

# DIVERSIFIED CREDIT FUND

## As at August 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

\$796.4 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)	0.84	2.40	3.14	7.08	3.61	4.22	4.49	4.75
Fund (net)	0.80	2.26	2.86	6.52	3.07	3.63	3.91	4.17
Benchmark	0.37	1.04	1.94	3.37	1.25	1.24	2.16	2.34
Excess return*	0.43	1.22	0.92	3.15	1.82	2.39	1.75	1.83

\*Excess return is measured against net performance.

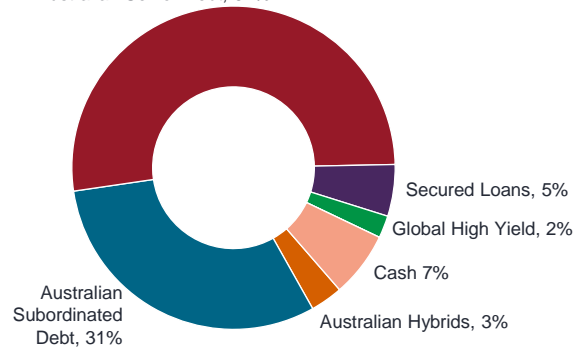
Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

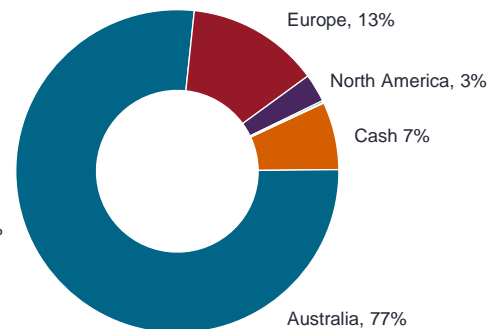
<sup>#</sup>As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

### Sector allocation

Australian Senior Debt, 52%

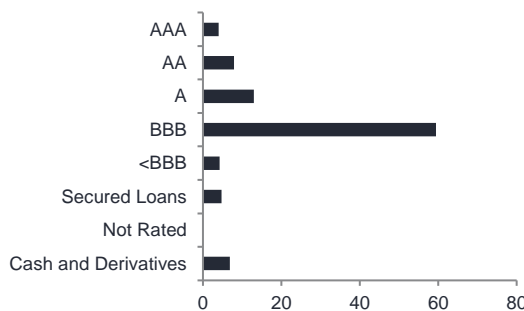


### Region of issue



Rounding accounts for small +/- from 100%.

### Credit rating distribution (%)



### Portfolio statistics

Portfolio Yield <sup>1</sup>	5.83
Running Yield	4.57
Spread Duration	2.59
Modified Duration	1.24
Weighted Average Credit Quality	A+
Number of Securities <sup>2</sup>	409

<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	2.43
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.42
CBA Subordinated FRN Basel III T2 10/09/2025	2.35
ANZ Subordinated FRN Basel III T2 26/07/2024	1.91
Suncorp-Metway Ltd 5.36% 12/07/2028 FRN AUD	1.89
CBA Subordinated FRN Basel III T2 09/11/2027	1.88
Lloyds Banking Group Plc 7.086% FIX/FRN Subordinated 31/08/2033	1.86
Bank Australia Ltd Senior Unsecured FRN 22/02/2027	1.79
Australia & New Zealand Banking Group/UK 6.75% FIX/FRN Perp USD	1.61
Australia Pacific Airports (Melbourne) Senior Secured 3.763% 25/11/2031	1.60

<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 0.80% (net) and 0.84% (gross). The Fund outperformed the Bloomberg AusBond Bank Bill Index (Benchmark) by 0.43% (net) in August, which returned 0.37% over the month. The Fund continues its outperformance, beating the Benchmark over the longer term including by 3.15% (net) over the year, and 2.39% (net) per annum over the past 5 years.

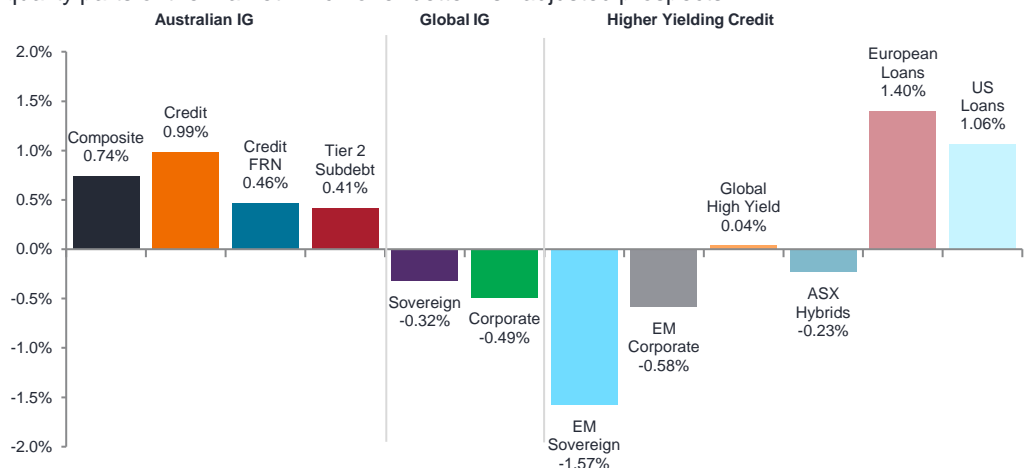
Credit performed well in August, buoyed by the embedded elevated yields which offset some spread widening. We took profit on some of the credit in the portfolio, whilst maintaining high quality credit positions that we are comfortable with.

