

DIVERSIFIED CREDIT FUND

As at June 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

\$682.6 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)	-1.15	-3.01	-4.28	-3.53	2.67	3.35	4.41
Fund (net)	-1.19	-3.14	-4.54	-4.00	2.08	2.75	3.83
Benchmark [#]	0.05	0.07	0.08	0.10	0.33	1.03	2.24
Excess return [*]	-1.24	-3.21	-4.62	-4.10	1.75	1.72	1.59

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

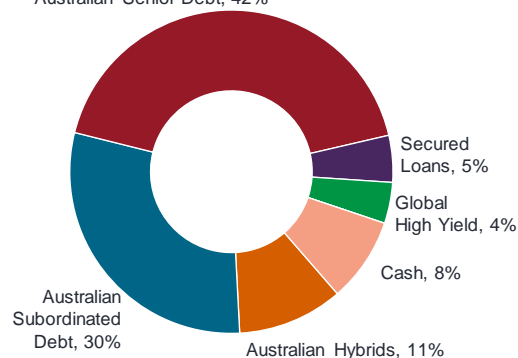
Gross return is gross of management costs and sell spread.

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.

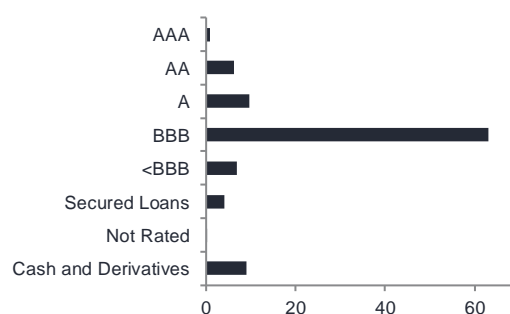
Sector allocation

Australian Senior Debt, 42%

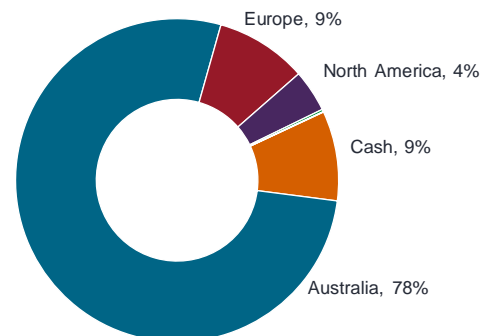


Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Region of issue



Portfolio statistics

Portfolio Yield ¹	5.84
Running Yield	4.03
Spread Duration	3.85
Modified Duration	1.65
Weighted Average Credit Quality	A-
Number of Securities ²	465

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	4.71
ANZ Subordinated FRN Basel III T2 26/02/2026	2.78
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.70
CBA Subordinated FRN Basel III T2 14/4/2032	2.59
NAB Wholesale Capital Notes 2 Basel III T1	2.48
Westpac Subordinated FRN Basel III T2 29/01/2026	2.31
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.23
ANZ Subordinated FRN Basel III T2 26/07/2024	2.22
CBA Subordinated FRN Basel III T2 20/08/2026	2.15
Resolution Life Subordinated FRN Basel III T2 09/12/2035	1.72

³Top 10 is on a look through basis.

[^] For more information and most up to date buy/sell spread information visit

www.janus Henderson.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 -1.19% (net) for the month. Over the last 12-months, the Fund has returned -4.00% (net), in addition investors received 0.13% of franking credits.

Cash distributions have averaged 4.07% over the past three years, and the Fund has returned 2.25% p.a. (net) including franking credits over the same period.

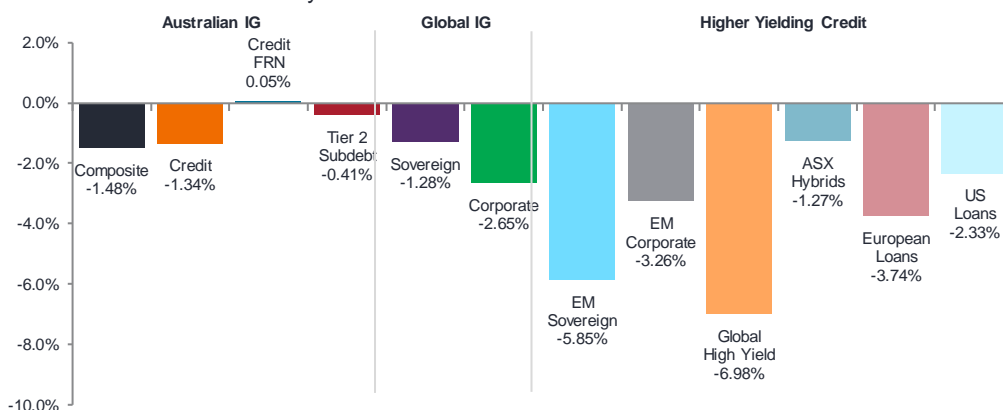
Higher than expected inflation in the United States saw the Federal Reserve (Fed) respond with an outsized tightening and preparedness to push the US economy into recession to quell inflation if needed. The Reserve Bank of Australia (RBA) moved in a similar fashion and against this backdrop, yields surged higher across the curve. Risk appetite fell on rising recession risks with equity and credit markets significantly weaker.

