

# DIVERSIFIED CREDIT FUND

## As at July 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

\$787.5 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<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.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.93	2.06	3.24	6.84	3.63	4.15	4.50	4.71
Fund (net)	0.88	1.92	2.96	6.26	3.12	3.56	3.92	4.13
Benchmark	0.37	0.97	1.81	3.15	1.13	1.20	2.16	2.32
Excess return*	0.51	0.95	1.15	3.11	1.99	2.36	1.76	1.81

\*Excess return is measured against net performance.

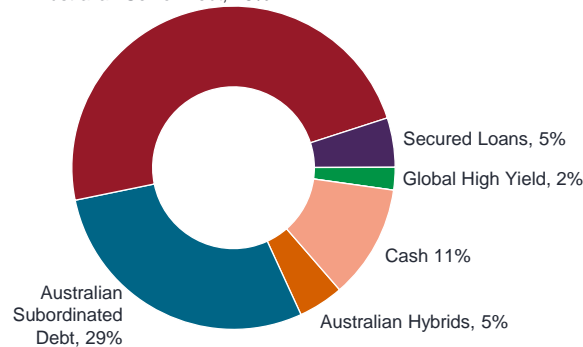
Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

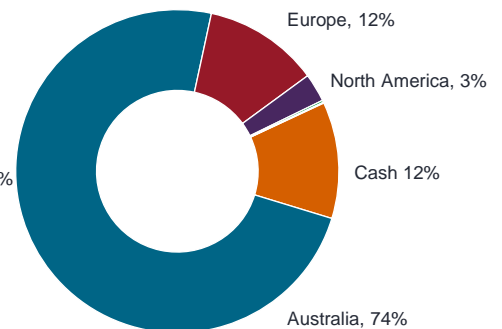
<sup>#</sup>As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

### Sector allocation

Australian Senior Debt, 48%

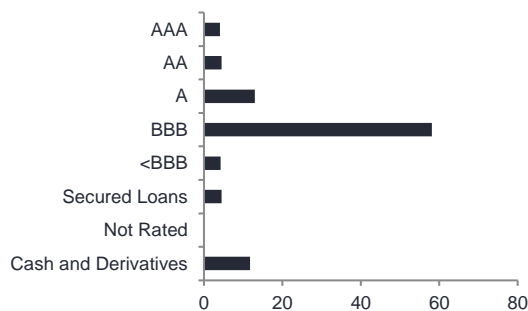


### Region of issue



Rounding accounts for small +/- from 100%.

### Credit rating distribution (%)



### Portfolio statistics

Portfolio Yield <sup>1</sup>	6.08
Running Yield	4.47
Spread Duration	2.45
Modified Duration	1.16
Weighted Average Credit Quality	A+
Number of Securities <sup>2</sup>	417

<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 FRN Basel III T2 26/02/2026	2.48
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.41
CBA Subordinated FRN Basel III T2 10/09/2025	2.37
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	1.97
CBA Subordinated FRN Basel III T2 09/11/2027	1.92
ANZ Subordinated FRN Basel III T2 26/07/2024	1.92
Suncorp-Metway Ltd 5.355% 12Jul28	1.90
CBA Subordinated FRN Basel III T2 6.86% 09/11/2032	1.86
ANZ Subordinated Basel III T2 5.906% 12/08/2027	1.84
Bank Australia Ltd FRN 22/02/2027 AUD	1.83

<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 0.88% (net) and 0.93% (gross). The Fund outperformed the Bloomberg AusBond Bank Bill Index (Benchmark) by 0.51% (net) in July, which returned 0.37% over the month. The Fund continues its outperformance, beating the Benchmark over the longer term including by 3.11% (net) over the year, and 2.35% (net) per annum over the past 5 years.

