

# DIVERSIFIED CREDIT FUND

## As at July 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<sup>#</sup>

Bloomberg AusBond Bank Bill Index

### Risk profile

Medium

### Suggested timeframe

3 years

### Inception date

31 October 2012

### Fund size

\$703.0 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<sup>^</sup>

### Base currency

AUD

### Currency hedging

\$AUD hedged<sup>^^</sup>

### 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)	1.14	-1.03	-3.06	-2.76	2.86	3.51	4.49
Fund (net)	1.09	-1.16	-3.32	-3.23	2.28	2.91	3.91
Benchmark <sup>#</sup>	0.12	0.21	0.20	0.22	0.33	0.98	2.24
Excess return <sup>*</sup>	0.97	-1.37	-3.52	-3.45	1.95	1.93	1.67

<sup>\*</sup>Excess return is measured against net performance.

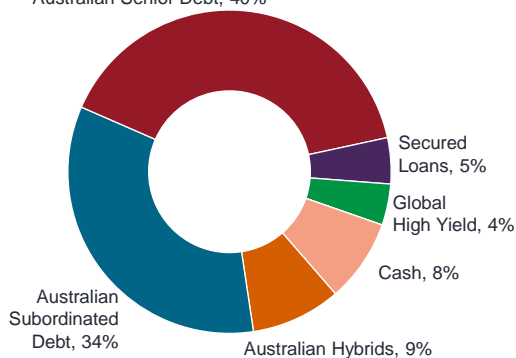
Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

<sup>#</sup>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.

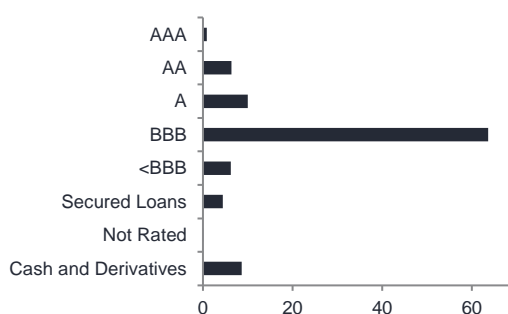
### Sector allocation

Australian Senior Debt, 40%

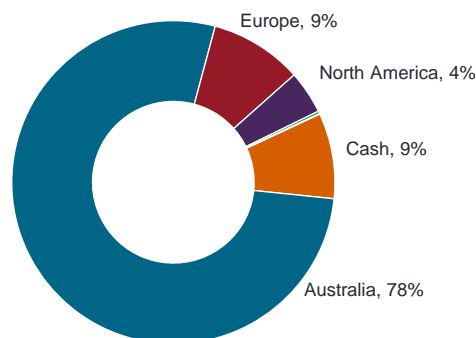


Rounding accounts for small +/- from 100%.

### Credit rating distribution (%)



### Region of issue



### Portfolio statistics

Portfolio Yield <sup>1</sup>	5.38
Running Yield	3.87
Spread Duration	3.86
Modified Duration	1.62
Weighted Average Credit Quality	A-
Number of Securities <sup>2</sup>	449

<sup>1</sup>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)  
<sup>2</sup>Number of Securities is on a look through basis and excludes cash and derivatives.

### Top 10 holdings<sup>3</sup>

Top 10 holdings <sup>3</sup>	Fund weight (%)
CBA Subordinated FRN Basel III T2 10/09/2025	4.56
CBA Subordinated FRN Basel III T2 14/4/2032	2.77
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.74
ANZ Subordinated FRN Basel III T2 26/02/2026	2.70
Westpac Subordinated FRN Basel III T2 29/01/2026	2.64
CBA Subordinated FRN Basel III T2 20/08/2026	2.49
NAB Wholesale Capital Notes 2 Basel III T1	2.39
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.28
ANZ Subordinated FRN Basel III T2 26/07/2024	2.15
NAB Subordinated Basel III T2 6.322% 3/8/2032	1.71

<sup>3</sup>Top 10 is on a look through basis.

<sup>^</sup> For more information and most up to date buy/sell spread information visit

[www.janushenderson.com/en-au/investor/buy-sell-spreads](http://www.janushenderson.com/en-au/investor/buy-sell-spreads)

<sup>^^</sup>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 1.09% (net) for the month. Over the last 12 months, the Fund has returned -3.23% (net), in addition investors received 0.13% of franking credits. Cash distributions have averaged 4.05% over the past three years.

In terms of top down sector strategy, having previously preserved capital with significant credit protection via CDS earlier in the year our focus has been on accumulating more liquid high quality credit assets (predominantly AAA, AA). This exposure to credit was a positive contributor to performance in the month.

