

# DIVERSIFIED CREDIT FUND

## As at September 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

\$730.6 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<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)	-0.52	1.23	-1.82	-2.93	2.71	3.39	4.42
Fund (net)	-0.55	1.09	-2.08	-3.46	2.12	2.80	3.84
Benchmark <sup>#</sup>	0.15	0.42	0.49	0.52	0.38	0.95	2.23
Excess return <sup>*</sup>	-0.70	0.67	-2.57	-3.98	1.74	1.85	1.61

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

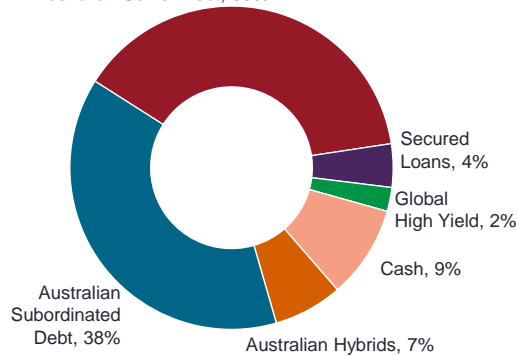
Gross return is gross of management costs and sell spread.

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.

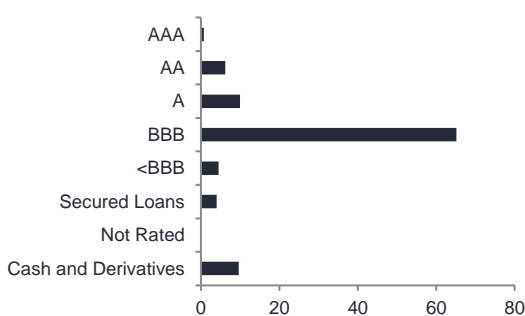
### Sector allocation

Australian Senior Debt, 39%

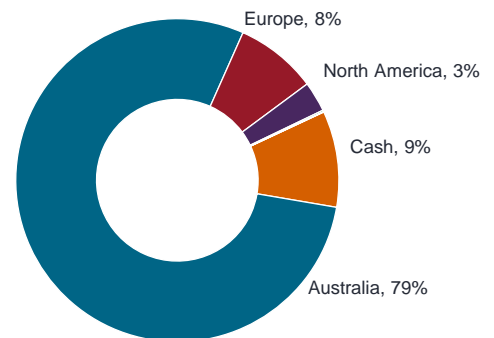


Rounding accounts for small +/- from 100%.

### Credit rating distribution (%)



### Region of issue



### Portfolio statistics

Portfolio Yield <sup>1</sup>	5.56
Running Yield	4.33
Spread Duration	3.40
Modified Duration	1.30
Weighted Average Credit Quality	A-
Number of Securities <sup>2</sup>	433

<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 (%)
ANZ Subordinated 5.906% FIX/FRN Basel III T2	5.38
CBA Subordinated FRN Basel III T2 10/09/2025	4.41
CBA Subordinated FRN Basel III T2 14/4/2032	2.71
ANZ Subordinated FRN Basel III T2 26/02/2026	2.61
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.52
CBA Subordinated FRN Basel III T2 20/08/2026	2.42
Westpac Subordinated FRN Basel III T2 29/01/2026	2.17
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.10
ANZ Subordinated FRN Basel III T2 26/07/2024	2.08
NAB Wholesale Capital Notes 2 Basel III T1	1.66

<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 -0.55% (net) for the month. Over the last 12 months, the Fund has returned -3.46% (net), while investors received 0.13% of franking credits. Cash distributions have averaged 4.09% over the past three years.

