Janus Henderson

DIVERSIFIED CREDIT FUND

Janus Henderson INVESTORS

As at September 2021

Fund objective
The Fund seeks to achieve a total return before fees that exceeds the total return of the Benchmark by 2.00% p.a. over rolling three year periods.

Investment approach
The Fund is an actively managed portfolio of Australian and global higher yielding securities that seeks to provide investors with a diversified exposure to a wide range of fixed income securities including corporate debt, asset backed securities, secured loans and emerging markets corporate debt securities.

Benchmark#
Bloomberg AusBond Bank Bill Index

Risk profile
Medium

Suggested timeframe
3 years

Inception date
31 October 2012

Fund size
$686.8 million

Minimum investment
$25,000

Management cost (%)
Management fee 0.55 p.a.
Indirect costs – 0.02 p.a.*
*Based on costs incurred during the financial year ended 30 June 2021.

Buy/sell spread (%)
0.10/0.20^

Base currency
AUD

Currency hedging
$AUD hedged^^

Distribution frequency (if any)
Monthly

ARSN code
127 727 431

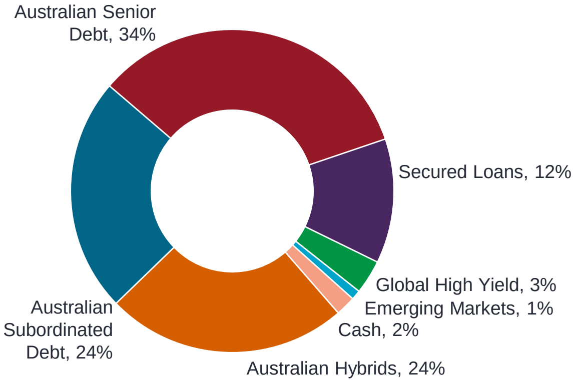
APIR code
IOF0127AU

ASX mFund
JHI04

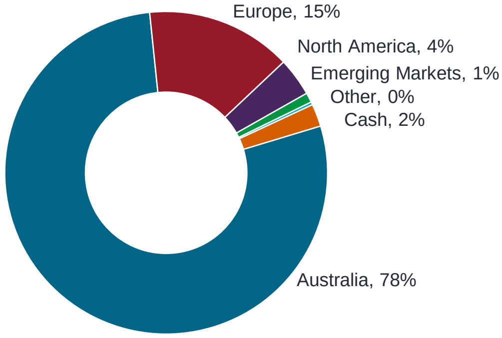
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a)
Fund (gross)	0.14	0.61	2.07	6.38	5.46	5.31	5.28
Fund (net)	0.15	0.53	1.85	5.88	4.85	4.69	4.70
Benchmark#	0.00	0.01	0.01	0.04	0.78	1.49	2.42
Excess return*	0.15	0.52	1.84	5.84	4.07	3.20	2.28

*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.
#As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

Sector allocation

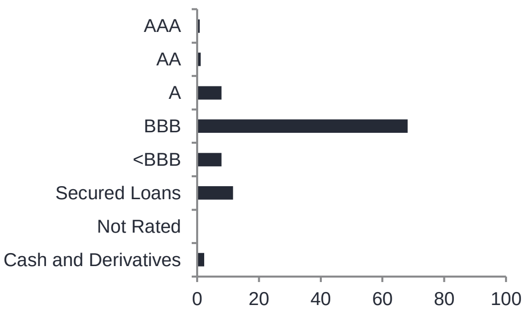


Region of issue



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio statistics

Portfolio Yield[1]	2.49
Running Yield	2.78
Spread Duration	4.28
Modified Duration	0.36
Weighted Average Credit Quality	BBB
Number of Securities[2]	595

[1]Estimated Weighted Average Yield to Maturity (EWAYTM) is a measure of the average annual yield of all securities in the Fund (Grossed up for franking credits, where applicable)
[2]Number of Securities is on a look through basis and excludes cash and derivatives.

Top 10 holdings[3]	Fund weight (%)
CBA Subordinated FRN Basel III T2 10/09/2025	4.24
ANZ Subordinated FRN Basel III T2 26/07/2024	3.62
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.47
ANZ Bank Capital Notes 6 (ANZPI) Basel III T1	2.98
NAB Wholesale Capital Notes 2 Basel III T1	2.91
Westpac Subordinated FRN Basel III T2 29/01/2026	2.38
ANZ Subordinated FRN Basel III T2 26/02/2026	2.36
CBA Subordinated FRN Basel III T2 20/08/2026	2.22
Charter Hall Prime Industrial Fund Senior Unsecured 2.485% 28/10/2030	1.65
Woolworths Group Senior Unsecured 2.8% 20/05/2030	1.64

[3]Top 10 is on a look through basis.
^ For more information and most up to date buy/sell spread information visit www.janushenderson.com/en-au/investor/buy-sell-spreads.
^^Generally, 100% of the Fund's non-Australian dollar denominated exposure will be hedged back to the Australian dollar.

DIVERSIFIED CREDIT FUND

(continued)

Portfolio Manager
Shan Kwee

Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned 0.15% (net) for the month. Over the last 12 months, the Fund has returned 5.88% (net), in addition investors received 0.15% of franking credits. Cash distributions have averaged 3.8% over the past three years.

