

# DIVERSIFIED CREDIT FUND

## As at April 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<sup>#</sup>

Bloomberg AusBond Bank Bill Index

### Risk profile

Medium

### Suggested timeframe

3 years

### Inception date

31 October 2012

### Fund size

\$704.5 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<sup>^</sup>

### Base currency

AUD

### Currency hedging

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

### 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)	-0.88	-2.05	-1.62	-0.55	3.80	4.01	4.73
Fund (net)	-0.93	-2.18	-1.89	-1.04	3.21	3.40	4.15
Benchmark <sup>#</sup>	-0.02	-0.01	0.01	0.02	0.40	1.13	2.27
Excess return <sup>*</sup>	-0.91	-2.17	-1.90	-1.06	2.81	2.27	1.88

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

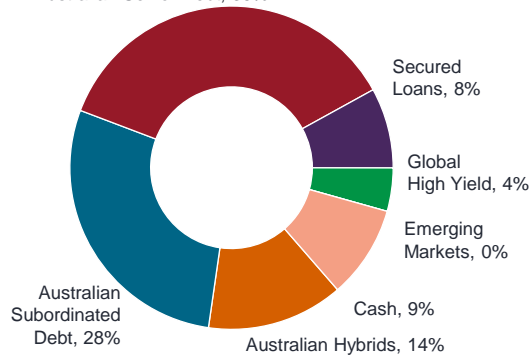
Gross return is gross of management costs and sell spread.

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.

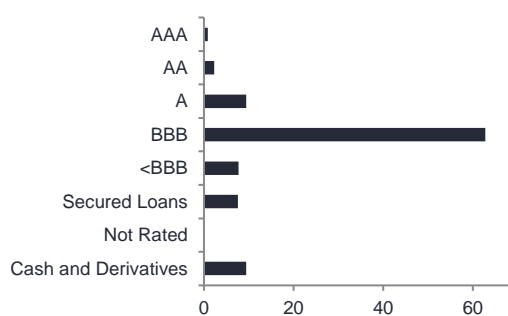
### Sector allocation

Australian Senior Debt, 36%

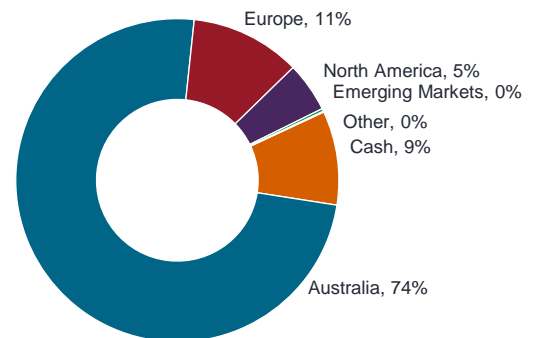


Rounding accounts for small +/- from 100%.

### Credit rating distribution (%)



### Region of issue



### Portfolio statistics

Portfolio Yield <sup>1</sup>	4.33
Running Yield	4.20
Spread Duration	3.73
Modified Duration	1.57
Weighted Average Credit Quality	BBB+
Number of Securities <sup>2</sup>	495

<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	4.60
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.87
NAB Wholesale Capital Notes 2 Basel III T1	2.77
CBA Subordinated FRN Basel III T2 14/4/2032	2.54
ANZ Subordinated FRN Basel III T2 26/02/2026	2.42
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.33
Westpac Subordinated FRN Basel III T2 29/01/2026	2.26
ANZ Subordinated FRN Basel III T2 26/07/2024	2.16
CBA Subordinated FRN Basel III T2 20/08/2026	2.11
AMP Life Subordinated FRN Basel III T2 09/12/2035	1.67

<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.janus Henderson.com/en-au/investor/buy-sell-spreads](http://www.janus Henderson.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

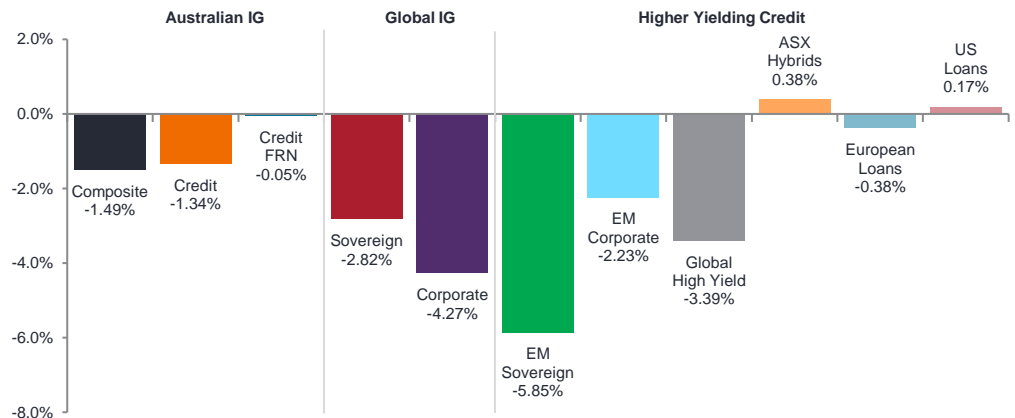
## Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned -0.93% (net) for the month. Over the last 12 months, the Fund has returned -1.04% (net), in addition investors received 0.15% of franking credits. Cash distributions have averaged 3.87% over the past three years, and the Fund has returned 3.44% p.a. (net) including franking credits over the same period.

