Janus Henderson

CONSERVATIVE FIXED INTEREST FUND

Janus Henderson INVESTORS

As at May 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
$63.0 million

Minimum investment
$25,000

Management cost (%)
0.30 p.a.

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

Distribution frequency (if any)
Quarterly

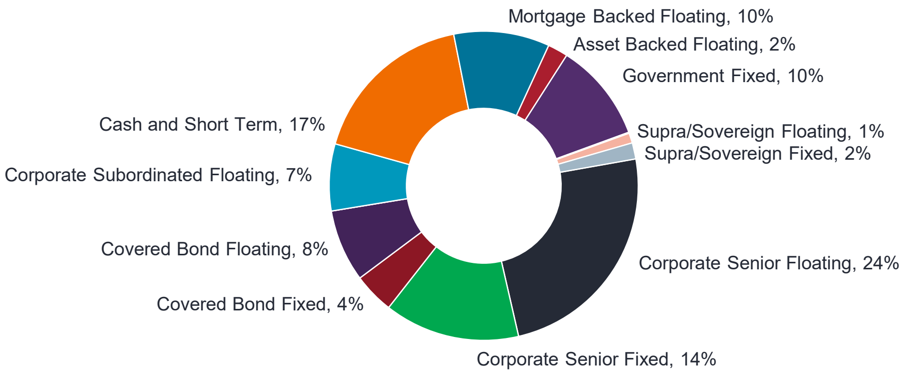
ARSN code
087 720 401

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)	-0.11	-0.83	-0.80	-0.72	1.05	1.68	2.80	4.94
Fund (net)	-0.14	-0.91	-0.95	-1.02	0.70	1.31	2.41	4.46
Benchmark	0.03	0.02	0.04	0.05	0.36	0.97	1.76	4.26
Excess return*	-0.14	-0.85	-0.84	-0.77	0.69	0.71	1.04	0.68

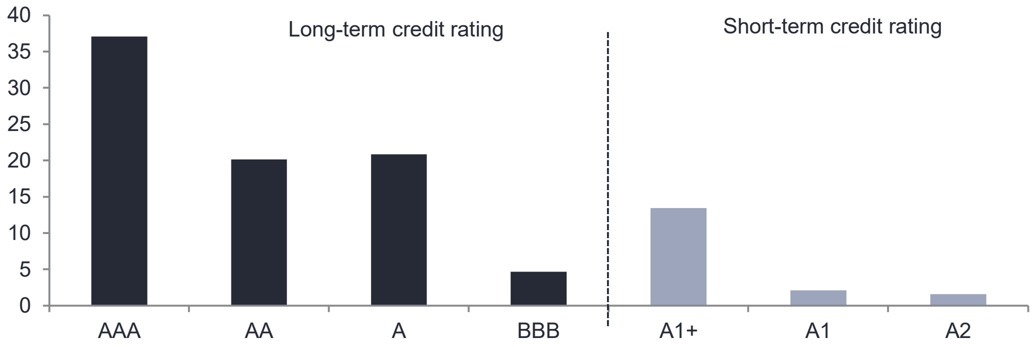
*In line with the fund objective, the excess return is measured against gross performance.
Gross return is gross of management costs and sell spread.
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity(EWAYTM)[1]	3.45
Benchmark EWAYTM	0.74
Running Yield	2.53
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	0.69
Benchmark	0.13
Active Position	0.56

^ 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)

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Portfolio Manager
Shan Kwee

Fund performance

Convicted moves and signalling by central banks to front-end load monetary policy tightening cycles look to have capped the rise in offshore and domestic yields. After peaking earlier in the month, yields began to fall as the focus shifted from central bank inflation-fighting resolve to the consequences of tighter policy for growth. Equity and credit markets were weaker, while inflation expectations edged lower.

At the shorter end of the yield curve, money market yields rose as nearer-term monetary tightening was factored in. The three-month bank bill yield ended the month 46.5 basis points (bps) higher at 1.18%, while six-month bank bills ended 47bps higher at 1.93%.

In terms of the tightening cycle, markets are looking for a 2.5% cash rate by year end and around 3.25% by mid-2023. The three-year government bond yield peaked at 3.125% following the Reserve Bank of Australia (RBA) move, before easing back to close the month 13.5bps higher at 2.84%.

