Janus Henderson

DIVERSIFIED CREDIT FUND

Janus Henderson INVESTORS

As at January 2021

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
$708.3 million

Minimum investment
$25,000

Management cost (%)
0.55 p.a.
Indirect costs – 0.01 p.a.*
*Based on costs incurred during the financial year ended 30 June 2020.

Buy/sell spread (%)
0.10/0.25^

Base currency
AUD

Currency hedging
$AUD hedged^^

Distribution frequency
Monthly

ARSN code
127 727 431

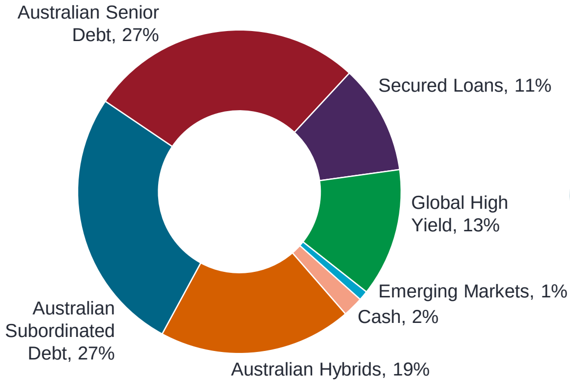
APIR code
IOF0127AU

ASX mFund
JHI04

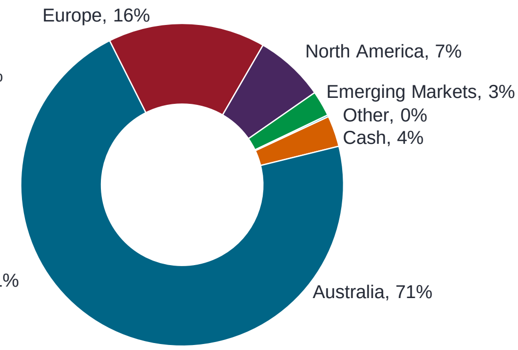
Performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a)
Fund (gross)	0.48	3.19	5.04	7.46	5.37	5.78	5.43
Fund (net)	0.42	3.04	4.85	6.73	4.72	5.14	4.84
Benchmark#	0.00	0.01	0.04	0.29	1.21	1.97	2.62
Excess return*	0.42	3.03	4.81	6.44	3.51	3.17	2.22

*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

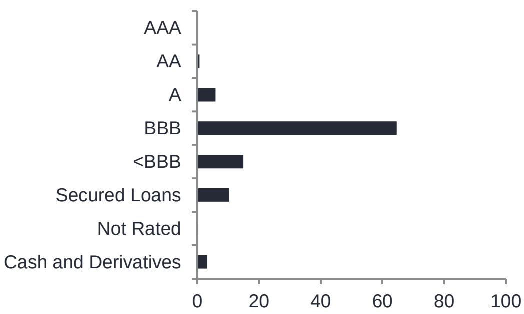


Region of issue



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio statistics

Portfolio Yield[1]	2.62
Running Yield	2.17
Spread Duration	4.58
Modified Duration	1.41
Weighted Average Credit Quality	BBB-
Number of Securities[2]	685

[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	4.63
ANZ Subordinated FRN Basel III T2 26/07/2024	4.05
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.29
Woolworths Group Senior Unsecured 2.8 20/05/2030	2.27
ANZ Subordinated FRN Basel III T2 26/02/2026	1.98
Transurban Queensland Finance Senior Secured 4.5% 19/01/2028 USD	1.86
NAB Capital Notes 2 Basel III T1	1.79
NAB Subordinated FRN Basel III T2 17/05/2024	1.75
NAB Subordinated FRN Basel III T2 18/11/2026	1.73
National Income Securities (NABHA)	1.68

[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 0.42% (net) for the month. This compares to the Bloomberg AusBond Bank Bill Index (Benchmark) which was flat. Allocations to bank hybrids and subordinated debt, as well as secured loans were the top contributors for the month.

Over the last 12 months, the Fund has returned 6.73% (net), which is 6.44% above the Benchmark. In addition, investors received 0.14% of franking credits, while cash distributions were 4.55%. The Fund has exceeded its return objective over all time periods and over the past three years has returned net of fees 3.88% above bank bills including franking.

