Janus Henderson

DIVERSIFIED CREDIT FUND

Janus Henderson INVESTORS

As at May 2022

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
$686.9 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

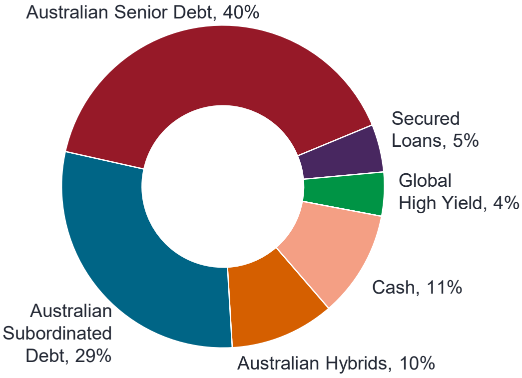
APIR code
IOF0127AU

ASX mFund
JHI04

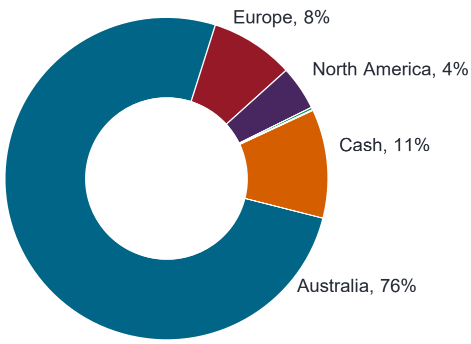
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a)
Fund (gross)	-1.00	-2.75	-2.85	-1.82	3.37	3.66	4.57
Fund (net)	-1.05	-2.88	-3.12	-2.31	2.78	3.06	3.99
Benchmark#	0.03	0.02	0.04	0.05	0.36	1.08	2.26
Excess return*	-1.08	-2.90	-3.16	-2.36	2.42	1.98	1.73

*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

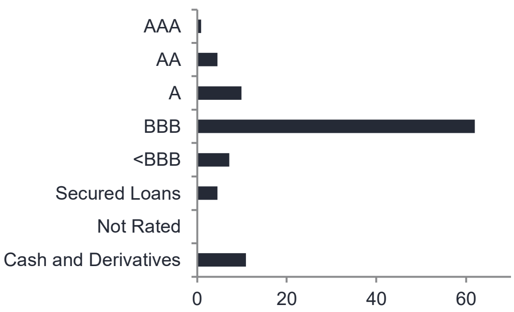


Region of issue



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio statistics

Portfolio Yield[1]	4.61
Running Yield	4.25
Spread Duration	3.73
Modified Duration	1.60
Weighted Average Credit Quality	A-
Number of Securities[2]	470

[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	4.71
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.79
CBA Subordinated FRN Basel III T2 14/4/2032	2.59
NAB Wholesale Capital Notes 2 Basel III T1	2.47
ANZ Subordinated FRN Basel III T2 26/02/2026	2.46
Westpac Subordinated FRN Basel III T2 29/01/2026	2.31
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.29
ANZ Subordinated FRN Basel III T2 26/07/2024	2.21
CBA Subordinated FRN Basel III T2 20/08/2026	2.14
Resolution Life Subordinated FRN Basel III T2 09/12/2035	1.72

[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 -1.05% (net) for the month. Over the last 12-months, the Fund has returned -2.31% (net), in addition investors received 0.15% of franking credits.

