Janus Henderson

DIVERSIFIED CREDIT FUND

Janus Henderson INVESTORS

As at January 2023

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
$744.9 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

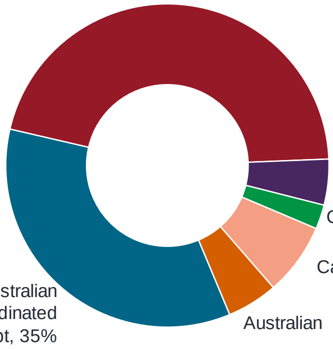
APIR code
IOF0127AU

ASX mFund
JHI04

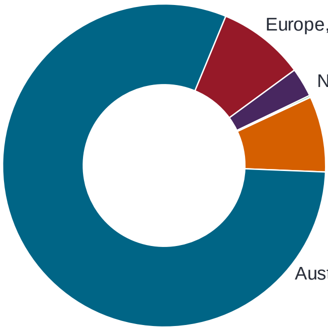
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a)
Fund (gross)	1.31	3.23	3.48	0.32	3.32	3.72	4.62
Fund (net)	1.27	3.09	3.21	-0.22	2.73	3.13	4.04
Benchmark#	0.27	0.77	1.31	1.52	0.61	1.03	2.26
Excess return*	1.00	2.32	1.90	-1.74	2.12	2.10	1.78

*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

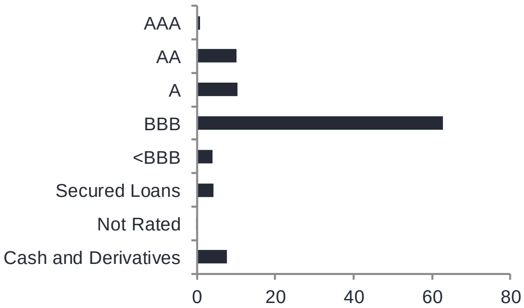


Region of issue



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio statistics

Portfolio Yield[1]	5.45
Running Yield	4.41
Spread Duration	3.16
Modified Duration	0.29
Weighted Average Credit Quality	A
Number of Securities[2]	442

[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 (%)
CBA Subordinated FRN Basel III T2 10/09/2025	3.15
CBA Subordinated FRN Basel III T2 6.86% 09/11/2032	2.98
ANZ Subordinated Basel III T2 5.906% 12/08/2027	2.93
CBA Subordinated FRN Basel III T2 14/4/2032	2.66
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.59
ANZ Subordinated FRN Basel III T2 26/02/2026	2.58
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.28
ANZ Subordinated FRN Basel III T2 26/07/2024	2.02
CBA Subordinated FRN Basel III T2 09/11/2027	2.00
Commonwealth Bank Of Australia Frn 13/01/2028	1.91

[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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(continued)

Portfolio Manager
Shan Kwee

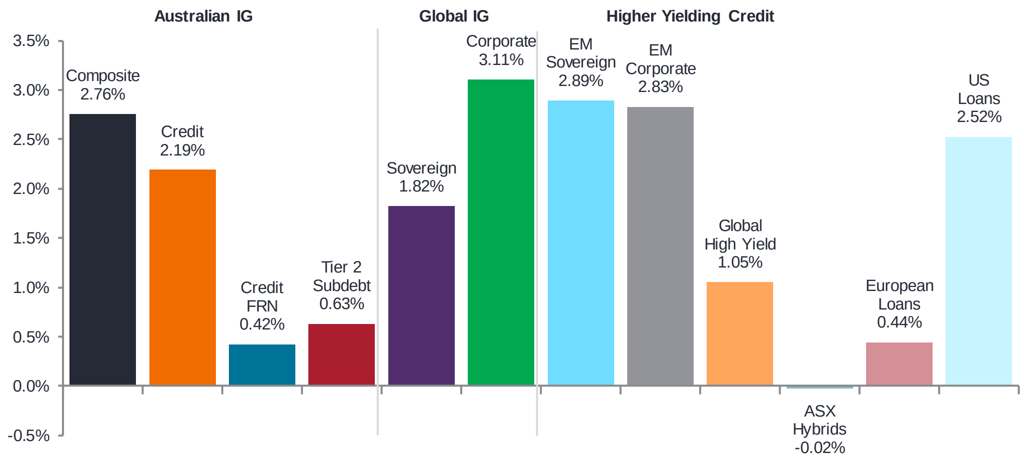
Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned 1.27% (net) for the month. Over the last 12 months, the Fund has returned -0.22% (net).

Credit spreads tightened over the month. This, together with generous coupon income, helped buoy performance. Fixed rate credit outperformed floating rate notes given the fall in yields. The Fund's exposure to swaps and fixed rate credit was a positive contributor in January, outperforming on a relative basis as swap rates outperformed bond yields.

Over 5% of liquidity was deployed into new primary supply which performed well in the market conditions. Allocations in made to bank Tier 2 in 2022 at attractive entry levels contributed positively, materially outperforming listed hybrids which underperformed cash. Our reduced allocations to less liquid and higher beta credit contributed positively as global loans and global high yield had a strong 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 maintain a minimised hybrid allocation, which on a relative basis appears extremely poor value given spread tightening over the year. We have fully divested from ASX listed hybrids in favour of offshore unlisted hybrids which offer better compensation for risk.

Yield levels in the Portfolio remain elevated at around 5.5%. Further increases in cash rates will generate stronger returns over the coming years. Duration remained relatively steady over the month at 0.3 of a year and we will look to add interest rate duration as bond yields move above fair value. Given the buoyant risk sentiment to start the year we took the opportunity to buy credit protection hedging 0.4 years of spread duration to buffer the portfolio from swings in market sentiment.



