

# DIVERSIFIED CREDIT FUND

## As at April 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<sup>#</sup>

Bloomberg AusBond Bank Bill Index

### Risk profile

Medium

### Suggested timeframe

3 years

### Inception date

31 October 2012

### Fund size

\$645.7 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<sup>^</sup>

### Base currency

AUD

### Currency hedging

\$AUD hedged<sup>^^</sup>

### 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)	0.57	0.76	3.97	10.99	5.59	5.60	5.37
Fund (net)	0.53	0.63	3.69	11.01	4.96	4.97	4.77
Benchmark <sup>#</sup>	0.00	0.00	0.02	0.07	1.06	1.81	2.54
Excess return <sup>*</sup>	0.53	0.63	3.67	10.94	3.90	3.16	2.23

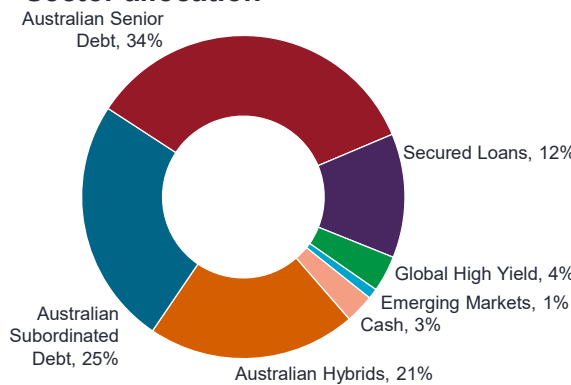
<sup>\*</sup>Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

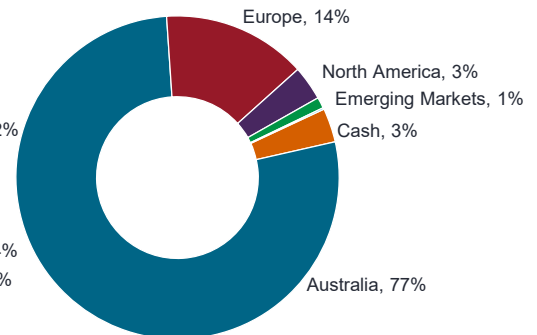
<sup>#</sup>As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

### Sector allocation

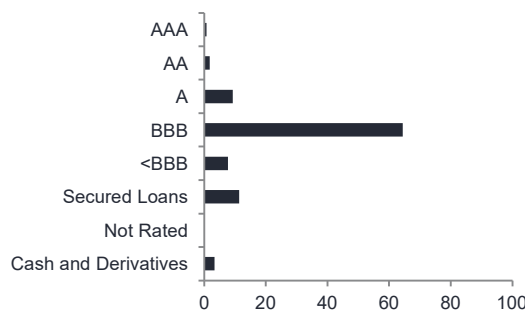


Rounding accounts for small +/- from 100%.

### Region of issue



### Credit rating distribution (%)



### Portfolio statistics

Portfolio Yield <sup>1</sup>	2.72
Running Yield	3.03
Spread Duration	4.05
Modified Duration	0.90
Weighted Average Credit Quality	BBB+
Number of Securities <sup>2</sup>	669

<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 26/07/2024	4.46
CBA Subordinated FRN Basel III T2 10/09/2025	4.01
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.69
NAB Capital Notes 2 Basel III T1	2.48
Woolworths Group Senior Unsecured 2.8 20/05/2030	2.35
ANZ Subordinated FRN Basel III T2 26/02/2026	2.19
Westpac Subordinated FRN Basel III T2 29/01/2026	1.97
NAB Subordinated FRN Basel III T2 17/05/2024	1.93
Transurban Queensland Finance Senior Secured 4.5% 19/01/2028 USD	1.86
Charter Hall Prime Industrial Fund Senior Unsecured 2.485% 28/10/30	1.71

<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.janushenderson.com/en-au/investor/buy-sell-spreads](http://www.janushenderson.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)

Janus Henderson  
INVESTORS



**Portfolio Manager**  
Shan Kwee

## Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned 0.53% (net) for the month, while the Bloomberg AusBond Bank Bill Index (Benchmark) was flat.

Over the last 12 months, the Fund has returned 11.01% (net), which is 10.94% above the Benchmark. In addition, investors received 0.14% of franking credits, while cash distributions were 5.69%. The Fund has exceeded its return objective over all time periods including a three year net return of 4.26% p.a. above bank bills including franking.

