Janus Henderson

DIVERSIFIED CREDIT FUND

Janus Henderson INVESTORS

As at August 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
$731.8 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

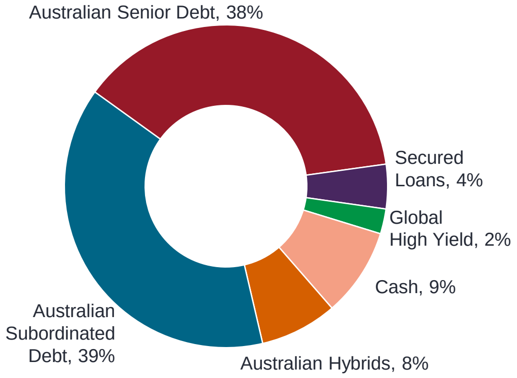
APIR code
IOF0127AU

ASX mFund
JHI04

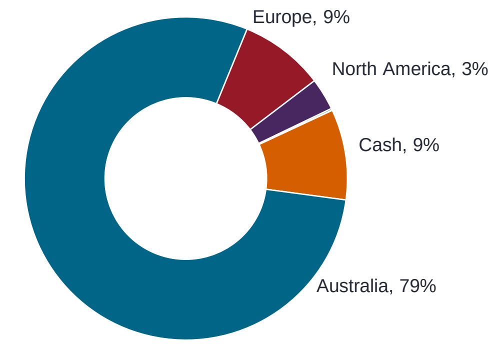
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a)
Fund (gross)	0.61	0.58	-2.19	-2.29	3.04	3.55	4.52
Fund (net)	0.55	0.44	-2.45	-2.78	2.45	2.95	3.94
Benchmark#	0.15	0.33	0.35	0.37	0.36	0.96	2.23
Excess return*	0.40	0.11	-2.80	-3.15	2.09	1.99	1.71

*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

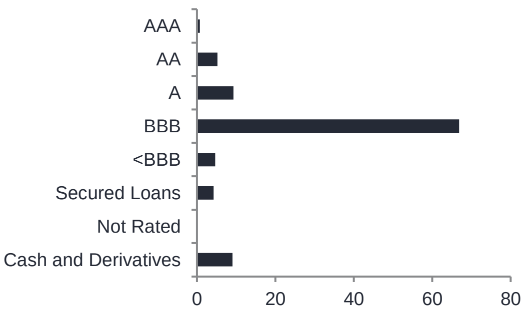


Region of issue



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio statistics

Portfolio Yield[1]	5.25
Running Yield	4.21
Spread Duration	3.78
Modified Duration	1.15
Weighted Average Credit Quality	A-
Number of Securities[2]	441

[1]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)
[2]Number of Securities is on a look through basis and excludes cash and derivatives.

Top 10 holdings[3]	Fund weight (%)
ANZ Subordinated 5.906% FIX/FRN Basel III T2	6.16
CBA Subordinated FRN Basel III T2 10/09/2025	4.42
CBA Subordinated FRN Basel III T2 14/4/2032	2.69
ANZ Subordinated FRN Basel III T2 26/02/2026	2.60
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.58
Westpac Subordinated FRN Basel III T2 29/01/2026	2.56
CBA Subordinated FRN Basel III T2 20/08/2026	2.41
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.14
ANZ Subordinated FRN Basel III T2 26/07/2024	2.07
NAB Wholesale Capital Notes 2 Basel III T1	1.65

