

DIVERSIFIED CREDIT FUND

As at June 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

\$666.0 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)	0.59	1.45	2.12	8.18	5.72	5.67	5.37
Fund (net)	0.55	1.32	1.85	7.70	5.09	5.03	4.77
Benchmark [#]	0.00	0.01	0.01	0.06	0.96	1.71	2.49
Excess return [*]	0.55	1.31	1.84	7.64	4.13	3.32	2.28

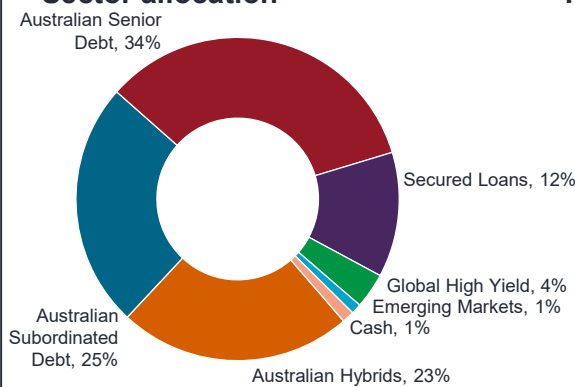
^{*}Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

Past performance is not a reliable indicator of future performance.

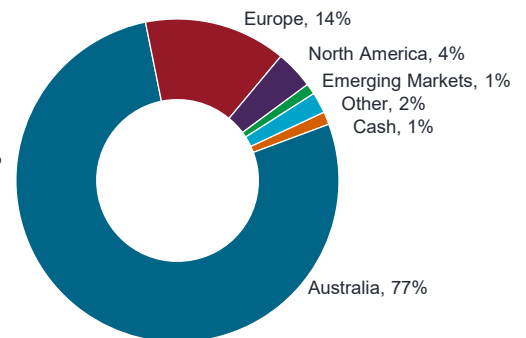
[#]As at 29 September 2017, the Benchmark is the Bloomberg AusBond Bank Bill Index. Prior to this date, the Benchmark was Bloomberg AusBond Credit FRN 0+ Yr Index.

Sector allocation

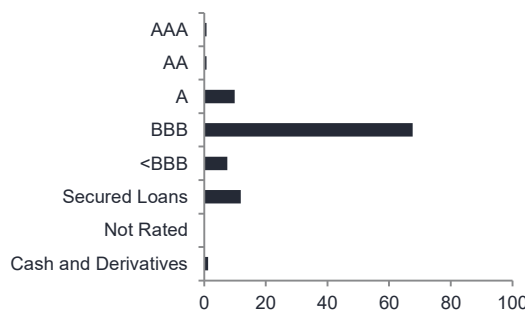


Rounding accounts for small +/- from 100%.

Region of issue



Credit rating distribution (%)



Portfolio statistics

Portfolio Yield ¹	2.63
Running Yield	2.88
Spread Duration	4.23
Modified Duration	0.41
Weighted Average Credit Quality	BBB
Number of Securities ²	620

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	4.36
CBA Subordinated FRN Basel III T2 10/09/2025	3.90
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.58
NAB Capital Notes 2 Basel III T1	2.45
ANZ Subordinated FRN Basel III T2 26/02/2026	2.13
Woolworths Group Senior Unsecured 2.8 20/05/2030	2.08
Westpac Subordinated FRN Basel III T2 29/01/2026	1.92
NAB Subordinated FRN Basel III T2 17/05/2024	1.88
ANZ Bank Capital Notes 6 (ANZPI) Basel III T1	1.77
Charter Hall Prime Industrial Fund Senior Unsecured 2.485% 28/10/30	1.69

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)



Portfolio Manager
Shan Kwee

Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned 0.55% (net) for the month, while the Bloomberg AusBond Bank Bill Index (Benchmark) was flat.

Over the last 12 months, the Fund has returned 7.70% (net), which is 7.64% above the Benchmark. In addition, investors received 0.15% of franking credits, while cash distributions were 7.23%. Over the past three years, the Fund has returned net of fees 4.37% p.a. above bank bills including franking, and has exceeded its performance objectives over all longer time periods.

Domestic credit markets appeared to take major city lockdowns and increased volatility in bond yields in their stride. Buoyed by the economic recovery and increasing system liquidity as final Term Funding Facility (TFF) borrowings were drawn by the banks, credit spreads tightened 4 basis points (bps) providing a modest boost to returns. S&P's upgrade of Australia's AAA rating outlook to stable, combined with their favourable commentary around Australia's banking industry country risk assessment ("BICRA") provided fundamental support across bank capital notes, with the listed hybrid market posting a stellar month, returning 1.0% into financial year end. Global credit markets with exposure to US dollar duration also performed well as longer bond yields rallied, both global high yield and hard currency EM corporate debt produced returns above 0.8%.

Returns were positive across most of the credit complex during June. Corporate debt allocations added 44bps to return as Tier 2 bank notes and corporate spreads rallied. Hybrid allocations contributed 19bps as capital gains from spread tightening also lifted returns. Global allocations contributed 9bps to return, with loan markets lagging a touch after a strong prior month.

