

# CONSERVATIVE FIXED INTEREST FUND

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

31 August 1994

### Fund size

\$64.1 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

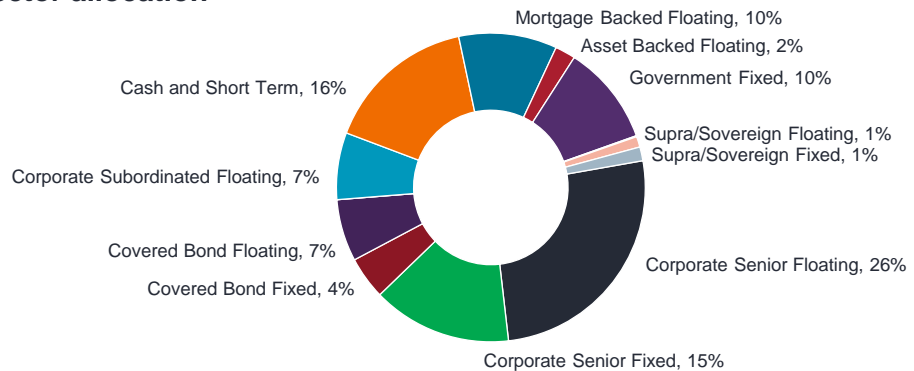
### APIR code

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)	-0.19	-0.68	-1.04	-0.96	0.93	1.59	2.73	4.92
Fund (net)	-0.21	-0.76	-1.19	-1.25	0.59	1.22	2.34	4.44
Benchmark	0.05	0.07	0.08	0.10	0.33	0.95	1.73	4.25
Excess return*	-0.24	-0.75	-1.12	-1.06	0.60	0.64	1.00	0.67

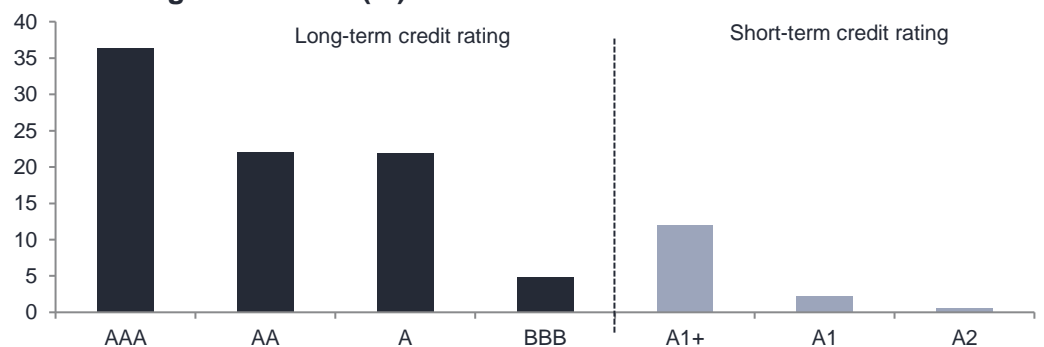
\*In line with the fund objective, the excess return is measured against gross performance. Gross return is gross of management costs and sell spread. Past performance is not a reliable indicator of future performance.

## Sector allocation



Rounding accounts for small +/- from 100%.

## Credit rating distribution (%)



## Portfolio characteristics

Estimated Weighted Average Yield to Maturity(EWAYTM) <sup>1</sup>	3.97
Benchmark EWAYTM	1.35
Running Yield	2.66
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	0.46
Benchmark	0.13
Active Position	0.33

<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.janushenderson.com/en-au/investor/buy-sell-spreads](http://www.janushenderson.com/en-au/investor/buy-sell-spreads)

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(continued)

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**Portfolio Manager**  
Shan Kwee

## Fund performance

Higher than expected inflation in the United States saw the Federal Reserve (Fed) respond with an outsized tightening and preparedness to push the US economy into recession to quell inflation if needed. The Reserve Bank of Australia (RBA) moved in a similar fashion and against this backdrop, yields surged higher across the curve. Risk appetite fell on rising recession risks with equity and credit markets significantly weaker.

Short-term money market yields continued to rise, reflecting the shift by central banks to more front-end load tightening cycles. The three-month bank bill yield ended the month 64 basis points (bps) higher at 1.81%, while six-month bank bills ended 75bps higher at 2.67%. In terms of the tightening cycle, markets are looking for a 3.10% cash rate by year end and around 3.75% by mid-2023.

