

DIVERSIFIED CREDIT FUND

As at December 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

\$719.9 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)	0.32	0.18	0.78	2.92	5.50	4.84	5.15
Fund (net)	0.27	0.04	0.56	2.42	4.89	4.23	4.57
Benchmark [#]	0.00	0.01	0.01	0.03	0.63	1.39	2.36
Excess return [*]	0.27	0.03	0.55	2.39	4.26	2.84	2.21

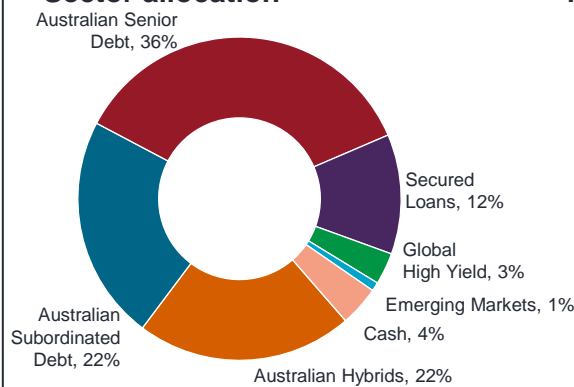
^{*}Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

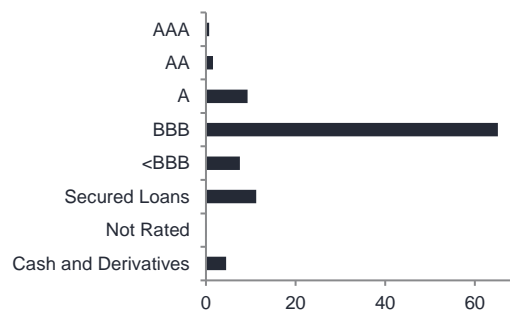
[#]As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

Sector allocation

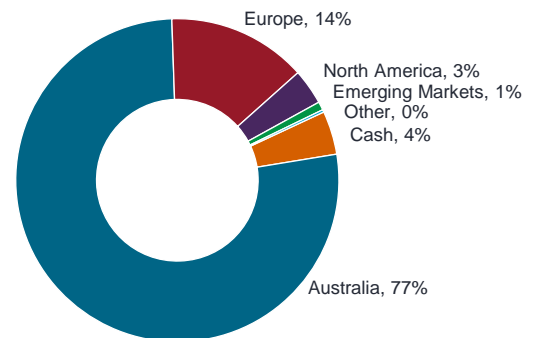


Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Region of issue



Portfolio statistics

Portfolio Yield ¹	2.73
Running Yield	2.81
Spread Duration	3.64
Modified Duration	0.32
Weighted Average Credit Quality	BBB+
Number of Securities ²	596

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 holdings ³	Fund weight (%)
CBA Subordinated FRN Basel III T2 10/09/2025	4.03
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.19
ANZ Bank Capital Notes 6 (ANZPI) Basel III T1	2.91
NAB Wholesale Capital Notes 2 Basel III T1	2.77
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.62
Westpac Subordinated FRN Basel III T2 29/01/2026	2.26
ANZ Subordinated FRN Basel III T2 26/02/2026	2.24
ANZ Subordinated FRN Basel III T2 26/07/2024	2.15
CBA Subordinated FRN Basel III T2 20/08/2026	2.12
Westpac Subordinated 3.02% Basel III T2 18/11/2036 USD	2.08

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.

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(continued)



Portfolio Manager
Shan Kwee

Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned 0.27% (net) for the month. Over the last 12 months, the Fund has returned 2.42% (net), in addition investors received 0.15% of franking credits. Cash distributions for the Fund have averaged 3.81% over the past three years.

Investor concerns shifted between fretting about inflation and the timing and speed of offshore central bank tightening, to calibrating the impacts of the rapidly spreading Omicron variant. There was some flattening in the yield curve, with shorter-dated yields higher and longer-dated yields mixed. In credit markets, sentiment was sensitive to Omicron news flow, which also coincided with reduced liquidity and conservative investor positioning ahead of the holiday season. While early findings are for lower severity as it relates to health outcomes, the sheer contagiousness of Omicron has resulted in mobility restrictions being reimposed globally, with associated negative impacts on economic activity expected going into 2022.