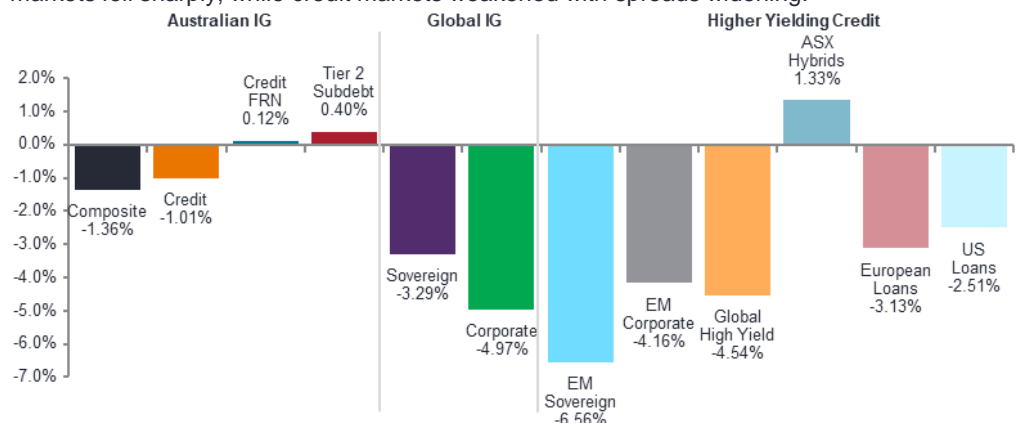
Healthy yield levels and ongoing increases in cash rates are starting to generate stronger returns from available yield income. The longer the market holds at higher cash rate expectations this benefit should flow through each month for investors. Favoured allocations up in quality credit sectors, are cushioning the impact relative to other sectors which have underperformed to a much larger magnitude. This is a deliberate position to navigate through the tightening policy environment. The recent reallocation into new Tier 2 outperformed during September despite a weaker environment for bond yields and broader credit spreads. Corporate credit spread widening was a detractor for the month, while the two new major bank Tier 2 issues have settled about 30-40 bps tighter in spread in the same period showing the value of active relative value even in tough market conditions. respectively denoting a very attractive entry point for investors. Domestic listed hybrids were the top performing local credit class with retail investors continuing to show demand, defying the gravity of rising credit spreads and falling equity markets. We think it's just a matter of time until sensible relative pricing across credit classes is restored. The exposure to ASX listed hybrid spread duration is 0.00 years. We favour being positioned up in Tier 2 for similar margins, or unlisted global market hybrids with margins currently between 4-6% rather than the 2.5-2.9% available in ASX listed. The yield on the Fund remains just shy of 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.

We have reduced our active positions in high beta sectors which assisted in protecting the portfolio over the month. We hold one of our lowest positions on record to Global high yield, have no Emerging Market debt and only a modest allocation to loans, which on a relative basis has preserved capital for the Fund.

Rising bond yields offset some of the benefits from credit income and capital gains, as overweight duration positioning, rising bond swap spreads underperformed. Recent reductions in duration by -0.6yrs reduced the impact of yield rises which was a negative contributor for September. We added back a moderate 0.15 years of duration late in September as yields peaked but remain volatile. 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. With heightened market uncertainty, the environment ahead bodes well for attractive entry points for new credit issuance. With that in mind we took profit on some recent credit additions which have outperformed reducing credit spread duration by 0.4yrs during September which as also rebuilt liquid dry powder.

## Market review

Hawkish US Federal Reserve (Fed) forward guidance and an ill-timed UK fiscal package that triggered Bank of England support saw yields lift sharply over the latter part of the month. Risk appetite fell as more aggressive policy tightening was seen as lifting recession risks. Equity markets fell sharply, while credit markets weakened with spreads widening.



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 September 2022.

# DIVERSIFIED CREDIT FUND

(continued)

**Domestically, Investment Grade issuers are mostly flush with liquidity and are facing into a difficult near-term environment from a position of balance-sheet strength.**

The Reserve Bank of Australia (RBA) lifted the cash rate by another widely expected 0.50% increment in early September to 2.35%. Short-term money market yields continued to climb as markets discounted further tightening. The three-month bank bill yield ended the month 61 basis points (bps) higher at 3.06%, while six-month bank bills ended 56bps higher at 3.57%. In terms of the tightening cycle, markets increased the pace and quantum of tightening with a 3.32% cash rate priced by year end and 4.10% in mid-2023.

