

DIVERSIFIED CREDIT FUND

As at December 2020

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

\$705.2 million

Minimum investment

\$25,000

Management cost (%)

0.55 p.a.
Indirect costs – 0.01 p.a.*
*Based on costs incurred during the financial year ended 30 June 2020.

Buy/sell spread (%)

0.10/0.25[^]

Base currency

AUD

Currency hedging

\$AUD hedged^{^^}

Distribution frequency

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) | 0.94 | 3.55 | 5.93 | 7.46 | 5.38 | 5.66 | 5.43 |
| Fund (net) | 0.89 | 3.41 | 5.75 | 6.73 | 4.73 | 5.02 | 4.84 |
| Benchmark [#] | 0.00 | 0.02 | 0.05 | 0.37 | 1.26 | 2.01 | 2.65 |
| Excess return [*] | 0.89 | 3.39 | 5.70 | 6.36 | 3.47 | 3.01 | 2.19 |

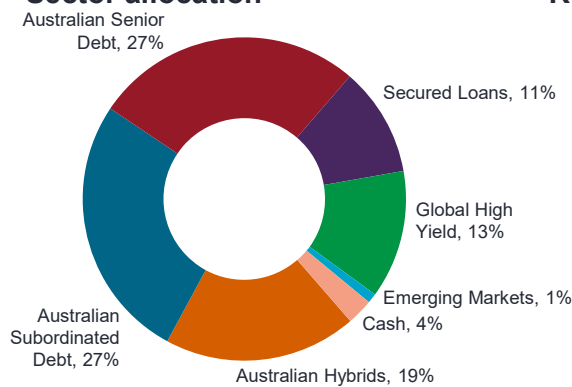
^{*}Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

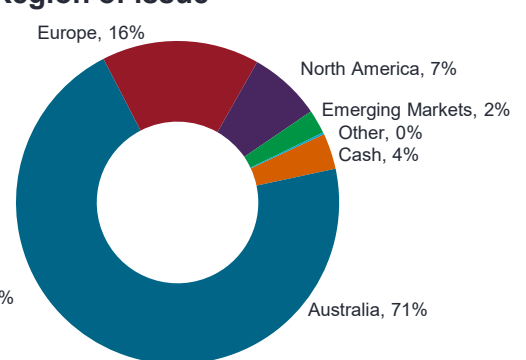
[#]As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

Sector allocation

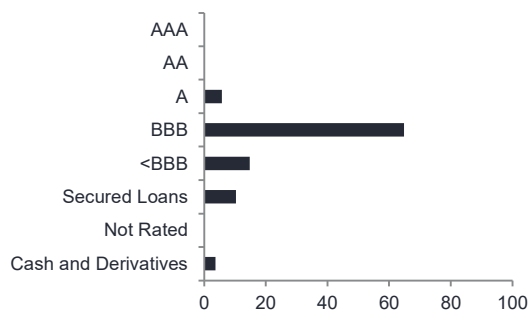


Rounding accounts for small +/- from 100%.

Region of issue



Credit rating distribution (%)



Portfolio statistics

| | |
|-----------------------------------|------|
| Portfolio Yield ¹ | 2.65 |
| Running Yield | 2.15 |
| Spread Duration | 4.49 |
| Modified Duration | 1.33 |
| Weighted Average Credit Quality | BBB |
| Number of Securities ² | 663 |

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 holdings³

| Top 10 holdings ³ | Fund weight (%) |
|---|-----------------|
| CBA Subordinated FRN Basel III T2 10/09/2025 | 4.64 |
| ANZ Subordinated FRN Basel III T2 26/07/2024 | 4.07 |
| Brisbane Airport Corp Senior Secured 4.5% 01/10/2030 | 3.29 |
| Woolworths Group Senior Unsecured 2.8 20/05/2030 | 2.30 |
| ANZ Subordinated FRN Basel III T2 26/02/2026 | 1.99 |
| Transurban Queensland Finance Senior Secured 4.5% 19/01/2028 USD | 1.84 |
| NAB Capital Notes 2 Basel III T1 | 1.81 |
| NAB Subordinated FRN Basel III T2 17/05/2024 | 1.76 |
| NAB Subordinated FRN Basel III T2 18/11/2026 | 1.73 |
| Charter Hall Prime Industrial Fund Senior Unsecured 2.485% 28/10/30 | 1.66 |

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.

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(continued)



Portfolio Manager
Shan Kwee

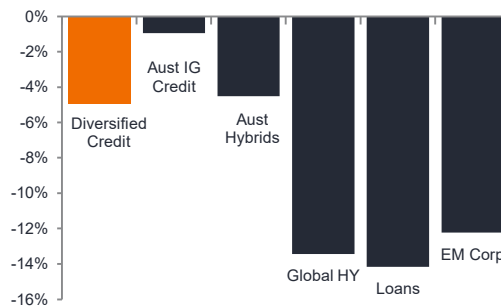
Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned 0.89% (net) for the month. This compares to the Bloomberg AusBond Bank Bill Index (Benchmark) which was flat.

Over the last 12 months the Fund has returned 6.73% (net), which is 6.36% above the Benchmark. In addition, investors received 0.14% of franking credits, while cash distributions were 4.04%. Pleasingly in a volatile year the Fund returned 7.46% (gross), which materially outpaced the returns available from underlying credit markets while maintaining a predominantly investment grade exposure and exhibiting relatively constrained drawdown in the March selloff. Active allocation added 1.4% over the year, while active security selection across Australian investment grade, hybrids and global high yield added an additional 3.1%.

