Janus Henderson

TACTICAL INCOME ACTIVE ETF (MANAGED 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, by investing in a diversified portfolio of predominantly Australian income producing assets.

Investment Approach
The Fund is actively managed and designed to make tactical investment decisions between cash, longer duration fixed interest securities and higher yielding securities, through every step of the investment cycle.

Benchmark
Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted)

Risk profile
Low-medium

Suggested timeframe
3 years

Active ETF inception date
27 July 2020

Underlying fund inception date
30 June 2009

Active ETF size
$87.8 million

Underlying fund size
$4.7 billion

Management cost (%)
0.45 p.a.

Buy/sell spread (%)
0.00/0.04^

Base currency
AUD

Distribution frequency (if any)
Quarterly

ARSN code
130 944 866

APIR code
HGI7649AU

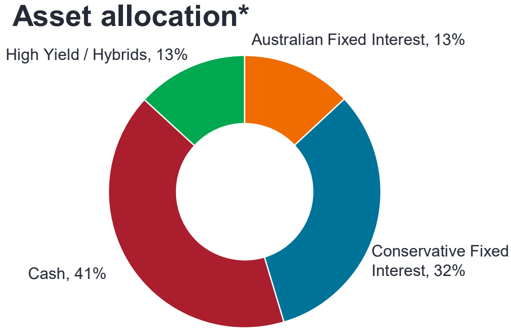
ISIN
AU0000044828

Chi-X code
TACT

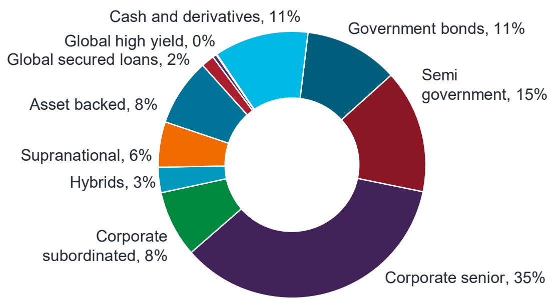
Performance	1 Month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (%)
Fund (net)	-0.53	-0.45	-0.12	0.34	-	-	-	1.14
Growth (net)	-0.53	-0.45	-1.71	-2.73	-	-	-	-1.98
Distribution (net)	0.00	0.00	1.59	3.07	-	-	-	3.12
Benchmark	-1.79	-2.49	-1.16	-2.66	-	-	-	-1.61
Excess return*	1.26	2.04	1.04	3.00	-	-	-	2.75

*Excess return is measured against net performance.
Past performance is not a reliable indication of future results.

Asset allocation*

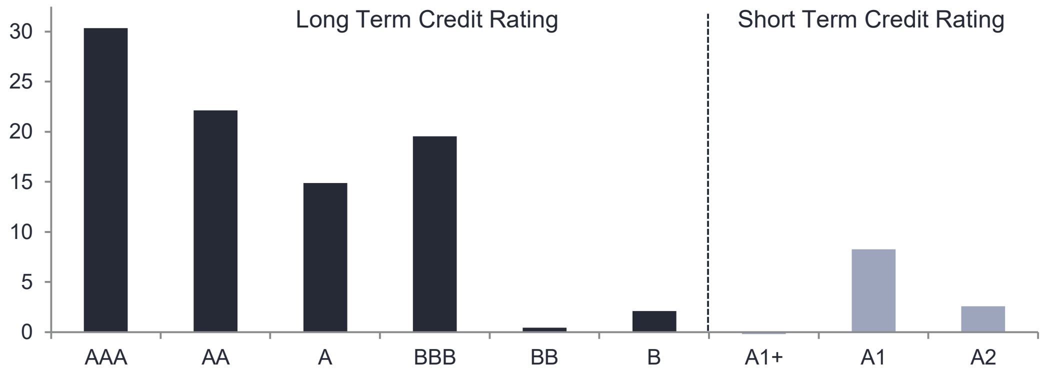


Sector allocation



*Asset allocation shown as effective exposure of asset classes.
Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio characteristics

Estimated Weighted Average Yield to Maturity (EWAYTM)[1]	1.67
Running Yield	1.46
Benchmark EWAYTM	0.87
Weighted average credit quality	AA
Number of securities (on a look through basis)	438

[1]Estimated Weighted Average Yield to Maturity is a measure of the average annual yield of all securities in the Fund (Grossed up for franking credits, where applicable)

Modified duration	Years
Fund	1.44
Benchmark	2.92
Active position	-1.48

Benchmark duration is as at month end and therefore does not include rebalancing.
^ For more information and most up to date buy/sell spread information visit www.janushenderson.com/en-au/investor/buy-sell-spreads.