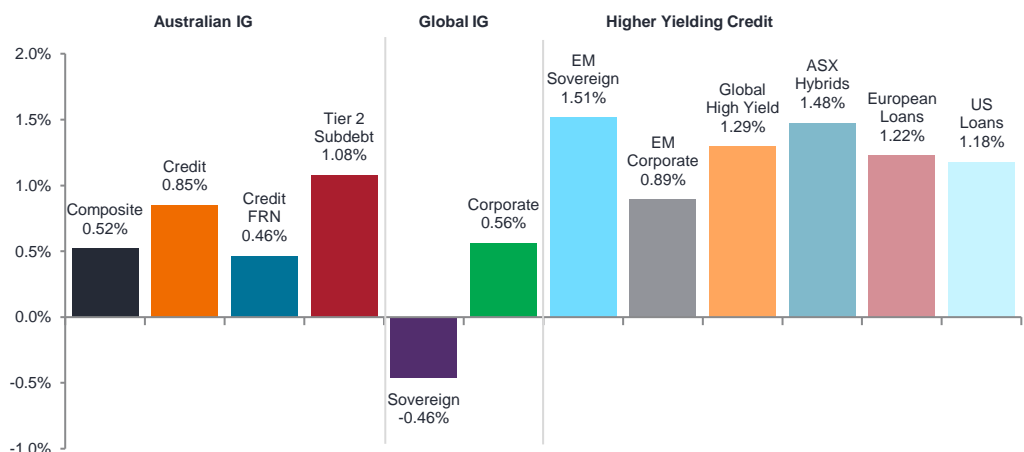
It was a good month of outperformance from credit, returns benefitting from both additional income and some spread tightening. Overweight credit allocations were a positive contributor as a result.

With markets adjusting expectations for a gentler path for policy tightening and slowing growth, this aided higher beta credit sectors across loans, emerging market debt, high yield and hybrids, with all performing well. We remain very modestly allocated across these sectors as market sentiment remains fickle and the impacts of policy tightening are slowly feeding through, with asymmetric downside in our view. Australian Tier 2 continued to exhibit strong outperformance from spreads and income and has been our preferred substitute for lower quality sectors.

Healthy returns were driven from attractive yields on quality credit as well as active credit selections that continued to perform well during July. This was complimented by some active repositioning in interest rate duration as bond yields rose sharply through June into early July, and we moved to add some duration back into the portfolio to lock in some elevated yield levels into the portfolio. Interest rate duration was lifted to 1.2 years, an increase of 0.9 since the start of June, as yields approached more attractive levels to lock in for investors.

It remains a fruitful environment for active security selection. We used the stronger market risk appetite and sharp rally in Tier 2 spreads to continue some profit taking. We reduced exposure to unlisted hybrids, as well as longer tenor Tier 2 securities. We also added some credit default swap (CDS) protection as entry levels are as cheap as they have been for some time. We will seek to redeploy liquidity into new primary deals as reporting season unfolds in August. We saw some opportunity to allocate to AAA rated credit during the month via primary activity from Suncorp in covered bonds, as well as some well seasoned AAA rated prime residential mortgage-backed securities (RMBS) at a spread of 1.17% above bank bills, which looks attractive on a risk adjusted basis.

Fund yield remains around 6.0% with cautious risk positions. Should bond yields climb further in sympathy to global market pricing, we see value in locking in higher yield levels for income investors via adding duration, which can also serve as a defensive buffer if risk markets wobble. The Fund's selective allocations towards high quality investment grade credit have continued to perform well, and despite a strong recovery in sub investment grade returns, we remain patient awaiting better valuation entry points in higher beta or more illiquid segments of the credit market.



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 (HWOC)), SolActive Hybrids Gross Franking, Credit Suisse (Western European Leveraged Loan Index), S&P LTSA US Loans Index as at 31 July 2023

# DIVERSIFIED CREDIT FUND

(continued)

Janus Henderson  
INVESTORS

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## Market review

As central banks edge closer to their policy peak, markets are starting to hope that the inflation genie is back in the bottle, without much detriment to economic growth. This allowed for some divergence across bond tenors. Shorter dated markets see a near term peak in policy, but policy held steady for longer, while longer dated markets eased long term risks. Three-year government bond yields ended the month 18 basis points (bps) lower at 3.87%, while 10-year government bond yields were 4bps higher at 4.06%.