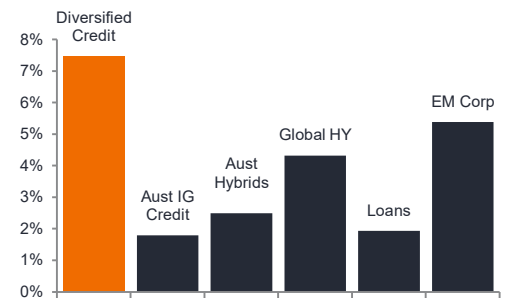
Month Return – 31 March 2020

Fund drawdown constrained



CYTD Return – 31 December 2020

Active management enhancing returns



Source: Janus Henderson Investors, Bloomberg Ausbond Credit FRN Index, SolActive Australian Hybrid Index (Gross), JPMorgan (CEMBI Broad Diversified), BofAML (BofAML ICE Global High Yield Constrained (HWOC)), Credit Suisse (Western European Leveraged Loan Index). Note: Gross performance (shown) does not include any applicable management fees. Past performance is not a reliable indicator of future performance

The Fund has exceeded its return objective over all time periods and over the past three years has returned net of fees 3.84% above bank bills including franking.

Despite ongoing COVID-19 outbreaks, the commencement of vaccination programs and another round of fiscal easing in the United States helped buoy investor sentiment. Equity markets had another strong month, while credit markets remained firm. Expectations for a post-vaccine global rebound and burgeoning sovereign debt supply saw yield curves steepen and inflation expectations lift.

The environment remained supportive for credit assets, with spreads on corporate investment grade bonds tightening 5 basis points (bps) during the month to finish 12bps tighter over 2020. Bank FRN spreads widened 4bps on profit taking, but over the year spreads tightened 29bps largely due to the Reserve Bank of Australia's (RBA) Term Funding Facility supporting bank liquidity.

Higher yielding markets outperformed despite the pandemic escalating again in the northern hemisphere. Global high yield was the best returning sector at 1.7% with spreads tightening 37bps, while locally after digesting recent supply, listed bank hybrids were able to outperform as expected rallying 35bps in spread after lagging other sectors in November. The improving market environment in the December quarter helped global high yield spreads claw their way back to finish only 35bps wider over 2020 after starting the year at very tight levels.

Market review

Issuers remained active in primary markets in the early part of the month before market liquidity slowed into the holiday season. The market saw strong demand for higher credit quality spreads, with Western Sydney University, University of Wollongong and SMHL RMBS (ME Bank) pricing 10-15bps tighter than initial price guidance, while NBN Co. managed to come back to the market for the second time in as many months and Macquarie Bank issued \$1.45bn of a five-year FRN. Industrial property exposure continued to be highly sought after by investors due to the relative lack of impact from the pandemic and a rare issuer, Goodman Australia Industrial Fund, raised \$400 million but left a further \$1.3 billion of demand from investors unfilled.

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(continued)

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Whilst a “blue sweep” outcome from the US elections is triggering a rise in bond yields on expectation of further significant fiscal stimulus the sustained economic impact of rolling global lockdowns and private sector employment impacts will emanate for years to come. We expect central banks globally will remain heavily engaged and continue to implement further support via expansion of their balance sheets to help provide the most accommodative financial conditions to support the economic path to recovery and full employment. With the cash rate now at 0.1% and the RBA reluctant to move into a negative rate regime, further easing, if needed, is likely to continue to come in quantitative form. A key takeaway for investors is that the low risk-free interest rate regime will persist for at least the next couple of years and drive demand for income-producing assets. The preconditions for a shift in accommodative policy is now ‘outcome’ based. We do not see these outcomes being achieved over the next several years.

Whilst the starting point for valuations appears less attractive to start 2021, in this regime of financial repression and recovering economic outlook, we expect spread sectors to be shored up by the extended period of low yields on government securities, unprecedented levels of central bank support for both sovereign and non-sovereign debt markets and investor demand for shrinking levels of income. This will have the somewhat intended effect of extending risk seeking behaviour as investors are left to search for a reasonable level of income and return, providing easy liquidity via capital markets staving off large scale corporate defaults. We anticipate spreads will be able to be sustained at levels below average as a result.

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(continued)

We see the additional return and income from credit assets as extremely valuable in protecting client capital in real terms as nominal rates are held at very low levels for years.

Investment strategy

We see the additional return and income from credit assets as extremely valuable in protecting client capital in real terms as nominal rates are held at very low levels for years. The yield in the Fund remains at 2.65% which appears highly attractive in a world where deposit rates and yields trend toward 0%. We anticipate further capital gains to be generated as safer forms of income remain incredibly desirable which should see spreads grind in further. Despite significant policy support, we remain conscious that given the nature of the economic shock, not all can be saved. We anticipate pockets of stress across SMEs, households and corporate sectors will remain a theme in 2021 as broad-based supports like JobKeeper roll off, albeit policy has already materially trimmed the risk of large-scale defaults.

As such we are staying the course and remain well allocated across credit markets. Given the uneven nature of COVID impacts across sectors, we remain very discerning within stock selection and are repositioning the Fund selectively into primary deals that we feel have attractive relative value and potential for stock selection alpha. We added both the NAB (NABPH) and Westpac (WBCPJ) new hybrids owing to attractive margins of 350bps and 340bps respectively which appeared 40-50bps cheaper versus secondary traded margins and have further scope to rally as retail investors search for income into 2021. Both securities rallied on listing and appreciated over 2% in capital by the end of December.

Our activity remains focused on extracting income and capital gains from opportunities where entry valuations still appear attractive, ongoing policy support underpins market demand, and assets remain in scarce supply. The Fund remains well positioned to capitalise on further gains from income and capital gains delivered via spread compression.

Important information

A new Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2020 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. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.