Janus Henderson

DIVERSIFIED CREDIT FUND

Janus Henderson INVESTORS

As at October 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
$725.4 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

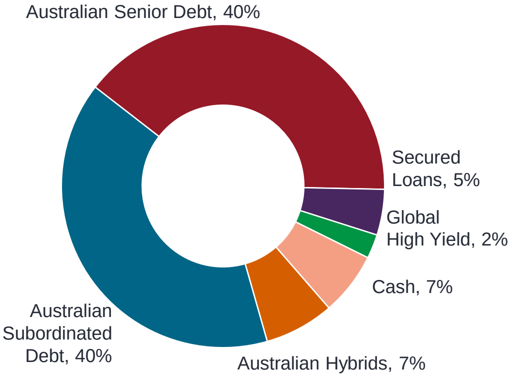
APIR code
IOF0127AU

ASX mFund
JHI04

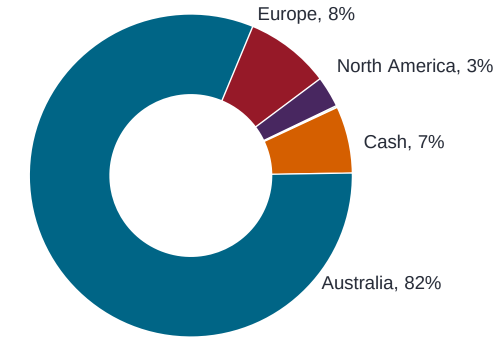
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a)
Fund (gross)	0.16	0.25	-0.79	-2.39	2.65	3.30	4.40
Fund (net)	0.11	0.11	-1.05	-2.92	2.07	2.70	3.82
Benchmark#	0.24	0.54	0.75	0.76	0.43	0.97	2.24
Excess return*	-0.13	-0.43	-1.80	-3.68	1.64	1.73	1.58

*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

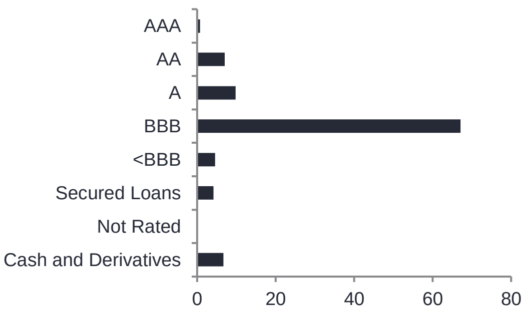


Region of issue



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio statistics

Portfolio Yield[1]	5.99
Running Yield	4.66
Spread Duration	3.51
Modified Duration	1.06
Weighted Average Credit Quality	A-
Number of Securities[2]	426

[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 Basel III T2 5.906% 12/08/2027	4.51
CBA Subordinated FRN Basel III T2 6.86% 09/11/2032	4.01
CBA Subordinated FRN Basel III T2 10/09/2025	3.89
CBA Subordinated FRN Basel III T2 14/4/2032	2.69
ANZ Subordinated FRN Basel III T2 26/02/2026	2.63
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.54
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.22
Westpac Subordinated FRN Basel III T2 29/01/2026	2.16
ANZ Subordinated FRN Basel III T2 26/07/2024	2.08
CBA Subordinated FRN Basel III T2 09/11/2027	2.00

[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.

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DIVERSIFIED CREDIT FUND

(continued)

Portfolio Manager
Shan Kwee

Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned 0.11% (net) for the month. Over the last 12 months, the Fund has returned -2.92% (net), while investors received 0.13% of franking credits. Cash distributions have averaged 4.14% over the past three years.

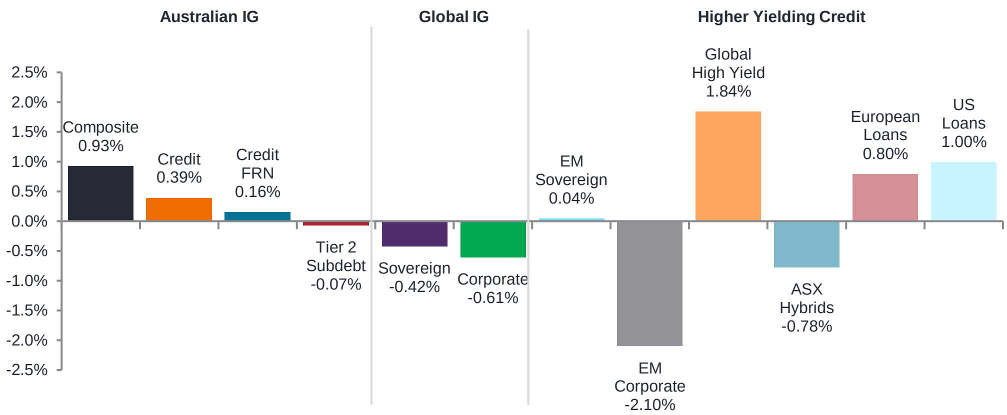
Yield levels continue to oscilate between 5.5 to 6% and ongoing increases in cash rates will generate stronger returns from available yield income over the coming years. A near term rally in domestic bond yields was also a postive contributor in October as we averaged 1.2 years duration. We opted to reduce this position as yields rallied. Meanwhile widening bond swap spreads were a headwind for fixed rate credit returns offsetting part of the gain from rallying domestic bond yields.