The RBA lifted the cash rate by a larger than expected 0.5% in early June, dispelling earlier signalling that 'business as usual' 0.25% moves lay ahead. Yields rose ahead of the RBA board meeting but the largest lift in yields came mid-month following US inflation data and the Fed's 75bps lift in the US cash rate. Three-year government bond yields rose to as high as 3.69%, before ending the month 27.5bps higher at 3.12%.

Domestic primary activity was limited to financials, with corporates remaining on the side-lines. Given primary issuance was largely absent over the month, secondary floating rate credit posted a positive 0.05% return in June, recovering slightly from the weight of bank supply in May. The securitisation primary market remained active, with several issuers printing transactions.

The Janus Henderson Conservative Fixed Interest Fund (Fund) underperformed the Bloomberg AusBond Bank Bill Index (Benchmark) by -0.24% (gross) in June, while the Benchmark gained by 0.05%.

Market movements higher in yield contributed -0.02% to return, while credit spreads widening also negatively contributed -0.40% 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. This complexity comes not only from a normalisation of cash rates but also an unwinding of unprecedented, unconventional policy that has artificially pushed bond yields to 100-year lows during the pandemic period. With the uncertainty comes return opportunities which continue to improve with conservative fixed interest investors offered yields above 4.3% 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 seek the opportunity to add high quality credit at attractive spreads. Credit spread duration remained constant at 1.8 years while the yield of the Fund is at 3.97%.

## Market Review

- The RBA lifted the cash rate by a larger than expected 0.5% in early June.
- Higher than expected inflation in the United States saw the Fed respond with an outsized tightening of 75bps lift in the US cash rate.
- As a result, yields were higher in the month, despite a late month pull back. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, remained in bear market territory falling by 1.48% over the month and 10.51% over the financial year.
- Risk appetite fell on rising recession risks with equity and credit markets significantly weaker. The Australian iTraxx Index widened sharply, closing the month 35bps wider at 130bps. The Australian fixed rate credit market returned -1.34%, negatively influenced by rising bond yields and spread.

# CONSERVATIVE FIXED INTEREST FUND

(continued)

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However, we view that pricing is overdone.

## Market outlook

- With risks rising of higher cyclical inflation becoming entrenched, the Fed moved to front-end load policy tightening. The RBA has joined the central bank pivot, with the Governor signalling that accommodative conditions were no longer required and to expect further tightening.
- However, we view that pricing is overdone. At one stage markets were discounting a 3.6% cash rate by December, lifting to 4.2% by mid-2023. While market pricing has pulled back somewhat, markets are still factoring in a 3.1% cash rate by December and 3.75% by mid-2023 and averaging just under 4% over the next decade, at the time of writing.
- Our base case view is for the cash rate to lift by 50bps at the July and August meetings before tightening increments return to 'business as usual' 25bps increments. We look for the cash rate to lift to 2.6% by December, and peak at 2.85% in H1 2023.
- Uncertainty about the durability of the current expansion and cyclical cost pressures are likely to contribute to ongoing volatility in credit markets.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Jul22](https://go.janushenderson.com/Viewpoint-Jul22).

## Investment Strategy

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

### Interest rates:

**Overweight duration moderately** – While markets are moving back towards our assessment of fair value, we still believe that the bond market has overpriced the actual tightening cycle that the RBA will undertake. Market pricing for a 3.75% 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. With the prospect of a central bank misstep leading to a recession, we continue to see some value in the mid-part of the yield curve as market pricing does not see the Australian economy responding to an extended period of tight monetary policy.

### Sector allocation:

These periods of uncertainty can provide opportunities when spread widening is more than fundamentals. We remain 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, liquid 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 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)

Issuance in the domestic sustainable bond market has risen rapidly this year. We participate in the deals where valuations make sense for our Funds and we continue to engage with intermediaries and issuers on growing Australia's positive impact bond market. Additionally, ESG integration in our process has helped to avoid pitfalls. This limits the Fund's risk to stranded assets and those assets susceptible to climate variability (e.g. floods).

The Fund currently maintains a 10.3% exposure to sustainability-labelled bonds.

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## 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.