Janus Henderson

TACTICAL INCOME FUND

Janus Henderson INVESTORS

As at January 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

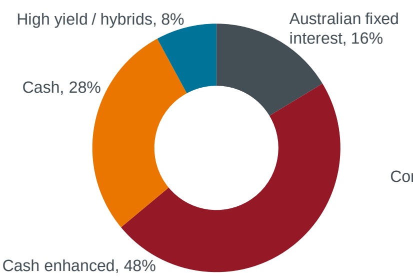
APIR code
IOF0145AU

ASX mFund
JHI02

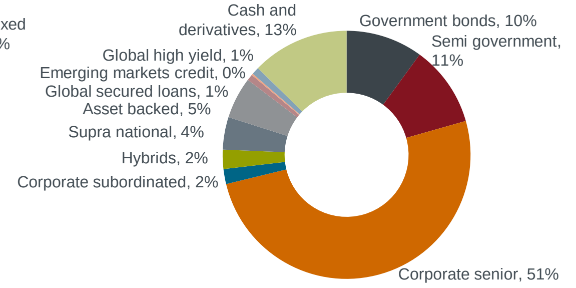
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.34	0.67	1.50	3.16	3.45	3.66	5.76
Fund (net)	0.30	0.56	1.27	2.70	2.98	3.20	5.29
Growth (net)	0.30	0.03	0.26	-0.24	0.01	-0.05	0.90
Distribution (net)	0.00	0.53	1.01	2.94	2.98	3.25	4.39
Benchmark	0.41	1.44	2.13	3.70	2.71	3.36	4.32
Excess return*	-0.11	-0.88	-0.86	-1.00	0.27	-0.16	0.97

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

Asset allocation*

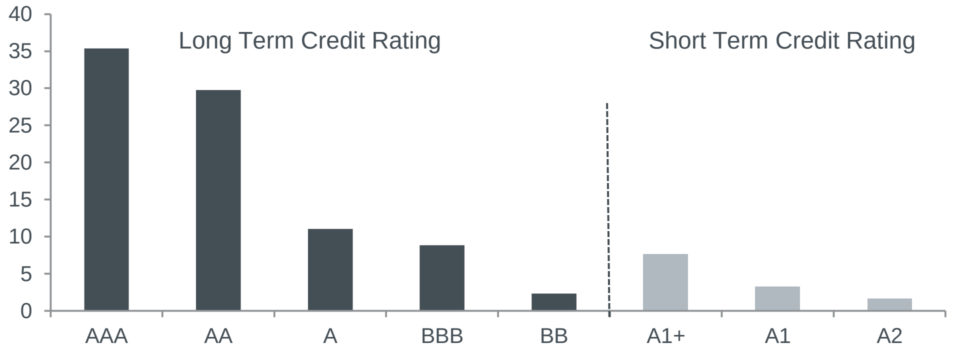


Sector allocation



*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]	2.79
Benchmark EWAYTM	2.12
Weighted average credit quality	AA
Number of securities (on a look through basis)	322

[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	0.43
Benchmark	2.67
Active position	-2.24

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

January was a month driven by further market participant concerns around economic growth prospects, trade, Brexit and the partial US government shutdown, driving bond yields lower.

Economic data and lead indicators were generally softer, pointing to a global and Australian economy moving from above trend growth towards trend over 2019. The one exception to this were labour market readings, which have remained resilient. Meanwhile, risk appetite recovered, reflecting the market's over-reaction in the previous month, with most risk assets comfortably outperforming risk-free assets.

The Janus Henderson Tactical Income Fund (Fund) returned 0.34% (gross) and 0.30% (net), a little below the Bloomberg Ausbond Bank Bill Index and Bloomberg AusBond Composite 0+ Yr Index (equally weighted) (Benchmark) return of 0.41%. The Bloomberg AusBond Composite 0+ Yr Index returned 0.64% and the Bloomberg AusBond Bank Bill Index returned 0.18%.

The Fund's interest rate strategy was positioned very defensively in early January, with duration cut to approximately 0.4 years during the flash crash moments, where Australian 10 year government bond yields touched below 2.10%. This positioning shielded the Fund from the subsequent sell-off, however, the sizeable rally in the first couple of days boosted the Australian bond market's return over the month, allowing it to outperform. From a spread sector allocation perspective, given the sell-off in credit and higher yielding sectors over December, the Fund commenced employing more risk (as mentioned in our last commentary). On a look-through basis, the Fund increased its exposure to investment grade credit, participating in primary market issues by Australian major bank senior debt and also exposure to global high yield. Overall, sector strategies added value over January owing to the higher running yield and some selected recovery in credit spreads. The Fund's allocation to the underlying funds also performed well, with the Cash, Cash Enhanced and Diversified Credit Funds outperforming their respective benchmarks, while the Australian Fixed Interest Fund was broadly in line with its benchmark.

Over the 12 months to 31 January 2018, the Fund delivered 3.12% (gross) and 2.67% (net), with no negative monthly returns. We continue to feel that this is a solid outcome for investors in what has otherwise been one of the softer returning years in credit markets, with no shortage of volatility.

Market review

Australian government bond yields continued to rally over January as weaker domestic economic readings led markets to become more confident that the next move in the cash rate would be down. Longer-dated yields benefitted from flight-to-quality flows when concerns over trade, Brexit and the US government shutdown were most elevated. Risk appetite recovered, with equity markets performing strongly and there was some narrowing in credit spreads. Overall, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, gained 0.64% over January and follows December's strong gain of 1.5%.

