

DIVERSIFIED CREDIT FUND

As at January 2022

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

\$719.2 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)	-0.13	0.44	0.31	2.30	5.15	4.71	5.09
Fund (net)	-0.18	0.30	0.09	1.81	4.55	4.10	4.51
Benchmark [#]	0.01	0.01	0.02	0.03	0.57	1.32	2.34
Excess return [*]	-0.19	0.29	0.07	1.78	3.98	2.78	2.17

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

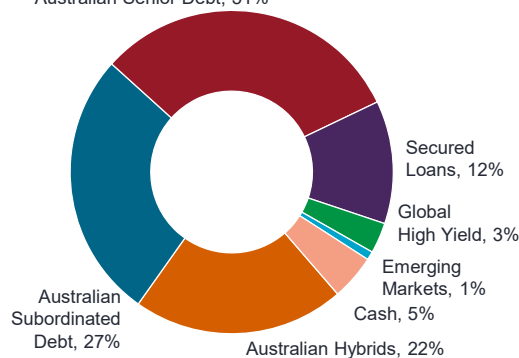
Gross return is gross of management costs and sell spread.

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.

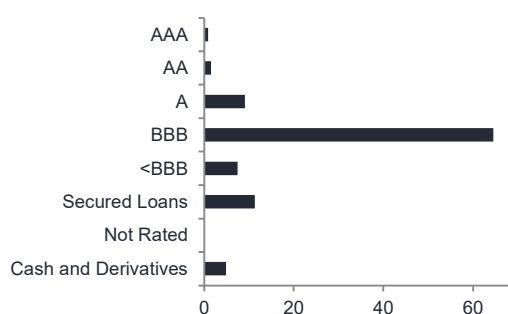
Sector allocation

Australian Senior Debt, 31%

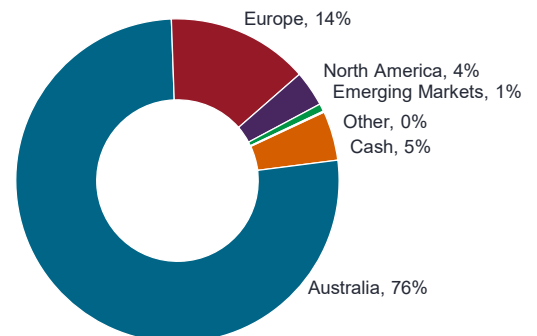


Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Region of issue



Portfolio statistics

Portfolio Yield ¹	2.90
Running Yield	2.82
Spread Duration	3.30
Modified Duration	0.46
Weighted Average Credit Quality	A-
Number of Securities ²	610

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	4.04
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.15
ANZ Bank Capital Notes 6 (ANZPI) Basel III T1	2.86
NAB Wholesale Capital Notes 2 Basel III T1	2.75
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.58
Westpac Subordinated FRN Basel III T2 29/01/2026	2.25
ANZ Subordinated FRN Basel III T2 26/02/2026	2.24
ANZ Subordinated FRN Basel III T2 26/07/2024	2.14
CBA Subordinated FRN Basel III T2 20/08/2026	2.11
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 -0.18% (net) for the month. Over the last 12 months, the Fund has returned 1.81% (net). Cash distributions for the Fund have averaged 3.77% over the past three years.

A hawkish pivot by the US Federal Reserve (Fed) in the face of persistent inflation drove yields higher. In turn, higher US yields spurred risk-off sentiment in equity and credit markets. Australian yields rose following offshore leads and strong domestic inflation readings. Credit markets became more volatile and risk sentiment soured following the Fed's hawkish pivot and rising geopolitical instability in Eastern Europe. The Australian iTraxx Index closed 12 basis points (bps) wider in sympathy with falls in equity markets.

Australian fixed and floating rate credit indices closed unchanged and 1bps wider respectively, outperforming the weakness in CDS and equity markets. Returns across the investment universe were generally negative with widening spreads offsetting income benefits, credit FRNs returned 0.01%, subordinated notes fell 0.06% and hybrids fell 0.51%. Fixed rate credit also had slightly negative excess returns of -0.04% versus government bond equivalents, but this was largely due to interest rate movements as swap rates widened versus government yields. The three-year government bond yield rose by 40bps to end at 1.31%. Markets moved to factor in an imminent and aggressive tightening cycle by the Reserve Bank of Australia (RBA).

