

CONSERVATIVE FIXED INTEREST FUND

As at October 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

\$63.6 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

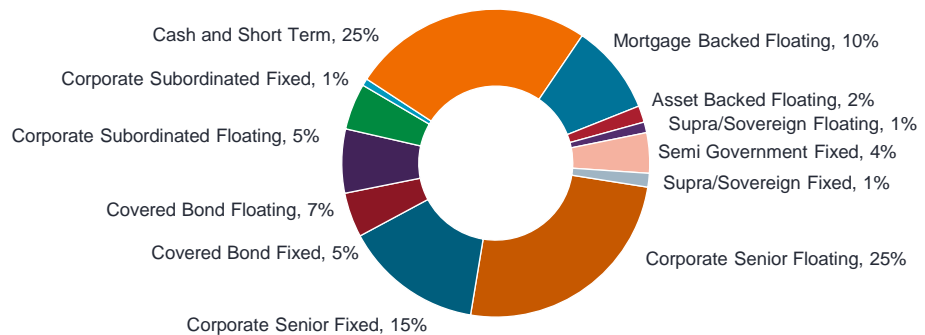
APIR code

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)	0.13	0.52	0.45	-0.11	0.97	1.54	2.52	4.88
Fund (net)	0.11	0.45	0.30	-0.41	0.64	1.17	2.13	4.41
Benchmark	0.24	0.54	0.75	0.76	0.43	0.97	1.68	4.23
Excess return*	-0.11	-0.02	-0.30	-0.87	0.54	0.57	0.84	0.65

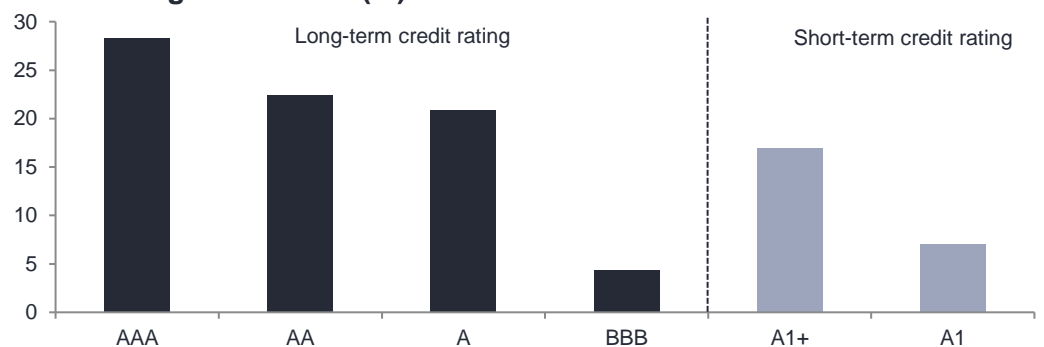
*In line with the fund objective, the excess return is measured against gross performance. Gross return is gross of management costs and sell spread. Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity(EWAYTM) ¹	4.43
Benchmark EWAYTM	2.91
Running Yield	3.07
Weighted Average Credit Quality	AA

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

Modified duration	Years
Fund	0.19
Benchmark	0.12
Active Position	0.07

[^] 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

The Janus Henderson Conservative Fixed Interest Fund (Fund) underperformed the Bloomberg AusBond Bank Bill Index (Benchmark) by -0.11% (gross) in October, while the Benchmark gained by 0.24%.

The underperformance against the Benchmark over the month came from the widening in credit spreads in high quality sectors including major bank senior, semi-government and bond swap spreads. The Fund did take profit on some of our overweight position to major bank senior debt early in October, which cushioned some of the impact as spreads widened later in the month, albeit the Fund was still not immune.

Income from elevated levels of bank bill yields and credit spread carry remain healthy contributors to total return. A near term rally in domestic bond yields was also a modest positive contributor in October. New primary issuance by major banks in the last week of October triggered broader market spread widening in credit resulting in negative contributions to return. The silver lining of the further lift in credit spreads is that it offers attractive entry points for investment in new credit issuance. With that in mind we redeployed liquid dry powder to extend credit allocation and spread duration into the new ANZ bank senior notes.

