Janus Henderson

DIVERSIFIED CREDIT FUND

Janus Henderson INVESTORS

As at November 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
$722.0 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^

Base currency
AUD

Currency hedging
$AUD hedged^^

Distribution frequency (if any)
Monthly

ARSN code
127 727 431

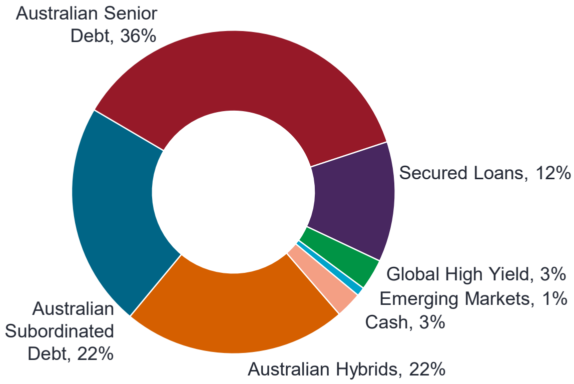
APIR code
IOF0127AU

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)	0.25	0.00	1.06	3.56	5.43	5.00	5.17
Fund (net)	0.21	-0.09	0.84	3.06	4.82	4.38	4.58
Benchmark[#]	0.01	0.01	0.01	0.02	0.68	1.43	2.38
Excess return*	0.20	-0.10	0.83	3.04	4.14	2.95	2.20

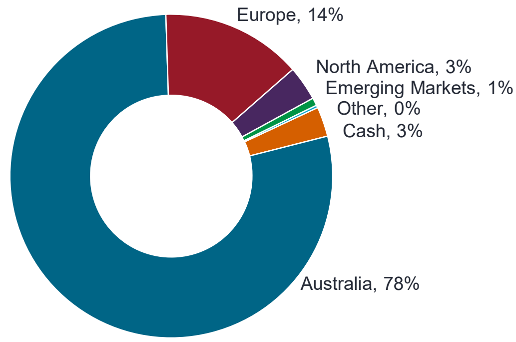
*Excess return is measured against net performance.
Gross return is gross of management costs and sell spread.
Past performance is not a reliable indicator of future performance.
[#]As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

Sector allocation

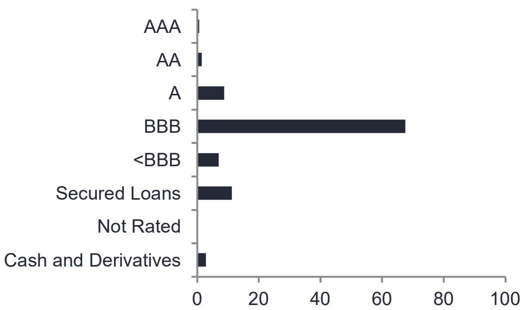


Rounding accounts for small +/- from 100%.

Region of issue



Credit rating distribution (%)



Portfolio statistics

Portfolio Yield[1]	2.78
Running Yield	2.79
Spread Duration	3.60
Modified Duration	0.43
Weighted Average Credit Quality	BBB+
Number of Securities[2]	606

[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	4.02
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.23
ANZ Bank Capital Notes 6 (ANZPI) Basel III T1	2.85
NAB Wholesale Capital Notes 2 Basel III T1	2.75
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.59
Westpac Subordinated FRN Basel III T2 29/01/2026	2.25
ANZ Subordinated FRN Basel III T2 26/02/2026	2.22
ANZ Subordinated FRN Basel III T2 26/07/2024	2.14
Westpac Subordinated 3.02% Basel III T2 18/11/2036 USD	2.13
CBA Subordinated FRN Basel III T2 20/08/2026	2.10

[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 0.21% (net) for the month. Over the last 12 months, the Fund has returned 3.06% (net), in addition investors received 0.15% of franking credits. Cash distributions have averaged 3.84% over the past three years.

Dovish commentary from the Reserve Bank of Australia (RBA) and less hawkish than expected behaviour from offshore central banks was confronted by high inflation prints coming out of the US, Europe and Asia. Domestically, the reopening of the eastern states saw early-stage recovery underway with promising economic activity. Higher COVID-19 cases entering winter in the northern hemisphere resulted in lockdowns for the Netherlands, Slovakia and Austria and rising cases elsewhere in Europe and parts of Asia. These factors added volatility and has seen underlying market liquidity diminish. Credit markets grappled with inflation pressures, higher rate expectations, and a surge of COVID-19 cases in the northern hemisphere. A noticeable risk-off tone developed towards month-end.