Credit markets have largely shrugged off this new phase of the pandemic, alongside inflation and tapering/rate hike concerns, preferring to remain focused on solid fundamentals and a broad-based economic recovery. Amid elevated volatility, the Australian iTraxx Index initially widened, before closing the month 10 basis points (bps) tighter. Both domestic fixed and floating rate credit spreads widened by 2bps. Returns across the domestic investment universe were positive. Australian credit FRNs returned 0.04%, subordinated notes returned 0.36% and hybrids outperformed returning 1.07%, while fixed rate credit had excess returns of 0.30% as swap rates compressed versus government yields.

Despite a rise in US bond yields, global high yield and emerging market hard currency bonds delivered positive returns as spreads retraced November weakness by 64bps and 20bps respectively. European loans continued their run of positive performance posting 0.5% returns, as the European Central Bank remains more dovish than their Federal Reserve counterparts.

Income and outperformance from hybrids, loans and high yield were the primary drivers of return for the month, combined with reduced interest rate risk positioning at 0.3 years which generated a positive return outcome.

Market review

Primary market activity was muted (as is traditional for this time of year), with the only notable activity from banks issuing one-year floating rate notes. That said, we anticipate broader issuance to pick up early in the New Year, not least domestic banks as they return to normal issuance patterns with maturities looming, including hybrids due to be refinanced in Q1 2022.

Monetary normalisation is coming, with the first cab off the rank a decommissioning of remaining RBA quantitative measures by mid next year. Conventional tightening is also coming. Markets are priced for a 0.75% cash rate by the end of 2022 and 1.25% by mid-2023. While we agree there will be some cash rate tightening (from accommodative to neutral settings), our view is that current market pricing for lift-off is too early, which favours active overweight positioning in 2 – 4 year bond and swap yields as they overshoot.

Though monetary conditions are set to normalise, it is worth bearing in mind that overall settings still remain accommodative and pro-cyclical. Given the many cross currents, we continue to remain very active and selective in the current environment. We remain positive on credit fundamentals as the economy navigates living with COVID, and the economic outlook remains positive over the medium term. As valuations normalise in the financials space, this should present opportunities to add quality credit which from a fundamental perspective should benefit from a tightening labour market exhibiting increasing wages and low levels unemployment.

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(continued)

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We also took advantage of the exuberant secondary pricing in listed hybrids to reduce exposure to expensive securities and build liquidity into the Fund.

Given the lower liquidity and lack of primary activity into year-end, positioning changes for the month were limited. We adjusted duration which was reduced by 0.1 years very late in the month as domestic yields bottomed. With the US Federal Reserve (Fed) set to contemplate a faster pace of QE exit and lift off, we also took some profit on the paired position in long Australian versus short US 10 year yields which has compressed over 25bps from entry.

We also took advantage of the exuberant secondary pricing in listed hybrids to reduce exposure to expensive securities and build liquidity into the Fund. We expect primary supply to ramp up early in Q1 across sectors, and this is likely to include two major bank hybrid refinances which should reset hybrid secondary spreads.

We remain mindful of the prevailing valuation environment across global equities and highly levered pockets of credit as the market navigates normalisation of stimulus and liquidity particularly across the US dollar market. With bond yields still exhibiting elevated levels of volatility and a propensity to rise, we maintain a low duration position with capacity to add yield and income to the Fund should yields overshoot higher.

This environment still favours technical demand for floating rate sectors, albeit, from here we anticipate the primary driver of performance will be income and carry. We remain biased to floating rate income sectors with allocations to hybrids, loans and subordinated notes.

We continue to remain very active and selective in this transitional environment, favouring relative value in sub-sectors whilst being cautious on overall credit beta. We retain capacity and liquidity to access higher spreads should volatility permeate across credit markets as corporate demand for capital and primary supply ramps up in 2022.

Important information

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2021 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. Target Market Determinations for funds issued by Janus Henderson are available here: www.janushenderson.com/TMD. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.