Janus Henderson

CONSERVATIVE FIXED INTEREST FUND – INSTITUTIONAL

Janus Henderson INVESTORS

As at January 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
31 August 2002

Fund size
$2.2 billion

Minimum investment
$100,000

Management cost (%)
0.28 p.a.

Buy/sell spread (%)
0.00/0.02^

Distribution frequency
Quarterly

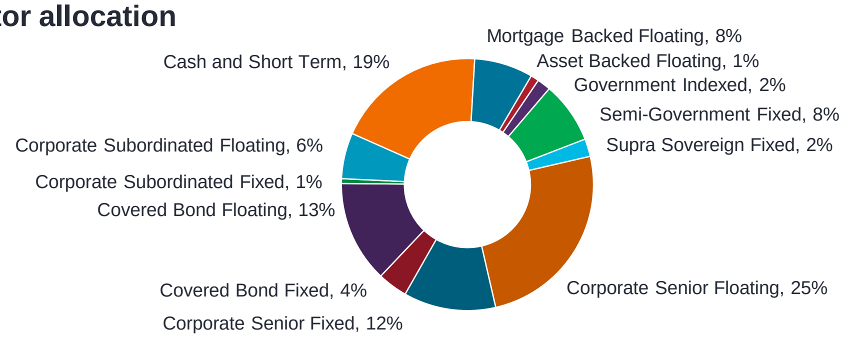
ARSN code
100 098 271

APIR code
IOF0111AU

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	0.44	1.12	2.50	2.37	2.62	3.63	4.83
Fund (net)	0.06	0.36	0.98	2.18	2.08	2.33	3.34	4.54
Benchmark	0.00	0.01	0.04	0.29	1.21	1.48	2.40	3.83
Excess return*	0.09	0.43	1.08	2.21	1.16	1.14	1.23	1.00

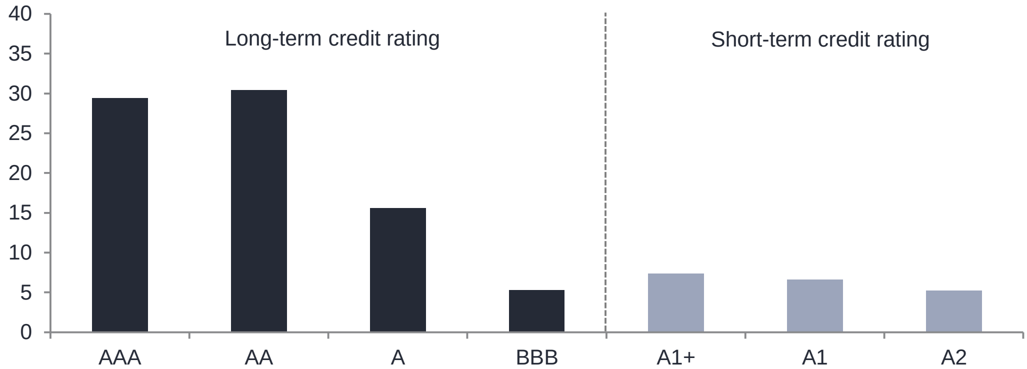
*In line with the fund objective, the excess return is measured against gross performance.
Gross return is gross of management costs and sell spread.
Past performance is not a reliable indicator of future performance.

Sector allocation



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM)[1]	0.63
Benchmark EWAYTM	0.02

[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	0.69
Benchmark	0.12
Active Position	0.57

Effective 28 August 2020, the Janus Henderson Cash Enhanced Fund – Institutional was renamed to the Janus Henderson Conservative Fixed Interest Fund - Institutional. The investment objective and investment strategy of the Fund will remain unchanged.

^ 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)

Portfolio Manager
Shan Kwee

Fund performance

Expectations for a post-vaccine global rebound were buoyed by further proposed fiscal easing from the new Biden Administration and US Federal Reserve (Fed) signalling of a long period of accommodative monetary settings. Burgeoning sovereign debt supply saw yield curves steepen and inflation expectations edged higher.

Money market rates remained very low given an extended period of highly accommodative policy from the RBA. Three-month bank bills ended the month unchanged at 0.01%. The Reserve Bank of Australia's (RBA) 0.10% cash and three-year government bond yield target continues to anchor the three-year government bond yield which ended the month at 0.11%. Longer-dated government bond yields continued to lift, mimicking offshore moves as growth and inflation expectations were revised up and markets adjusted to significant sovereign issuance, the 10-year government bond yield ended the month 16 basis points (bps) higher at 1.13%.

The year started on a positive note for credit market despite uncertainty over another round of state border closures. Reinvestment of bank senior maturities and cash built up over the holiday period saw spreads rally on both floating rate financials and corporate bonds as the alternative of sitting in cash at 0.0% remains undesirable for investors. Bank floating rate note (FRN) spreads rallied 3bps lifting sector returns to 0.09%, while spreads on corporate investment grade bonds tightened 5bps helping lift returns into positive territory despite rising bond yields.

The Janus Henderson Conservative Fixed Interest Fund – Institutional (Fund) outperformed the Bloomberg AusBond Bank Bill Index (Benchmark) returning 0.09% (gross), while the Benchmark was flat. Over the past 12 months the Fund returned 2.50% (gross), which is 2.21% above the Benchmark in a period where active management was able to add a lot of value.