The domestic economy looks to have lost some momentum towards the end of 2018 and confidence measures, which had held up through an earlier period of falling house prices and equity markets, fell sharply in December. On the activity side, there was a sharp fall in the business conditions index in the NAB survey from well above, to well below long run levels. While most likely reflecting some seasonal volatility, given that other PMI measures remained in expansion territory and capacity utilisation rates in the NAB survey were elevated, future moves in this series bear close monitoring. Building approvals declined a greater than expected 9.1% over November, to be down 33% from the peak levels of a year ago.

Labour market conditions remained solid, with the unemployment rate falling back to 5% in December and total jobs lifting by 21,600. The composition of jobs gains was on the softer side, with full time jobs falling by 3,000 while part time jobs rose by 24,600. The participation rate slipped from 65.7% to 65.6%, but still remains close to cyclical highs. Forward labour market indicators were mixed with DEWR skilled vacancies lifting 0.7% in December, while the NAB employment index pointed to a fall in near term jobs growth from around a 22,000 per month pace to an 18,000 per month pace.

The rate of credit growth continued to slow in December, reflecting a combination of demand and supply side factors with the slowdown most evident in personal and investor lending. On the prices side, headline inflation rose a stronger than expected 0.5% over the December quarter for a yearly rate of 1.8%. Core inflation remains contained, with the average of the Reserve Bank of Australia (RBA) statistical measures lifting by 0.4% for a 1.8% year rate. The income side of the economy should receive a boost from a jump in the terms of trade, with the export price index lifting by 4.4% over the December quarter against a 0.5% lift in the import price index.

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(continued)

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Despite comments from an RBA board member that the next move in the cash rate was eventually up, the gap between the RBA's expectation for the path of the cash rate and market pricing continued to widen in January.

Against this back drop, three and 10 year government bond yields ended the month 10 basis points (bps) and 8bps lower at 1.75% and 2.24%. Australian government yields outperformed those in the US, where the US two and 10 year treasury ended the month 3bps and 5bps lower, at 2.46% and 2.63%, following the eventual reopening of the US government and the US Federal Reserve (Fed) signalling that monetary policy was on hold.

In money markets there was a modest easing in the tightening of liquidity conditions experienced at the end of last year. Three and six month bank bills ended the month 2bps and 4bps lower at 2.07% and 2.19%. Markets became more convinced that the next move in the cash rate would be down, moving from pricing in a 36% to around 50% chance of an easing by the end of the year. For May 2020, the market shifted from pricing a 40% to a 70% chance of a rate cut.

Credit markets strengthened as risk appetite recovered, with the iTraxx Index tightening 18bps to close at 77bps. After an extremely quiet December, primary markets re-opened and this was led by the major banks. Between CBA, ANZ and Westpac, they raised just under $12.5bn from domestic investors over the month. Given the impending release of the Royal Commission findings, this was a strong result for the banks. The domestic company reporting season occurs in February and this will provide investors with an update as to how companies are managing their credit profiles.

Market outlook

Despite comments from an RBA board member that the next move in the cash rate was eventually up, the gap between the RBA's expectation for the path of the cash rate and market pricing continued to widen in January.

Given recent choppiness in domestic data, unresolved trade tensions and a slowing in the global economy, we expect that the RBA will signal in upcoming communications that leaving the cash rate unchanged at current accommodative levels will help it meet its mandated objectives.

Rather than cut the cash rate once and tighten again later as the market has factored in, we think the RBA would rather keep the cash rate unchanged at the current accommodative level for a longer period before gradually winding back the amount of policy accommodation from 2020 onwards.

Such a strategy preserves scarce monetary policy ammunition for a real shock and allows time for house prices to find their level after a tightening in lending standards designed to reduce financial stability risks. Furthermore, waiting also allows time for any election-related fiscal easing to become visible and time for offshore policy makers to support their economies.

The Fed has already signalled that it has moved from tightening to patience mode and signalled greater balance sheet flexibility. The recent rebound in risk appetite and lower government bond yields should see some unwinding of the tightening in financial conditions evident late last year and help extend the duration of the current global expansion. Chinese policy makers have and are likely to announce further measures to support their economy while minimising financial stability risks.

While we see near-term risk as tilted to the downside, three and 10 year government bonds yielding 1.73% and 2.20% (at the time of writing) look expensive in our view and are fully discounting significant downside risks and a very low terminal cash rate.

TACTICAL INCOME FUND

(continued)

Current pricing embedded within money and bond markets imply a pessimistic view of the prospects for the Australian economy and also conclude that the RBA will cut rates at some stage in 2019/20.

Investment strategy

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

Interest rates:

Current pricing embedded within money and bond markets imply a pessimistic view of the prospects for the Australian economy and also conclude that the RBA will cut rates at some stage in 2019/20. While the leading economic indicators point to softer conditions ahead, in our assessment it is too early to make conclusions about the future path of cash rates in Australia definitively. From a global perspective, we believe the Fed is likely to pause on rate hikes. However, in our assessment it is not a foregone conclusion that we have reached the end of this cycle. As such, our cautious attitude towards interest rate risk remains elevated. At the time of writing, interest rate duration is approximately 0.4 years.

Sector allocation:

In relation to credit markets, we're continuing to add some further exposure at elevated levels to physical corporate bonds, despite credit derivative pricing having rallied meaningfully in January. Over the month credit spread duration increased by 0.15-0.20 years following participation in major bank five year senior debt priced at between 110bps and 115bps. In our view, the opportunity is weighted towards compromising some return stability to seek enhanced returns for investors.