

# CONSERVATIVE FIXED INTEREST FUND

## As at August 2021

### 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

1 year

### Inception date<sup>^</sup>

31 August 1994

### Fund size

\$72.3 million

### Minimum investment

\$25,000

### Management cost (%)

0.30 p.a.

### Buy/sell spread (%)

0.00/0.02<sup>^^</sup>

### Distribution frequency

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)	0.03	0.17	0.44	1.16	2.00	2.31	3.33	5.11
Fund (net)	0.01	0.09	0.27	0.82	1.63	1.92	2.92	4.63
Benchmark	0.00	0.01	0.02	0.04	0.84	1.22	2.11	4.38
Excess return*	0.03	0.16	0.42	1.12	1.16	1.09	1.22	0.73

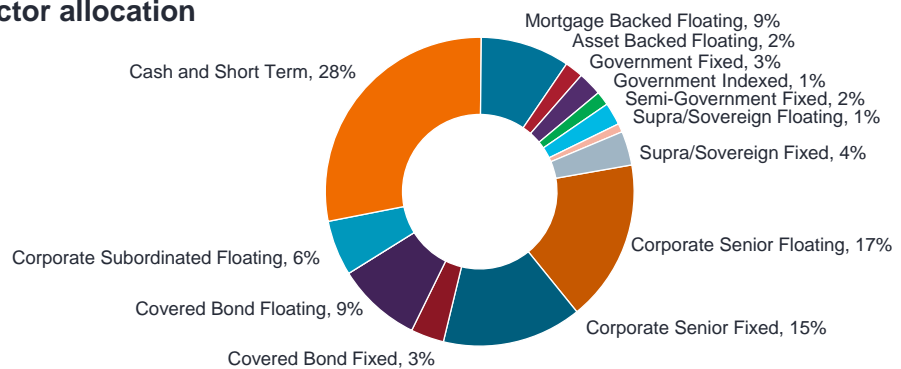
\*In line with the fund objective, the excess return is measured against gross performance.

Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

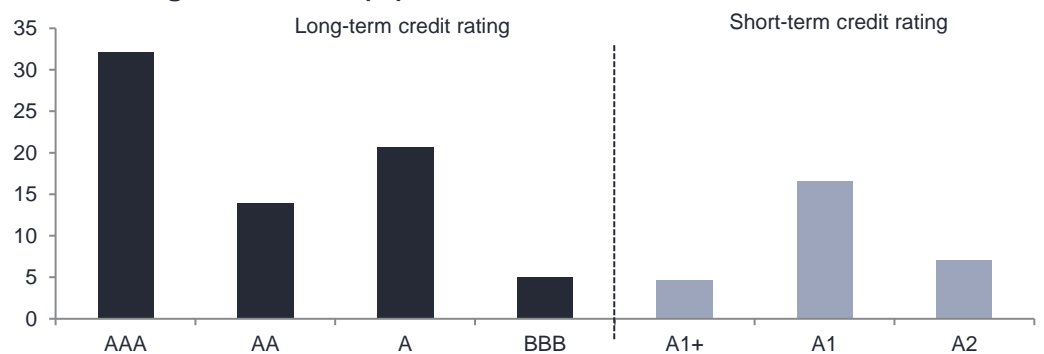
<sup>^</sup> Fund inception for performance reporting purposes is at end of month, whereby the actual fund inception date may be earlier in the month.

## Sector allocation



Rounding accounts for small +/- from 100%.

## Credit rating distribution (%)



## Portfolio characteristics

Estimated Weighted Average Yield to Maturity(EWAYTM) <sup>1</sup>	0.59
Benchmark EWAYTM	0.02

<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	0.09
Benchmark	0.13
Active Position	-0.04

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(continued)



**Portfolio Manager**  
Shan Kwee

## Fund performance

Short-term money market rates remained very low given the 0.10% official cash rate and the deterioration in the near-term growth outlook, and ample system liquidity. Three-month bank bills ended the month 1 basis point (bp) lower at 1bp, while six-month bank bills ended 3bps lower at 3bps. Further out, markets are still pricing the first tightening from late 2022/early 2023. Three-year government bond yields traded in a 14bps range on mixed economic data and evolving lockdowns, before ending the month largely unchanged at 0.24%.