Credit markets outperformed even though there was significant global primary supply as corporate issuers sought to take advantage of the low yield environment to lock in longer-term borrowing. In Australia, bank floating rate note (FRN) spreads tightened by 3bps, while fixed rate corporate credit spreads rallied 4bps generating 0.3% excess returns above government bonds. Higher yielding spread sectors performed well, global high yield, EM credit and loan sectors delivering returns between 0.5-1.0%. ASX listed bank hybrids also performed well returning 0.9% during April including franking.

The main driver of Fund outperformance was sub sector allocation and stock selection. Hybrid allocations particularly outperformed as broader demand remains strong despite the new CBA hybrid (CBAPJ) listing early in April. Specific security selections contributed as Brisbane Airport 2030s moved 20bps tighter, and recent additions of Defence Bank Tier 2 and Medallion 2018-1 B tranche RMBS moved about 50bps tighter during the month. Each security delivered a return above 2.5% for the month for a collective contribution of 0.12%. A modest interest rate duration position in the longer end of the yield curve was a positive contributor this month as Australian bond yields drifted lower.

## Market review

Prospects for an extended period of accommodative fiscal and monetary policy settings, along with positive economic news, helped support risk appetite. Equity markets performed strongly, while credit markets were well-supported. There was some flattening in the domestic yield curve as longer-dated government bond yields edged lower.

As we anticipated, primary issuance has more recently shifted to opportunistic borrowing, often with longer maturity issuance, as issuers seek to lock investors in at lower spreads for longer. This has resulted in a shift away from the strong post deal performance we saw in 2020 and earlier this year as issuers reduce new issue concessions. We believe investor demand should be far more selective in this market environment.

Spread sectors are likely to remain well-supported, with corporates in particular benefiting from the tail winds of a cyclical recovery and persistent accommodative policy settings. Nevertheless, with the spread cushion for investors within pockets of credit having narrowed substantially, we remain very active and selective in this environment. While the market searches for any yield advantage, we remain discriminate, avoiding lower quality borrowers.

Corporates generally issued in longer maturities, with a number of infrastructure and utilities represented, including 7 to 10-year bonds from Transgrid, Australian Gas Networks, NBN Co, Transurban Queensland and an inaugural deal from Charter Hall Group. With the pickup in activity in the residential housing market, securitisation activity and issuance of residential mortgage backed securities (RMBS) from both prime and non-conforming borrowers remains elevated. This is due to issuers seeking to take advantage of tighter market pricing as the domestic bank sector remains largely absent from primary issuance as they have access to the Term Funding Facility (TFF) until the end of June. We expect primary issuance from the bank sector will resume in earnest over the next 6-12 months, which poses some risk for senior ranking financial notes and RMBS pricing to normalise.

We see the additional return and income from credit assets, combined with a shorter duration profile remains valuable in protecting client capital as the market will attempt to push bond yields higher as macro indicators invariably improve and the “grand bargain” of synchronised monetary and fiscal stimulus will likely elongate recovery conditions.

# DIVERSIFIED CREDIT FUND

(continued)

**Fund yield remains reasonably attractive at 2.7%, even after reducing sub investment grade exposure to below 20%.**

## Investment strategy

Fund yield remains reasonably attractive at 2.7%, even after reducing sub investment grade exposure to below 20%. In a world where deposit rates remain close to 0% for the foreseeable future, this remains an attractive level of income from a predominantly investment grade quality portfolio. After undertaking some de-risking activity over recent months in recognition of now historically rich spread levels across offshore markets, we also are well positioned to take advantage of any future opportunities as market pricing adjusts to different phases of recovery across the globe during 2021. We anticipate this adjustment will be largely manageable and should value improve in credit pricing, we would expect investors will again gravitate toward yield hunting given the favourable economic outlook over the coming years.

Fund positioning was held stable in April, with asset allocation across global sectors also stable. We remained very selective in adding positions to the Fund despite the flurry of new issuance.

We only participated in three new local primary issues and favoured 5 year or shorter effective terms and floating rate structures as we seek to constrain spread duration at current valuations. We participated in 5 year issuance from Victoria Power Networks at a margin of 80bps and the Bank of Queensland 10 non-call 5 year Tier 2 at 160bps margin, both of which tightened post issue. We also added AAA rated Firstmac 2021-2 A3 prime RMBS exposure at 105bps margin late in the month. Meanwhile we took profit on IAG capital instruments, fully exiting positions 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.

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 further support allowing for bank capital instruments to outperform despite relatively tight prevailing spreads.

## 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](http://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](http://www.janushenderson.com/australia), before making a decision about the Fund. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.