

# DIVERSIFIED CREDIT FUND

## As at February 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<sup>#</sup>

Bloomberg AusBond Bank Bill Index

### Risk profile

Medium

### Suggested timeframe

3 years

### Inception date

31 October 2012

### Fund size

\$754.3 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<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)	0.94	3.16	3.82	1.55	3.77	3.93	4.67
Fund (net)	0.89	3.03	3.56	1.02	3.18	3.34	4.10
Benchmark <sup>#</sup>	0.24	0.76	1.40	1.76	0.66	1.05	2.26
Excess return <sup>*</sup>	0.65	2.27	2.16	-0.74	2.52	2.29	1.84

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

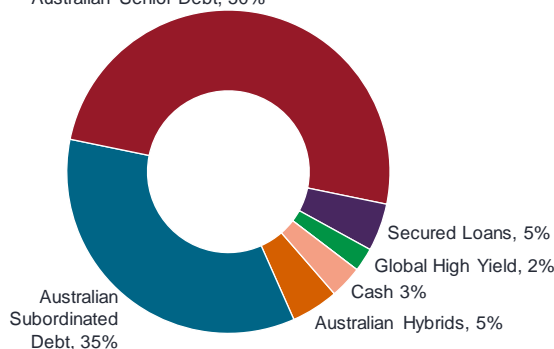
Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

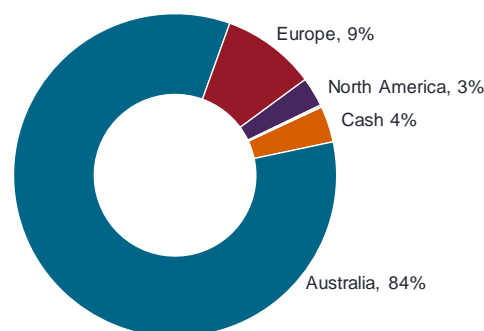
<sup>#</sup>As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

### Sector allocation

Australian Senior Debt, 50%

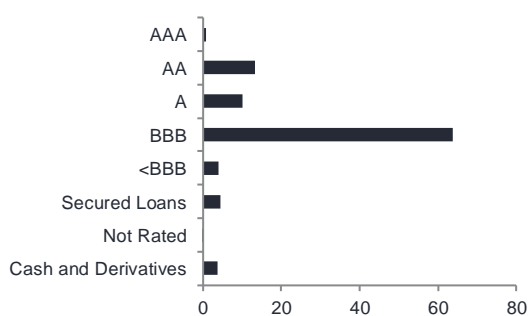


### Region of issue



Rounding accounts for small +/- from 100%.

### Credit rating distribution (%)



### Portfolio statistics

Portfolio Yield <sup>1</sup>	5.78
Running Yield	4.64
Spread Duration	3.33
Modified Duration	0.33
Weighted Average Credit Quality	A-
Number of Securities <sup>2</sup>	434

<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>	Fund weight (%)
CBA Subordinated FRN Basel III T2 10/09/2025	3.13
CBA Subordinated FRN Basel III T2 6.86% 09/11/2032	2.94
ANZ Subordinated Basel III T2 5.906% 12/08/2027	2.81
CBA Subordinated FRN Basel III T2 14/4/2032	2.65
ANZ Subordinated FRN Basel III T2 26/02/2026	2.55
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.54
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	2.23
ANZ Subordinated FRN Basel III T2 26/07/2024	2.01
Westpac Banking Corp FRN 16/02/2028	2.01
CBA Subordinated FRN Basel III T2 09/11/2027	1.97

<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 0.89% (net) and 0.94% (gross). The Fund outperformed the Bloomberg AusBond Bank Bill Index (Benchmark) by 0.65% (net) in February, which returned 0.24% on the month.

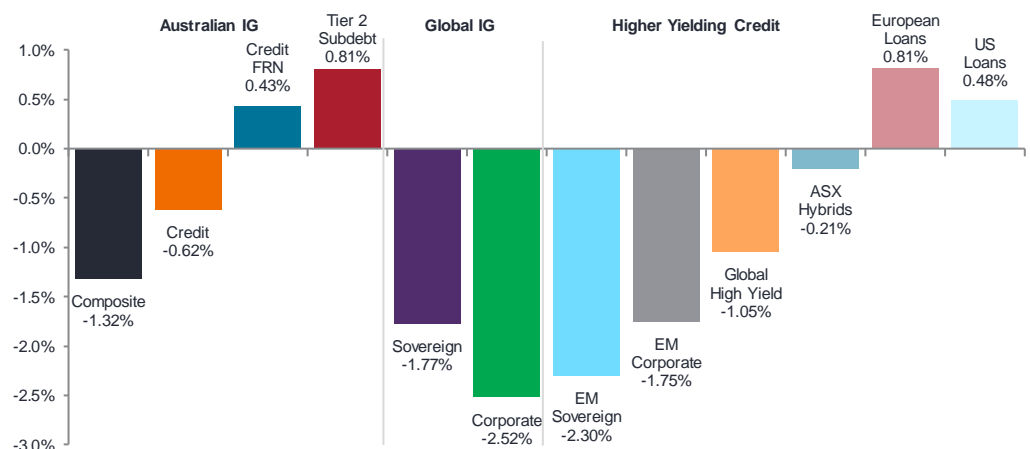
Bond yields rose over the month, unwinding half of the strong positive return gained in the month prior. The price fall on the short end of the yield curve outpaced longer-term bond moves as the curve re-adjusted to the Reserve Bank Of Australia's (RBA) hawkish stance, indicating more rate rises to come.