The Fund's outperformance was generated through positive return contributions from income advantage above bank bills, bolstered with some positive capital gains from security selection across both financial and corporate credit securities. Allocation to state government bonds also continued to add value, as the sector remains well supported. A modest long duration position was a negative contributor as yields rose, while exposure to inflation-linked bonds were neutral to performance for the month.

Market review

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, ended January 0.42% lower. With yields at the shorter end of the yield curve anchored by the RBA, the yield curve steepened despite a brief risk-off period and Fed indications that there would be no premature end to its Quantitative Easing (QE) programme. The 30-year government bond finished 19bps higher at 2.14%.

Partial demand indicators pointed to strong momentum over the December quarter, with strong gains in business conditions and building approvals though the most recent round of border closure knocked consumer and business confidence lower.

Labour market conditions continued to improve with strong lifts in hiring intentions recorded. The number of jobs lifted by 50,000 in December, bringing the total number of jobs added since May's lockdown low to 784,000. The unemployment rate ended 2020 at a better than expected 6.6%.

On the prices side of the economy, the December quarter Consumer Price Index (CPI) came in stronger than expected. Headline inflation rose by 0.9% and was boosted by higher childcare costs as earlier support was withdrawn and higher tobacco prices. Most price gains reflected policy decisions rather than stronger demand. The average of the RBA's underlying inflation measure rose by 0.5% for a 1.3% yearly rate.

With the RBA Term Funding Facility (TFF) substituting supply of senior bank notes, the local primary market had a very quiet start to the year. University of Melbourne (AA+ rated) issued a $150m of 10-year bonds at a yield of 1.97% to refinance their upcoming 2021 maturity, while Mercedes Benz issued $150m of a 3-year maturity at 0.75% yield. The main primary supply of note was Westpac issuing $1.25bn of a new 10 non-call 5-year subordinated note at a spread of 1.55%. In total, the $1.55bn of Australian dollar credit supply was materially less than the $4.2bn of credit maturities for the month. NAB, Macquarie Group and ANZ all chose to issue in offshore markets, with a combined $4.4bn of TLAC eligible supply finding very robust demand from global investors.

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(continued)

The global and Australian economies are entering a recovery year as vaccination programmes are rolled out and policy settings remain supportive.

Higher yielding spread sectors like bank hybrids and subordinated debt outperformed returning between 0.2-0.6% as a reasonable level of income remains in high demand. Cash bonds outperformed synthetic indices, with the iTraxx Australia Index widening 7bps in spread to 63bps following weakening in offshore derivatives over the month.

Market outlook

The global and Australian economies are entering a recovery year as vaccination programmes are rolled out and policy settings remain supportive. In their latest forecast run, the International Monetary Fund (IMF) look for 2021 world growth to lift by 5.5% after falling by 3.5% in 2020. For 2022, they forecast 4.2% growth.

Following stronger domestic partial demand data, we have lifted our 2020 Australian economy growth forecast and now look for the economy to contract by 2.75%. For 2021, we look for the economy to lift by 5% which should see the economy return to the same size it was at the end of 2019 towards the end of the year.

Spare capacity remains though, and when combined with weak wages growth and a stronger currency, should act to keep medium term underlying inflation low. There is scope for a near-term lift in goods prices as strong consumer demand meets low stock levels, but this should fade as domestic and global production ramps up.

The global and domestic yield curve (cash 10-year spread) has steepened since late 2020 as markets factored in a cyclical rebound. This steepening occurred despite central bank asset purchase programmes and represents a tightening in financial conditions cet par. Market conviction in the recovery story is high with five-year, five-year forward rates (a proxy for the longer run cash rate) in the US rising back to pre-COVID-19 levels and in Australia’s case, to levels not consistently seen since mid-2019.

While some curve steepening should be expected given the improved outlook, we are mindful of periods where markets can get ahead of themselves. Recent currency strength and an eventual shift in the fiscal pulse from positive to negative should act as drags on growth and require the RBA to keep monetary conditions accommodative. An expansion/extension of its QE programme may be warranted to support medium term growth prospects.

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(continued)

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The Fund favours a modest duration position as money market yields provide negligible income opportunity.

Investment strategy

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

Interest rates:

Overweight duration: The Fund favours a modest duration position as money market yields provide negligible income opportunity. The slope in the yield curve increasingly provides attractive roll down return opportunities. During the month, we did reduce this overweight recognising market momentum in the reflation story could cause bond yields to overshoot, but we expect these rises to be capped with no anticipated change in cash rates for years. We remain attracted to maintaining a modest exposure to inflation-protected securities as global policy makers continue to experiment with further stimulatory measures, although we have again reduced this exposure with market pricing of inflation approaching fair.

Sector allocation:

Whilst the starting point for valuations appears less attractive to start 2021, we remain attracted to spread sectors as a means of generating excess income and capital gains where the market is likely to continue to chase yield in a protracted low cash rate world. Supply of credit securities is expected to be less than maturities, so reinvestment will provide a support to spreads. As the economic recovery gains traction and financial conditions remain extremely accommodative for years, we anticipate spreads will be able to be sustained at levels below average. Our activity remains focused on extracting income and capital gains from this opportunity where scarce supply and strong demand underpins markets and entry valuations remain fairly priced.

Further information
www.janushenderson.com/australia