Janus Henderson

DIVERSIFIED CREDIT FUND

Janus Henderson INVESTORS

As at March 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
$642.1 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

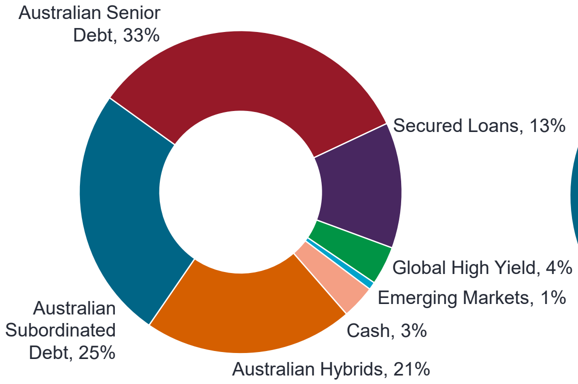
APIR code
IOF0127AU

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)	0.20	0.66	4.23	13.64	5.55	5.77	5.35
Fund (net)	0.15	0.52	3.95	13.89	4.91	5.13	4.75
Benchmark#	0.00	0.00	0.02	0.11	1.12	1.88	2.57
Excess return*	0.15	0.52	3.93	13.78	3.79	3.25	2.18

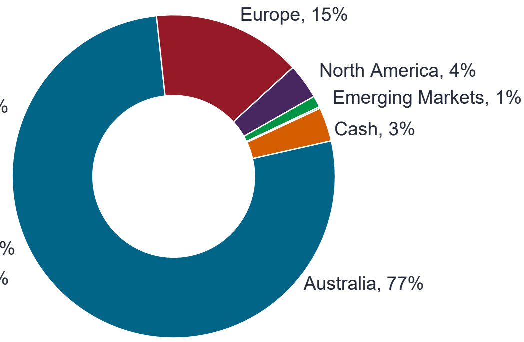
*Excess return is measured against net performance.
Gross return is gross of management costs and sell spread.
Past performance is not a reliable indicator of future performance.
#As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

Sector allocation

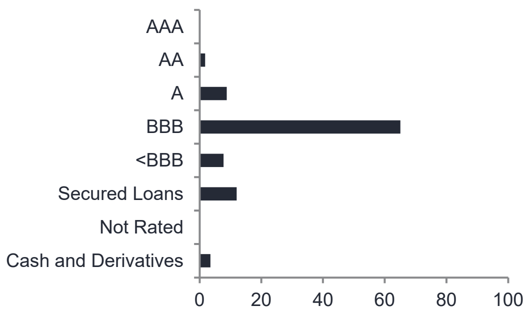


Rounding accounts for small +/- from 100%.

Region of issue



Credit rating distribution (%)



Portfolio statistics

Portfolio Yield[1]	2.87
Running Yield	2.34
Spread Duration	4.08
Modified Duration	0.94
Weighted Average Credit Quality	BBB
Number of Securities[2]	675

[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 (%)
ANZ Subordinated FRN Basel III T2 26/07/2024	4.50
CBA Subordinated FRN Basel III T2 10/09/2025	4.03
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.61
NAB Capital Notes 2 Basel III T1	2.51
Woolw orths Group Senior Unsecured 2.8 20/05/2030	2.34
ANZ Subordinated FRN Basel III T2 26/02/2026	2.20
Westpac Subordinated FRN Basel III T2 29/01/2026	1.99
NAB Subordinated FRN Basel III T2 17/05/2024	1.94
Transurban Queensland Finance Senior Secured 4.5% 19/01/2028 USD	1.90
Charter Hall Prime Industrial Fund Senior Unsecured 2.485% 28/10/30	1.72

[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.

DIVERSIFIED CREDIT FUND

(continued)

Portfolio Manager
Shan Kwee

Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned 0.15% (net) for the month, while the Bloomberg AusBond Bank Bill Index (Benchmark) was flat.

Over the last 12 months, the Fund has returned 13.89% (net), which is 13.78% above the Benchmark. In addition, investors received 0.14% of franking credits, while cash distributions were 5.84%. The Fund has exceeded its return objective over all time periods including a three year net return of 4.16% p.a. above bank bills including franking.

