

DIVERSIFIED CREDIT FUND

As at September 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

\$856.9 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.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.25	2.03	3.85	7.91	3.68	4.20	4.39	4.74
Fund (net)	0.19	1.88	3.56	7.32	3.14	3.62	3.81	4.16
Benchmark	0.34	1.08	1.99	3.56	1.36	1.28	2.16	2.35
Excess return*	-0.15	0.80	1.57	3.76	1.78	2.34	1.65	1.81

*Excess return is measured against net performance.

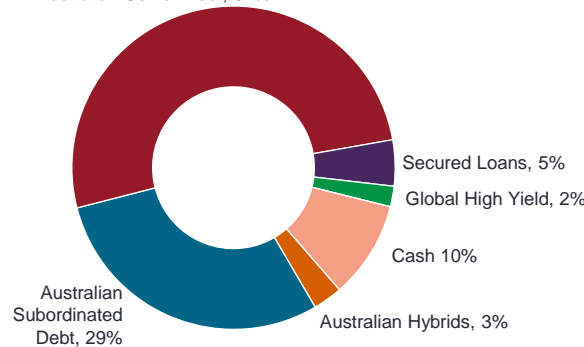
Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

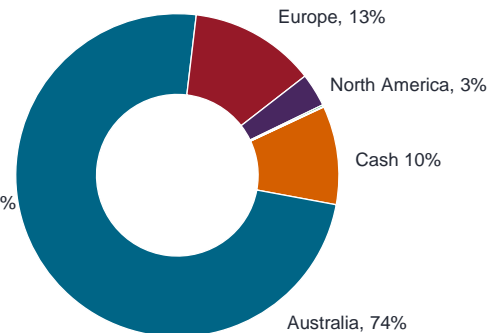
[#]As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

Sector allocation

Australian Senior Debt, 51%

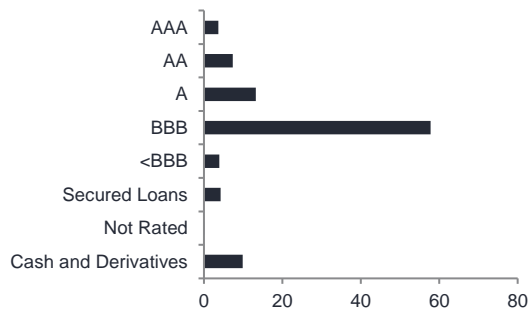


Region of issue



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio statistics

Portfolio Yield ¹	5.97
Running Yield	4.54
Spread Duration	2.35
Modified Duration	1.26
Weighted Average Credit Quality	A+
Number of Securities ²	429

¹Estimated 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)

²Number of Securities is on a look through basis and excludes cash and derivatives.

Top 10 holdings³

Top 10 holdings ³	Fund weight (%)
ANZ Subordinated FRN Basel III T2 26/02/2026	2.27
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.21
CBA Subordinated FRN Basel III T2 10/09/2025	2.16
Lloyds Banking Group Plc 31/08/2023 AUD Regs Sub	2.07
ANZ Subordinated FRN Basel III T2 26/07/2024	1.78
CBA Subordinated FRN Basel III T2 09/11/2027	1.76
Suncorp-Metway Ltd 5.355% 12/07/28	1.76
Bank Australia Ltd FRN 22/02/2027 AUD	1.67
ANZ Bank/UK 6.75% Fix/Perp USD	1.49
CBA Subordinated FRN Basel III T2 6.86% 09/11/2032	1.35

³Top 10 is on a look through basis.

[^] For more information and most up to date buy/sell spread information visit

www.janus Henderson.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.

DIVERSIFIED CREDIT FUND

(continued)



Portfolio Manager
Shan Kwee

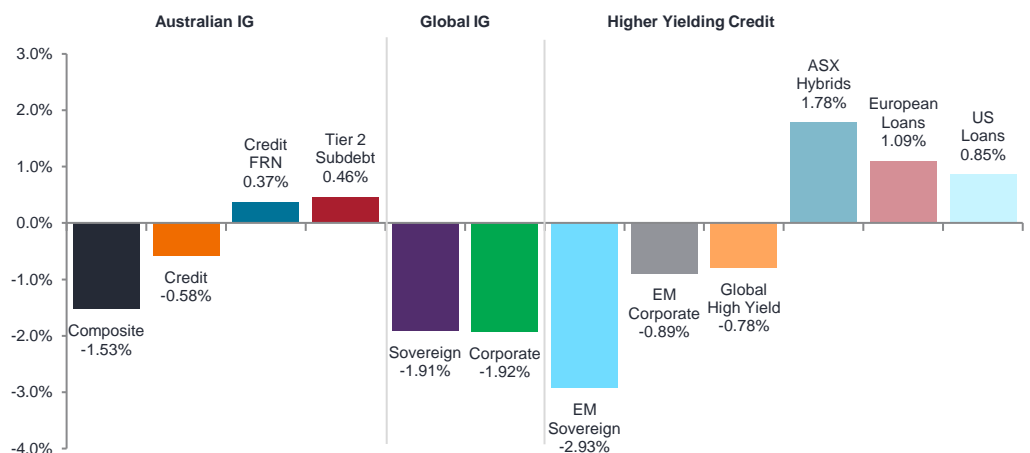
Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned 0.19% (net) and 0.25% (gross). The Fund underperformed the Bloomberg AusBond Bank Bill Index (Benchmark) by -0.15% (net) in September, which returned 0.34% over the month. The Fund continues its outperformance, beating the Benchmark over the longer term including by 3.76% (net) over the year, and 2.34% (net) per annum over the past 5 years.

