Janus Henderson

AUSTRALIAN FIXED INTEREST FUND

Janus Henderson INVESTORS

As at October 2021

Fund objective
The Fund seeks to achieve a total return after fees that exceeds the total return of the Benchmark, over rolling three-year periods.

Investment approach
The Fund is an actively managed portfolio of high quality interest bearing securities that seeks to provide a high level of capital protection. The Manager's investment approach is fundamentally driven and seeks to take advantage of situations where market pricing has become misaligned with economic and investment fundamentals. The Manager seeks to add value to the benchmark using a combination of active strategies including duration and yield curve management, sector allocation and security selection.

Benchmark
Bloomberg AusBond Composite 0+ Yr Index

Risk profile
Medium

Suggested timeframe
3 years

Inception date^
31 August 1994

Fund size
$674.5 million

Minimum investment
$25,000

Management cost (%)
0.45 p.a.

Buy/sell spread (%)
0.00/0.08^^

Distribution frequency (if any)
Quarterly

ARSN code
087 719 739

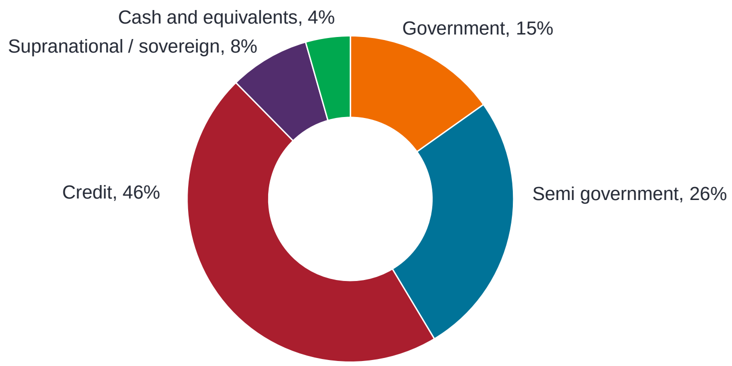
APIR code
IOF0046AU

ASX mFund
JHI05

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)	-3.94	-5.15	-2.08	-4.49	3.48	3.26	4.92	7.05
Fund (net)	-3.98	-5.27	-2.31	-4.93	2.98	2.76	4.42	6.49
Benchmark	-3.55	-4.93	-2.33	-5.30	2.72	2.58	4.19	6.26
Excess return*	-0.43	-0.34	0.02	0.37	0.26	0.18	0.23	0.23

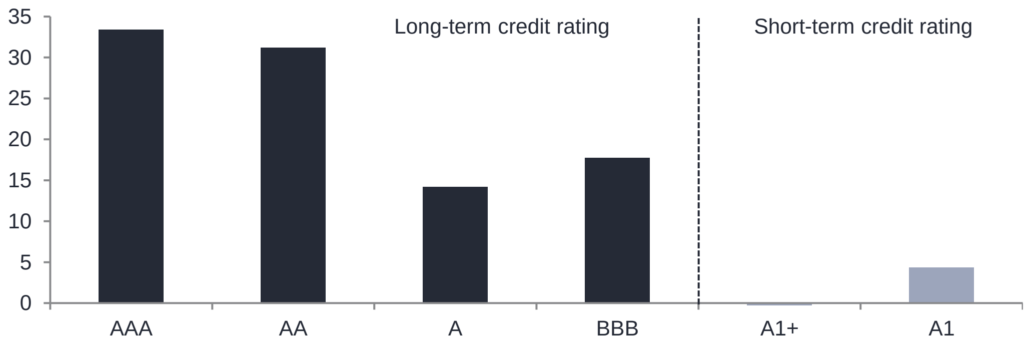
*Excess return is measured against net performance.
Gross return is Gross of Management costs and Sell Spread.
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM)[1]	1.92
Benchmark EWAYTM	1.70
Running Yield	1.77
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	6.64
Benchmark	5.71
Active Position	0.93

Benchmark duration is as at month end and therefore does not include rebalancing.

^ 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

AUSTRALIAN FIXED INTEREST FUND

(continued)

Janus Henderson INVESTORS

Head of Australian Fixed Interest
Jay Sivapalan

Fund performance

The Janus Henderson Australian Fixed Interest Fund (Fund) returned -3.98% (net) and -3.94% (gross). The Fund underperformed the Bloomberg AusBond Composite 0+ Yr Index (Benchmark) by -0.43% (net) in October, which fell -3.55% on the month. However, the Fund continues its outperformance, beating the Benchmark across all periods including by 0.37% (net) over the year, and 0.23% since inception per annum.