Head of Australian Fixed Interest
Jay Sivapalan

Fund performance

Against the backdrop of a significant drawdown in bond markets in October, in which the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark) returned -1.79%, the Janus Henderson Tactical Income Active ETF (Managed Fund) (CXA:TACT) (Fund) outperformed meaningfully delivering return of -0.53%. The Fund largely preserved capital, as it is designed to do, during a period when the bond market fell sharply.

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), demonstrates the role active strategies play in safeguarding investors' capital. 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. The key, however, is to preserve capital first during these episodes and then pursue returns. On this, over the past year the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, has drawn down 5.30%, whilst the Fund has continued to deliver a positive return over the same period. The same is also true over the longer time period of 3, 5, 7 and 10 years.

In relation to interest rate strategies in October, whilst the Fund outperformed its Benchmark, it was still adversely impacted in absolute terms by sharply rising bond yields, albeit, materially less than the bond market. The Fund's short duration stance and having virtually no interest rate risk (duration) at the beginning of the month helped cushion most of the impact, but it was not completely immune to the swift repricing of the market's expectations for cash rate rises. Particularly over the last few trading sessions of the month. From a strategy perspective, 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 again 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. The lift in yields 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.

TACTICAL INCOME ACTIVE ETF (MANAGED FUND)

(continued)

The Fund is currently allocated on an opportunistic basis to higher yielding sectors.

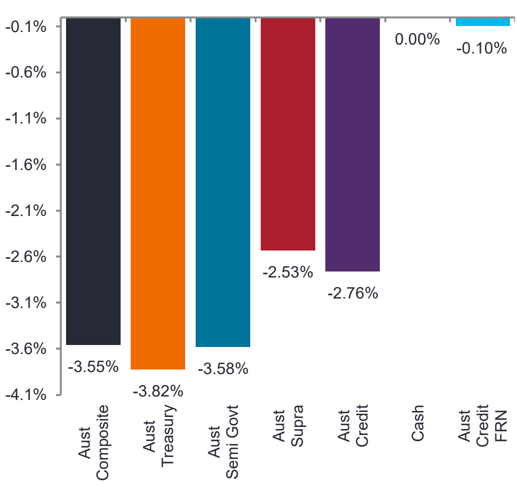
The Fund is currently allocated on an opportunistic basis to higher yielding sectors. The Fund has avoided investing in global high yield and emerging market corporate debt which is more sensitive to interest rate moves and as such, experienced drawdowns in October. Instead, the Fund favoured secured loans which are a floating rate product as well as major bank hybrids. It therefore has achieved better relative performance this month and throughout the year. The Fund has exposure to domestic hybrids which offered decent income with the market delivering 0.6% in October.

Of the underlying funds that the Janus Henderson Tactical Income Fund invests into, the Janus Henderson Australian Fixed Interest, Conservative Fixed Interest, Cash Fund and Diversified Credit Funds all underperformed their respective benchmarks.

Market review

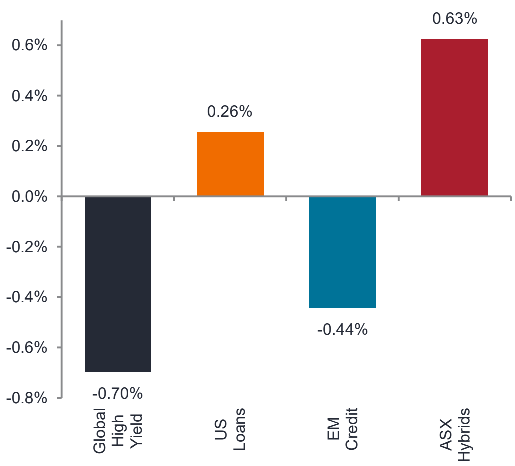
- Inflation fears led markets to ignore Reserve Bank of Australia (RBA) forward guidance and bring forward 'lift-off' in the cash rate to mid next year. Yields rose sharply across the government yield curve, with the largest moves at the shorter end of the curve.
- The Australian bond market, as measured 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.

Investment grade



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

Higher yielding



Source: ICE BoAML Global High Yield Index A$ Hedged, S&P/LSTA Leveraged Loan Index AUD TR Hedged, JPMorgan CEMBI Broad Diversified A$ Hedged, Solactive Australian Hybrid Securities Index (Gross).
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%.

- 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.

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.

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.

Sector allocation:

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.

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

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.

Higher yielding credit: We continue to balance, adding credit income and capital gain opportunities into the Fund, while withholding risk capacity with spreads remaining broadly tight in offshore investment grade and high yield markets. Global allocations remained stable at low levels. We remain mindful of potential volatility in the highly levered segment as financial conditions are gradually normalised, with the equity and debt stress of China Evergrande serving as a timely reminder which has seen pockets of value re-emerge but so far limited to Asian high yield. We're happy to remain patient and anticipate any spread widening will be largely manageable and would improve value for investors as fiscal and monetary policy decisions are balanced against potential market disruption.

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.