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 January 2023

Signs of slowing growth led markets to factor in a slowing in the pace of monetary tightening, particularly in the United States.

Market review

Signs of slowing growth led markets to factor in a slowing in the pace of monetary tightening, particularly in the United States. Domestic yields fell across the yield curve, even after a late month lift on a high December quarter inflation result. Risk appetite improved, with both equity and credit markets performing strongly.

Short-term money markets remained volatile as monetary tightening expectations shifted on data flows. The higher-than-expected inflation readings saw three-month bank bill yields end the month 11bps higher at 3.37% as tightening was brought forward. Six-month bank bill yields ended 4bps lower at 3.72%. In terms of the tightening cycle, markets are looking for the cash rate to peak around 3.75% mid-year.

Australian yields fell steadily as markets began to wind back monetary tightening expectations. Prior to the release of the December quarter Consumer Price Index (CPI), three and 10-year government bond yields fell to as low as 2.96% and 3.32%. The higher than expected 1.9% lift in the headline inflation rate saw market conviction of near-term monetary tightening firm and yields partially reversed earlier falls. Despite the late month lift, three and 10-year government bond yields still ended 32 basis points (bps) and 50bps lower at 3.18% and 3.55%.

In credit markets, sentiment was buoyed by evidence of peaking inflation, together with tailwinds from the abrupt re-opening of the Chinese economy. Looking ahead, investors are anticipating a downshift in the pace of global central bank rate tightening, while concurrently monitoring corporate and consumer health as forward economic indicators deteriorate and tighter financial conditions start to grip. The Australian iTraxx Index closed 10bps tighter at 82bps, while the Australian fixed and floating credit indices returned +2.19% and +0.42%, respectively.

In the domestic primary credit market, supra-nationals and financials dominated issuance. Notable transactions included the Commonwealth Bank of Australia's jumbo $5 billion senior unsecured issuance across three and 5-year tenors in both floating and fixed rate formats. Meeting solid demand ($6.7 billion order book), these bonds priced at credit spreads of +90bps and +115bps, and fixed rate coupons of 4.75% and 5%, respectively – attractive levels for high quality liquid assets. Lastly, towards the end of the month, the Australian Prudential Regulation Authority (APRA) approved the call/redemption of a low spread Tier 2 subordinated bond issued by Westpac and in doing so lifting a significant regulatory overhang over the domestic bank capital market.

Higher beta offshore credit followed equities higher in January, as investors cheered evidence of inflation peaking together with tailwinds from China's re-opening. Global High Yield, European Secured Loans and Emerging Market Corporate Debt performed strongly as a combination of high outright yields together with reduced concerns around a deep global recession, attracted investors. Positive sentiment created a thaw in primary markets, allowing high yield corporates the opportunity to issue new debt for the first time in some months.

Market outlook and investment strategy

The Reserve Bank of Australia's (RBA) shift from the 'heavy lifting' to 'finesse' stage of the monetary tightening cycle wasn't made any easier by the breadth of inflation in the latest CPI release. The reason for finesse this year is that on the one hand, higher frequency activity-based data pointed to slowing growth towards the end of last year. To the extent that excess demand was behind inflation, a deceleration in growth suggests that the contribution to price pressures from this source will decline over the year ahead. Indeed, we look for economic growth to slow from 2.6% over 2022 to 1.4% for 2023. Our base case remains for a slowdown rather than a recession.

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(continued)

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Offshore issuance of green and sustainable bonds has already begun strongly, outpacing January of 2022.

On the other hand, the breadth of inflation will be a source of concern for the RBA. While slowing demand and improving supply chains point to moderating inflation over the period ahead, direct and indirect pass through of higher gas prices and building wage pressures will act to limit the pace of deflation. Not responding to these price dynamics when policy settings are mildly restrictive would be a policy mistake.

Our base case cash rate view remains unchanged and has the RBA lifting the cash rate by 0.25% in February and then pausing to monitor the path of demand. Provided demand responds to earlier tightening, we look for a late tightening cycle 0.25% “inflation insurance” move in May. This would take the cash rate to a moderately restrictive 3.60%, making the current tightening cycle the largest and fastest in the monetary policy inflation targeting era.

The value we saw building up in the sharp lift in government bond yields over late December was released as yields fell over January. While we currently see yields as fairly valued, we would regard periods of higher yields, as we enter into the maturing phase of the current tightening cycle, as potential opportunities to add duration.

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. Attractive yields on high quality credit spreads have seen demand return from defensive income investors.

Domestically, we remain unimpressed by tight spreads on offer in the bank hybrid market relative to history, to elsewhere within the bank capital structure (higher rated Tier 2 bank bonds) and to the broader global bank capital market

Mindful that weaker issuers could be disproportionately affected by the challenging macro environment, we remain cautious of high credit beta sectors. In this environment, rather than risk giving up yield to credit, our preference is to focus on high quality carry instruments with strong roll down potential. Our expectation remains for lower quality credit spreads to incrementally widen as investors digest weaker corporate fundamentals in a higher cost of capital / tighter liquidity environment. In the meantime, we continue to remain patient and build risk-taking capacity in anticipation of more attractive entry levels in global.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit go.janushenderson.com/Viewpoint-Feb23.

Environmental, Social and Governance (ESG)

2022 was a slower year for ESG issuance than the year prior, but this was in line with the broader bond market. Offshore issuance of green and sustainable bonds has already begun strongly, outpacing January of 2022. Domestically our year was kicked off with a sustainable bond from IBRD and a green bond from EIB. Our ongoing ESG-specific engagement meetings with companies remain a focus and we look to 2023 with optimism.

Important information

Further information
www.janushenderson.com/australia