[3]Top 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

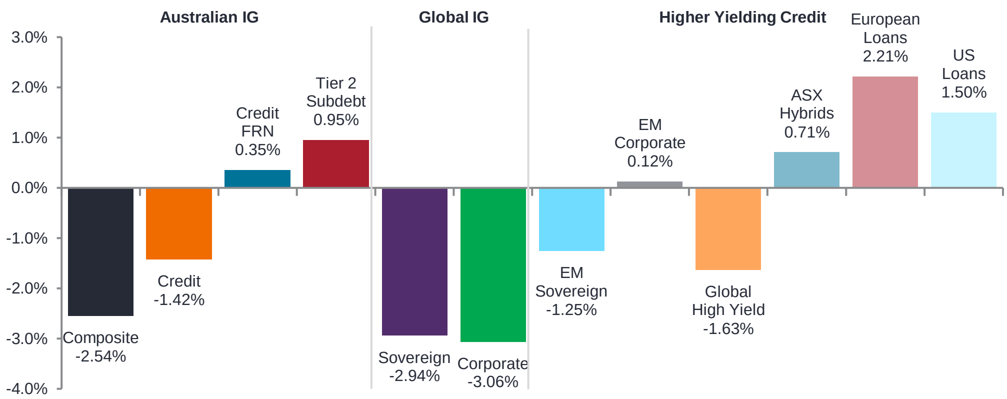
The Janus Henderson Diversified Credit Fund (Fund) returned 0.55% (net) for the month. Over the last 12 months, the Fund has returned -2.78% (net), in addition investors received 0.13% of franking credits. Cash distributions have averaged 4.07% over the past three years.

We undertook a major reallocation within the portfolio of 11% into new Tier 2 deals from NAB and ANZ in the past 5 weeks. We identified strong relative value and potential for capital gains from sub debt relative to hybrids or senior bonds. The two new issues represent the highest margin major bank Tier 2 notes available in the market at 2.8% and 2.7% respectively denoting a very attractive entry point for investors. We also favoured fixed rate tranches which we identified as having the potential to deliver superior capital gains as the market attracts buyers looking for 6-6.5% yields from BBB+ rated credit. The yield on the Fund remains healthy between 5-6%, even as we are positioned with a fair degree of dry powder to capitalise on further weakening in risk sentiment. We hold more elevated allocations to cash, and less than 10% sub investment grade exposure.

Healthy yield levels and increases in cash rates are beginning to generate stronger total returns from yield income each month. Favoured allocations to high quality credit sectors like bank senior and covered bonds performed well over the month and was a positive contributor to returns. Major bank Tier 2 allocations materially outperformed other corporate credit during the month contributing positively.

Allocation to European loans was the top performing sector returning north of 2%, while global high yield and EM returns were dragged lower by rising US bond yields. We further reduced exposure to high yield during August taking advantage of improved risk conditions prior to Jackson Hole.

Rising bond yields offset some of the benefits from credit income and capital gains, as overweight duration positioning, rising bond swap spreads underperformed. Following the big rally in bond markets from mid-June to mid-August, we cut duration from recent overweight levels reducing duration by 0.6 years, but it was insufficient to fully eliminate some drag from duration. As yields have risen again in the latter part of August into September, we recommenced adding back in some duration. The environment we are in is not conducive to a 'set and forget' strategy on duration, in our view it needs to be actively navigated. The past four months are a good example of the importance of active management.



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 (G0BC), 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 31 August 2022

Market review

Renewed central bank inflation-fighting resolve, and a preparedness to bear the costs of tighter monetary conditions, pushed global and domestic yields higher. Equity and credit markets gave back earlier gains following a hawkish Jackson Hole speech made by US Federal Reserve (Fed) Chair Powell. The Reserve Bank of Australia (RBA) lifted the cash rate by another widely expected 0.5% increment in early August to 1.85%. Short-term money market yields continued to rise as markets discounted further tightening. The three-month bank bill yield ended the month 34 basis points (bps) higher at 2.46%, while six-month bank bills ended 22bps higher at 3.01%. In terms of the tightening cycle, markets increased the quantum of tightening with a 3.20% cash rate priced by year end and 3.85% in mid-2023.

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After troughing early in the month, yields surged higher on the pivot to more hawkish central bank commentary and strong activity data. At the shorter end, the three-year government bond yield rose 55 basis points (bps) to end the month at 3.21%. Further out along the curve, 10- and 30-year government bond yields ended 54bps and 39bps higher at 3.60% and 3.82%.