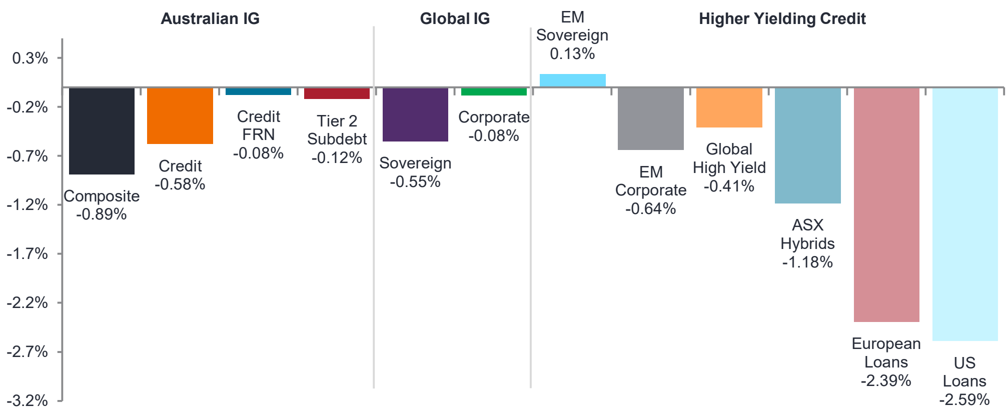
Cash distributions have averaged 4.02% over the past three years, and the Fund has returned 3.02% p.a. (net) including franking credits over the same period.

Convicted moves and signalling by central banks to front-end load monetary policy tightening cycles look to have capped the rise in offshore and domestic yields. After peaking earlier in the month, yields began to fall as the focus shifted from central bank inflation-fighting resolve to the consequences of tighter policy for growth. Equity and credit markets were weaker, while inflation expectations edged lower. At the shorter end of the yield curve, money market yields rose as nearer-term monetary tightening was factored in. The three-month bank bill yield ended the month 46.5 basis points (bps) higher at 1.18%, while six-month bank bills ended 47bps higher at 1.93%.

Global credit markets reacted sharply to a combination of rate volatility, weakening fundamentals, and recession fears, with spreads pushing wider across the course of the month as primary supply accelerated. The Australian fixed and floating credit indices both widened in spread by 9bps. The Australian iTraxx Index widened, sharply reaching a peak of 110bps before retracing in the final days, closing the month flat at 95bps.

Returns across the investment universe were generally negative with rising yields and widening spreads generating negative returns and offsetting income benefits. Australian credit FRNs returned -0.08%, subordinated notes fell 0.12%, while fixed rate credit returned -0.58%.

Income profiles are lifting, and carry remains the main positive contributor to Fund returns whilst volatility persists. Duration exposure and credit allocations both contributed negatively given the rise in yields and broad weakness in credit spreads. After favouring floating rate sectors heading into 2022, our active repositioning to decrease hybrid and loans exposure throughout this year whilst these markets were outperforming is beginning to payoff. Hybrid spreads began to widen quickly in the face of new supply and irrational relative value to Tier two subordinated notes. In higher yielding credit, we saw some dispersion, where domestic hybrids and global loans finally capitulated to broad market weakness returning -1.2% and -2.5% respectively



Source: Bloomberg (Ausbond Composite Index, Ausbond Bank Bill Index, Ausbond Credit FRN Index), JPMorgan (Global Bond Index (GBI Global), JPMorgan Emerging Market Global (EMBI Global), CEMBI Broad Diversified), BofAML (BofAML ICE Global Broad Mkt Corp (G0BC), ICE Global High Yield Constrained (HW0C)), SolActive Hybrids Gross Franking, Credit Suisse (Western European Leveraged Loan Index), S&P LTSA US Loans Index as at 31 May 2022

Market review

In terms of the tightening cycle, markets are looking for a cash rate north of 2.5% by year end and around 3.9% by mid-2023. The swift lift in cash rates will benefit floating rate credit with much higher coupon rates set to flow through to investors now the Reserve Bank of Australia (RBA) has committed to a path toward neutral. Furthermore, by tightening sooner than expected several months ago, the RBA reduces the risk of getting too far behind the inflation curve.

We also participated in the new primary corporate deals with yields ranging from 4% - 6.5%. As a result, the Fund is generating a higher yield but has also increased in credit quality.

We currently see value at the shorter end of the yield curve as we anticipate a more moderate tightening cycle through to end 2023, and the market is currently offering yields above our assessment of fair value. We expect that the path of interest rates may initially be swift but over the next year will be shallower than that factored into the Australian market. While we remain agnostic on the longer end of the yield curve, we are mindful that term compensation is improving and that there is ultimately scope for capital gain if central banks overdo tightening and trigger a recession.

