

# CONSERVATIVE FIXED INTEREST FUND

**As at September 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**

\$65.1 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

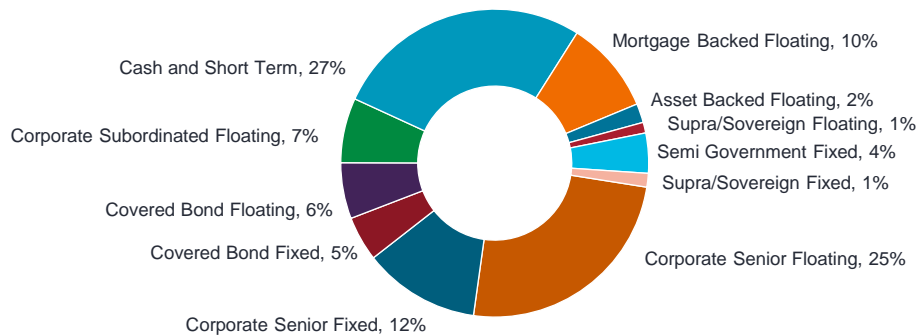
**APIR code**

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)	0.09	0.62	-0.06	-0.50	0.99	1.56	2.59	4.89
Fund (net)	0.07	0.54	-0.22	-0.80	0.65	1.20	2.20	4.42
Benchmark	0.15	0.42	0.49	0.52	0.38	0.95	1.68	4.23
Excess return*	-0.06	0.20	-0.55	-1.02	0.61	0.61	0.91	0.66

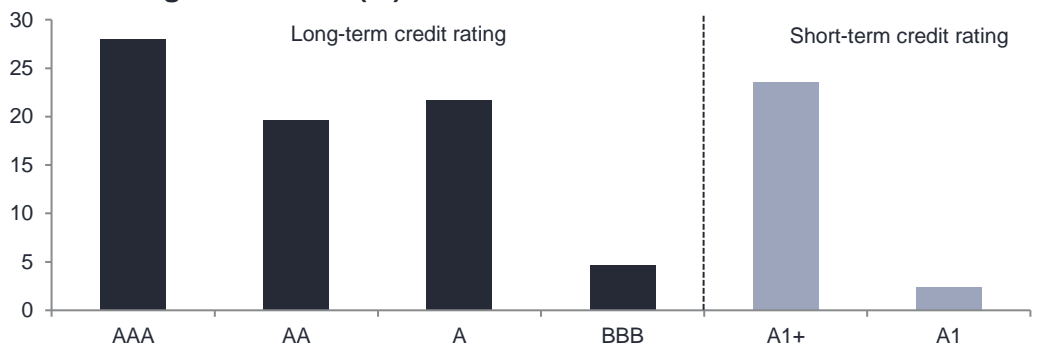
\*In line with the fund objective, the excess return is measured against gross performance. Gross return is gross of management costs and sell spread. Past performance is not a reliable indicator of future performance.

**Sector allocation**



Rounding accounts for small +/- from 100%.

**Credit rating distribution (%)**



**Portfolio characteristics**

Estimated Weighted Average Yield to Maturity(EWAYTM) <sup>1</sup>	4.39
Benchmark EWAYTM	2.79
Running Yield	2.92
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	0.21
Benchmark	0.13
Active Position	0.08

<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

The Janus Henderson Conservative Fixed Interest Fund (Fund) underperformed the Bloomberg AusBond Bank Bill Index (Benchmark) by -0.06% (gross) in September, while the Benchmark gained by 0.15%. Over the past 3 months, the Fund has delivered an excess return of 0.2% (gross) above the Benchmark.

Rising bond yields offset some of the benefits from yield income as modest overweight duration positioning and rising credit spreads were negative contributors for September. With heightened market uncertainty, the environment ahead bodes well for attractive entry points for new credit issuance. With that in mind we took profit on some recent credit additions which have outperformed reducing credit spread duration by 0.1yrs during September which as also rebuilt liquid dry powder.

Healthy yield levels and increases in cash rates are beginning to generate stronger total returns from yield income each month. Favoured allocations to high quality credit sectors, mostly AAA and AA type assets have cushioned the impact relative to other sectors which have underperformed to a larger magnitude. This is a deliberate position to navigate through the rising rate environment.