We have remained cautious on adding duration, as our outlook for further central bank tightening is broadly aligned with market pricing. Meanwhile, overweight duration to swap rates over government bond yields has been a positive contributor.

Globally, credit spreads weakened over the month, with Australia outperforming with local spreads 5 basis points (bps) tighter despite strong supply. Generous coupon income also helped buoy performance in the month. Floating rate credit outperformed fixed rate notes given the rise in bond yields. Active allocations to Tier 2 debt were a strong driver of returns as these assets significantly outperformed. We have favoured generating excess returns by having larger positions in high quality assets with greater liquidity, complemented with sub-sectors like Tier 2 were attractive value has been on offer.

Our minimised allocation to global high yield and no Emerging Market (EM) exposure protected the portfolio. In addition, having fully divested from domestic listed hybrids was beneficial as they still appear poor value relative to other local credit.

Yield levels in the portfolio remain attractive at close to 6%. Further increases in cash rates in the months ahead with continue to boost income returns for floating rate securities. Interest rate duration remained conservatively positioned over the month between 0.2 - 0.3 years. The Portfolio's strong allocations towards high quality investment grade credit, loans and selective Tier 2 securities have materially outperformed. While avoiding hybrids, emerging market corporate debt, and high yield added value as these sectors had negative returns during the month.



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 28 February 2023

# DIVERSIFIED CREDIT FUND

(continued)

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## Market review

Stubborn inflation and hawkish central banks led to higher yields as markets moved to discount further monetary tightening. Risk appetite waned, with both equity and credit markets softening.

Short-term money markets remained volatile as monetary tightening expectations pivoted on RBA signalling. Three- and six-month bank bill yields ended 19bps and 21bps higher at 3.56% and 3.93%. In terms of the tightening cycle, markets are now looking for the cash rate to peak around 4.25% during the second half of the year.

While February's 0.25% lift in the cash rate to 3.35% was widely anticipated, subsequent hawkish messaging from the RBA, including that they considered a 0.5% move, led markets to reassess the likely peak in the cash rate. Three and 10-year government bond yields ended the month 42 bps and 30bps higher at 3.60% and 3.85%.

In credit markets, investors re-evaluated the implications of a 'higher for longer' interest rate regime for economic growth, margins, earnings and cashflows. Concurrently, a number of corporate Treasurers utilised a window of opportunity to access the global primary debt markets in order to get ahead of further anticipated rises in the cost of debt. The new supply was relatively easily absorbed by investors eager to deploy elevated cash holdings into assets with attractive outright yields. The Australian iTraxx Index closed 5bps wider at 87bps, while the Australian fixed and floating credit indices returned -0.62% and +0.43% respectively.

In the domestic credit market, Westpac followed on from CBA a month earlier, issuing \$4.25 billion of senior unsecured bonds across three- and five-year tenors in both floating and fixed rate formats. Similarly meeting solid demand (~\$7.5 billion order book), these bonds priced at credit spreads of +78bps and +95bps, and fixed rate coupons of 4.6% and 4.8% respectively.

Global High Yield and Emerging Market Corporate Debt underperformed as offshore bond yields rose, while floating rate loans generated modest positive returns predominantly through income. Despite rising cash rates in Australia, the listed bank hybrid market delivered negative returns for the second month in a row as spreads widened into supply, which is in stark contrast to Tier 2, which has seen spreads tighten over 50bps to start 2023 as a clear sector outperformer.

## Market Outlook and Investment Strategy

While monetary policy is a blunt instrument and operates with long and variable lags, it seems the slowdown in activity late last year hasn't carried over into early 2023. Despite low levels of consumer sentiment and cost of living pressures, the January NAB Business Survey recorded improving business conditions, forward orders and capacity utilisation. Labour and purchase costs continued to lift at a fast pace.

This resilience was also evident offshore, particularly in the US, where markets shifted from looking through the tightening cycle to building in more tightening. Central banks, including the RBA, look set to continue their strategy of providing a dose of concentrated tightening, risking recession, to stop higher inflation from becoming entrenched.

A hawkish RBA, clearly anxious about the inflation outlook and indicating that work still needs to be done, has led us to factor in a 4.1% peak in the cash rate by mid-year. Given the change to our cash rate forecasts, we currently see yields as broadly fairly valued. We remain on the lookout for opportunities to add duration on spikes in yields as we enter the more mature phase of the tightening cycle.

Investors should remain focused on improved compensation for risk as monetary policy tightens further. We continue to observe that the repricing across different pockets of credit and risk premia remains uneven, providing outperformance opportunities through active rotation.

Attractive yields on high quality credit spreads have seen demand return from defensive income investors. We anticipate that as conditions tighten further, global spreads will suffer decompression. We continue to favour being positioned up in quality and seniority in capital structures, leaving powder dry for when compensation for investors escalates.

# DIVERSIFIED CREDIT FUND

(continued)

Janus Henderson  
INVESTORS

**We continue to stay abreast of new issuance of Green, Social and Sustainable bonds.**

Domestically, we remain unimpressed by the relatively tight spreads on offer in the bank hybrid market, instead allocating 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 a 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 High Yield.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Mar23](http://go.janushenderson.com/Viewpoint-Mar23).

## Environmental, Social and Governance (ESG)

We continue to stay abreast of new issuance of Green, Social and Sustainable bonds. Of note, the domestic market welcomed a Sustainable bond from Bank Australia and a Green bond from QTC in February. Our ongoing ESG-specific engagement meetings with companies remain a focus and we look to 2023 with optimism.

## Important information

A Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2021 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.