Janus Henderson

TACTICAL INCOME FUND

Janus Henderson INVESTORS

As at April 2019

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

Inception date
30 June 2009

Fund size
$3.3 billion

Minimum investment
$25,000

Management cost (%)
0.45 p.a.

Buy/sell spread (%)
0.00/0.00

Base currency
AUD

Distribution frequency
Quarterly

ARSN code
130 944 866

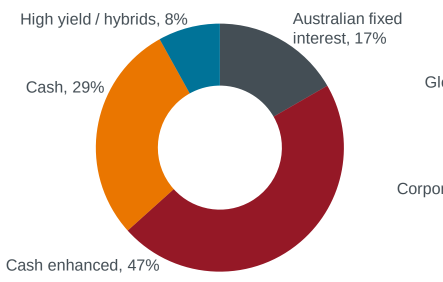
APIR code
IOF0145AU

ASX mFund
JHI02

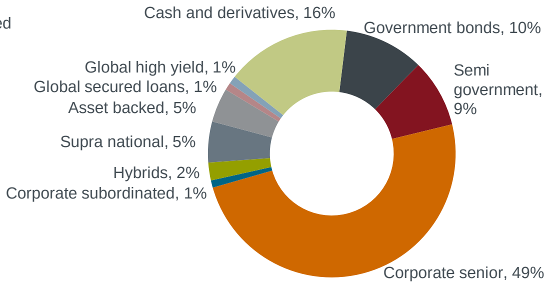
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.48	1.27	1.95	3.76	3.52	3.64	5.75
Fund (net)	0.44	1.16	1.72	3.29	3.06	3.18	5.28
Growth (net)	0.44	1.15	1.17	1.38	0.43	0.15	0.99
Distribution (net)	0.00	0.01	0.55	1.91	2.63	3.03	4.29
Benchmark	0.22	1.78	3.25	4.90	3.04	3.53	4.40
Excess return*	0.22	-0.62	-1.53	-1.61	0.02	-0.35	0.88

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

Asset allocation*

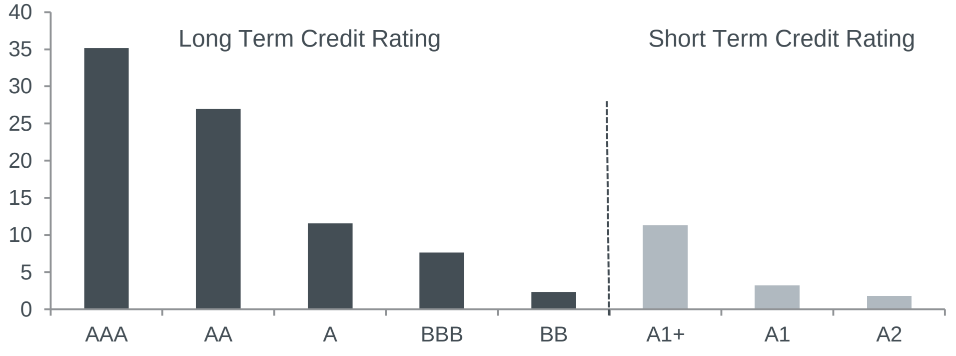


Sector allocation



*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]	2.21
Benchmark EWAYTM	1.68
Weighted average credit quality	AA
Number of securities (on a look through basis)	334

[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	0.66
Benchmark	2.73
Active position	-2.07

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

TACTICAL INCOME FUND

(continued)

Co-Head of Australian Fixed Interest
Glenn Feben

Co-Head of Australian Fixed Interest
Jay Sivapalan

Fund performance

Bond markets in Australia delivered investors a more normalised return over April, primarily reflecting the income return of the market. However, there was material intra-month volatility, with the bond market down about 0.7% mid-month. Australian government bond yields fell at the shorter end of the yield curve as markets continued to bring forward the timing of monetary easing. Yields at the longer end of the curve gave back earlier gains to end the month largely unchanged. Supportive policy settings and signs that the deceleration in global and domestic growth evident in late 2018 had passed helped support risk appetite. Credit markets were firmer and there was further tightening in credit spreads. Overall, it was a reasonable return environment during April in what was shaping up to be the first poor month in a while.

The bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned 0.28% over the month of April. The Janus Henderson Tactical Income Fund (Fund) delivered 0.48% (gross) and 0.44% (net), outperforming the Bloomberg AusBond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark) return of 0.22% over the month. Over the past year, the Fund returned a healthy 3.76% (gross), reaching a new 15 month high in terms of rolling one year returns.

Tactical asset allocation decisions, in particular interest rates strategies, were the primary driver of outperformance. This included a defensive (underweight) duration stance, a yield curve ‘steepening bias’ and exposure to inflation linked bonds where breakeven inflation rose.

At the start of the month, we had reduced the duration to about 0.5 years, which helped preserve capital in the Fund as bond yields rose sharply. At the same time, we had added inflation linked bonds at the low in breakeven inflation rates, which also added value. With bond yields peaking around mid-to-late-month, we added interest rate risk. This took the Fund’s duration to 0.9 years, which allowed the Fund to participate in the late rally. We also reduced the yield curve ‘steepening bias’ following the Australian curve’s steepening by some 15-20 basis points (bps), locking in some profits.

Overweight allocations to credit-related sectors, including investment grade and higher yielding sectors also added some value. Finally, all of the underlying funds that the Fund invests into, including the Australian Fixed Interest, Cash Enhanced, Cash and Diversified Credit Funds also outperformed their respective benchmarks, contributing to the Fund’s overall performance.

As we have indicated previously, the strong performance of bond markets brought forward a lot of returns for investors in what otherwise is still a relatively low yield market. To our way of thinking, April was a month where the bond market’s recent rally had become exhausted and the prospects for further rally were limited.

Market review

Australian government bond yields rallied at the shorter end of the yield curve as markets continued to bring forward the timing of monetary easing. Yields at the longer end of the curve gave back earlier gains to end the month largely unchanged. Supportive policy settings and signs that the deceleration in global and domestic growth evident late 2018 had passed helped support risk appetite. Equity markets were firmer and there was further tightening in credit spreads. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, gained 0.28%, primarily reflecting the income return.

Partial demand indicators improved over the month, with three and 10 year government bond yields lifting to as high as 1.49% and 1.96% before the release of the March quarter Consumer Price Index (CPI) towards the end of the month. Building approvals and retail trade data for February came in well-ahead of expectations, with approvals up 19.1% over the month and retail trade up 0.8%. According to the NAB Survey, business conditions lifted from below trend to around trend levels in March.

The Federal Budget and prospect of further fiscal easing in the upcoming Federal election helped lift consumer sentiment in April back towards longer run levels. The run of strong trade data continued, with the trade surplus lifting from $4.3bn in January to $4.5bn in February. These data are consistent with a pick-up in the pace of growth from the weak levels prevailing over the second half of 2018.

Labour market conditions remained solid. Employment grew by a stronger than expected 25,700 in March, with the number of full time jobs surging by 48,300. Part time jobs fell by 22,600 and a slight lift in the participation rate back towards cyclical highs meant that the unemployment rate edged back up to 5%. Forward labour demand indicators are mixed, but still consistent with job gains sufficient to hold the unemployment rate steady to slightly lower.

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(continued)

The RBA policy path has become more uncertain, with the RBA's Assistant Governor (Economic), noting in a recent speech that "outside the household sector, the economy is not doing too badly".

It was the release of weaker than expected consumer price data that triggered a late month rally and saw markets bring forward the timing of the first easing. While a low headline rate was expected because of earlier falls in fuel prices, the 0.2% lift in the average of the Reserve Bank of Australia's (RBA) statistical or core measures was well-below expectations. The yearly core rate slipped from 1.7% to 1.4% and triggered one of the RBA conditions for easing, the other being sustained weakening in the labour market.

