

DIVERSIFIED CREDIT FUND

As at February 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

\$716.0 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) | -0.29 | -0.10 | -0.11 | 2.02 | 4.86 | 4.62 | 5.02 |
| Fund (net) | -0.34 | -0.25 | -0.33 | 1.52 | 4.26 | 4.01 | 4.43 |
| Benchmark [#] | 0.01 | 0.01 | 0.02 | 0.03 | 0.51 | 1.23 | 2.32 |
| Excess return [*] | -0.35 | -0.26 | -0.35 | 1.49 | 3.75 | 2.78 | 2.11 |

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

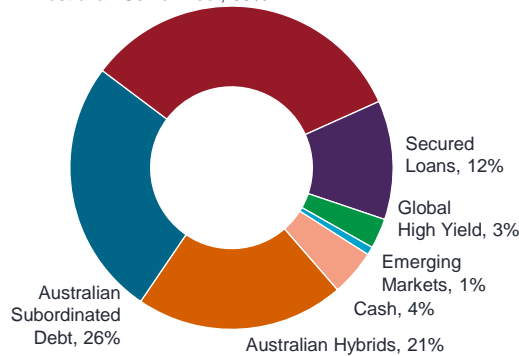
Gross return is gross of management costs and sell spread.

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.

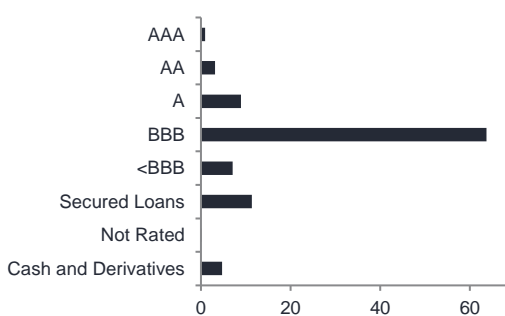
Sector allocation

Australian Senior Debt, 33%

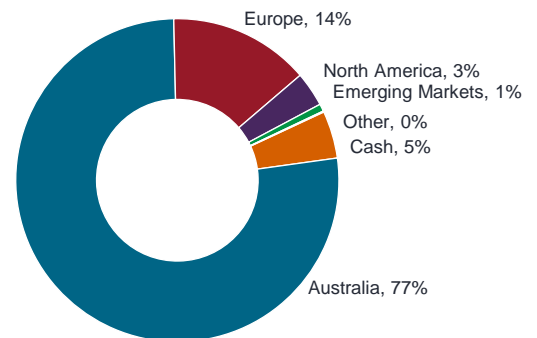


Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Region of issue



Portfolio statistics

| | |
|-----------------------------------|------|
| Portfolio Yield ¹ | 3.62 |
| Running Yield | 3.21 |
| Spread Duration | 3.83 |
| Modified Duration | 0.71 |
| Weighted Average Credit Quality | BBB+ |
| Number of Securities ² | 602 |

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 | 4.60 |
| Brisbane Airport Corp Senior Secured 4.5% 01/10/2030 | 3.06 |
| ANZ Bank Capital Notes 6 (ANZPI) Basel III T1 | 2.78 |
| NAB Wholesale Capital Notes 2 Basel III T1 | 2.77 |
| Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031 | 2.50 |
| 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 | 2.15 |
| CBA Subordinated FRN Basel III T2 20/08/2026 | 2.11 |
| Westpac Subordinated 3.02% Basel III T2 18/11/2036 USD | 1.98 |

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)

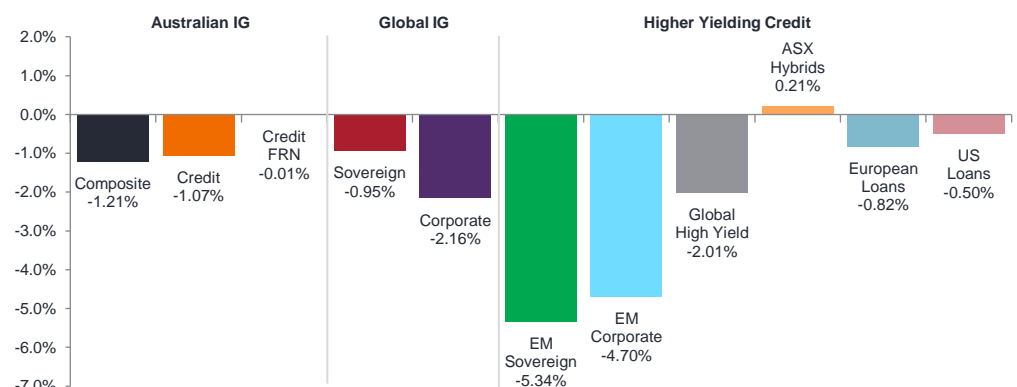


Portfolio Manager
Shan Kwee

Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned -0.34% (net) for the month. Over the last 12 months, the Fund has returned 1.52% (net), in addition investors have received 0.15% of franking credits. Cash distributions have averaged 3.74% over the past three years.

Fears of protracted warfare and sharp rises in commodity prices which likely prevent global central banks from deviating from their monetary tightening plans saw significant negative reaction in global credit spreads. Returns were sharply negative across higher beta fixed rate credit sectors. Emerging markets were particularly hard hit given the exposure to Russia and neighbouring trade partners.