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

Markets remained volatile, with yields surging on hawkish US Federal Reserve (Fed) commentary and retreating on expectations that the pace of global tightening may slow. Risk appetite recovered from September's fall, with equity markets higher while credit markets remained volatile.

The Reserve Bank of Australia (RBA) lifted the cash rate by a less than expected 0.25% increment in early October, taking the cash rate to 2.60%. In subsequent commentary, the RBA noted that it was mindful of the impacts of the size and speed of policy withdrawal since May, both on the economy and relative to other central banks that did not meet as often. Short-term money market yields initially fell on the smaller than expected RBA tightening but climbed again following hawkish Fed signalling and RBA guidance that it would continue to tighten further to bring demand and supply into better balance. After falling to as low as 2.85% and 3.29%, three and six-month bank bill yields ended the month 2 basis points (bps) and 9bps higher at 3.09% and 3.66%. In terms of the tightening cycle, markets are looking for around a 3.1% cash rate by year's end and for a further 100bps of tightening over 2023.

Yields continued to trade in wide ranges, with UK political and policy instability, along with hawkish Fed guidance, driving US and domestic yields to their highs. UK fiscal policy reversal and a new UK Prime Minister, along with early signs of slowing in the pace of the global tightening cycle, saw yields fall towards month end. At the shorter end of the yield curve, the Australian three-year government bond yield rose to as high as 3.76%, before ending the month 23bps lower at 3.29%. Further out along the curve, 10- and 30-year government bond yields peaked at 4.20% and 4.53%, before ending at 3.76% and 4.07%.

Credit investor focus turned to fundamentals as the northern hemisphere 3Q earning season commenced. Early results suggest companies in general continuing to outperform low expectations, while management outlook statements reflect concern around the potential for a 2023 global recession. Valuation divergence appears to be opening up in credit markets. In higher quality investment grade markets, a combination of higher base rates, wider credit spreads, and new supply, are resulting in increasingly attractive all-in yields not experienced for the last decade. Risk sentiment recovered somewhat towards the end of the month. Perhaps understating volatile and thinly traded markets, the Australian iTraxx Index closed 14bps tighter at 130bps, while the Australian fixed and floating credit indices returned 0.39% and 0.16% respectively.

Domestically, significant supply resumed with two of the Major Banks (CBA and ANZ) combining to issue senior unsecured, tier 2 subordinated debt and additional tier 1 securities. The senior unsecured and subordinated debt were priced with significant new issue concessions and reset credit spreads across the broader corporate debt market.

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From an ESG perspective, we continue to engage with intermediaries and issuers on growing Australia's positive impact bond market

Market outlook and investment strategy

While much of the heavy lifting has been done, persistent and broad-based price pressures, evident in the latest CPI, mean that the RBA will need to push monetary conditions into restrictive territory. We have revised our base case view to build in 25bps of tightening in November, December and February. This would take the cash rate to 3.35% and into moderately restrictive territory and we expect the RBA to keep policy tight until the first half of 2024.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Nov22.

Interest Rates: Market pricing remains more aggressive, with the cash rate priced to peak at around 4.00% in H2 2023. As has been the case for several months, domestic markets continue to price the cyclical peak in the cash rate as the new normal, with forward rates projecting around a 4% cash rate for the next decade. During the spike in yields mid-October, this rate rose to 4.5%, making the mid-to-longer part of the yield curve attractive. While some of the value we saw then has been released, this type of volatility is a source of value for investors with a longer-term focus. We continue to remain active in interest rate management, taking advantage of overshoots to add duration and having the discipline to ease positions when yields fall.

Investment Grade Credit: The commitment by central banks to tackle high inflation through tightening global liquidity conditions continues 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. October offered little in the way of opportunities in new deals due to weaker market environment for primary issuance. Our ongoing ESG specific engagement meetings with companies was a large focus.

Important information

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