Market review

An earlier than expected pivot to a more hawkish stance by the US Federal Reserve (Fed) and strong domestic economic data saw a bringing forward of tightening expectations lift shorter-dated yields. Meanwhile, longer-dated yields fell as inflation expectations were wound back. Risk appetite held up as prospective tightening was not seen as derailing activity. Equity markets were generally firmer and credit markets remained well supported.

The 10-year government bond yield ended 18bps lower at 1.53%, while volatility returned to the shorter end of the yield curve as cash tightening expectations were brought forward. Markets began to build in monetary tightening towards the end of 2022, with the November 2022 30-day interbank cash rate future contract ending the month at 0.30%. The yield on the November 2024 government bond rose to as high as 0.47% on improved employment data, before ending the month 13bps higher at 0.41%. Short-term money market rates remained very low as cash rate moves remain a few years away, three-month bank bills ended the month 0.5bps lower at 3bps.

There was a flurry of primary market activity early in the month prior to financial year end. ANZ attracted strong demand for their new hybrid (ANZPI) priced attractively at a spread of 300bps, however they chose to issue offshore in Sterling for their Tier 2 needs. Macquarie saw the vacuum left behind and tapped strong local demand for Tier 2 notes at a reasonable spread of 155bps. Elsewhere corporates were also active, with Charter Hall Long WALE REIT and Australian Gas Infrastructure Finance returning to the market, while Lendlease International Towers Sydney Trust (Barangaroo Towers) issued an inaugural 9-year bond at a spread of 140bps.

Positive ESG impact issuance continued to pick up, the highlight being Wesfarmers issuing a Sustainability-Linked Bond (SLB), the first of its kind into the Australian market. This is a new style of security, whereby the coupon of the security is linked to future performance of the company in meeting contractual sustainability targets. In this case Wesfarmers chose two environment targets related to reducing their firmwide Scope 1 and 2 greenhouse gas emissions. Should they not deliver on their future targets by the end of 2025 the coupons on the bonds will increase by a maximum of 25bps for the remaining term of the securities.

It was often quipped pre-COVID-19 that monetary policy was more art than science. The renewed bout of rolling lockdowns, which began with Victoria, highlight the uncertain pandemic path ahead. Just as the economy was roaring and markets began to bring forward tightening, the latest round of lockdowns are a reminder that a post pandemic world is still some time away.

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(continued)

Fund yield remains reasonably attractive at 2.6%, and sub-investment grade exposure remains below 20%.

The RBA will be well aware of the art needed to balance recent economic strength and labour market improvement against the potential hit to momentum from the latest breakout of the more contagious 'Delta' variant. We do not expect the RBA to follow the Fed's hawkish policy pivot at its monetary policy review meeting in early July. The broad messaging is likely to remain that accommodative policy settings will be needed until the tightening trifecta conditions have been met. These are: i) an unemployment rate close to 4%, ii) wages growth of at least 3% and iii) actual inflation at 2% or above on a sustainable basis.

Our base case has the first tightening in H1 2024, with a tightening cycle that takes policy from easy to neutral, not easy to tight which markets had priced in when yields spiked in late February. While recent strength tilts the balance of risks towards an earlier lift off, market pricing for a tightening cycle beginning in late 2022 seems premature and implicitly assumes that the tightening trifecta conditions will be met. The wages condition will be difficult to meet given that RBA liaison finds many companies adopting a "wait and ration" approach rather than adding to their cost base by paying higher wages. Against this complex backdrop we see the 10-year government bond yield of 1.52% at the time of writing as being mildly expensive.

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.

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 2.6%, and sub-investment grade exposure remains below 20%. This remains a relatively attractive level of income from a predominantly investment grade quality portfolio in the current valuation environment for risk assets.

We continue to balance, adding credit income and capital gain opportunities into the portfolio, while withholding risk capacity to capture further upside from volatility in credit with spreads remaining tight in offshore IG and HY markets. We anticipate any spread widening will be largely manageable and would improve value for investors into a recovery that policy makers remain keen to support.

During June, we remained selective and continued to find security outperformance opportunities. We remain positive on the outlook for major bank hybrids and took advantage of the pricing available on the new ANZ Capital Notes 6 (ANZPI) which appeared 20bps cheap versus the secondary market and subsequently listed with a 1.3% capital gain. The Fund also participated in primary issuance in the REITs sector as well as Macquarie Tier 2. Global allocations remained relatively stable at 17% with an ongoing bias to secured loans. Spread duration of the Fund remained fairly constant at 4.2 years, while interest rate duration was reduced to 0.4 years as longer bond yields continued to fall.

The Fund also invested in the Australian market's first Sustainability-Linked Bond (SLB) from Wesfarmers. We liked the rarity of the Wesfarmers name having not issued in Australia since 2015, and we also think the ESG credentials of both the issuer and the bond structure would generate favourable support from the market and thus performance for investors. If you'd like to find out more about this particular security type, please request a copy of our quarterly ESG Report which covers the new bond in detail.

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(continued)

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.

Further information

www.janushenderson.com/australia