Returns from the credit market were muted during March with Australian corporate spreads widening and offshore markets like global investment grade credit, high yield and emerging markets realising negative return contributions from rising US yields. In Australia, bank floating rate note (FRN) spreads rose by 3 basis points (bps), while corporate credit spreads rose 12bps. Higher yielding spread sectors like bank hybrids and subordinated notes outperformed returning between 0.3 and 0.5%, while fixed rate corporate credit saw -0.3% excess returns.

The main positive contributor to performance during March was stock selection in Australian credit. Subordinated note and hybrid allocations both outperformed the weaker tone in senior financial and corporate credit spreads. Aviation exposure to domestic airports and Qantas were the top performing positions which actually tightened in spread despite broader weakness in corporate credit. A modest interest rate duration position in the longer end of the yield curve was a positive contributor this month as Australian bond yields retraced from their highs.

Market review

The recovery story picked up pace in the US backed by strong economic data, rapid vaccine rollout, expansion of fiscal stimulus and a central bank that is willing to keeping interest rates low and tolerate higher inflation. Australian economic data also showed promise of a strong recovery. Navigating the respective pace and strength of recoveries across the economies drove divergent themes in bond markets during March and yield movements remained volatile. Australian bond yields moved lower (prices higher) over the month, while the US 10-year yield reached a 14-month high.

Credit markets also diverged with spreads stronger in the US while Australian credit spreads were modestly weaker, adjusting to the more volatile yield environment while absorbing a very busy period of primary issuance post-reporting season. Concerns that further bond yield rises might trigger credit spread widening saw a significant number of issuers access the primary market while yields and spreads were still low in outright terms. This bout of heavy primary supply saw credit spreads gently widen.

Primary issuance came in all the colours of the rainbow during March. In financials, we saw senior issuance from offshore banks like Toronto Dominion, OCBC and MUFJ. Meanwhile, ANZ was the first major Australian bank to issue senior notes since January 2020 as they managed upcoming maturities by issuing 1-1.5 year notes. CBA decided to focus on capital instruments post-reporting, issuing Tier 2 bonds into the USD market and raising a new Tier 1 hybrid through the ASX listed market. Corporate issuers were also busy, with issuance from REITs like Mirvac, Stockland, BWP Trust, ALE and Centuria, auto finance companies Mercedes Benz, Toyota, Nissan and Volkswagen. Meanwhile, a range of other sectors were also keen to lock in long term funding, with 10-year issuance from Verizon, Westconnex and Lendlease which issued their second green bond into very strong demand. Not to be outdone, the securitised market was also busy with Resimac, Pepper, Defence Bank and Zip all taking advantage of significant current demand for RMBS and ABS floating rate securities, which still offer a yield advantage versus senior bank notes.

We see the additional return and income from credit assets, combined with a shorter duration profile remains valuable to protect client capital as bond yields appear set to continue to rise in the US with macro indicators improving. Fund yield rose to 2.87% which appears attractive in a world where deposit rates remain close to 0% for the foreseeable future. We remain well positioned to take advantage of any widening in offshore spreads as risk assets adjust to 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.

Positioning changes continued to be driven by top down rebalancing.

Investment strategy

Positioning changes continued to be driven by top down rebalancing. Acknowledging the recovery and reflation market dynamic in 2021 triggering volatility in rate markets, the bond rally in March to moderate interest rate duration exposure as 10-year yields fell to a low of 1.65%. Overall, this reduced duration by 0.3 year to 0.9 years.

Given the current valuation environment for credit combined with weakening market dynamics, we remained very selective despite the flurry of new issuance. We continued to add to high quality investment grade issuers in sectors where we see remaining value in spreads. The Fund deploying 2% exposure via primary deals from infrequent issuers like Mirvac, Stockland and BWP Trust, while accumulating hybrid exposure in secondary markets as well as primary from Macquarie Group and CBA at margins of 290bps and 275bps respectively.

We also saw some value in Zip ABS and acquired the A2 tranche at 130bps margin with potential catalysts for rating upgrade to AAA later in the year. Meanwhile we reduced exposure to IAG capital instruments due to indirect linkages to the Greensill insolvency as well as catastrophe events such as the NSW floods and lingering concerns over business interruption policies. Global credit allocations remained stable during March, we continue to monitor the adjustment to higher US yields before considering redeploying into high yield or US dollar emerging market credit.

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.

Positioning remains favourably disposed to floating rate markets like loans, subordinated notes 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 capital instruments 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.