Amid choppy conditions, the major banks were active issuers both offshore and domestically, across senior unsecured and covered bond formats. Significant new issue concessions paid by ANZ, Westpac and NAB, led to a re-pricing of Australian dollar major bank three- and five-year senior unsecured spreads to ASW+90bps and +103bps respectively. Approximately 15bps wider over the month, these high quality, liquid instruments are being offered at increasingly attractive all-in yields with the newest NAB three-year bonds trading at a yield above 4.2% at the time of writing.

Other notable non-financial corporate transactions included a six-year green bond issued by top quality “A” rated mall operator, Vicinity Centres at a healthy yield of 4.93% (ASW+165bps), and inaugural Australian dollar bonds issued by majority New Zealand Government-owned Air New Zealand (rated Baa2) in four- and seven-year tenors at 5.47% (ASW+240bps) and 6.47% (ASW+300bps), respectively.

Whilst the near-term environment has been challenging for returns, the normalisation in markets now presents some very attractive yield entry points in high quality, investment grade fixed interest.

As developed market central banks seek to swiftly tighten monetary conditions to combat inflation, markets have worked to restore compensation across pockets of the credit market finding market-based clearing levels for risk and liquidity.

Investment strategy

Recent spread widening has provided opportunity for the Fund to begin accessing high quality names at attractive outright yield levels. Combining the two developments of elevated bond yields and rising high quality senior debt spreads has allowed the Fund to access securities with yields between 4% and 7%. As risk-free yields and credit spreads continue to rise, risks become asymmetric and provide investors reasonable defence from income generation over a 12-month investment period. As a result of, we maintain a modest overweight duration bias focused on the front end of the Australian yield curve out to three-years paired with high quality credit spreads.

Given the current level of credit valuations in the Australian investment grade market the path for spreads is more evenly balanced from here, as bank spreads have now entered historically cheap territory, and investor appetite is returning which is supportive of spreads and credit returns.

Normalising global liquidity conditions will continue to command improved compensation for risk premia. We favour being positioned up in quality and seniority in capital structures leaving powder dry for when liquidity premia escalate. Whilst some normalising of compensation has taken place, we feel it remains insufficient in more illiquid, structured, and levered sectors of the market. We anticipate as global liquidity conditions tighten to combat inflation global spreads will suffer decompression where high quality liquid credit outperforms lower quality as compensation for default risk and illiquidity needs to increase.

Investors should lean less heavily on deeply illiquid or highly levered credit, as they are no longer required to generate attractive levels of income. We now see valuations as more attractive in lower beta investment grade as spreads on high quality financials have normalised and the global growth outlook is softening.

We have expressed this view in our allocations. The Fund’s exposure to hybrids was reduced further by another 3.2% during the month, which now totals a 13.7% reduction in allocation since Q4 last year, as the asset class has outperformed while all other credit spread markets have been widening. The risk reward still looks negatively asymmetric from here, and we view hybrids as requiring a further 50-100bp widening in spreads to restore fair value despite already cheapening late in May and early June. We also took the opportunity in May to further reduce allocations to global loans by 3.2%.

We favour rotating up the capital stack into AAA covered, senior financials, shorter tenor investment grade corporate bonds, and tier two notes which present better risk adjusted value.

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We favour rotating up the capital stack into AAA covered, senior financials, shorter tenor investment grade corporate bonds, and tier two notes which present better risk adjusted value. We also participated in the new primary corporate deals with yields ranging from 4% - 6.5%. As a result, the Fund is generating a higher yield but has also increased in credit quality.

At this juncture, we believe investors are best served favouring some interest rate carry via shorter tenor duration and an "up in quality" shift in credit allocation. Rebalancing activity has improved the credit quality position of the Fund and yield has also risen to above 4.6%, with a robust balance of portfolio risks to ensure clients can capitalise on the period ahead. The Fund is now holding its lowest higher yielding credit allocation since 2017, poised to take advantage of opportunities thrown up as monetary tightening takes hold into a slowing demand environment.