Amid choppy conditions, the major banks were active issuers both offshore and domestically, across senior unsecured and covered bond formats. Significant new issue concessions paid by ANZ, Westpac and NAB, led to a re-pricing of the Australian dollar major bank three and five-year senior unsecured spreads to ASW+90bps and +103bps respectively. Approximately 15bps wider over the month, these high quality, liquid instruments are being offered at increasingly attractive all-in yields. Other notable non-financial corporate transactions included a six-year green bond issued by top quality “A” rated mall operator, Vicinity Centres, at ASW+165bps.

The Janus Henderson Conservative Fixed Interest Fund (Fund) underperformed the Bloomberg AusBond Bank Bill Index (Benchmark) by -0.14% (gross) in May, while the Benchmark gained 0.03%. Over the past 12 months, the Fund has delivered an excess return of -0.77% (gross) above the Benchmark.

Market movements higher in yield contributed -0.16% to return, while credit spreads widening also negatively contributed -0.15% to return. Higher income levels were able to partially buffer market volatility, contributing a positive 0.17%. Monthly yield income is set to increase further in the months ahead as the RBA lifts cash rates further.

In the very near-term, month-to-month variability in returns remains a feature as market movements continue to reprice ahead of central bank normalisation activity. Return opportunities continue to improve with conservative fixed interest investors offered yields of 4.2% p.a. on three-year major bank bonds.

Given the improving yield availability in the highest quality sectors of the fixed interest market, the Fund continued to embed elevated high quality credit spreads into positioning. Credit spread duration was increased to 1.8 years as we assessed credit spread opportunities have improved to more attractive levels. The yield of the Fund has risen to 3.45%. We assess that the opportunities for yield enhancement now warrants the use of additional risk budget with forward looking excess returns improving.

Market Review

- Higher yields across the curve with steepening in the mid-to-longer part of the yield curve resulted in the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, falling by -0.89%.
- Domestic yields peaked following the RBA’s decision to lift the cash rate by 0.25% to 0.35% early in the month and signal further moves over the period ahead.
- Aggressive global central bank policy action to tackle soaring inflation “at all costs”, hurt risk assets.
- Global credit markets reacted violently to a combination of rate volatility, weakening fundamentals, and recession fears, with spreads pushing wider across the course of the month. The Australian fixed and floating credit indices were not immune, both closing the month 9bps wider. The Australian iTraxx Index widened sharply, before retracing in the final days, closing the month flat at 95bps.

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Market outlook

- The RBA has joined other central banks in a pivot to a quicker return to neutral policy settings at a minimum to quell cyclical inflation pressures and just as importantly, anchor longer-term inflation expectations.
- We expect the RBA to tighten consecutively at its next three meetings, with a 40bps move on the cards. We have also pencilled in another 25bps move in November, which means we are looking for a 1.5% cash rate by year end.
- Market pricing in early May was extreme, discounting a 3% cash rate by December and almost 4% by late 2023. By month end, tightening expectations had been wound back by around 50 to 75bps to a 2.5% cash rate by year end and 3.25% by late 2023. These still appear too aggressive.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com\Viewpoint-Jun22.

Investment Strategy

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

Interest rates:

Overweight duration – Market pricing for a 3.9% cash rate within 12-months appears too much. We see market pricing as extreme with value in the front end of the curve. We expect that the path of interest rates may initially be swift but over the next year will be shallower than that factored into markets. While we remain agnostic on the longer end of the yield curve, we are mindful that term compensation is improving and that there is ultimately scope for capital gain if central banks overdo tightening and trigger a recession.

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 above 4.0%. 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. Given the current level of credit valuations in the Australian investment grade market, the path for spreads is more evenly balanced from here, as bank spreads in particular have now entered historically cheap territory, and investor appetite is returning which is supportive of spreads and credit returns.

As developed market central banks seek to swiftly tighten monetary conditions to combat inflation, markets have worked to restore compensation across pockets of the credit market finding market-based clearing levels for risk and liquidity. Improving 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.

There were no local new sustainable bonds issued that were suitable for the Fund. The Fund currently maintains a 6.4% exposure to sustainable 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.

Further information
www.janushenderson.com/australia