

DIVERSIFIED CREDIT FUND

As at February 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

\$670.5 million

Minimum investment

\$25,000

Management cost (%)

0.55 p.a.

Indirect costs – 0.02 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)	-0.02	1.40	4.08	7.83	5.38	5.85	5.38
Fund (net)	-0.05	1.27	3.80	7.10	4.74	5.21	4.79
Benchmark [#]	0.00	0.00	0.03	0.21	1.16	1.96	2.59
Excess return [*]	-0.05	1.27	3.77	6.89	3.58	3.25	2.20

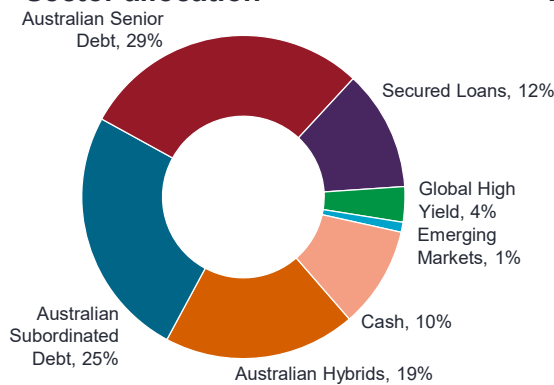
^{*}Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

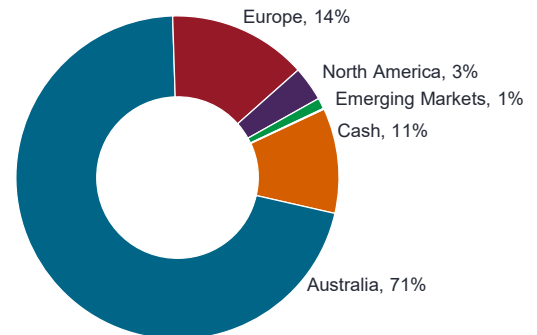
[#]As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

Sector allocation

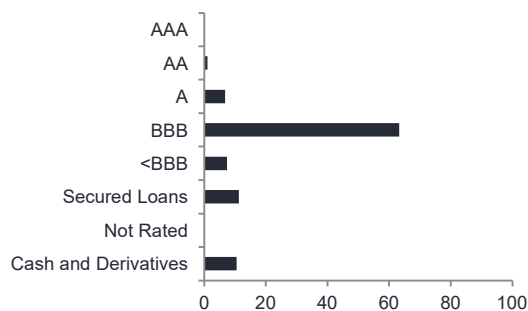


Rounding accounts for small +/- from 100%.

Region of issue



Credit rating distribution (%)



Portfolio statistics

Portfolio Yield ¹	2.65
Running Yield	2.22
Spread Duration	3.77
Modified Duration	1.09
Weighted Average Credit Quality	BBB
Number of Securities ²	675

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 26/07/2024	4.29
CBA Subordinated FRN Basel III T2 10/09/2025	3.85
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.41
NAB Capital Notes 2 Basel III T1	2.40
Woolworths Group Senior Unsecured 2.8 20/05/2030	2.25
ANZ Subordinated FRN Basel III T2 26/02/2026	2.10
Westpac Subordinated FRN Basel III T2 29/01/2026	1.89
NAB Subordinated FRN Basel III T2 17/05/2024	1.85
Transurban Queensland Finance Senior Secured 4.5% 19/01/2028 USD	1.81
Charter Hall Prime Industrial Fund Senior Unsecured 2.485% 28/10/30	1.64

³Top 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)

Janus Henderson
INVESTORS



Portfolio Manager
Shan Kwee

Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned -0.05% (net) for the month, while the Bloomberg AusBond Bank Bill Index (Benchmark) return was flat.

Over the last 12 months, the Fund has returned 7.10% (net), which is 6.89% above the Benchmark. In addition, investors received 0.14% of franking credits, while cash distributions were 4.98%. The Fund has exceeded its return objective over all time periods and over the past three years, has returned net of fees 3.95% p.a. above bank bills including franking.

Credit allocations for the most part were positive contributors to return with secured loans the top performing sector at 0.9%. Other floating rate sectors such as hybrids and subordinated notes performed strongly up 0.7% and 1.0%, respectively before giving up more than half of those returns in the final week of February. A combination of new CBA hybrid supply, profit taking in local Tier 2 and bond volatility softened technicals in the near term. Within corporate credit, the COVID impacted sectors continued to outperform with REITs and Airports tightening the most.

The main negative contributor to performance was exposure to interest rate duration. Even the modest exposure within the Fund of 1.09 years duration was enough to offset positive income and credit spread impacts due to the sheer size of rises in Australian and US bond yields. The Fund held part of this duration in the longer end of the Australian yield curve given allocations to fixed rate corporate credit. This exposure has been held in the Fund as a potential diversifier against unforeseeable interruptions to the economic recovery.