Early signs of moderating inflation increased hopes of a dovish pivot by central banks, supporting sentiment and sustaining a weeks-long risk rally throughout most of August. These hopes were dashed by an unequivocally hawkish speech from the Fed Chair at the Jackson Hole symposium towards the end of the month, causing a sell-off in risk markets. The Australian iTraxx Index closed 2bps tighter at 109bps, while the Australian fixed and floating credit indices returned -1.42% and 0.35% respectively.

The local market saw significant primary supply early in the month with ANZ issuing Tier 2 in quick succession after NAB in late July, and CBA issuing the largest senior bank deal in Australian market history. The deals were well received and oversubscribed allowing financial sector spreads to outperform through the remainder of the month. Senior notes tightened 6-10bps in spread, while recently issued fixed rate Tier 2 bonds were the clear outperformer rallying 40-50bps post issuance generating up to 2% capital gains.

Floating rate credit sectors outperformed the more volatile yield environment. Global loans were the top performer, recovering after weakness in recent months. While domestically subordinated bank Tier 2 notes outperformed after recent primary activity, followed by listed hybrids which managed to also outperform cash and bonds.

Market outlook and investment strategy

Central bank inflation fighting narratives have become more urgent and hawkish. At his Jackson Hole speech, Fed Chair Powell noted that the costs of bringing inflation down rise the more entrenched it becomes. To avoid higher inflation expectations becoming entrenched, the Fed signalled that it would take policy settings to as restrictive levels as needed, for as long as is needed.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Sep22.

Interest rates: With demand still strong in the Australian economy, we look for the Reserve Bank of Australia (RBA) to lift the cash rate by 50bps in September to 2.35%, just below estimates of the neutral cash rate. With much of the heavy lifting done, the RBA is likely to shift to ‘business as usual’ 25bps tightening increments thereafter, and we look for the cash rate to peak at 3.10% by late 2022/early 2023 and hold at that level until early 2024. Market pricing is more aggressive, building in a 3.85% cash rate mid-2023. We therefore maintain a modest overweight to duration, focusing on the front to mid part of the yield curve.

Investment grade credit: Commitment to tackle high inflation through tightening in global liquidity will continue to generate volatility in credit markets. To navigate the environment ahead investors should command improved compensation for risk. We observe that the repricing across different pockets of credit and risk premia have not been simultaneous, providing outperformance opportunities through active rotation. Attractive yields on high quality credit has seen demand return from defensive income investors. In our view the more illiquid, structured, and levered sectors of the market are yet to adequately reprice. We continue to favour being positioned up in quality, liquidity and seniority in capital structures leaving powder dry for when compensation for investors escalates.

Higher yielding credit (domestic): We have continued divesting from hybrids over recent months, with a significant reallocation into Tier 2 which offers investors similar spreads for less downside drawdown and structural risk. In Australia, as outright yields on credit securities have reached attractive levels we are seeing stronger demand for fixed rate tranches as investors seek to lock in high yields on investment grade debt. We have been favouring fixed rate tranches of credit as a result, positioning for superior capital gains from spread compression.

DIVERSIFIED CREDIT FUND

(continued)

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From an ESG perspective, we continue to engage with intermediaries and issuers on growing Australia's positive impact bond market.

Higher yielding credit (global): We remain cautious on sub investment grade, emerging markets and lower tranches of structured or illiquid credit. We anticipate that as conditions tighten further, global spreads will suffer decompression where higher quality liquid credit outperforms lower quality as compensation for default risk and illiquidity needs to increase.

Environmental, Social and Governance (ESG)

From an ESG perspective, we continue to engage with intermediaries and issuers on growing Australia's positive impact bond market. New issuance on sustainable debt has slowed in recent months, albeit noting that 2021 was a particularly strong year for issuance of these securities.

We cornerstoned University of Melbourne's inaugural Green Bond during August, the first public corporate ESG bond for Q3. Proceeds are slated to contribute to green buildings which includes new builds, upgrades and energy efficiencies, and renewable energy investment. The new seven year bond was issued at a 4.6% yield and is rated AA+.