New primary issuance by major banks in the last week of October triggered broader market spread widening in credit resulting in negative contributions to return from short term spread changes. In terms of positioning the new issue concession offered in the new CBA Tier 2 priced 25 basis points above prevailing secondary levels. The silver lining of the further lift in credit spreads is that it offers attractive entry points for investment in new credit issuance. With that in mind we added allocations into the new CBA Tier 2 notes with a yield of 6.9% on the fixed rate tranche at a spread of 2.7% which is only 15bps lower than the new CBA hybrids also issued in October. We took this opportunity to rotate out of low margin subdebt into high new issue spreads providing better protection against extension risk. This proved timely with APRA providing a reminder shortly after to investors and issuers about sensible pricing for capital instrument structural features and inherent risks.We elected not to purchase the hybrids which in our view should price 150-200bps wider than Tier 2. 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 listeds. The yield on the Fund remains just shy of 6%, even as we are positioned up in investment grade with a fair degree of dry powder to capitalise on further weakening in risk sentiment. We retain allocations to cash, and less than 10% sub investment grade exposure.

We continue to favour being positioned up in quality and seniority in capital structures. Our underweight to high yield and loans detracted from performance over the month given the recent capital stability in these assets and high income generation. We also hold no emerging market debt and have reduced our hybrid allocation, which on a relative basis has preserved capital for the Fund.

Market review

Markets remained volatile, with yields surging on hawkish US Federal Reserve (Fed) commentary and retreating on expectations that the pace of global tightening may slow. Risk appetite recovered from September's fall, with equity markets higher while credit markets remained volatile.



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 October 2022

DIVERSIFIED CREDIT FUND

While much of the heavy lifting has been done, persistent and broad-based price pressures, evident in the latest CPI, mean that the RBA will need to push monetary conditions into restrictive territory.

The Reserve Bank of Australia (RBA) lifted the cash rate by a less than expected 0.25% increment in early October, taking the cash rate to 2.60%. In subsequent commentary, the RBA noted that it was mindful of the impacts of the size and speed of policy withdrawal since May, both on the economy and relative to other central banks that did not meet as often. Short-term money market yields initially fell on the smaller than expected RBA tightening but climbed again following hawkish Fed signalling and RBA guidance that it would continue to tighten further to bring demand and supply into better balance. After falling to as low as 2.85% and 3.29%, three and six-month bank bill yields ended the month 2 basis points (bps) and 9bps higher at 3.09% and 3.66%. In terms of the tightening cycle, markets are looking for around a 3.1% cash rate by year's end and for a further 100bps of tightening over 2023.

Yields continued to trade in wide ranges, with UK political and policy instability, along with hawkish Fed guidance, driving US and domestic yields to their highs. UK fiscal policy reversal and a new UK Prime Minister, along with early signs of slowing in the pace of the global tightening cycle, saw yields fall towards month end. At the shorter end of the yield curve, the Australian three-year government bond yield rose to as high as 3.76%, before ending the month 23bps lower at 3.29%. Further out along the curve, 10-and 30-year government bond yields peaked at 4.20% and 4.53%, before ending at 3.76% and 4.07%.

Credit investor focus turned to fundamentals as the northern hemisphere 3Q earning season commenced. Early results suggest companies in general continuing to outperform low expectations, while management outlook statements reflect concern around the potential for a 2023 global recession. Valuation divergence appears to be opening up in credit markets. In higher quality investment grade markets, a combination of higher base rates, wider credit spreads, and new supply, are resulting in increasingly attractive all-in yields not experienced for the last decade. Risk sentiment recovered somewhat towards the end of the month. Perhaps understating volatile and thinly traded markets, the Australian iTraxx Index closed 14bps tighter at 130bps, while the Australian fixed and floating credit indices returned 0.39% and 0.16% respectively.

Domestically, significant supply resumed with two of the Major Banks (CBA and ANZ) combining to issue senior unsecured, tier 2 subordinated debt and additional tier 1 securities. The senior unsecured and subordinated debt were priced with significant new issue concessions and reset credit spreads across the broader corporate debt market.

The more economically sensitive sub-investment grade markets, including the global High Yield bond market, credit spreads have not pushed much beyond historical averages, in part reflecting muted supply as companies struggle to issue debt.

Market outlook and investment strategy

While much of the heavy lifting has been done, persistent and broad-based price pressures, evident in the latest CPI, mean that the RBA will need to push monetary conditions into restrictive territory. We have revised our base case view to build in 25bps of tightening in November, December and February. This would take the cash rate to 3.35% and into moderately restrictive territory and we expect the RBA to keep policy tight until the first half of 2024.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Nov22.

Interest rates: Market pricing remains more aggressive, with the cash rate priced to peak at around 4.00% in H2 2023. As has been the case for several months, domestic markets continue to price the cyclical peak in the cash rate as the new normal, with forward rates projecting around a 4% cash rate for the next decade. During the spike in yields mid-October, this rate rose to 4.5%, making the mid-to-longer part of the yield curve attractive. While some of the value we saw then has been released, this type of volatility is a source of value for investors with a longer-term focus. We continue to remain active in interest rate management, taking advantage of overshoots to add duration and having the discipline to ease positions when yields fall.

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

Investment grade credit: The commitment by central banks to tackle high inflation through tightening global liquidity conditions continues 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.

Higher yielding credit (domestic): Attractive yields on high quality credit spreads have seen demand return from defensive income investors. We look for opportunities to take advantage of value being presented in new issue conscessions in investment grade primary market deals. In our view, the more illiquid, structured, and levered sectors of the market are yet to adequately reprice. This is a process that will occur in due course as 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. While global high yield had a good month, it has underperformed better quality assets over the year. Both Emerging Market Corporate debt and Global High Yield have had double digit draw downs 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. October offered little in the way of opportunities in new deals due to weaker market environment for primary issuance. Our ongoing ESG specific engagement meetings with companies was a large focus.

Further information
www.janushenderson.com/australia