The start of November saw the bond market returns quickly recover as yields fell across the curve. Yields took a further leg down as the threat of the new COVID-19 variant Omicron spooked markets. Three-year government bond yields ended the month 36 basis points (bps) lower at 0.865%. The dramatic move reflected the market winding back tightening expectations. Dovish RBA minutes and a speech by Governor Philip Lowe in the month stated that a rate hike in 2022 was ‘extremely unlikely’, whilst acknowledging that ‘it is now plausible that a lift in the cash rate could be appropriate in 2023’. COVID-19 concerns also weighed on yields, as markets considered a potential delay to the reopening and activity by global central banks in light of the new Omicron strain.

The Australian fixed and floating rate credit indices, and the local iTraxx Index closed 7bps, 3bps and 6bps wider, respectively. Returns across the investment universe were mixed, credit FRNs returned -0.02%, subordinated notes returned -0.09% and hybrids 0.01%. Fixed rate credit exhibited negative excess returns of -0.37% versus government bond equivalents. Despite a flattening rally in longer US bond yields both global high yield and emerging market hard currency bonds underperformed as spreads widened 50 and 30bps respectively. European loans were the outperformer posting positive 0.2% returns ahead of the US loan market which was down 0.2%, as the European Central Bank remains more dovish than their Federal Reserve counterparts.

The key positive contributor for the Fund was the repositioning to extend duration into the October weakness in bond yields. Interest rate duration was the main contributor to positive returns as we shifted to a peak of 0.7 years in late October, this position was held overweight during November to take advantage of the sharp rally in 3 - 5 year bond yields. The Fund’s higher allocations to hybrids and European loans also helped buffer the Fund from broader weakness in risk sentiment.

Market review

Our expectation for a fall in Australian bond yields was realised over November. Even with the pullback, we see the three-year government bond yield at 0.90% at the time of writing as still offering some value given our view on the likely tightening profile by the RBA. The fall in 10-year government bond yields to 1.69% (at time of writing) is where we consider fair value and offers adequate compensation for term risk. Markets appear unsure of the next direction, as the current uncertainties from the covid situation tussles against global inflationary forces.

Pockets of credit have begun widening from tight spread levels, and we expect some further softening as markets reconcile the ongoing threat of the pandemic while seeking greater liquidity premium as unconventional policies are being unwound.

We continue to remain very active and selective in this environment, favouring relative value in sub-sectors set to benefit from reopening in Australia, whilst being cautious on overall credit beta, in preparation to access higher spreads should further volatility emerge.

As the market adjusts to normalising growth, return opportunities have been increasing in both areas of credit and base interest rate profiles, and we think that forward looking returns for short duration credit investors are on the improve.

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(continued)

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Fund yield remains at 2.78% with capacity to increase yield through opportunistically adding interest rate duration and increasing our modest sub-investment grade exposure from 20%. Whilst high yield spread valuations cheapened during November, we elected to continue to keep powder dry to add risk into further weakness as liquidity normalises with global QE tapering, rising bond yields and ongoing heavy corporate bond supply remaining tests for asset pricing heading into 2022. Our allocations to floating rate sectors such as hybrids, loans and subordinated notes have outperformed this year and our outlook remains favourable on these sectors as investors will continue to likely prefer low duration assets in a period of rising interest rates.

Positioning changes for the month included a nimble adjustment to duration which was reduced by 0.22 years to 0.43 years late in the month, taking profit as yields bottomed as the markets digested Omicron news. Our remaining bias in positioning is within the 2 to 3 year area of the Australian yield curve where we see the best value. With core Personal Consumption Expenditures Price Index (PCE) above 4%, the US Fed looks set to contemplate a faster pace of QE exit and subsequent lift off and we remain guarded around running interest rate risk, looking for opportunistic entry points in volatile markets as we saw in October. We favoured long Australian yields versus US yields, which has also compressed over November adding positive returns uncorrelated to credit.

Whilst the focus of market attention was again on bond yields, the Fund remained active in credit selection and rotating positioning into idiosyncratic alpha opportunities. In primary, we added USD Westpac 15 non-call 10 year subordinated debt at 1.57% above treasuries, and Melbourne Airport 10 year at a margin above swap of 1.67%. We see positive catalysts for both securities with potential for ratings upgrade for major bank sub-debt as well as the reopening theme for domestic travel. We also topped up in Scentre Group non-call 6 year hybrids at 2.3% above treasuries via secondary.

Mindful that the environment remains one of favouring idiosyncratic and subsector themes over just adding broad market credit beta, we remained diligent in rotating out of securities that have already performed. We took profit on regional bank Tier 2 which won't benefit from a rating uplift, as well as shorter call hybrids which have seen margins fall well below 2% with hybrid supply set to resume early in 2022. We also lightened on tighter spread 10 year corporate paper such as Coles and Dexus. To round off the risk management exercise, we protected -0.5 years spread duration using global CDS late in the month as we could see liquidity conditions thinning out and we look to protect the portfolio against potential gapping wider in spreads. Overall spread duration has now been reduced to 3.6 years.

Further information
www.janushenderson.com/australia