

DIVERSIFIED CREDIT FUND

As at November 2020

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

\$666.6 million

Minimum investment

\$25,000

Management cost (%)

0.55 p.a.

Indirect costs – 0.01 p.a.*

*Based on costs incurred during the financial year ended 30 June 2020.

Buy/sell spread (%)

0.10/0.25^A

Base currency

AUD

Currency hedging

\$AUD hedged^{AA}

Distribution frequency

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)	1.74	2.64	6.42	6.99	5.21	5.50	5.37
Fund (net)	1.70	2.51	6.41	6.26	4.57	4.86	4.77
Benchmark [#]	0.01	0.03	0.05	0.44	1.31	2.05	2.67
Excess return [*]	1.69	2.48	6.36	5.82	3.26	2.81	2.10

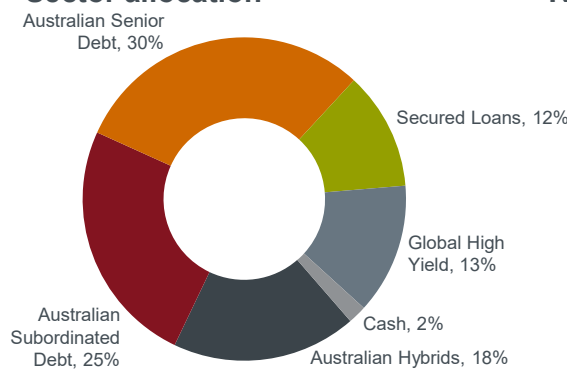
^{*}Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

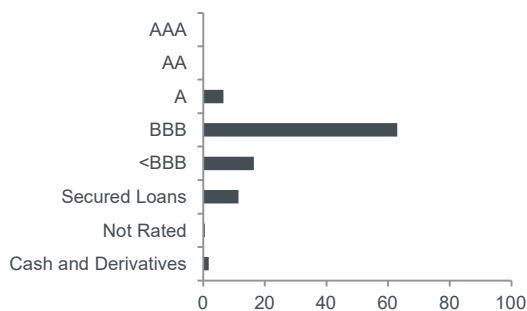
[#]As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr index.

Sector allocation

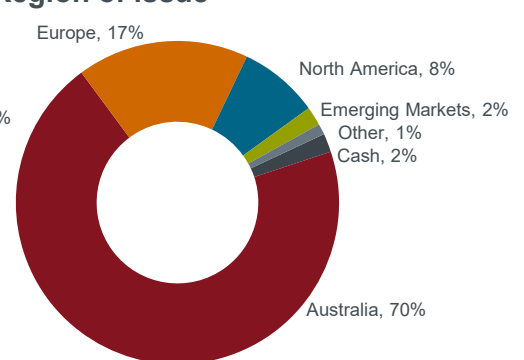


Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Region of issue



Portfolio statistics

Portfolio Yield ¹	2.87
Running Yield	2.18
Spread Duration	4.56
Modified Duration	1.37
Weighted Average Credit Quality	BBB-
Number of Securities ²	546

¹Estimated 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)
²Number of Securities is on a look through basis and excludes cash and derivatives.

Top 10 holdings³

Top 10 holdings ³	Fund weight (%)
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.49
CBA Subordinated FRN Basel III T2 10/09/2025	3.29
ANZ Subordinated FRN Basel III T2 26/07/2024	2.84
Woolworths Group Senior Unsecured 2.8 20/05/2030	2.43
Transurban Queensland Finance Senior Secured 4.5% 19/01/2028 USD	2.03
ANZ Subordinated FRN Basel III T2 26/02/2026	1.93
NAB Capital Notes 2 Basel III T1	1.89
NAB Subordinated FRN Basel III T2 17/05/2024	1.85
NAB Subordinated FRN Basel III T2 18/11/2026	1.81
Charter Hall Prime Industrial Fund Senior Unsecured 2.485% 28/10/30	1.76

³Top 10 is on a look through basis.

^A For more information and most up to date buy/sell spread information visit www.janus Henderson.com/en-au/investor/buy-sell-spreads

^{AA}Generally, 100% of the Fund's non-Australian dollar denominated exposure will be hedged back to the Australian dollar.

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(continued)



Portfolio Manager
Shan Kwee

Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned 1.70% (net) for the month. This compares to the Bloomberg AusBond Bank Bill Index (Benchmark) return of 0.01%.

Over the last 12 months the Fund has returned 6.26% (net), which is 5.82% above the Benchmark. In addition, investors received 0.14% of franking credits, while cash distributions were 3.48%.

Risk appetite surged on positive vaccine announcements and allowed markets to look through surging European and US COVID-19 infection rates. Equity markets roared ahead, delivering double digit returns in many countries. Positive sentiment cascaded over into credit markets, where spreads continued to tighten and there was also a lift in inflation expectations.

