

# DIVERSIFIED CREDIT FUND

## As at May 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

\$647.8 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)	0.28	1.06	2.47	9.05	5.70	5.58	5.35
Fund (net)	0.23	0.92	2.19	8.74	5.06	4.94	4.75
Benchmark <sup>#</sup>	0.00	0.01	0.01	0.06	1.01	1.73	2.52
Excess return <sup>*</sup>	0.23	0.91	2.18	8.68	4.05	3.21	2.23

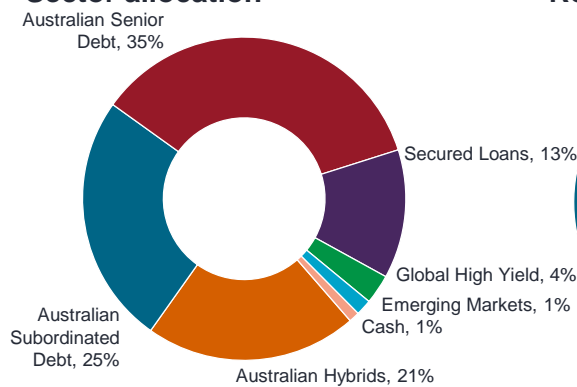
<sup>\*</sup>Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

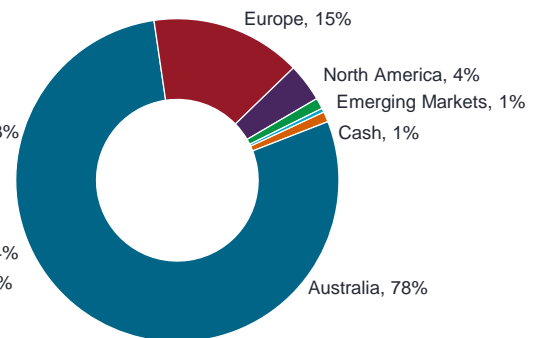
<sup>#</sup>As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

### Sector allocation

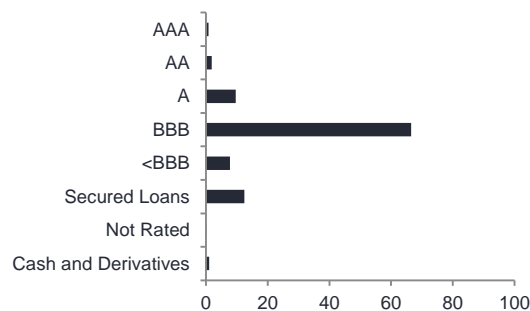


Rounding accounts for small +/- from 100%.

### Region of issue



### Credit rating distribution (%)



### Portfolio statistics

Portfolio Yield <sup>1</sup>	2.66
Running Yield	2.97
Spread Duration	4.09
Modified Duration	0.60
Weighted Average Credit Quality	BBB
Number of Securities <sup>2</sup>	629

<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	2.49
Woolworths Group Senior Unsecured 2.8 20/05/2030	2.33
ANZ Subordinated FRN Basel III T2 26/02/2026	2.18
Westpac Subordinated FRN Basel III T2 29/01/2026	1.97
NAB Subordinated FRN Basel III T2 17/05/2024	1.92
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	1.72

<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 0.23% (net) for the month, while the Bloomberg AusBond Bank Bill Index (Benchmark) was flat.

Over the last 12 months, the Fund has returned 8.74% (net), which is 8.68% above the Benchmark. In addition, investors received 0.14% of franking credits, while cash distributions were 7.11%. Over the past three years, the Fund has returned net of fees 4.42% p.a. above bank bills including franking, and has exceeded its performance objectives over all longer time periods.

After the ebb and flow in bond yields and heavy primary supply since February, the local credit market enjoyed a period of relative calm in May. iTraxx Australia CDS traded in a fairly tight range, settling 2bps tighter at 59bps. Additional income available from credit was complemented by a modest tightening in spreads assisting positive excess returns. In Australia, bank floating rate note (FRN) spreads tightened by 3bps, while fixed rate corporate credit spreads rallied 3bps but some of this benefit was offset by a widening in asset swap rates versus government bonds. Higher yielding floating rate sectors, like global loans performed well, returning 0.6%. Local subordinated bank notes also outperformed, returning 0.5%, outpacing listed hybrids which returned -0.2% which gave back some of their very strong April rally.