Australian credit performed positively in September, buoyed by the embedded elevated yields while spreads were broadly unchanged. We remain cautious and selective on credit, buying in the industries we like such as inflation protected industries, senior bank paper, and high quality well collateralised Asset Backed Security (ABS) structures.

Floating rate credit subsectors outperformed for the month with domestic listed hybrids and global loans the top subsectors, while emerging market debt and high yield underperformed due to higher US treasury yields and spreads beginning to widen. Australian Tier 2 continued to outperform delivering returns above bank bills mainly through income advantage, while the hybrid market rebounded from a negative previous month as well as some support driven by APRA announcing a consultation into the local use of additional Tier 1 capital instruments. Now that Tier 2 valuations have moved from attractive to fair, we have actively increased capacity for future issuance that may come with better concessions in tougher market conditions. Relative value opportunities continue to present with some of the domestic primary corporate transactions proving very popular and outperforming the broader market, with spreads rallying 10-15bps despite weaker broader spread conditions.

Across the quarter it was a strong period for excess returns, particularly from factors such as bond swap spread compression (12bps tighter), and credit spreads contributing positively from income advantage and some further spread compression which slowed in September. Financial credit spreads were broadly unchanged as the market was met with strong supply, while corporate spreads outperformed with BBBs compressing 11bps over the quarter as investors favoured adding defensive sectors like utilities and transport infrastructure at high outright yields. This was evidenced where primary market transactions were well bid in general and new deals the Fund participated in have rallied in spread, in particular Chorus, Westconnex, and Suncorp Tier 2 were hotly contested and oversubscribed, showing the environment is still one that favours active security selection.



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 30 September 2023

DIVERSIFIED CREDIT FUND

(continued)

Bond market volatility continued, with the August price gains reversing in September and the sell-off extended late in the month.

Portfolio yield remains close to 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 which have started to add value in the recent weakness in risk sentiment. Despite a period of 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 defensive IG parts of the market which offer better risk adjusted prospects.

Interest rate duration of 1.2 years was the main detractor from performance during September as yields rose swiftly. The front end of the yield curve, where the Fund's duration is positioned, held in better as the RBA remains on hold. The longer end of the yield curve out to 10 years is underperforming as the curve steepens due to global factors. As the tightening cycle reaches a mature phase, we are biased to lock in yield levels via holding duration in the portfolio at attractive yields as we see value emerging versus our view of fair value. During September we left duration unchanged while we await more extreme yield overshoots as a potential opportunity to lock in attractive yields.

Market review

Bond market volatility continued, with the August price gains reversing in September and the sell-off extended late in the month. The Reserve Bank of Australia (RBA) remain uncertain, and continued their cautious pause, at 4.10%, at their September meeting. Three-year government bond yields ended the month 34 basis points (bps) higher at 4.08%, while 10-year government bond yields were 46bps higher at 4.49%.

Global credit markets were downbeat as investors returned from the northern hemisphere summer break and contemplated a murky forward macro outlook. Sentiment was further weakened by a sharp rise in bond yields towards quarter end. Soft-landing probabilities were re-assessed and an increasingly credible scenario of weaker growth alongside a higher-for-longer rate environment to combat sticky inflation was contemplated (i.e. Stagflation), with negative implications for risk assets more broadly. The Australian iTraxx Index ended 3bps wider (roll adjusted) at 88bps, while the Australian fixed and floating credit indices returned -0.58% and +0.37% respectively.

Primary markets globally saw a raft of new issuance. Notable local transactions included Westpac who issued a \$2.4 billion five-year AA- rated senior unsecured bond at a credit spread of 93bps, and 5% coupon. Leading general insurer Suncorp Group issued a \$600m A- rated Tier 2 floating rate note callable in 5.75 years at a credit spread of +235bps above swaps, yielding comfortably above 6% which was well oversubscribed. Sydney toll-road group WestConnex returned to the market with its second Australian Dollar denominated bond transaction. Rated BBB+, this \$550m seven-year fixed rate bond was issued at an attractive credit spread of +170bps and a healthy yield of 6.15% for defensive monopolistic infrastructure assets.

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 are closely monitoring the rise in oil prices as well as global economic slowing as risks to the outlook.

We currently see market pricing of one hike and easing in 2025 as underestimating the economic headwinds in 2024. We currently see the Australian yield curve as under-valued at points in the curve. We remain on the lookout for tactical opportunities to add further duration on spikes in yields triggered by central bank signalling and data flows.

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.

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(continued)

In offshore markets, despite global green bond issuance remaining healthy at over \$400 billion this year, the 'greenium' appears to be narrowing.

We continue to identify pockets of opportunity where perceived risks have been overly discounted into the valuations of what would traditionally be considered stable and sustainable credits. We have begun to access such opportunities where a strong case can be made for capital gains over-and-above already attractive cash yields, setting up for outstanding risk adjusted returns for patient investors with a medium term investment horizon.

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, senior and secured AAA 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 now look to 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 are electing to be under allocated to sub investment grade and 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.

For further insights on our duration view, visit: <https://go.janushenderson.com/bond-markets-much-ado-about-duration-monthly-reports>

Environmental, Social and Governance (ESG)

The domestic green, social, and sustainability bond market was relatively inactive in September with only a handful of smaller deals coming to market, while over the pond, Auckland Council and Transpower NZ both issued green bonds in New Zealand Dollars.

In offshore markets, despite global green bond issuance remaining healthy at over \$400 billion this year, the 'greenium' appears to be narrowing. A greenium refers to the discount in borrowing costs that a company receives from issuing a green labelled bond relative to their normal funding curve.

Important information

The Product Disclosure Statement for the Fund, dated 29 September 2023, and the Additional Information Guide, dated 29 September 2023, are available at 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, before making a decision about the Fund. Target Market Determinations for funds issued by Janus Henderson are available here: www.janushenderson.com/TMD. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.