Whilst a negative return is never ideal, October's result in the context of the second largest monthly drawdown in the Australian bond market since 1983 (the largest being February 2021). What investors are currently witnessing is the necessary adjustments in bond markets as the economy recovers from the pandemic, with a strong cyclical recovery taking hold. This is typically the environment when market participants shift their expectations on: the future path of cash rates; a global monetary policy tightening cycle commencing; future inflation, and as a result bond yields rise. This resulted in upward pressure on rates and a negative drawdown for bond markets.

In relation to interest rate strategies in October, the Fund was adversely impacted by the swift repricing of the market's expectations for cash rate rises, particularly over the last few trading sessions of the month. As the month progressed yields in tenors including one to three year parts of the yield curve lifted above our assessment of 'fair value'. We commenced adding duration and shifted to a 'curve steepening' bias swiftly. At one point, markets had priced in the RBA tightening monetary policy with an implied cash rate of 0.6% by May 2022, 1.1% by November 2022 and 2.1% by November 2023. Noting that the cash rate even before the pandemic was 1% - 1.5%. We assessed this as an overshoot representing good value, essentially enabling investors to 'lock in' higher yields that had an implied higher cash rate setting baked into valuations. Whilst conviction levels were high, it is hard to predict exactly when markets will re-assess and it is even more difficult predicting turning points in markets. Attempting to pursue active strategies after the market has turned in our experience is too late and ineffective. We also assessed the risk to even higher yields from here in the near term as asymmetric as compared to the prospects of markets re-assessing cash rate expectations and yields lower. Hence, building active duration positions now will ensure that we have our largest position when the turning point does occur. During this time of heightened volatility and market dislocations, it is important to remain active even if it entails tolerating short term drawdown for the benefit of better future performance. As the Fund accumulated its duration position at the elevated yields, the bond market continued to sell off on the last day of the month impacting the Fund's performance relative to the Benchmark. However, the Fund was successful in locking in the higher yields which will set investors up for better returns ahead.

The Fund holds an active overweight position to the NSW and Victorian state governments which was accrued when the states were in lockdown and spreads were wide. This positioning for the reopening was rewarded early in the month as spreads contracted but was set back with some volatility as the month came to a close. However, the trend is encouraging and our longer-term outlook for the states is one of swift economic recovery as case numbers continue to fall and economic activity lifts.

Credit spreads were slightly softer in October as the dislocations in the bond markets had an impact despite the upbeat corporate earnings results. Our focus has been on the sub-sectors that have been under pressure from the lockdowns, such as airports, universities and REITs. Like semi-government bonds, the overall reopening story has been encouraging for these sectors, notwithstanding the near-term volatility towards the end of this month. As a precaution, we continue to hold protection in the form of tail risk hedging via Credit Default Swaps (CDS) should credit be adversely affected by the higher rate environment or other left field developments.

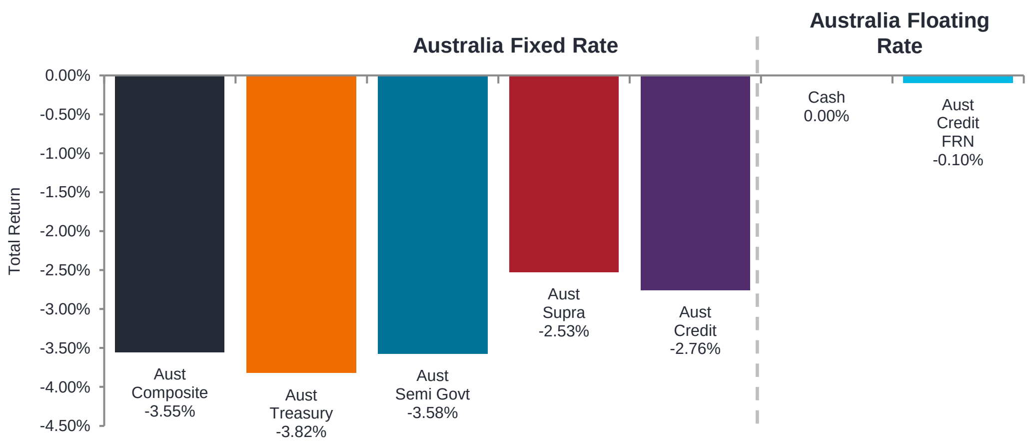
AUSTRALIAN FIXED INTEREST FUND

(continued)

Despite RBA forward guidance for no change to the cash rate till 2024, at the end of October the markets had moved to price in a 0.25% cash rate by May 2022 and a 1.25% cash rate by the end of 2022.