Yields rallied from mid-month highs following the CPI release and markets went as far as pricing in around a 50% chance of a rate cut in May. The three year government bond yield ended the month 11bps lower at 1.28% while the 10 year government bond yield closed 1bps higher at 1.79%.

Money market yields reflected the bringing forward of easing expectations, with three and six month bank bill yields falling by 21bps and 22bps to end the month at 1.56% and 1.62%. Markets are fully pricing in an easing in July with a 1% cash rate priced in by November. By mid-2020, markets are assigning around a 20% chance of a 0.75% cash rate.

Credit benefitted from the 'risk-on' tone this month as investors searched for yield in an environment where inflation is sluggish and central banks are looking to maintain or increase accommodative policy settings. The iTraxx Index tightened 9bps to close at 66bps which is towards the lower end of historical outcomes. The highlight in primary markets was Woolworths issuing the world's first green bond by a supermarket retailer. The demand for this bond by domestic investors was significant, with the company printing $400m of new bonds to around $2bn of investor demand.

Market outlook

We see information in the March quarter CPI release that justifies a shift in our base view from a 'steady for longer' scenario for the cash rate to one where the RBA needs to provide the economy with a further burst of easing on top of a 0.5% of GDP boost coming from tax cuts starting from the beginning of July.

While in the latest set of minutes the RBA noted that it was not possible to fine-tune outcomes and that by holding policy steady it would be a source of stability and confidence, they also noted that in a scenario where inflation did not move higher and the unemployment rate trended up it would be appropriate to ease in those circumstances.

We see the weak 0.3% lift in non-tradeables inflation and fall in the yearly rate from 2.4% to 1.8% as indicative of a combination of remaining slack in the economy and competitive pressures. The RBA will have to revise its inflation outlook lower in its upcoming May Statement on Monetary Policy and balance a situation where one of its two preconditions for easing has been triggered.

We suspect that the RBA will move to an explicit easing bias in May but will have cut the cash rate to 1% by November, judging that it would be in the public interest to ensure that inflation returned to the target band and that inflation expectations did not become unanchored.

Our view is that while monetary conditions are already accommodative, the combination of a further burst of monetary easing, easier fiscal conditions and possibly a lower exchange rate, will help support activity and speed up the rate of absorption of spare capacity. While markets see the prospect of further easing in 2020, we suspect that 1% will be the low in the cash rate and that the RBA, like the US Federal Reserve, will seek to normalise the cash rate as soon as conditions allow.

We currently see three year government bond yields at 1.27% (at the time of writing) as being towards the expensive end of our fair value range. There is scope for a nearer term lift if markets wind back the amount of easing currently priced in, but the prospect for any significant rise is limited given that there is still slack in the economy. Further out along the yield curve, we see the yield on a 10 year government bond of 1.78% (at the time of writing) as being modestly expensive and vulnerable to any upward revision to global growth or inflation expectations.

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(continued)

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With markets having fully priced in almost two rate cuts by the RBA and bond yields again at historically low levels, we remain cautious on interest rate risk.

Investment strategy

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

Interest rates:

Overall, we remain cautious around interest rate risk and maintain underweight duration positions relative to the Benchmark. However, we have reduced the 'yield curve' steepening bias. At the shorter end of the yield curve, with three year bond yields trading around fair value to slightly expensive, but 10 year yields modestly expensive, we retain some yield curve bias, but much less than in April.

Sector allocation:

We continue to maintain modest exposures primarily to higher quality corporate debt focused on regulated sectors in order to harness reasonable levels of income for investors. Having benefitted from earlier decisions to increase credit risk in order to take advantage of improved valuations, we are again looking for safer defensive corporate debt exposure. We have also bought some protection through credit derivative swaps (CDS). Our exposures to higher yielding credit sectors, such as secured loans and high yield debt , remain small, with no exposure to emerging market corporate debt.

Important information
Past performance is not a reliable indicator of future performance. Performance figures are calculated using the exit price net of fees and assume distributions are reinvested. 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. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.

Further information
www.janushenderson.com/australia