

DIVERSIFIED CREDIT FUND

As at December 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

\$734.5 million

Minimum investment

\$25,000

Management cost (%)

Management fee 0.55 p.a.
Indirect costs – 0.01 p.a.*

*Based on costs incurred during the financial year ended 30 June 2022.

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)	0.88	2.05	3.31	-1.11	3.03	3.56	4.52
Fund (net)	0.83	1.91	3.03	-1.65	2.44	2.97	3.94
Benchmark [#]	0.25	0.74	1.17	1.25	0.55	1.01	2.25
Excess return [*]	0.58	1.17	1.86	-2.90	1.89	1.96	1.69

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

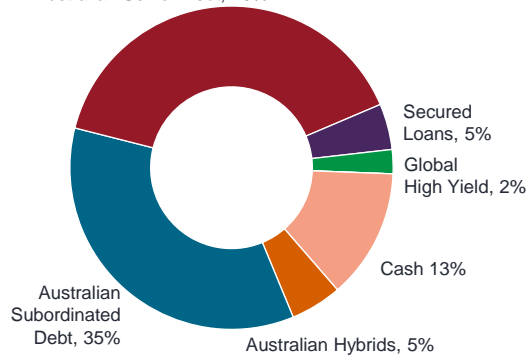
Gross return is gross of management costs and sell spread.

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.

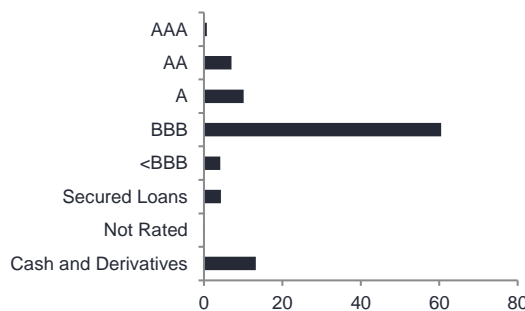
Sector allocation

Australian Senior Debt, 40%

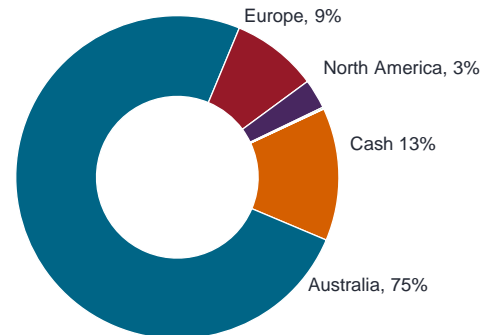


Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Region of issue



Portfolio statistics

Portfolio Yield ¹	5.70
Running Yield	4.38
Spread Duration	3.26
Modified Duration	0.30
Weighted Average Credit Quality	A-
Number of Securities ²	427

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	3.17
CBA Subordinated FRN Basel III T2 6.86% 09/11/2032	2.96
ANZ Subordinated Basel III T2 5.906% 12/08/2027	2.91
CBA Subordinated FRN Basel III T2 14/4/2032	2.72
ANZ Subordinated FRN Basel III T2 26/02/2026	2.60
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.47
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.16
ANZ Subordinated FRN Basel III T2 26/07/2024	2.07
CBA Subordinated FRN Basel III T2 09/11/2027	2.02
Westpac Subordinated FRN Basel III T2 29/01/2026	1.73

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 0.83% (net) for the month. Over the last 12 months, the Fund has returned -1.65% (net). Cash distributions have averaged 4.31% p.a. over the past three years.

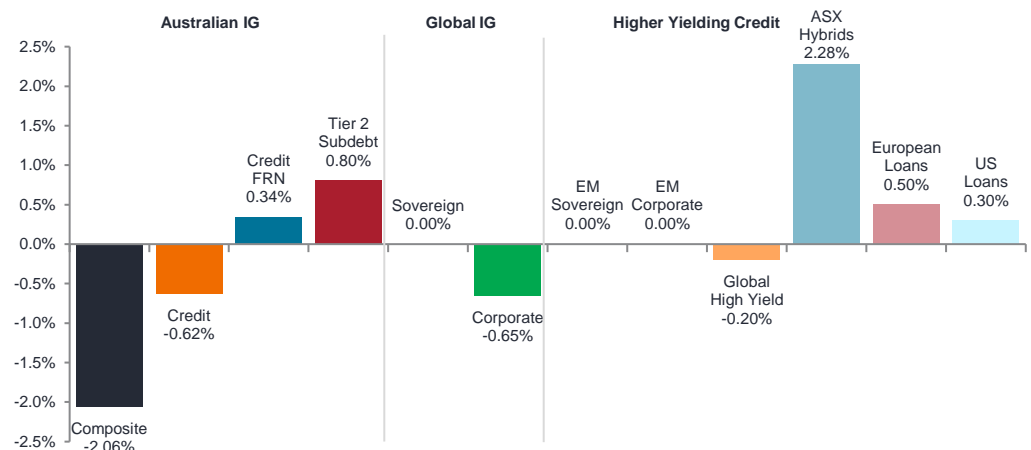
The rise in yields was a detractor for long dated fixed rate bonds over the month. However, active portfolio management including having neutral duration positions throughout most of the month aided performance on a relative basis. It was only when yields lifted significantly towards month end that portfolios added a limited amount of duration.

When given the choice between buying duration through government bonds or positioning via the swap market, we have found the swap market to offer up more attractive pricing compared to bond yields. The Fund's exposure to swaps were a positive contributor in December outperforming on a relative basis.

A decent rally in credit spreads together with generous coupon income led to outperformance in investment grade credit. Fixed rate underperformed floating rate notes given the rise in yields on the risk-free rate.

