The Australian fixed and floating rate credit indices closed 9bps and 6bps wider respectively, while the Australian iTraxx Index widened 14bps to 95.5bps.

Market outlook

- Three consecutively higher core inflation readings provide the RBA with the smoking gun needed for a May lift-off in the cash rate. Our base case has the cash rate lifting to 0.25% and the RBA signalling that it will allow maturing bonds to roll off its balance sheet on maturity.
- Market pricing remains aggressive, and such a lift would take monetary conditions from accommodative to restrictive and runs the risk of creating financial instability via falling asset prices and outright recession.
- We view a more moderate tightening cycle, which has the cash rate at 1% at the end of this year and 2% at the end of 2023. This gives the RBA the best chance to meet its full employment, welfare and inflation objectives.
- We continue to expect further bouts of volatility in this adjustment phase to impact equity and credit pricing. These periods can provide opportunities when spread widening is in excess of fundamentals. As macro policy settings transition from accommodative to more neutral levels, we remain very active and selective, favouring relative value within sub-sectors, whilst being judicious on overall credit beta. Recent spread widening has allowed us to access high quality names at attractive levels.
- 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-May22.

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The combination of significant market movements as well as active repositioning produces a yield for the Fund of 2.8%. We see this as providing generous income and forward-looking returns for investors well in excess of our expectations of RBA cash rates.

Investment strategy

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

Interest rates:

Overweight duration – Market pricing for a 3.5% cash rate within 12 months appears 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 0.73 years utilising two-year swaps, which offers healthy levels of income above money market opportunities. We prefer to stay in shorter tenors as the impact of war and China's pandemic response clouds the medium term inflation outlook.

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 3.5 - 4.5%. As risk-free yields and credit spreads continue to rise, risks become asymmetric 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 normalising global liquidity conditions cause investors to command improved compensation for risk premia. Credit spread duration was held stable at 1.55 years as we await further cheapening into supply likely to come after key central bank meetings in May.

As developed market central banks seek to tighten monetary conditions to combat inflation, markets will 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.

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.

NBN Co's inaugural green bond was the main new issue during April, however we would assess this use of proceeds structure having negligible positive impact. We view this bond as similar to the rest of the NBN curve. The Fund elected not to participate in the deal.

The Fund currently maintains a 7.9% exposure to positive impact labelled bonds.