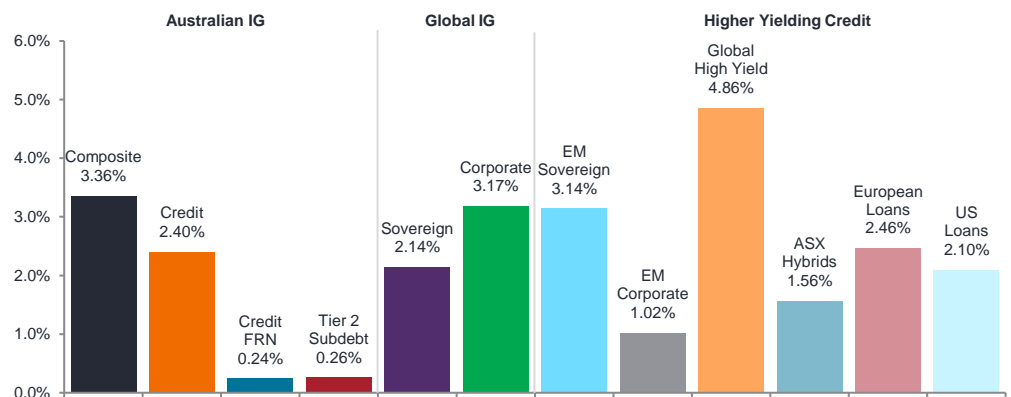
## Market review

Both the US Federal Reserve (Fed) and the Reserve Bank of Australia (RBA) continued with aggressive front-end loaded monetary tightening against the backdrop of stubbornly high inflation readings. Risk appetite improved as markets saw signs of moderating growth as limiting the amount of prospective monetary tightening. While volatile, both equity and credit markets ended stronger, while yields fell across the curve.

Short-term money market yields continued to rise as markets discounted further near-term tightening. The three-month bank bill yield ended the month 31.5 basis points (bps) higher at 2.12%, while six-month bank bills ended 11bps higher at 2.78%

Despite intra-month volatility, credit markets closed on a stronger footing. The Australian iTraxx Index closed 19bps tighter at 111bps, while the Australian fixed and floating credit indices returned 2.40% and 0.24% respectively.

The rebuilding of credit risk compensation took a breather in July, and the lower levels of liquidity saw battered high yield sectors retrace some of their recent losses. Global high yield was the top performer at 4.9%, aided by the rally in global bond yields, however remains almost -12% over the one-year as we consider a much slower growth environment ahead. Tier 2 underperformed temporarily as the market digested new supply for NAB, while hybrids rebounded after supply from recent months was well absorbed.



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 (HWOC)), SolActive Hybrids Gross Franking, Credit Suisse (Western European Leveraged Loan Index), S&P LTSA US Loans Index as at 31 July 2022

# DIVERSIFIED CREDIT FUND

(continued)

It does seem markets are taking a more balanced view of where cash rates may ultimately peak in this cycle.

## Market outlook and investment strategy

Whilst the process and journey of policy normalisation, consumer demand moderating, inflation peaking and the forthcoming economic growth slowdown from tighter financial conditions has a long way to go with many more twists and turns, it does seem markets are taking a more balanced view of where cash rates may ultimately peak in this cycle.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Aug22](http://go.janushenderson.com/Viewpoint-Aug22).

**Investment grade credit:** We remain active and selective, favouring relative value within sub-sectors, whilst being judicious on overall credit beta. Recent spread widening has allowed us to access high quality names at attractive levels. We now see valuations as more attractive in investment grade credit as spreads on high quality financials have normalised and the global growth outlook is softening. We favour rotating up the capital stack into AAA covered, senior financials, investment grade corporate bonds in defensive sectors, and Tier 2 notes which present better risk adjusted value. We anticipate primary supply post reporting to provide good entry points into attractive yielding quality credit.

### High Yield (ex-global)

We continue to divest from hybrids into the risk rally, and favour moving up into Tier 2 or senior notes which capture similar yields with lower risk. We have maintain our bias to position up in quality and seniority, retaining liquidity and risk capacity to add when lower quality spreads sufficiently compensate for a higher default environment.

### High Yield (global)

We anticipate as global liquidity conditions continue to tighten global spreads will suffer decompression where high quality liquid credit outperforms lower quality as compensation for rising 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 remain patient looking for re-entry points into sub investment grade allocations as higher quality liquid credit still offers healthy income opportunities in the meantime.

## Important information

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2021 is available at [www.janushenderson.com/australia](http://www.janushenderson.com/australia).

Past performance is not a reliable indicator of future performance. Performance source: Morningstar, Janus Henderson. Performance figures are calculated using the exit price net of fees and assume distributions are reinvested. The Gross performance methodology was updated at the end of March 2020 to reflect the Gross return to be Gross of Management costs and Sell Spread. 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](http://www.janushenderson.com/australia), before making a decision about the Fund. Target Market Determinations for funds issued by Janus Henderson are available here: [www.janushenderson.com/TMD](http://www.janushenderson.com/TMD). Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.