Market review

- Inflation fears led markets to ignore Reserve Bank of Australia (RBA) forward guidance and bring forward 'lift-off' in the cash rate to mid next year. Yields rose sharply across the government yield curve, with the largest moves at the shorter end of the curve.
- The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index fell by 3.55% over October, mirroring February's falls.
- Despite RBA forward guidance for no change to the cash rate till 2024, at the end of October the markets had moved to price in a 0.25% cash rate by May 2022 and a 1.25% cash rate by the end of 2022.
- Corporate earnings for the most part were strong. Notwithstanding generally improving corporate fundamentals, inflation concerns buffeted global fixed interest markets. Local credit was not spared. Australian fixed and floating rate credit indices both ended the month 5 basis points (bps) wider, while the local iTraxx Index closed 2bps tighter.
- The trend towards ESG themed issuance continued.



Source: Bloomberg AusBond Indices
Period of 1 October 2021 – 29 October 2021

Market outlook

- On growth, the economy is only just turning the corner after a likely fall of around 3% in the September quarter. We expect growth to surge late this year and early next year as mainland South East Australia exits lockdowns and makes up for lost time.
- Our view is that the tightening profile implied by the market risks triggering a major slowdown over 2023, making it difficult for the RBA to meet its tightening pre-conditions of an unemployment rate below 4% and wages growth above 3%. Premature tightening will make it harder for inflation to sustainably stay in the target band.
- We have lift-off in the cash rate around a year later than current market pricing. We see value in a three-year government bond at month end levels of 1.22%. At the longer end, we also see value beginning to emerge with the ten-year government bond yield at 2.09% at the end of the month.
- Spread sectors are likely to remain well-supported, with corporate fundamentals continuing to benefit from the tailwinds of a cyclical recovery and accommodative policy settings
- We remain attracted to semi-government securities, particularly those issued by NSW as it comes out of lockdown

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Nov21

On strategy, the Fund continues to be positioned well to take advantage for further opportunities available to active managers centred around a theme of the reopening of the Australian economy.

Investment strategy

Our north stars for investing are:

- A gradual 'normalising' in cash rates around the globe lifting risk free yields
- Navigate the range within bond yields, adding duration when they overshoot to the upside and taking profit when yields retreat
- Inflation protection when it's cheap
- Income bid (spread sectors, including credit)
- Invest with a cautious mindset – managing ESG/stranded asset risk and deploying capital to positive impact opportunities
- Aim to participate in any cyclical growth uplift

The following is a summary of the key strategies in the Fund (at the time of writing):

On strategy, the Fund continues to be positioned well to take advantage for further opportunities available to active managers centred around a theme of the reopening of the Australian economy. In addition, the expected proper re-opening of international borders in 2022 will support the recovery of several sectors reliant on foreign travellers. These industries that have been disproportionately hit by the pandemic have strong long-term fundamentals and are likely to have the largest rebound coming from a lower base. In terms of rates, the current volatility in the markets has created a fertile ground for bond managers and we will continue to be active in adding duration when yields overshoot to the upside and take profit when yields retreat.

Sector allocation:

Interest rates:

We expect the RBA to make haste slowly, initially exiting unconventional policy measures and commencing a tightening cycle from mid-2023 onwards. Given that we have lift-off in the cash rate around a year later than current market pricing, we see value in a three-year government bond at month end levels of 1.22%. We have been adding duration on the shorter tenors at these levels. At the longer end, we also see value beginning to emerge with the ten-year government bond yield at 2.09% at the end of the month. We will look to take profit when yields retreat.

Inflation-linked bonds: Although breakeven inflation rates have moved into the bottom end of the RBA's 2-3% target band, we still see a role for some modest inflation protection given cyclical pressures from challenged global supply chains and the wider opening up of the economy from late 2021.

Semi-government bonds: We remain attracted to semi-government securities, particularly those issued by NSW as it comes out of lockdown. While the journey will have its setbacks, we hold a positive macro-outlook for the reopening and view the strong fiscal position of the NSW government, the forward-looking political stance and the fact that these AA+ rated liquid government securities are still supported by the RBA under their QE program as supportive factors.

Investment grade credit: Spread sectors are likely to remain well-supported, with corporate fundamentals continuing to benefit from the tailwinds of a cyclical recovery and accommodative policy settings. Our focus has been on the sub-sectors that have been under pressure from the lockdowns, such as airports, universities and REITs. Like semi-government bonds, the overall reopening story has been encouraging for these sectors, notwithstanding the near-term volatility towards the end of this month. As a precaution, we continue to hold protection in the form of tail risk hedging via CDS should credit be adversely affected by the higher rate environment or other left field developments.

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. It was pleasing to see more supply come to market as the trend towards ESG themed issuance continued and we seek to participate where valuations make sense.

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