A risk-on tone returned to credit markets during the month. The domestic new issue market was quiet as issuers went into their black-out periods ahead of the upcoming Australian full-year earnings season. The Australian iTraxx Index ended 9bps tighter at 72bps.

## Market Outlook and Investment Strategy

The RBA are now monitoring the balance between the slowing household sector, the strong labour market, and high wages growth. We know that the labour market lags the economy, reflecting the monetary policy conditions seen almost a year before, but the turn is difficult to pinpoint. We remain in the midst of the peaking of the economy but believe that policy will continue to grip and slow economic growth, with a shallow recession starting early next year not off the table.

We have reduced the probability of the very last hike in the cycle, with our central case now seeing one more hike to 4.35%. This may come through in either of the next two meetings. However, the longer the RBA leave it, the worse the coincident economic data appears and the harder it is for them to raise rates to tackle inflation. We currently see market pricing of one more rate hike, but delayed until 2024, and then policy held for an extended time, as underestimating the economic headwinds in 2024. We currently see the Australian yield curve as modestly under-valued. We remain on the lookout for tactical opportunities to add further duration on spikes in yields triggered by central bank signalling and data flows.

As the cumulative impact of tighter financial conditions continues to grip and the cycle ages, our focus in the credit space is towards defensiveness, with a keen focus on risk-adjusted returns. Our strong bias is towards high-quality, liquid credit and issuers that can survive and thrive through a range of macro-economic scenarios.

We are avoiding illiquidity, complexity and leveraged sectors, where we anticipate balance sheets will have to contend with a painful period of adjustment in a higher cost of capital environment. Lastly, by adopting a patient and disciplined approach to extending risk and reserving ample investment capacity we will be well placed to take advantage of any further market dislocations.

We remain unimpressed by relatively tight spreads on offer in the bank hybrid market and remain in favour of allocations in investment grade corporates and higher up in the bank capital structure in Tier 2 and senior debt. Both Senior and Tier 2 spreads rallied strongly during FY23 from elevated levels, and we have trimmed some active positions as a result. We continue to look for opportunities within securities producing higher yields as the broader market more rationally reprices risk, with conservatively geared Australian real estate investment trust (REIT) senior spreads showing attractive relative value.

We remain patient on sub investment grade and more illiquid credit, with a strong preference to earn reasonable income up in quality for now. Our expectation remains for lower quality credit spreads to widen as investors digest weakening corporate fundamentals in a higher cost of capital and slowing growth environment. We are withholding risk and liquidity capacity in anticipation of more attractive entry points for global high yield and loans. After the risk rally Credit Default Swaps are now providing cheaper entry points for credit protection and we have increased levels of protection as we approach the point in the cycle where effects of policy tightening should become more apparent.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit [go.janushenderson.com/Viewpoint-Aug23](https://go.janushenderson.com/Viewpoint-Aug23).

# DIVERSIFIED CREDIT FUND

(continued)

**Domestically, primary markets were generally quiet in July, which included only a few labelled ESG bond deals.**

## Environmental, Social and Governance (ESG)

Domestically, primary markets were generally quiet in July, which included only a few labelled ESG bond deals. Two were small private placement new green bond issues, both from supranationals, however we were able to access the two following deals for clients via primary markets. NZ Local Government Funding Agency (NZ LGFA) helps to fund the local councils across New Zealand, who provide services such as public transport, public housing, water treatment, and recycling collection. They also have a strong sustainability framework which can lend funds to borrowers at a discounted loan margin when they commit to address greenhouse gas (GHG) emissions aligned to science-based trajectory. During July they chose to issue a non labelled bond in Australian Dollars. LaTrobe University issued their inaugural green bond on the last day of July. As well as their social impact through research and education, the University is committed to implementing, maintaining and continually improving environmental management processes to reduce its environmental footprint. Proceeds of the bond can be targeted toward projects aligned with green buildings, renewable energy, energy efficiency, clean transportation, pollution prevention, sustainable water and waste management as well as terrestrial and aquatic biodiversity conservation.

## Important information

The Product Disclosure Statement for the Fund, dated 30 September 2022, and the Additional Information Guide, dated 30 May 2023, are 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.