Rising US bond yields and repricing of withdrawal of Fed liquidity drove spreads wider and returns sharply negative across higher beta fixed rate credit sectors. Global high yield and emerging market hard currency bonds fell 2.50% and 1.75% respectively. Our active and defensive approach has seen the Fund have very conservative allocations to these sectors in anticipation of rising volatility. The Fund maintained a defensive posture with only 4% allocated across these sectors out of a maximum range of 35%. As outright yields adjust to provide more compensation for term premia and liquidity, we would consider re-entering high yield, but for the moment we remain judicious around the use of risk budget in this transitional phase in bond markets and central bank policy trajectory.

Loans meanwhile continued their run of positive performance posting 0.3% returns, a clear outperformer considering the market environment. Our bias toward floating rate sectors remains intact as we see flows continuing to favour credit segments that will benefit from rising base rates like loans and floating rate credit. Allocations to loans remained at 12%.

The main contributors to underperformance were allocations to domestic hybrids where spreads retraced during the month after some over exuberance in thin liquidity during December. The sector has still returned a respectable 0.5% across the past two months, but as the market returned from summer holidays, there was a sharper focus on valuations with hybrid supply expected soon. The sharp rise in front end bond yields was also a modest negative contributor as the Fund held 0.3 years duration into the sharp move higher in rates. Synthetic protection hedges were effective in contributing 13bps of positive return in the weaker environment, buffering the Fund from broader volatility.

Market review

Monetary normalisation is coming, with the first cab off the rank being the upcoming decommissioning of remaining quantitative measures. While we also expect the RBA to pivot to a more hawkish stance following upward trending core inflation readings, we remain in the cash rate 'lift-off', not 'blast-off' camp.

We have brought forward the timing of the first RBA tightening from early 2023 to November this year and look for a steady tightening cycle that takes the cash rate to 1.75% by early 2025. Markets are pricing an earlier and more aggressive tightening cycle, with the cash rate topping at 2.25% mid-2024. With fiscal stimulus waning, tightening too aggressively runs the risk of choking off any post-pandemic bounce. While we agree there will be cash rate tightening (from accommodative to neutral settings), our view is that current market pricing for RBA lift-off is too aggressive through to end 2023.

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(continued)

2022 is commencing with swiftly increasing yields available across the fixed interest landscape. This should lead to better investment outcomes on a forward-looking basis.

Though monetary conditions are set to normalise and bond yields exhibit elevated levels of volatility, it is worth bearing in mind that overall settings still remain accommodative and pro-cyclical. We continue to remain positive on domestic 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 broader credit which, from a fundamental perspective, should benefit from a tightening labour market exhibiting increasing wages and low levels of unemployment.

Investment strategy

2022 is commencing with swiftly increasing yields available across the fixed interest landscape. This should lead to better investment outcomes on a forward-looking basis. We see reasonable value in 1-to-2-year bond and swap yields, however, we acknowledge the market is likely to remain volatile through the first half of the year as economic data continues to improve, warranting opportunistic risk taking. Interest rate duration was increased by 0.14 years to 0.46 years after yields rose late in the month, reacting to strengthening domestic CPI data.

We also continued to take advantage of the exuberant pricing in listed hybrids to reduce exposure to expensive securities. We expect primary supply to ramp up early in Q1 across sectors, and this is likely to include two major bank hybrid refinances.

We remain mindful of the prevailing valuation environment across global equities and highly levered pockets of credit as the market navigates monetary and fiscal policy normalisation. 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 as broader market valuations need to adjust to a tightening in financial conditions.

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. We hold a credit protection position over 20% of the Fund exposure which is buffering returns as credit spreads adjust higher. As credit valuations approach more appropriate compensation levels for investors with normalising liquidity, we would look to unwind these hedges so investors can again fully benefit from the higher income environment.

We remain biased to floating rate income sectors with allocations to hybrids, loans and subordinated notes which are likely to experience a smoother journey as rate rises commence. This characteristic will continue to be sought after by investors over the year ahead.

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.