

DIVERSIFIED CREDIT FUND

As at July 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

\$669.6 million

Minimum investment

\$25,000

Management cost (%)

0.55 p.a.

Indirect costs – 0.02 p.a.*

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

Buy/sell spread (%)

0.10/0.25[^]

Base currency

AUD

Currency hedging

\$AUD hedged^{^^}

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)	0.34	1.22	1.98	7.12	5.65	5.52	5.35
Fund (net)	0.29	1.08	1.72	6.65	5.02	4.89	4.76
Benchmark [#]	0.00	0.01	0.01	0.05	0.89	1.64	2.47
Excess return [*]	0.29	1.07	1.71	6.60	4.13	3.25	2.29

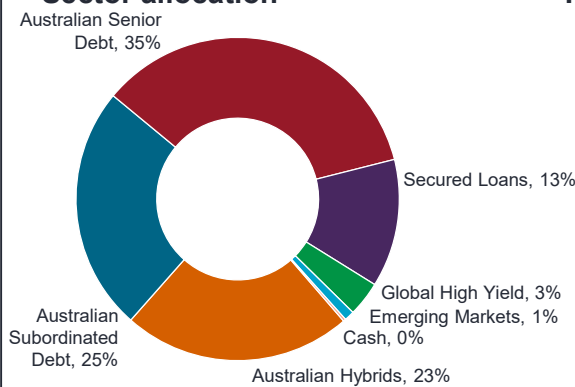
^{*}Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

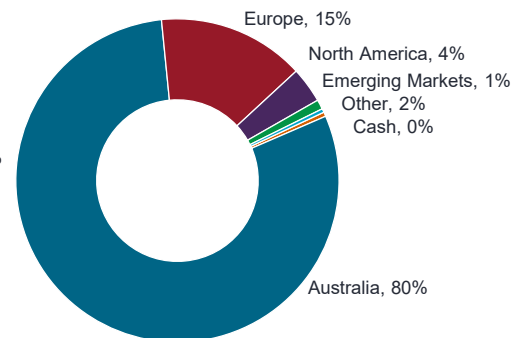
[#]As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

Sector allocation

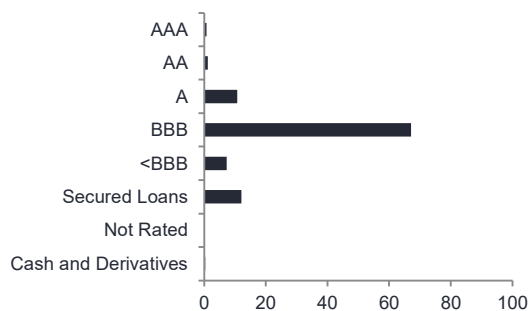


Rounding accounts for small +/- from 100%.

Region of issue



Credit rating distribution (%)



Portfolio statistics

Portfolio Yield ¹	2.41
Running Yield	2.93
Spread Duration	4.44
Modified Duration	0.33
Weighted Average Credit Quality	BBB
Number of Securities ²	620

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 (%)
ANZ Subordinated FRN Basel III T2 26/07/2024	4.32
CBA Subordinated FRN Basel III T2 10/09/2025	3.89
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.64
ANZ Bank Capital Notes 6 (ANZPI) Basel III T1	3.04
NAB Capital Notes 2 Basel III T1	2.96
ANZ Subordinated FRN Basel III T2 26/02/2026	2.12
Westpac Subordinated FRN Basel III T2 29/01/2026	1.91
NAB Subordinated FRN Basel III T2 17/05/2024	1.87
Charter Hall Prime Industrial Fund Senior Unsecured 2.485% 28/10/30	1.73
Woolworths Group Senior Unsecured 2.8 20/05/2030	1.73

³Top 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 0.29% (net) for the month, while the Bloomberg AusBond Bank Bill Index (Benchmark) was flat.

Over the last 12 months, the Fund has returned 6.65% (net), which is 6.60% above the Bloomberg AusBond Bank Bill Index (Benchmark). In addition, investors received 0.15% of franking credits, while cash distributions have averaged 4.0% over the past three years.

A downward revision to the growth outlook following 'Delta' strain outbreaks led to sharp falls in domestic yields and a flattening in the yield curve. A strong offshore earnings season helped support risk appetite, with the domestic equity market firmer. After a strong run, credit markets softened, with a modest widening in global spreads.