Global loans were the top performing credit subsector for the month, while emerging market debt and high yield underperformed due to higher US treasury yields. In Australian Tier 2 continued to outperform delivering returns above bank bills, while listed hybrids had a negative month due to new supply from NAB. We remain uninvested in domestic hybrids, with our favoured overweight Australian Tier 2 allocation having performed well and adding value. Now that Tier 2 valuations have moved from attractive to fair, we have started to take profit to increase active capacity for future issuance that may come with better concessions. Relative value opportunities are still apparent in this environment and we switched some allocations out at 5.9% yield into the new Lloyds Subordinated notes at 7.09%, which yields more than listed hybrids.

Another strong month of returns for investors were driven from healthy yields available on quality credit as well as active credit selections that performed well. Income generation remains strong and local Australian high grade credit continues to add value this year with credit spreads rallying further. Real estate investment trusts (REITs) in particular had a good month as reporting season painted a positive picture in Retail which assisted broader REIT spreads tighter, which have looked cheap on relative value. This was complimented by our overweight interest rate duration position of 1.3 years, which was a positive contributor into the fall in bond yields generating positive capital returns.

It remains a fruitful environment for active security selection. We used the market risk appetite and ongoing rally in major bank Tier 2 spreads to continue some profit taking, reducing exposure as we expect primary supply to pick up now that local reporting season is behind us. We will seek to redeploy liquidity into new primary deals which are coming out at attractive yield levels, which we took advantage of in the Lloyds deal entering at a 7.1% yield.

Fund yield remains around 6.0% with overall cautious risk positions with low levels of sub investment grade exposure and no listed hybrid allocations, with material credit default swap protection positions in place. Despite an ongoing recovery in sub investment grade spreads, we remain patient awaiting better valuation entry points in higher beta or more illiquid segments of the credit market. In the meantime, investors are still rewarded with healthy returns from higher quality parts of the market which offer better risk adjusted prospects



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 August 2023

# DIVERSIFIED CREDIT FUND

(continued)

**It has been a volatile month for bond yields, moving back to cyclical highs and then dropping again.**

## Market review

It has been a volatile month for bond yields, moving back to cyclical highs and then dropping again. The economic narrative is uncertain, and markets reflected that. The Reserve Bank of Australia (RBA) are also uncertain, and continued with their cautious pause, at 4.10%, at their August meeting. Three-year government bond yields ended the month 13 basis points (bps) lower at 3.74%, while 10-year government bond yields were 3bps lower at 4.03%.

Throughout the month, credit markets were relatively resilient despite sharp gyrations in bond yields. Investor expectations swivelled between soft-landing, recession and deflationary scenarios, depending on the day. Against this back-drop, many Australian Companies handed down their full-year results for the financial year ended 30 June 2023. In what has been a recurring theme, earnings broadly continued to fare better than initially feared. However, in the detail, there is evidence emerging that rising costs of living and tighter financial conditions are finally starting to impact consumers and corporates alike, though impacts are being felt highly un-evenly.

The Australian primary market was active post corporate reporting. New issuance was readily absorbed, investors attracted by attractive yields on offer in investment grade credit. Notable transactions included CBA and ANZ issuing jumbo \$5+ billion deals comprising three- and five-year AA- rated senior bonds at credit spreads of 75bps and 93-95bps above swaps respectively. Both of these deals attracted record demand in excess of \$7.5 billion each. Lower down the capital structure, UK national champion bank Lloyds Banking Group issued an inaugural \$750m BBB- rated Australian Dollar denominated Tier 2 bond callable in five years, at an attractive yield of 7.09% (swaps +290bps). NAB issued its latest AT1 ASX Listed Hybrid, NAB Capital Notes 7. Similarly rated BBB-, this \$1 billion transaction was issued at margin of +280bps over the three-month bank bill swap rate (including franking). Lastly, structured credit markets were also active with a notable transaction being ING Bank's \$2 billion IDOL RMBS deal where senior AAA notes were issued at a margin of +110bps over the one-month bank bill swap rate.

## 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 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. The RBA will now be monitoring the global economy closely for signs of faster than expected slowing.

We currently see market pricing of less than one hike and easing in very late 2024 as underestimating the economic headwinds in 2024. We currently see the Australian yield curve as 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.

In recognition of the complex investment environment, our credit strategy remains skewed towards high-quality, investment grade issuers with resilient business models, solid earnings power, and conservative balance sheets. We have been actively and selectively taking advantage of the attractive yields on offer in highly rated corporate bonds and structured credit, particularly in the primary markets where transactions have come with new issue concessions. While we believe that the cumulative impacts of tightening financial conditions will become evident, we remain open-minded to a wider range of potential economic outcomes that include scenarios less dire than ones revolving around deep recession.

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.

# DIVERSIFIED CREDIT FUND

(continued)

Janus Henderson  
INVESTORS

**The green, social, and sustainability bond market was relatively active in August.**

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-Sep23](https://go.janushenderson.com/Viewpoint-Sep23).

## Environmental, Social and Governance (ESG)

The green, social, and sustainability bond market was relatively active in August. LaTrobe University issued their inaugural green bond on the last day of July, which settled this month. Brighte, a home energy focused financier issued their fourth green asset-backed security trust in the bond market. This consists of loans from Australian homeowners who are repaying borrowings from residential solar, battery installations and other energy efficient home improvements. NBN also came to market, raising capital for more energy efficient technology on their fibre optic connections, purchasing renewable electricity to power operations, and deployment of the broadband network to remote communities. A selection of offshore banks also issued green bonds into the Australian market over the month.

## Important information

The Product Disclosure Statement for the Fund, dated 30 September 2022, and the Additional Information Guide, dated 9 August 2023, are available at [www.janushenderson.com/australia](https://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](https://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](https://www.janushenderson.com/TMD). Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.