The additional income and return available from credit markets remained attractive and returns for the month were buoyed by a decent tightening in credit spreads producing capital gains for well positioned investors. Australian corporate bond spreads rallied 18 basis points (bps) with COVID-19 impacted sectors like Airports, Airlines, and REITs performing the strongest on vaccine and border reopening news.

Higher beta markets all performed strongly as effective vaccines ignited the reflation trade, with global high yield, global loans and emerging markets producing monthly returns between 2-4% as investors chased the spread compression in "left behind" sectors like Energy, Consumer cyclical and Leisure.

All of our credit allocations contributed positive returns during November, with our global high yield allocation outperforming, delivering 5.0% for the month. Our favoured stock selection in longer tenor IG corporate credit paid off with holdings in local REIT and Airport bonds generating returns north of 3.5%, allowing the Fund return to keep pace with lower grade market returns while owning much less sub investment grade exposure.

Market review

Primary markets remained active as issuers sought to access the strong investor appetite for credit assets before market liquidity slows into the holiday season ahead. Listed hybrid spreads widened 9bps on average as larger deals were absorbed by the market, while due to additional supply, Tier 2 spreads underperformed the tightening in corporate bond spreads. Bank capital investors were kept busy with two ASX listed hybrid deals from Westpac and NAB which were keenly sought after. Three of the major banks also issued Tier 2 subordinated bonds across the Australian and US dollar markets after reporting their results. Inaugural infrastructure issuers NBN Co. and Australian Gas Infrastructure Group collectively raised close to \$2 billion, while several other corporate deals were also looking to launch in early December.

The Reserve Bank of Australia (RBA) announced a package of easing measures early in the month. The cash rate target, the three-year government bond yield target and rate on new drawings under the Term Funding Facility (TFF) were all cut from 25bps to 10bps, three-month bank bills ended the month 4bps lower at 2bps. Flush liquidity conditions and forward guidance will see an extended period of highly accommodative policy likely to promote ongoing yield seeking behaviour.

Globally, central banks continue to implement further support via expansion of their balance sheets to help provide the most accommodative financial conditions to support the economic path to recovery and full employment. In this regime of financial repression and recovering economic outlook, we expect spread sectors to be shored up by the extended period of low yields on government securities, unprecedented levels of central bank support for both sovereign and non-sovereign debt markets and investor demand for shrinking levels of lower risk income. This will have the somewhat intended effect of extending risk seeking behaviour as investors are left to search for a reasonable level of income and return, providing easy liquidity via capital markets staving off large scale corporate defaults.

DIVERSIFIED CREDIT FUND

(continued)

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Investment strategy

We see the additional return and income from credit assets as extremely valuable in protecting client capital in real terms as inflation rebounds, and nominal rates are held at very low levels for years. The yield in the Fund remains above 3%, which is highly attractive in a world where retail deposit rates continue to trend toward 0%.

We anticipate further capital gains to be generated as safer forms of income remain incredibly desirable. This will likely see credit spreads continue to narrow, potentially well beyond pre-COVID levels, as we have seen already in pockets of the market directly impacted by policy actions. This momentum will likely accelerate as the economy works its way past the peak in defaults over the next 12 months. The reality of a recession, despite significant policy support, is that not all can be saved, and we anticipate pockets of stress across SMEs, households and corporate sectors will remain, albeit policy has materially trimmed the risk of large-scale defaults.

We remain very discerning within stock selection and added primary deals in hybrid and subordinated issuance from Westpac and NAB across both Australian Dollar and US Dollar. We anticipate financials will begin to perform once near-term supply is absorbed and a firmer understanding of the implications of APRA's revision of capital adequacy for banks is acknowledged by the broader market.

We remain cognisant of where the relative value remains attractive in the credit market, and after state borders began reopening, we met with most of the airport treasury teams during the month to assess the outlook for domestic air travel. Subsequently, we added new longer tenor Qantas bonds to position the Fund to benefit from a pickup in domestic air travel expected over the coming months. These bonds are still trading more than 100bps higher in spread than when they were issued in 2019 and offer a yield of 3.7%, with potential to add another 7-10% through capital gains as domestic conditions improve.

As the economic recovery gains traction and financial conditions remain extremely accommodative for years, we anticipate spreads will be able to be sustained at levels well below those prevailing at the start of 2020. Our activity remains focused on extracting income and capital gains from this opportunity where scarce supply and policy support underpins market demand. The Fund remains well positioned to capitalise on further gains from income and capital gains delivered via spread compression.

Important information

A new Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2020 is available at 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, before making a decision about the Fund. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.