After remaining relatively steady, yields surged higher following hawkish Fed signalling and dislocation in the UK bond market following the release of an expansionary mini budget. At the shorter end, the three-year government bond yield rose to as high as 3.72% before ending the month 32 basis points (bps) higher at 3.52%. Further out along the curve, 10- and 30-year government bond yields ended 29bps and 26bps higher at 3.89% and 4.08%.

Domestically, Investment Grade issuers are mostly flush with liquidity and are facing into a difficult near-term environment from a position of balance-sheet strength. Reflecting challenging market conditions, the Australian iTraxx Index (adjusted for rolls) closed 27 bps wider at 144bps, while the Australian fixed and floating credit indices returned -1.01% and +0.12% respectively.

Already showing signs of increasing fragility, risk markets were further rattled by a material escalation in the Russia/Ukraine conflict. On the corporate front, investors keenly await Northern Hemisphere third quarter earnings. Several high-profile companies pre-reported disappointing numbers and outlooks. Expectations are for rapidly tightening financial conditions to drive weaker top and bottom-line results, lowered guidance, and earnings downgrades.

In global credit, ratings agency downgrades (in North America), have outpaced upgrades by a ratio of almost 2 to 1. Cracks have also started to appear in the global leveraged finance / high yield market.

## Market outlook and investment strategy

Central bank actions and forward guidance remain hawkish. After responding slowly to a larger than expected inflation shock, the pace of tightening has sped up with history reminding policy makers that the costs of fighting inflation are not diminished by drawn out tightening cycles. While the European Central Bank (ECB) has begun removing monetary accommodation, the US Federal Reserve is more advanced following its recent 0.75% lift in the US cash rate to 3.12%. Against the backdrop of peaking inflation, global tightening, European energy shortages and the ongoing Ukrainian War, the RBA must decide how hard to step on the monetary breaks. With September's tightening to 2.35% bringing the cash rate into the neutral range, the RBA has signalled that while further tightening moves lie ahead, some slowing in the pace of increases was likely as the level of the cash rate rose higher.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Oct22](https://go.janushenderson.com/Viewpoint-Oct22).

**Interest rates:** The RBA moved by a less than expected 25bps at its October meeting, switching to a more 'business as usual' incremental adjustment to the cash rate. At 2.6%, the cash rate is broadly neutral and the RBA has signalled that further moves still lay ahead. The RBA is projected to tighten by another 25bps in November with respite at the December meeting. We look for the final move in this tightening cycle in February, which would see the cash rate peak at a moderately restrictive 3.1%. This would make the current tightening cycle the fastest and equal largest since the adoption of the inflation targeting regime.

**Investment grade credit:** Commitment to tackle high inflation through tightening global liquidity will continue to generate volatility in credit markets. To navigate the environment ahead, investors should look for 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.

# DIVERSIFIED CREDIT FUND

(continued)

Janus Henderson  
INVESTORS

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

**Higher yielding credit (domestic):** Attractive yields on high quality credit spreads have 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 believe this is a process that will occur in due course as economic growth and earnings outlooks weaken.

**Higher yielding credit (global):** We anticipate that as conditions tighten further, global spreads will suffer decompression where high quality liquid credit outperforms lower quality as compensation for default risk and illiquidity needs to increase. We continue to favour being positioned up in quality and seniority in capital structures, leaving powder dry for when compensation for investors escalates. Global higher yielding sectors have underperformed better quality assets with Emerging Market Corporate debt and Globally High Yield both drawing down over 16% this calendar year. These are two sectors of the market we have avoided. We remain patient waiting for attractive entry levels to take on higher credit beta positions.

## 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. September offered little in the way of opportunities in new deals due to weaker market environment for primary issuance. Worley Parsons announced they are considering a new Australian Dollar Sustainability Linked Bond which targets a 65% reduction in their Scope 1 and Scope 2 GHG emissions by 2025 versus a 2020 baseline.

## Important information

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2022 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.