Whilst the Fund now employs a healthy 'Yield-To-Maturity' and income is coming through, the volatility in bond markets is still impacting performance. We have seen these events through other market cycles and patience is required to navigate this environment.

## Market review

Hawkish US Federal Reserve (Fed) forward guidance and an ill-timed UK fiscal package that triggered Bank of England support saw yields lift sharply over the latter part of the month. Risk appetite fell as more aggressive policy tightening was seen as lifting recession risks. Equity markets fell sharply, while credit markets weakened with spreads widening.

The Reserve Bank of Australia (RBA) lifted the cash rate by another widely expected 0.50% increment in early September to 2.35%. Short-term money market yields continued to climb as markets discounted further tightening. The three-month bank bill yield ended the month 61 basis points (bps) higher at 3.06%, while six-month bank bills ended 56bps higher at 3.57%. In terms of the tightening cycle, markets increased the pace and quantum of tightening with a 3.32% cash rate priced by year end and 4.10% in mid-2023.

After remaining relatively steady, yields surged higher following hawkish Fed signalling and dislocation in the UK bond market following the release of an expansionary mini budget. At the shorter end, the three-year government bond yield rose to as high as 3.72% before ending the month 32 basis points (bps) higher at 3.52%. Further out along the curve, 10- and 30-year government bond yields ended 29bps and 26bps higher at 3.89% and 4.08%.

Domestically, Investment Grade issuers are mostly flush with liquidity and are facing into a difficult near-term environment from a position of balance-sheet strength. Reflecting challenging market conditions, the Australian iTraxx Index (adjusted for rolls) closed 27 bps wider at 144bps, while the Australian fixed and floating credit indices returned -1.01% and +0.12% respectively.

Already showing signs of increasing fragility, risk markets were further rattled by a material escalation in the Russia/Ukraine conflict. On the corporate front, investors keenly await Northern Hemisphere third quarter earnings. Several high-profile companies pre-reported disappointing numbers and outlooks. Expectations are for rapidly tightening financial conditions to drive weaker top and bottom-line results, lowered guidance, and earnings downgrades.

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## Central bank actions and forward guidance remain hawkish

### Market outlook and investment strategy

Central bank actions and forward guidance remain hawkish. After responding slowly to a larger than expected inflation shock, the pace of tightening has sped up with history reminding policy makers that the costs of fighting inflation are not diminished by drawn out tightening cycles. While the European Central Bank (ECB) has begun removing monetary accommodation, the US Federal Reserve is more advanced following its recent 0.75% lift in the US cash rate to 3.12%. Against the backdrop of peaking inflation, global tightening, European energy shortages and the ongoing Ukrainian War, the RBA must decide how hard to step on the monetary breaks. With September's tightening to 2.35% bringing the cash rate into the neutral range, the RBA has signalled that while further tightening moves lie ahead, some slowing in the pace of increases was likely as the level of the cash rate rose higher.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Oct22](http://go.janushenderson.com/Viewpoint-Oct22).

**Interest Rates:** The RBA moved by a less than expected 25bps at its October meeting, switching to a more 'business as usual' incremental adjustment to the cash rate. At 2.6%, the cash rate is broadly neutral and the RBA has signalled that further moves still lay ahead. The RBA is projected to tighten by another 25bps in November with respite at the December meeting. We look for the final move in this tightening cycle in February, which would see the cash rate peak at a moderately restrictive 3.1%. This would make the current tightening cycle the fastest and equal largest since the adoption of the inflation targeting regime.

**Investment Grade Credit:** Commitment to tackle high inflation through tightening global liquidity will continue to generate volatility in credit markets. To navigate the environment ahead, investors should look for improved compensation for risk. We observe that the repricing across different pockets of credit and risk premia have not been simultaneous, providing outperformance opportunities through active rotation.

### 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. New issuance on sustainable debt has slowed in recent months, albeit noting that 2021 was a particularly strong year for issuance of these securities. September offered little in the way of opportunities in new deals due to weaker market environment for primary issuance. Worley Parsons announced they are considering a new Australian Dollar Sustainability Linked Bond which targets a 65% reduction in their Scope 1 and Scope 2 GHG emissions by 2025 versus a 2020 baseline.

### Important information

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2022 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.