

# DIVERSIFIED CREDIT FUND

## As at August 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<sup>#</sup>

Bloomberg AusBond Bank Bill Index

### Risk profile

Medium

### Suggested timeframe

3 years

### Inception date

31 October 2012

### Fund size

\$676.3 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<sup>^</sup>

### Base currency

AUD

### Currency hedging

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

### 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)	0.13	1.07	2.13	6.30	5.53	5.31	5.32
Fund (net)	0.08	0.93	1.86	5.73	4.89	4.68	4.72
Benchmark <sup>#</sup>	0.00	0.01	0.02	0.04	0.84	1.55	2.45
Excess return <sup>*</sup>	0.08	0.92	1.84	5.69	4.05	3.13	2.27

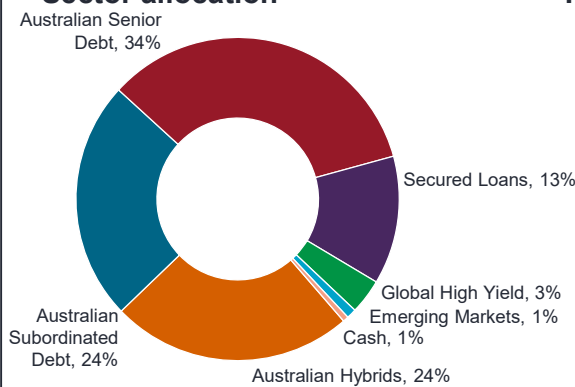
<sup>\*</sup>Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

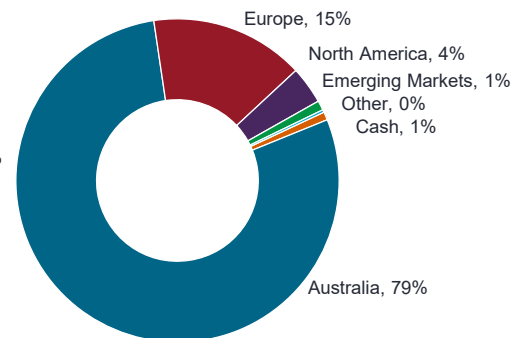
<sup>#</sup>As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

### Sector allocation

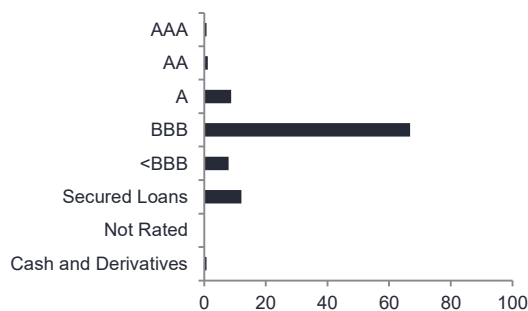


Rounding accounts for small +/- from 100%.

### Region of issue



### Credit rating distribution (%)



### Portfolio statistics

Portfolio Yield <sup>1</sup>	2.48
Running Yield	2.91
Spread Duration	4.44
Modified Duration	0.31
Weighted Average Credit Quality	BBB
Number of Securities <sup>2</sup>	598

<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	3.85
ANZ Subordinated FRN Basel III T2 26/07/2024	3.67
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.61
ANZ Bank Capital Notes 6 (ANZPI) Basel III T1	3.00
NAB Capital Notes 2 Basel III T1	2.94
Westpac Subordinated FRN Basel III T2 29/01/2026	2.41
ANZ Subordinated FRN Basel III T2 26/02/2026	2.40
CBA Subordinated FRN Basel III T2 20/08/2026	2.26
NAB Subordinated FRN Basel III T2 17/05/2024	1.85
Charter Hall Prime Industrial Fund Senior Unsecured 2.485% 28/10/30	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 0.08% (net) for the month. Over the last 12 months, the Fund has returned and 5.73% (net), which is 5.69% above the Bloomberg AusBond Bank Bill Index (Benchmark), in addition investors received 0.15% of franking credits. Cash distributions have averaged 4.0% over the past three years.

Offshore investment grade returns were hampered by a modest rise in US bond yields, while higher yielding markets rebounded from recent weakness as the threat of imminent Fed tightening and Delta related fears abated. While a strong Aussie earnings season provided fundamental support, a clear theme was an increasing focus on shareholder-friendly activity to support earnings. This has included record dividends and share buy-backs, aided by additional debt issuance.