In a more challenging return environment, the Fund delivered pleasing outperformance and positive returns. The Australian bond market fell by 1.51%, floating rate credit market fell by 0.06% and equities and global high yield indices were also down. Favourable portfolio positioning across floating rate sub sectors such as bank Tier 2 and hybrids, as well as global secured loans all remained in positive return territory.

Credit markets were cautious due to US Federal Reserve tapering speculation, and the potential for the default of the major Chinese property developer, Evergrande. A shift to a more hawkish stance by offshore central banks, higher energy prices and disruptions to global supply chains led to heightened financial market volatility. The confirmation in September of an early wind-down of the Committed Liquidity Facility (CLF) for the banking system was also a market moving event as balance sheet demand shifted to support semi-government bonds at the expense of senior bank notes and RMBS.

A lift in term premia was a key catalyst for a rise in bond yields that saw 10-year Australian government bond yields end 33.5 basis points (bps) higher at 1.49%. The Fund was positioned with a low interest rate duration position of 0.3yrs which largely immunised returns from rises in bond yields.

Market review

Locally investors had to consider jumbo M&A news particularly in the infrastructure space, the imminent return of macro-prudential policy measures to cool a red-hot housing market, and a sharpening focus on all things related to Environmental, Social and Governance (ESG). Softer conditions resulted in the Australian iTraxx Index widening by 2bps adjusting for the contract roll, while Australian fixed and floating rate credit indices closed 3bps wider and 7bps wider, respectively.

The Australian economy will likely contract around 3% in the September quarter but rising vaccination rates and roadmaps out of NSW and Victorian lockdowns mean that the economy is far from out. We look for these two states to gradually reopen over the December quarter and enter into “catch up mode”.

We look for the Australian economy to grow by around 1.75% over 2021 but for growth to lift to around 5.25% over 2022, before easing back to around 3% over 2023. Base effects flatter the 2022 growth number, but the pace of activity should be less volatile than lockdown impacted 2021.

Our expectation for a lift in yields and curve steepening were largely realised over September. Our base case still has the first tightening in a cycle that takes monetary conditions from accommodative to neutral starting in H1 2024. The introduction of further housing macro-prudential measures and upcoming fiscal tightening also argue for a later lift off in the cash rate.

With very low cash rates expected to remain a feature over the coming years, the income environment remains challenging for investors. Higher income credit assets with low duration form part of the bridge to avoid potential volatility as policy settings are normalised, and current pricing of growth assets remains rich.

DIVERSIFIED CREDIT FUND

Janus Henderson INVESTORS

(continued)

Fund yield remains reasonably attractive at 2.49%, with sub-investment grade exposure remains around 20% leaving powder dry to add risk into a widening off tight spread levels in high yield markets.

Investment strategy

Fund yield remains reasonably attractive at 2.49%, with sub-investment grade exposure remains around 20%, leaving powder dry to add risk into a widening off tight spread levels in high yield markets. Global QE tapering, swiftly rising bond yields and ongoing heavy corporate bond supply remain tests for asset pricing late into the year.

Our global allocations remained constrained as contagion fears surrounding Evergrande and the Chinese property developer sector are beginning to weigh on sentiment. Sharply rising input costs through energy prices and global supply disruptions may also weigh on credit fundamentals for more levered issuers who lack pricing power. Whilst we await better entry levels, for higher yielding allocations we still favour hybrids and loans, due to their floating rate nature in a period of likely rising interest rates. We have also sought to position into issuers who will likely see outsized benefit from the re-opening of the Australian economy after lockdown hibernation. We added Scentre Group hybrids via secondary markets which offer spreads equivalent to 3% as Australia will soon see the reopening of retail heading into Christmas which we believe provides the beginning of some tailwinds for bricks-and-mortar retail.

There was a ramping up of primary issuance over the month. The major banks were active, issuing both offshore and in AUD. Notable transactions included CBA pricing a $500m 5-year senior unsecured Green Bond at BBSW+41bps, and Westpac issuing the first Major Bank RMBS transaction since pre-COVID. The latter's $1.2b size was underwhelming, and while pricing at post-GFC tights (senior AAA notes priced at BBSW+55bps), came wider than investors had anticipated. The market attributed this in part to the winding down of the Committed Liquidity Facility, reducing demand for RMBS from bank balance sheet investors. The Fund did not participate in either of these deals.

Woolworths Group issued its inaugural AUD sustainability-linked bond in 6 and 10-year tenors, Pricing at swaps +75 and +117 respectively, each tranche was heavily over-subscribed by over 4x, demonstrating significant appetite for ESG labelled issuance from the domestic investor base. Positive news from offshore on vaccine-led travel re-openings, allowed Qantas Group to issue a 7-year senior unsecured bond at swaps +210bps again heavily over-subscribed at approximately 4x, with investors demonstrating optimism around a future living with COVID. Both of these securities were added to the Fund, and both rallied in spread in the secondary market, exhibiting that stock selection can add value despite weaker prevailing market conditions.

Interest rate duration remains modest at 0.3 years, and the Fund is well positioned to weather rises in bond yields. We see some value emerging in the front end of the yield curve, with the three-year government bond yield at 0.58% at the time of writing.