Offshore and domestic yields continued to rise, reflecting inflation pressures and expectations for a more aggressive and front-end loaded central bank tightening cycle. Risk appetite soured, with equity and credit markets softer, while inflation expectations edged upwards. Three consecutively higher core inflation readings provide the Reserve Bank of Australia (RBA) with the smoking gun needed for a May lift-off in the cash rate. The short-term money market continued to reflect the pivot to an earlier start to a large tightening cycle. The three-month bank bill yield ended the month 48 basis points (bps) higher at 0.71%, while six-month bank bills ended 75bps higher at 1.45%. The three-year government bond yield rose as tightening expectations were brought forward and ended 37bps higher at 2.71%.

Risk sentiment continued to be impacted by the prospect of aggressively tightening financial conditions to tackle inflation, with consequent negative implications for medium-term growth. Global credit markets led the domestic market lower. The Australian fixed and floating rate credit indices closed 9bps and 6bps wider respectively, while the Australian iTraxx Index widened 14bps to 95.5bps. Returns across the investment universe were generally negative with rising yields and widening spreads generating negative returns and offsetting income benefits. Our favoured allocations to floating rate sectors of hybrids and global loans continued to outperform, but we anticipate they may soon follow the broader markets wider in spread.

Income was the main positive contributor to Fund returns, though this was more than offset by negative contributions from duration and credit spreads.



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 (HWOC)), SolActive Hybrids Gross Franking, Credit Suisse (Western European Leveraged Loan Index), S&P LTSA US Loans Index as at 30 April 2022

## Market review

In terms of the tightening cycle, markets have priced the cash rate lifting to 2.50% by December and above 3.25% by mid-2023. Such a lift would take monetary conditions from accommodative to restrictive and runs the risk of creating financial instability via falling asset prices and outright recession. The nature of the current inflation pulse does not warrant such a strong response in our view.

Furthermore, by tightening sooner than expected several months ago, the RBA reduces the risk of getting too far behind the inflation curve. We currently see value at the shorter end of the yield curve as we anticipate a more moderate tightening cycle through to end 2023, and the market is currently offering yields above our assessment of fair value.

# DIVERSIFIED CREDIT FUND

(continued)

**Furthermore, by tightening sooner than expected several months ago, the RBA reduces the risk of getting too far behind the inflation curve.**

Market pricing for a 3.5% cash rate within 12 months appears too much and offers an opportunity for investors to access elevated yields by extending duration and “locking in” income at current levels. The best value opportunity is at the shorter end of the yield curve where the pace of cash rate rises appears most mispriced. We maintain an overweight duration bias, as we favour a mix of front end duration combined with higher quality and intermediate tenor credit spreads to generate attractive levels of income for investors. Notable domestic investment grade deals in April included CBA issuing a Tier 2 subordinated debt transaction (callable in five years) at an attractive yield of 4.95%.

We continue to expect credit valuations to gradually cheapen into the year ahead as normalising global liquidity conditions cause investors to command improved compensation for risk premia. We favour moving up in quality and seniority in capital structures in anticipation. We don't think this increasing compensation has yet been adequately reflected in more structured, levered, and illiquid sectors of the market. We also note that typically higher yield sectors such as emerging markets and high yielding (read highly levered) companies have less capacity to deal with rising interest rates and input cost inflation.

This year's environment may produce inconsistent month to month returns. Recent spread widening has provided opportunity for us to begin accessing high quality names at attractive levels. Combining the two developments of elevated bond yields and rising high quality senior debt spreads has allowed the Fund to access securities with yields between 4 - 6%. As risk-free yields and credit spreads continue to rise, risks become asymmetric and provide investors reasonable defence from income generation over a 12-month investment period.

## Investment strategy

We anticipate after half year reporting in May, the other major banks will return to the primary market at increasingly attractive spread and outright yield levels between 4 - 5%. Whilst the near-term environment has been challenging for returns, the normalisation in markets now presents some very attractive yield entry points in higher quality fixed interest which should remain robust even if a recessionary environment ensues in 2023 as central banks tackle inflation.

Investors should lean less heavily on deeply illiquid or highly levered credit, as they are no longer required to generate attractive levels of income. We now see valuations as more attractive in lower beta investment grade as spreads on high quality financials have normalised and the global growth outlook is softening.

We have been reducing exposure to hybrids which remain relatively expensive. Hybrid exposure was reduced by another 3% during the month, which now totals an 8% reduction since the start of the year as the asset class has outperformed, while all other credit spread markets have been widening. The risk reward looks negatively asymmetric from here, and we view hybrids require 100-150bp widening in spreads to restore fair value. We favour rotating up the capital stack into senior and tier 2 and away from sub investment grade which now appears expensive on a relative basis. Sub investment grade was reduced further to below 16% through a reduction in allocation to levered loans.

At this juncture, we believe investors are best served favouring some interest rate carry via shorter tenor duration and an “up in quality” shift in credit allocation. Rebalancing activity has improved the credit quality position of the Fund and yield has also risen to above 4.3%, with a robust balance of portfolio risks for the period ahead.

# DIVERSIFIED CREDIT FUND

(continued)

At this juncture, we believe investors are best served favouring some interest rate carry via shorter tenor duration and an “up in quality” shift in credit allocation. Rebalancing activity has improved the credit quality position of the Fund and yield has also risen to above 4.3%, with a robust balance of portfolio risks for the period 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](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. Target Market Determinations for funds issued by Janus Henderson are available here: [www.janushenderson.com/TMD](http://www.janushenderson.com/TMD). Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.