Our reduced cautious allocation to less liquid and higher beta credit saw only a modest positive contribution as global loans had a moderately good month. We have a very small allocation to global high yield which was flat on the month. We hold no emerging market debt due to ongoing volatility with concerns around genuine default risk due to global food and energy costs and pockets of global recession risk. We have also minimised our hybrid allocation, which on a relative basis appears extremely poor value given spread tightening over the year.

Yield levels continue to hold just shy of 6% and any further increases in cash rates will generate stronger returns over the coming years. When rates dipped earlier in the month, we moved to reduce the duration in the portfolio to 0.25 of a year, which protected capital as rates sold off later in the month. ASX listed hybrids outperformed in the month. The portfolios favoured an allocation to US Loans over hybrids, which while still performing positively in the month, detracted from performance on a relative basis.



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 (HW0C)), SolActive Hybrids Gross Franking, Credit Suisse (Western European Leveraged Loan Index), S&P LTSA US Loans Index as at 31 December 2022

DIVERSIFIED CREDIT FUND

(continued)

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We anticipate Q1 2023 new issuance will resume strongly, with Australian banks looking to navigate their term funding facility refinancing early in the year.

Market review

The decision by the Bank of Japan (BOJ) to lift its 10-year government bond yield curve control target from 0.25% to 0.5% roiled global bond markets. Australian government bond yields initially moved lower on signs that growth was slowing, before rapidly rising following the BOJ move. Flaring volatility saw risk appetite wane, with equity markets weaker and credit markets mixed.

The Reserve Bank of Australia (RBA) lifted the cash rate by a widely expected 0.25% increment in early December, taking the cash rate to 3.1%. While noting monetary policy was not on a pre-set path, the RBA signalled that further tightening was likely over the period ahead, with the interval and size of moves to be guided by incoming data and the RBA's assessment of the labour market and inflation outlook. Volatility returned to the short-term money market as markets reassessed the outlook for monetary policy. Three- and six-month bank bill yields lifted by 17.5bps and 20.5bps to end the month at 3.26% and 3.77%. In terms of the tightening cycle, markets are looking for the cash rate to peak close to 4.0% in late 2023.

Australian yields initially fell as markets saw the prospect of a 0.50% move in the US cash rate as signalling that the tightening cycle was slowing. While the US Federal Reserve (Fed) lifted the Fed funds rate by the expected 0.50%, forward guidance remained hawkish and halted the fall in yields. Thereafter, yields lifted dramatically before Christmas when the BOJ unexpectedly adjusted its yield curve control settings.

At the shorter end of the yield curve, the three-year government bond yield fell to as low as 3.01%, before ending the month 34 basis points (bps) higher at 3.50%. Further out along the curve, 10- and 30-year government bond yields declined to 3.30% and 3.59%, before ending at 4.05% and 4.34%.

In credit markets, investors await further feedback as companies move into early 2023 reporting season. Cognisant of the impacts of tightening policy, slower growth will be unevenly distributed and disproportionately felt across sub-sector credit fundamentals. The grip of macro settings on corporate earnings outlooks and employment intentions will be closely scrutinised by central bankers and investors alike.

The Australian iTraxx Index closed largely unchanged at 91bps along with floating rate spreads, while fixed rate credit spreads rallied up to 8bps as swap yields tightened to government bonds. Australian fixed and floating credit indices returned -0.62% and 0.34% respectively, with benefits of credit excess returns offset by the rise in broader bond yields for the fixed rate market.

Primary markets moved into 'holiday mode', with Suncorp-Metway issuing a new five-year note early in December which was well received. The waning supply of new issuance allowed domestic spreads to firm and deliver some healthy excess returns from elevated spread levels via income advantage.

We anticipate Q1 2023 new issuance will resume strongly, with Australian banks looking to navigate their term funding facility refinancing early in the year. The strong level of income coming through from high quality credit securities provides investors some return buffer for likely concessions into primary supply.

Market outlook and investment strategy

The move by the BOJ threw a curve ball at markets and resulted in higher yields at the longer end of the curve. The rally in yields across the yield curve in early December proved to be premature given the hawkish stance of central banks and no signs of a definitive softening in labour markets or gap down in inflation. However, the rally was a harbinger of what to expect once markets look through the final phase of the tightening cycle.

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(continued)

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INVESTORS

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.

Our base case has the RBA tightening by 0.25% in February and then pausing before delivering a late tightening cycle 0.25% “inflation insurance” move in May. This would take the cash rate to a moderately restrictive 3.6%, making the current tightening cycle the largest and fastest in the monetary policy inflation targeting era.

While we do not see the conditions in place for monetary easing in 2023, the window opens for the RBA to take its foot off the monetary brakes over 2024 provided core inflation eases in response to a period of sub trend growth. After pricing in a cash rate peak closer to our profile in early December, market pricing has pivoted back to a 4% cash rate peak later in 2023 and 4.4% long-run cash rate (using the eight-year rate two-years forward as a proxy). In our view such a cash rate is more in line with a cyclical peak rather than the ‘new’ long-run normal cash rate. Accordingly, we see the recent lift in yields as beginning to restore value.

In navigating the environment ahead, investors should be on the lookout for improved compensation for risk as monetary policy tightens further. We observe that the repricing across different pockets of credit and risk premia have not been simultaneous, providing outperformance opportunities through active rotation.

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 earnings outlooks weaken.

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. 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.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Jan23.

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. While issuance levels were lower in 2022 than the year prior, this was in line with the broader bond market. We look to 2023 with optimism in terms of growth. Our ongoing ESG specific engagement meetings with companies remained a focus over the year, and will continue to do so in 2023.

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.