The Australian iTraxx Index ended the month 4 basis points (bps) tighter reflecting offshore moves, while Australian fixed and floating rate credit indices closed 1bp wider and 1bp tighter respectively as they face a period of increasing supply ahead. The broader ASX listed hybrid market weakened, returning -0.01% for the month, due to recent supply from Macquarie, Westpac and Suncorp. In terms of demand for the new notes, the bank deals were very well supported (4-5x oversubscribed) and it was tough for investors to get an allocation showing demand is rife for decent levels of more reliable income. This suggests to us that hybrid returns should bounce back in the near term and we remain constructive.

Despite the mixed return environment for credit, Fund returns remained positive. Floating rate secured loan allocation provided positive performance, while the rebound in global high yield spreads also provided a modest positive contribution to return. Top performers in the domestic allocations included NAB unlisted hybrids which were stable during August, while new positions in Tier 2 primary from CBA rallied post issuance.

## Market review

Markets and central bankers shifted into a more cautious mode while awaiting for further clarity on the tussle between the growth-dampening Delta COVID-19 variant and rising vaccination rates. Economic releases painted a picture of an economy losing momentum following a period of rolling lockdowns.

There is an element of 'Groundhog Day' to the latest round of Delta lockdowns. The economy will contract sharply in the September quarter, with both NSW and Victoria locked down and the fall in the level of activity occurring then. As vaccination rates rise to 70-80% during the middle of the December quarter and restrictions begin to ease, activity will rebound quickly as the economy makes up for lost time. Our view is the economy will be back at June quarter 2021 levels by the March quarter 2022 and that economic growth over 2022 will be stronger and less volatile than for 2021.

We expect the Reserve Bank of Australia (RBA) to remain circumspect, reinforcing its message that monetary policy decisions would be 'data', not 'date' driven. Our base case still has the first tightening in a cycle that takes monetary conditions from accommodative to neutral starting in H1 2024. By then we expect that the tightening trifecta conditions of: i) an unemployment rate close to 4%; ii) wages growth of at least 3%; and iii) actual inflation at 2% or above on a sustainable basis, will have been met.

The emerging prospect of more normal levels of economic activity in the near future was supported by our observations from the domestic earnings season. Companies are looking ahead with rising capital expenditure intentions and we expect a supportive growth and earnings environment in the near term.

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 bond yields are expected to normalise and rise, and current pricing of growth assets remains rich. This combination of low interest rate risk and attractive levels of income should remain valuable in protecting client capital as the "grand bargain" of synchronised monetary and fiscal stimulus underpins global recovery conditions. We see the balance of risks tilted towards yield curve steepening over time as growth and inflation expectations are revised up as vaccination rates lift.

# DIVERSIFIED CREDIT FUND

(continued)

**Fund yield remains reasonably attractive at 2.48%, 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 2.48%, 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. The intersection of the recent fall in bond yields, global QE tapering and a heavy corporate bond supply window after the Northern Hemisphere summer will present the next test for asset pricing late into the year.

Global allocations remained constrained as risk markets continue to trade at the rich end of valuations. For higher yielding allocations we still favour hybrids and loans due to their floating rate nature in a period of likely rising interest rates.

Interest rate duration remains modest at 0.31 years, and the Fund is well positioned to weather any rise in bond yields.

The Australian banking system is coming into this recovery phase with an extremely strong capital position and despite capital returns to shareholders we remain positive on the outlook for bank hybrids as higher quality high yield. In primary, we increased hybrids exposure using the new deals from Macquarie Bank and Westpac at a spread of +2.9% (including Franking). We also purchased CBA Tier2 subordinated notes at a spread of +1.3% which already delivered some capital gains through spread tightening by the end of the month.

As confidence of a vaccine-led recovery builds momentum, there are investment implications for those industries that have taken longer to recover. Tourism, airports, universities, retail are set to benefit the most from the broader economic recovery as Australia gets a second wave of growth from pent up demand, latent savings and return to travel and we are positioned to participate in this recovery phase. Heathrow Airport secured bonds was a position that was increased during the month.

We continue to balance the needs of investors to pursue income/yield and capital gain opportunities, while withholding risk capacity in the Fund to capture future upside from any volatility in credit with spreads trading at tight levels.

Spread sectors are likely to remain well-supported and any volatility likely to see limited widening, as companies are set to benefit from the tail winds of a cyclical recovery and accommodative policy settings with a very gradual approach to normalisation. We remain selective, favouring targeted sectors/issuers and securities where risk compensation is reasonable and positive catalysts exist to provide additional return via capital gains.

## 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](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. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.