Allocations to Tier 2 bank notes and subordinated corporate notes were key contributors in May, with the subsector contributing 10bps to return. Stock selection in corporate senior debt continued to deliver outperformance, with a mix of spread compression in Airport and REIT issuers complementing a gentle rally in bond yields. Corporate senior debt allocations added 7bps to return. Whilst the broader hybrid market was generally weaker in May after a sharp rally in April, the Fund allocation outperformed returning flat for the month. Global allocations contributed 11bps to return as secured loans outperformed, and global high yield and EM allocations benefited from income and a slight rally in US bond yields.

## Market review

Massive fiscal and monetary stimulus boosted economic growth, both in Australia and abroad. Despite some volatility caused by a temporary surge in inflation expectations and the US Federal Reserve (Fed) raising the prospect of eventually tapering its Quantitative Easing (QE) program, risk appetite held up. Equity markets were firmer and credit markets remained well-supported.

Corporate supply was light, with Paccar issuing a 3.5-year and NBN Co. issuing a 7-year at a spread of 100bps. The major banks were active after reporting half year results, with Westpac issuing a Tier 2 green bond in Euro, then NAB issuing a Tier 2 in US dollars. The issuance of Tier 2 into offshore markets allowed the local market to perform well as local supply fears abated. Later in May, Westpac was the first major bank since early 2020 to issue a long-term senior bond. They chose the US dollar market to issue A\$3.15bn across both 5- and 10-year maturities, extending their maturity profile beyond the 3-year Term Funding Facility (TFF) window. A new 5-year major bank senior deal was highly anticipated after such a long hiatus from primary markets. However, it was an anti-climax, with the new issue coming at an equivalent spread of 48bps, in line with secondary levels. At the time of writing, banks still have access to A\$81bn of 3-year TFF funding at a cost of 0.10%. Westpac's activity suggests the combination of slowing deposit growth, rising credit growth and the desire to smooth out maturity profiles, will keep bank treasurers at the ready as the TFF winds down.

Spread sectors are likely to remain well-supported, with credit assets 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.

Both the RBA and Treasury look for a period of above trend economic growth sufficiently strong enough to push the unemployment rate down towards 4.75% by mid-2023. The focus of fiscal and monetary policy remains outcome based, with full employment the primary goal. While output gaps caused by COVID lockdowns are expected to be closed, neither the RBA nor Treasury see an inflation break out, with both looking for inflation to settle in the 2.00% to 2.25% range by mid-2023. The Budget is only expected to go into the repair phase once full employment levels have been reached, thus avoiding the risk of premature austerity.

# DIVERSIFIED CREDIT FUND

(continued)

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

In our view, the stance of monetary policy will only change once the tightening trifecta conditions have been met. These are:

1. an unemployment rate close to 4%;
2. actual inflation at 2% or above on a sustainable basis; and,
3. wages growth of at least 3%.

While we acknowledge that expansionary fiscal policy, particularly in the US, carries the risk of overstimulating economies, we see investors compensated for this risk by current yield curve steepness with the 10-year government bond yield 17 times higher than the prevailing cash rate. Our view is that the current 10-year government bond yield at 1.70% (at the time of writing) is fairly valued.

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.

## Investment strategy

Fund yield remains reasonably attractive at 2.7%, even after moving up in average credit quality with sub investment grade exposure 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.

Having de-risked the Fund over the past 3 months in recognition of historically rich spread levels across offshore markets, the Fund is well positioned to take advantage of any opportunities should risk markets take fright on rising inflation expectations. We anticipate any spread widening will be largely manageable and improves value into a recovery that policy makers remain keen to support. We would expect investors with cash to put to work will again gravitate toward yield hunting given the favourable economic outlook over the coming years.

We remained selective and continued to find security selection outperformance opportunities. The Fund only participated in primary issuance from Barclays, which issued a six-year non-call five-year (6NC5), total loss-absorbing capacity (TLAC)-eligible deal at +125bps, which looked attractive versus the financials complex, and the bond rallied 8bps in spread, returning a quick fire 0.42% in 2 weeks. We also added yield via rotation from major to regional Australian bank Tier 2, as well as adding allocations to major bank hybrids from cash. Global allocations remained relatively stable at 17% with a bias to secured loans. Interest rate duration was reduced to 0.6 years as yields reached their lows since their sharp rise in February.

Positioning remains favourably disposed to floating rate markets like loans, subordinated notes and domestic hybrids which tend to be well supported 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 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.