The Janus Henderson Conservative Fixed Interest Fund (Fund) outperformed the Bloomberg AusBond Bank Bill Index (Benchmark) returning 0.03% (gross), while the Benchmark was flat. Over the past 12 months, the Fund has delivered an excess return of 1.12% (gross) above the Benchmark. Whilst high quality credit spreads are more muted today, we still see the excess return advantage for investors looking to retain liquidity and a low risk profile as valuable.

Income advantage was the main contributor to excess return during August with spreads on floating rate credit largely unchanged on the month. Immediately post earnings releases, the major banks were active in the primary market. One notable transaction was NAB pricing the first AUD 5-year major bank senior unsecured bond issue since the pandemic began, at BBSW +41bps. NAB was also the last major bank to issue in January 2020 with a similar 5-year note with a higher spread of BBSW +77bps. The differential shows the efficacy of the Term Funding Facility in lowering the borrowing costs of banks through the pandemic. After a lengthy hiatus, the return of large banks to the wholesale term funding market should mark the gradual normalisation of spreads, and we anticipate higher levels of income should become available to investors as supply accelerates into 2022. With this in mind, the Fund chose not to participate in the NAB deal.

The Fund maintains a yield of around 0.59%, providing a reasonable return advantage versus other liquid, low volatility alternatives which we continue to complement with alpha opportunities.

## Market review

- Markets and central bankers shifted into a more cautious mode while awaiting more clarity on the tussle between the growth-dampening Delta COVID-19 variant and rising vaccination rates. Economic releases painted a picture of an economy losing momentum from mid-year following a period of rolling lockdowns and extended lockdowns in NSW and Victoria.
- While labour market outcomes were better than expected in July, with an unexpected small gain in employment and fall in the unemployment rate to 4.6%, large falls in weekly payroll data point to a sharp fall in hours worked and weaker labour market outcomes over the months ahead.
- Inflation expectations edged lower despite stressed supply chains. Yields edged marginally lower after some intra-month volatility, more so at the longer end of the government yield curve.
- While a strong earnings season provided fundamental support to credit markets, a clear theme from Management teams was an increasing focus on shareholder-friendly activity, including record dividends and buy-backs.

## Market outlook

- The economy will contract sharply in the September quarter, with both NSW and Victoria locked down and the fall in the level of activity occurring then. As vaccination rates rise to 70-80% during the middle of the December quarter and restrictions begin to ease, activity will rebound quickly as the economy makes up for lost time.
- Faced with increasing uncertainty about the near-term outlook, we expect the Reserve Bank of Australia (RBA) to be 'data', not 'date' driven. Our base case still has the first tightening in a cycle that takes monetary conditions from accommodative to neutral starting in H1 2024.
- We see the balance of risks tilted towards yield curve steepening over time as growth and inflation expectations are revised up as vaccination rates lift.
- Spread sectors are likely to remain well-supported, with corporates in particular, benefiting from the tail winds of a cyclical recovery and persistent accommodative policy settings.

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INVESTORS

As global yields have fallen in response to local 'Delta' lockdowns and global economic surprise momentum slowing from exuberant territory, we favour a neutral duration position.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Sept21](https://go.janushenderson.com/Viewpoint-Sept21)

## Investment strategy

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

### Interest rates:

**Neutral duration** – As global yields have fallen in response to local 'Delta' lockdowns and global economic surprise momentum slowing from exuberant territory, we favour a neutral duration position. Longer tenor bond yields have fallen below our assessment of fair. Meanwhile pricing of cash rate normalisation still appears early versus our expectations but the extremes in valuation have dissipated. The Fund duration remains positioned cautiously at 0.1 years, and positioning reflects a yield curve steepening bias. The Fund duration remains inflation-protected with 0.15 years contribution from inflation-linked securities.

### Sector allocation:

Credit valuations remained largely unchanged, however semi-government bond spreads did underperform. We remain attracted to spread sectors as the economic outlook remains positive over the medium term and corporate earnings and government deficit positions should recover over time, particularly as vaccination rates crescendo. We continued to use the benign pricing environment to rotate out of senior and covered financial notes now that primary supply should accelerate. Semi-government spreads have become more valued, and we would favour add this high-quality income advantage into weakness from here.

### Important information

A new Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2020 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. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.