Renewed domestic lockdowns and global COVID case rises started to weigh on investor sentiment in credit markets. The Australian iTraxx Index ended the month 5 basis points (bps) wider which tracked offshore spreads wider, while Australian fixed and floating rate credit markets outperformed closing flat and 3bps tighter respectively. The listed hybrid market took a breather after a stellar previous month, returning flat for the month. Global higher yielding sectors saw spreads widen with global high yield and US loan markets posting small negative returns, and EM spreads also widened but were buffered by falling US yields.

Despite a more challenging market environment, Fund returns remained positive. Allocation to bank subordinated Tier 2 notes was a positive contributor as they remained in high demand with the sector returning 0.3% during July. Hybrid allocations benefitted from positive stock selection as the new ANZPI hybrid finished the month up 2.3% within three weeks of listing, significantly outperforming the broader market and contributing positive 8bps to return. Corporate allocations held their ground and contributed to return predominantly via income carry.

Market review

Rolling 'Delta' lockdowns mean that the economy will hit a significant air pocket. With the Sydney outbreak proving more persistent, we look for the economy to contract by between 1%-1.5% over the September quarter. We still look for the economy to grow by around 3.75%-4% over 2021 (this was 4.75% pre lockdowns).

For 2022, we expect the economy to grow by around 3.5% and for the unemployment rate to fall to around 4.5%.

The near-term outlook has worsened, and we expect that deterioration to be acknowledged at the upcoming August RBA Board meeting via dovish signalling and a less urgent wind-down of quantitative policies. Our base case still has the first tightening in a cycle that takes monetary conditions from accommodative to neutral starting in H1 2024.

At the longer end of the curve, the fall in the 10-year government bond to 1.17% has taken them to outright expensive levels in our view and vulnerable to a lift in growth and inflation expectations as vaccination rates progress.

Spread sectors are likely to remain well-supported, with corporates in particular, benefiting from the tail winds of a cyclical recovery and persistent accommodative policy settings. Nevertheless, with the spread cushion for investors within pockets of credit having narrowed substantially, we remain very active and selective in this environment. While the market searches for any yield advantage, we remain discriminate, and prudently avoiding lower quality borrowers whilst risk compensation is low.

The income environment remains challenging with investor's yields on traditional defensive assets remaining very low. We see the additional return and income from credit assets, combined with a shorter duration profile remains valuable in protecting client capital as the market will attempt to push bond yields higher as macro indicators invariably improve and the "grand bargain" of synchronised monetary and fiscal stimulus underpinning recovery conditions.

DIVERSIFIED CREDIT FUND

(continued)

Fund yield remains reasonably attractive at 2.41%, and sub-investment grade exposure remains below 20%.

Investment strategy

Fund yield remains reasonably attractive at 2.41%, and sub-investment grade exposure remains below 20%. This remains a relatively attractive level of income from a predominantly investment grade quality portfolio in the current valuation environment.

We continue to balance, adding credit income and capital gain opportunities into the portfolio, while withholding risk capacity to capture further upside from volatility in credit with spreads remaining tight in offshore IG and HY markets. We anticipate any spread widening will be largely manageable and would improve value for investors into a recovery that policy makers remain keen to support. Global allocations remained stable at low levels during July despite some modest cheapening in spreads. We remain wary of potential volatility in the highly levered segment as financial conditions are gradually tightened, with the equity and debt stress of China Evergrande serving as a timely reminder.

While COVID-impacted sectors such as airports, REITs and the universities faced elevated volatility during 2020, investors have more confidence today, armed with clear evidence of demand coming back strongly as vaccines get rolled out and lockdowns are lifted. Dexus Wholesale Property Fund to issue A rated 10 year bonds at a spread of 1.25% and Edith Cowan University issued a AA rated 20 year bond at a spread of 1.6%. We thought both were attractively priced for the credit quality and low levels of gearing, leaving investors scope for capital gains as Australia accelerates their now vaccine-lead recovery. The airport sector was also boosted by potential M&A for Sydney Airport, demonstrating strong global demand for essential infrastructure assets.

A muted corporate primary market ahead of full-year reporting was trumped by a very active primary securitisation market, with investors attracted to solid housing market fundamentals. Another notable item was Zip Master Trust, achieving credit rating upgrades to AAA for the senior notes in its three outstanding public securitisation transactions, a positive catalyst we forecast when adding positions back in October 2020 and March this year.

After a quiet July, we anticipate a pickup in primary issuance associated with corporate reporting season starting in August. We will continue to actively seek stock selection opportunities at reasonable spreads which offer investors capital gain potential to complement yield income. Interest rate duration positioning remains very low and was reduced further to 0.3 years as bond yields have rallied.

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.