Source: Bloomberg (Ausbond Composite Index, Ausbond Bank Bill Index, Ausbond Credit FRN Index), JPMorgan (Global Bond Index (GBI Global), JPMorgan Emerging Market Global (EMBI Global), CEMBI Broad Diversified), BofAML (BofAML ICE Global Broad Mkt Corp (GOBC), ICE Global High Yield Constrained (HW0C)), SolActive Hybrids Gross Franking, Credit Suisse (Western European Leveraged Loan Index), S&P LTSA US Loans Index as at 28 February 2022.

Our active and defensive approach has seen the Fund have very conservative allocations to these sectors in anticipation of rising volatility and modest risk-adjusted yields. The Fund maintained a defensive posture with less than 1% allocated to EM and only 3% exposure to global high yield. European loans posted their first negative monthly return for two years as the proximity and interconnected trade with Russia will disproportionately impact regional growth.

Very few sectors were immune from underperformance, but allocations to domestic hybrids helped buffer investors in February despite ANZ and CBA both coming to refinance at spreads of 2.70% and 2.75% respectively as we had anticipated. We have continued to reduce positioning and sensitivity to domestic hybrids due to richness on relative value. The sharp rise in front end bond yields was also a modest negative contributor as the Fund had a small 0.71 years duration position as rates rose. Having built up a 1.0 year CDS protection hedge late in 2021, these proved very effective in contributing an additional 16 basis points (bps) of positive return in the weaker environment and have positively contributed 0.29% over the past two months.

Market review

Volatility returned as markets tried to discount the impact of Russia's invasion of the Ukraine on the global growth and inflation outlook and on central bank tightening timelines. Risk appetite weakened, with credit markets softer. Australian yields rose as rising inflation concerns more than offset periodic safe-haven flows. The three-year Australian government bond yield rose to as high as 1.74% as inflation fears peaked before easing back late in the month as sanctions on Russia ratcheted up. Despite a late month rally, the three-year government bond yield ended 23bps higher at 1.54%. The Australian iTraxx closed 18bps wider in sympathy with falls in equity markets.

Australian fixed and floating rate credit spreads moved 7bps and 5bps wider, respectively dragging returns across the investment universe negative more than offsetting short term income. Credit FRNs returned -0.01%, while subordinated notes fell 0.20%. Fixed rate credit was even more impacted with negative returns of -1.07% due to rising yields and spreads. Domestic hybrids were the exception returning a positive 0.20%, rebounding from a weaker prior month.

DIVERSIFIED CREDIT FUND

(continued)

2022 does commence with an improved running yield with Fund yield now rising to above 3.21%.

Domestic bank reporting highlighted net interest margin (NIM) headwinds and continued intense competition in mortgages, while asset quality and capitalisation levels remained robust. NAB came to the primary market shortly after, issuing \$4bn of three and five-year senior unsecured bonds at spreads of 47bps and 72bps respectively. Supra-nationals and several Japanese, French and Singaporean banks also issued, taking advantage of cheaper funding available in the Australian market. The securitisation market was very active, with a number of transactions pricing together across prime and non-conforming residential mortgage-backed securities (RMBS) and asset-backed securities (ABS).

As we had anticipated, pricing conditions are weakening as the market normalises the cost of liquidity, with the extraordinary support from the Reserve Bank of Australia (RBA) now gone. We elected not to participate in recent primary activity awaiting better spreads and yields for Fund investors, opportunities which are just beginning to present at the time of writing.

The breakout of the latest war brings with it seismic shifts in the global power balance and relevance of rules-based systems along with more 'mundane' supply side shocks and the negative impact of sanctions on global growth. We suspect that faced with this additional uncertainty, the RBA will leave monetary settings 'on hold' until later in the year before commencing 'lift-off' in November. Once the tightening cycle commences, we look for a fairly rapid transition from accommodative to more neutral settings, with the cash rate projected to reach 1.75% by H1 2024.

With fiscal stimulus waning, tightening too aggressively runs the risk of choking off any post-pandemic bounce.

Investment strategy

2022 does commence with an improved running yield with Fund yield now rising to above 3.21%, which should lead to better investment outcomes than experienced in 2021.

We continue to remain very active and selective in this transitional valuation and growth environment. We retain risk capacity and liquidity to access higher spreads should volatility continue to permeate into higher credit spreads and bond yields. As outright yields rise investor cushions and compensation for risk is being restored.

After holding a credit protection position over 20% of the Fund exposure into the February shock, we began to unwind these hedges late in the month. We reduced CDS spread duration protection by 0.25 years with a hedge position of 0.78 years contribution remaining.

Credit spreads on physical bonds are now adjusting, with the onset of conflict accelerating the expected normalisation in risk premia just prior to any meaningful central bank policy tightening. We see spreads across US IG and global high yield as approaching fair value and would begin to consider reallocations of risk budget should this transitional phase extend beyond fair value and offer investors opportunities to add attractive yield and potential for capital gains to the portfolio on a forward-looking basis.

Whilst we see some value in shorter tenor bond yields and swap rates, volatile market pricing warrants judicious use of risk capacity. Maintaining cautious positioning, we increased duration positioning modestly to 0.71 years utilising 2-year swaps as yields peaked above 1.5%. While we agree there will be cash rate tightening (from accommodative to neutral settings), our view is that current market pricing for lift-off is too aggressive through to early 2024. We see reasonable value in 2-to-3-year bond and swap yields, however, we acknowledge the market is likely to remain volatile through the first half of the year as inflation data continues to crescendo stoked by sharp commodity price increases warranting patience in risk taking.

DIVERSIFIED CREDIT FUND

(continued)

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.

Further information

www.janushenderson.com/australia