Expectations for a post-vaccine global rebound were buoyed by further proposed fiscal easing from the new Biden Administration and US Federal Reserve (Fed) signalling of a long period of accommodative monetary settings. Burgeoning sovereign debt supply saw yield curves steepen and inflation expectations edged higher. Front end rates remained anchored by an extended period of highly accommodative policy from the Reserve Bank of Australia (RBA). Three-month bank bills ended the month unchanged at 0.01% and three-year government bond yield ended the month at 0.11%. Longer-dated government bond yields continued to lift and inflation expectations were revised up, the 10-year government bond yield ended the month 16 basis points (bps) higher at 1.13%.

The year started on a positive note for credit markets despite uncertainty over another round of state border closures. Reinvestment of bank senior maturities and cash built up over the holiday period saw spreads rally on both floating rate financials and corporate bonds as the alternative of sitting in cash at 0.0% remains undesirable for investors. The prospect of global reflation and rising rate environment saw floating rate credit markets outperform fixed rate.

Bank floating rate note (FRN) spreads rallied 3bps lifting sector returns to 0.09%, while spreads on corporate investment grade bonds tightened 5bps helping lift returns into positive territory despite rising bond yields. Higher spread sectors like bank hybrids and subordinated debt outperformed returning between 0.2-0.7% as a reasonable level of income remains in high demand. Cash bonds outperformed synthetic indices, with the iTraxx Australia Index widening 7bps in spread to 63bps following weakening in offshore derivatives over the month.

Global investors showed greater appetite for floating rate loans and flows into fixed rate high yield bonds slowed. After lagging the late 2020 rally, both US and European loans were the top performing credit sectors in January as spreads rallied and converged toward global high yield and emerging markets.

Market review

With the RBA Term Funding Facility (TFF) curtailing supply of senior bank notes, the local primary market had a very quiet start to the year. University of Melbourne (AA+ rated) issued a $150m of 10-year bonds at a yield of 1.97% to refinance their upcoming 2021 maturity, while Mercedes Benz issued $150m of a 3-year maturity at 0.75% yield. The main primary supply of note was Westpac issuing $1.25bn of a new 10 non-call 5-year subordinated note at a spread of 1.55%. In total, the $1.55bn of Australian dollar credit supply was materially less than the $4.2bn of credit maturities for the month. NAB, Macquarie Group and ANZ all chose to issue in offshore markets, with a combined $4.4bn of TLAC eligible supply finding very robust demand from global investors.

With the US election and senate runoffs finally settled and the RBA rolling forward their period of significant monetary easing, the low risk-free interest rate regime will persist for a number of years. In conjunction with an improving economic outlook this will continue to drive demand for income-producing assets with improving fundamentals. In this regime of financial repression, we expect spread sectors to remain well supported as investors seek to replace shrinking levels of lower risk income. The local supply picture for 2021 remains constrained with banks unlikely to need much funding and several corporates choosing to issue in advance during 2020. Issuers generally have ample liquidity and we expect maturities to outstrip new supply of Australian dollar credit, this will further be supporting credit excess performance.

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(continued)

We see the additional return and income from credit assets remaining valuable to protect client capital in real terms as nominal rates are held at very low levels and inflation risks appear to be rising offshore.

Investment strategy

We see the additional return and income from credit assets remaining valuable to protect client capital in real terms as nominal rates are held at very low levels and inflation risks appear to be rising offshore. The yield in the Fund remains above 2.5% which appears highly attractive in a world where deposit rates trend toward 0%. We anticipate further capital gains to be generated as safer forms of income remain incredibly desirable which should see spreads grind in further. The Fund's floating rate and shorter duration is also outperforming as longer duration fixed interest as markets adjust to the prospect of improving macroeconomic conditions in 2021.

Despite a positive outlook for broader credit performance, we remain conscious that given the nature of the economic shock, not all can be saved. Policy has already materially trimmed the risk of large-scale defaults, however we anticipate pockets of stress across SMEs, households and corporate sectors will remain a theme in 2021 as broad-based supports like JobKeeper roll off. Sectors like tourism, entertainment, and some forms of retail and hospitality realise that cashflows are unlikely to revert to pre-pandemic levels any time soon and will likely face insolvency. Meanwhile other sectors like airports, toll roads, and education remain impacted but have decent recovery prospects due to their essential nature.

As such, we are staying the course and remain well allocated across credit markets. Given the uneven nature of COVID impacts across sectors, we remain very discerning within stock selection and are repositioning the Fund selectively into primary deals that we feel have attractive relative value and potential for stock selection alpha.

Our activity remains focused on extracting income and capital gains from opportunities where entry valuations still appear reasonably attractive, ongoing policy support underpins market demand, and assets remain in scarce supply. The Fund remains well positioned to capitalise on further gains from income and capital gains delivered as 2021 unfolds.

Further information
www.janushenderson.com/australia