Short-term money market yields continued to rise, reflecting the shift by central banks to more front-end load tightening cycles. The three-month bank bill yield ended the month 64bps higher at 1.81%, while six-month bank bills ended 75bps higher at 2.67%. In terms of the tightening cycle, markets are looking for a 3.10% cash rate by year end and around 3.75% by mid-2023

Hawkish central banks and fears that tightening financial conditions could trigger a recession-roiled credit markets. The Australian iTraxx Index widened sharply, closing the month 35bps wider at 130bps. The Australian fixed rate credit market returned -1.34%, negatively influenced by rising bond yields and spreads, while floating rate credit recovered slightly from the weight of bank supply in May to post a positive 0.05% return as primary issuance was largely absent.

Income profiles are lifting, and carry remains the main positive contributor to Fund returns whilst volatility persists. Duration exposure and credit allocations both contributed negatively given the rise in yields and broad weakness in credit spreads. After favouring floating rate sectors heading into 2022, our active repositioning to decrease hybrids and loans exposure throughout this year whilst these markets were outperforming is beginning to payoff. Hybrid spreads began to widen quickly in the face of new supply and irrational relative value to Tier 2 subordinated notes.

In higher yielding global credit, there were significant drawdowns in the month, with global high yield (-6.98%), sovereign emerging market debt (-5.85%) and European loans (-3.74%) all weakening considerably. This vindicated our positioning of being in higher quality defensive assets which fared relatively better.



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 June 2022

Market review

- The RBA lifted the cash rate by a larger than expected 0.5% in early June.
- Higher than expected inflation in the United States saw the Fed respond with an outsized tightening of 75 basis points (bps) lift in the US cash rate.
- As a result, yields were higher in the month, despite a late month pull back. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, remained in bear market territory falling by 1.48% over the month and 10.51% over the financial year.

DIVERSIFIED CREDIT FUND

(continued)

With risks rising of higher cyclical inflation becoming entrenched, the Fed moved to front-end load policy tightening.

- Risk appetite fell on rising recession risks with equity and credit markets significantly weaker. The Australian iTraxx Index widened sharply, closing the month 35bps wider at 130bps. The Australian fixed rate credit market returned -1.34%, negatively influenced by rising bond yields and spread.

Market outlook

- With risks rising of higher cyclical inflation becoming entrenched, the Fed moved to front-end load policy tightening. The RBA has joined the central bank pivot, with the Governor signalling that accommodative conditions were no longer required and to expect further tightening.
- However, we view that pricing is overdone. At one stage markets were discounting a 3.6% cash rate by December, lifting to 4.2% by mid-2023. While market pricing has pulled back somewhat, markets are still factoring in a 3.1% cash rate by December and 3.75% by mid-2023 and averaging just under 4% over the next decade, at the time of writing.
- Our base case view is for the cash rate to lift by 50bps at the July and August meetings before tightening increments return to 'business as usual' 25bps increments. We look for the cash rate to lift to 2.6% by December, and peak at 2.85% in H1 2023.
- Uncertainty about the durability of the current expansion and cyclical cost pressures are likely to contribute to ongoing volatility in credit markets.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Jul22.

Investment strategy

These periods of uncertainty can provide opportunities when spread widening is more than fundamentals. We remain active and selective, favouring relative value within sub-sectors, whilst being judicious on overall credit beta. Recent spread widening has allowed us to access high-quality, liquid 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 of above 4.0%. 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. As a result, we maintain a modest overweight duration bias focused on the front end of the Australian yield curve out to three-years paired with high quality credit spreads.

Given the current level of credit valuations in the Australian investment grade market, the path for spreads is more evenly balanced from here, as bank spreads in particular have now entered historically cheap territory, and investor appetite is returning which is supportive of spreads and credit returns.

As developed market central banks seek to swiftly tighten monetary conditions to combat inflation, markets have worked to restore compensation across pockets of the credit market finding market-based clearing levels for risk and liquidity. Normalising global liquidity conditions will continue to command improved compensation for risk premia. We favour being positioned up in quality and seniority in capital structures leaving powder dry for when liquidity premia escalate. Whilst some normalising of compensation has taken place, we feel it remains insufficient in more illiquid, structured, and levered sectors of the market. We anticipate as global liquidity conditions tighten to combat inflation global spreads will suffer decompression where high quality liquid credit outperforms lower quality as compensation for default risk and illiquidity needs to increase.

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. The Fund remained overweight in these higher quality assets, while our allocations to loans, high yield and hybrids were maintained at low levels. The Fund is now holding its lowest higher yielding credit allocation since 2017, poised to take advantage of opportunities thrown up as monetary tightening takes hold into a slowing demand environment.

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.

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, which is now generating a yield of 5.84%, with a robust balance of portfolio risks to ensure clients can capitalise on 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.

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.