Market review

The reflation trade gathered momentum over the month and bond markets sold-off sharply in February. The improving pace of vaccine rollouts combined with the backdrop of expansionary monetary and fiscal policies saw markets price a strong global recovery leading to higher inflation. In Australia this saw the market bring forward cash rate tightening to commence sooner than 2024, with hikes to a longer-term neutral cash rate above 3%, significantly testing the Reserve Bank of Australia's (RBA) current forward guidance. The 10-year Australian government bond yield ended the month 78bps higher at 1.91%. The Australian bond market endured its largest negative return since 1983, with the Bloomberg AusBond Composite 0+ Yr Index ending February 3.58% lower.

Credit spreads remained relatively stable considering the swift rise in bond yields, credit markets continuing their string of positive returns above government equivalents with Australian and global credit markets finishing the month tighter in spread. Spreads on Australian investment grade credit tightened 4bps due to outperformance in A and BBB rated sectors, which showed some resilience during the recent reporting season. Bank FRN spreads were wider and unable to sustain their very tight levels as liquidity conditions became more challenging late in the month. Higher yielding spread sectors like bank hybrids and subordinated notes returned between 0.2-0.5% as a reasonable level of income remains in high demand, with banks reporting very high levels of liquidity and capital.

Australian primary issuance picked up in February, with a number of issuers attempting to capitalise on the tight spread environment post reporting. In local financials, we saw Suncorp-Metway issue a five-year deal at a margin of 45bps, while Macquarie was active in capital notes issuing a Group hybrid at 290bps and a US dollar Bank Tier 2. Offshore banks were also active, with BNP, UBS and Svenska Handelsbanken all coming to the Australian dollar market. Charter Hall Long WALE REIT, with their inaugural bond deal was the long awaited first corporate issuer of the year which saw strong demand for both seven- and 10-year bonds issued at margins of 95bps and 115bps respectively. The book was three times oversubscribed for the \$500 million of bonds available. The iTraxx Australia Index was unchanged on the month, finishing back at 63 during the more volatile final week.

We see the additional return and income from credit assets, combined with a shorter duration profile remains valuable to protect client capital as nominal rates appear set to continue to rise in the US. The yield in the Fund rose to 2.65% which appears attractive in a world where deposit rates remain close to 0% for the foreseeable future. We expect a modest widening in offshore spreads in the near term as risk assets adjust to the prospects of higher bond yields. We anticipate this adjustment will be manageable and as value improves in credit pricing, we would expect investors will again gravitate toward yield hunting given the favourable economic outlook over the coming years.

DIVERSIFIED CREDIT FUND

(continued)

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Investment strategy

Activity was focused around top down rebalancing as the prospect of steeper yield curves and market momentum in the deflation story could cause bond yields to overshoot higher. Resultant volatility experienced in interest rate markets has the potential to impact credit valuations as investors rerate risk premia versus higher government bond yields and seek liquidity from the sector.

Looking to protect capital, we decreased the Fund's exposure to higher beta credit. Global high yield allocation was decreased by 10%, and we took profit on 8-10yr call USD credit positions, higher beta Tier 2 subordinated notes and also added some CDS protection via iTraxx Australia. Overall, this reduced spread duration from 4.5 to 3.8 years, providing capacity to redeploy into any opportunities that emerge if market volatility persists. Cash holdings are temporarily elevated as a result. Meanwhile, we continued to add in sectors we like which included accumulation of bank hybrids across primary and secondary and diversified REITs via the new Charter Hall Long WALE deal.

Corporates are broadly in reasonable health as liquidity buffers and debt tenors mitigate default risk as earnings are set to recover. Notwithstanding, market dynamics are weakening. Rising bond yields will tighten financial conditions and while credit valuations still appear reasonable given the growth outlook, they now offer a less compelling advantage versus risk-free rates. The prospect of borrowing costs rising has also seen corporate issuers bring forward debt issuance to lock in current rates putting additional supply pressure into the US market in particular.

We're mindful of investor flow behaviour and focused on reducing fixed coupon or longer duration exposure in high yield and US investment grade markets specifically where valuations had yet to widen. Positioning remained favourably disposed to floating rate markets like loans and domestic hybrids which tend to be favoured during periods of rising yields. We also feel that the bank capital framework review being undertaken by APRA during the year could provide a further positive catalyst for bank hybrids to outperform.

Important information

A new Product Disclosure Statement and Additional Information Guide for the Fund dated 30 September 2020 is 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. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.