

DIVERSIFIED CREDIT FUND

As at October 2020

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

\$653.0 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^A

Base currency

AUD

Currency hedging

\$AUD hedged^{AA}

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)	0.83	1.79	6.76	5.45	4.66	5.15	5.20
Fund (net)	0.78	1.75	7.06	4.73	4.02	4.51	4.60
Benchmark [*]	0.01	0.03	0.05	0.51	1.35	2.09	2.70
Excess return [*]	0.77	1.72	7.01	4.22	2.67	2.42	1.90

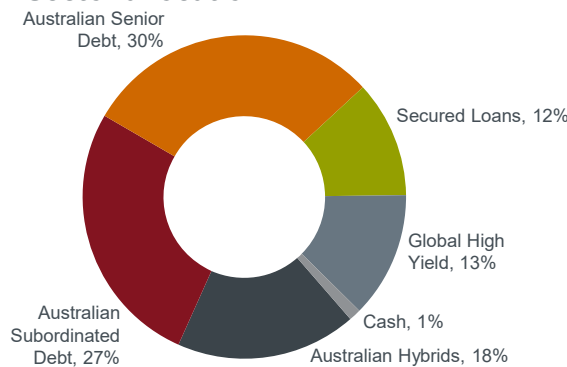
^{*}Excess return is measured against net performance.

Gross return is gross of management costs and sell spread.

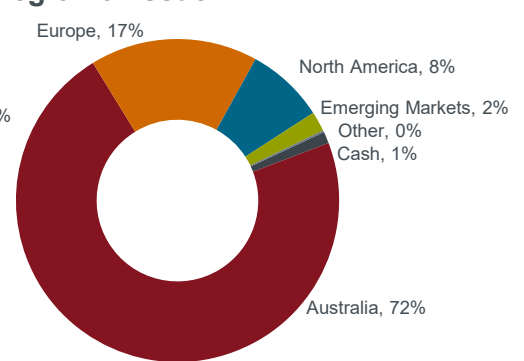
Past performance is not a reliable indicator of future performance.

[#]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

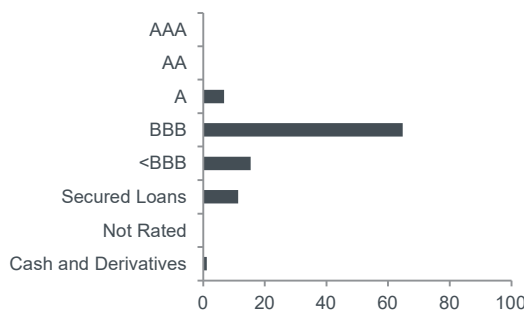


Region of issue



Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Portfolio statistics

Portfolio Yield ¹	3.15
Running Yield	3.40
Spread Duration	4.58
Modified Duration	1.23
Weighted Average Credit Quality	BBB
Number of Securities ²	529

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 (%)
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	3.43
CBA Subordinated FRN Basel III T2 10/09/2025	3.35
Westpac Subordinated FRN Basel III T2 22/06/2023	2.98
ANZ Subordinated FRN Basel III T2 26/07/2024	2.90
Woolworths Group Senior Unsecured 2.8 20/05/2030	2.48
NAB Subordinated FRN Basel III T2 18/11/2026	2.34
Transurban Queensland Finance Senior Secured 4.5% 19/01/2028 USD	2.16
ANZ Subordinated FRN Basel III T2 26/02/2026	1.98
NAB Capital Notes 2 Basel III T1	1.92
NAB Subordinated FRN Basel III T2 17/05/2024	1.89

³Top 10 is on a look through basis.

^A For more information and most up to date buy/sell spread information visit www.janus Henderson.com/en-au/investor/buy-sell-spreads

^{AA}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 0.78% (net) for the month. This compares to the Bloomberg AusBond Bank Bill Index (Benchmark) return of 0.01%. Over the last 12 months the Fund has returned 4.73% (net), which is 4.22% above the Benchmark, and in addition, investors received 0.14% of franking credits.

Fiscal and prospective conventional and unconventional monetary easing helped buffer Australian asset markets from rising volatility caused by a COVID-19 resurgence in the Northern hemisphere and the upcoming US election. The Australian equity market outperformed offshore markets, credit spreads continued to narrow and there was a modest lift in inflation expectations. Despite jitters offshore, Australian credit markets regained their mojo with the iTraxx Index tightening 6 basis points (bps) to 70bps and corporate bond spreads rallying 8bps, generating healthy returns for credit investors.

The Australian corporate bond market outperformed its higher beta global counterparts delivering 0.56% versus emerging market corporate bonds, global high yield, and loans which produced modest positive returns. Listed hybrid spreads widened 7bps on average as three smaller deals had to be absorbed by the market, which allowed Tier 2 securities to outperform as investors looked for alternative exposure to the major banks now that senior spreads are very low.

All of our credit allocations contributed positive returns during October, with stock selection across Australian IG, Australian hybrids, and loans adding an additional 0.44% return above the already positive tone in credit markets. Top contributors were National Income Securities (NABHA) which returned 4.9% as NAB will seek approval at their upcoming AGM to redeem the securities at par, and our selective positioning in longer tenor corporate bonds and subordinated debt from issuers less impacted by COVID. The Fund's investment grade holdings returned 0.78%, outperforming the corporate market by 0.22%, and our hybrid holdings returned 0.69%, outperforming the listed market by 0.37%.

Market review

With the initial allocation of the Term Fund Facility (TFF) fully drawn upon by domestic banks, and three of the major banks passing their September reporting balance dates, there was strong demand for credit across the spectrum. Appetite was further fuelled by the prospect of imminent easing measures from the RBA, which saw senior bank note spreads tighten 9bps to their lowest level since before the Global Financial Crisis in 2007. All maturities up to five years were trading inside 30bps at the time of writing.

Primary markets remained active, with non-bank Residential Mortgage Backed Securities (RMBS) issuers and offshore banks filling the void in supply left behind by the domestic banks. Challenger, Bank of Queensland and Bendigo & Adelaide Bank all use the firmer conditions to launch smaller hybrid deals, the former two were refinance deals delayed from earlier in the year. Corporate issuers were also active, with an inaugural deal from Charter Hall for their Prime Industrial Fund and annual issuance from Port of Melbourne seeing continued strong investor demand.

Central banks continue to implement further support via expansion of their balance sheets to help provide the most accommodative financial conditions to support the economic path to recovery, and full employment and targeting actual inflation. We expect credit sectors to be shored up by the outlook for an extended period of near zero cash rates and low yields on low risk securities, as the two arms of policy provide unprecedented levels of support. This will have the somewhat intended effect of extending risk seeking behaviour as investors are left to search for a reasonable level of income and return, providing easy liquidity via capital markets staving off large scale corporate defaults.

DIVERSIFIED CREDIT FUND

(continued)

We see the additional return and income from credit assets as extremely valuable in protecting client capital in real terms as inflation rebounds, and nominal rates are held at very low levels for years.

Investment strategy

We see the additional return and income from credit assets as extremely valuable in protecting client capital in real terms as inflation rebounds, and nominal rates are held at very low levels for years. The yield in the Fund remains above 3%, which is highly attractive in a world where retail deposit rates continue to trend toward 0%.

We anticipate further capital gains to be generated as safer forms of income remain incredibly desirable. This will likely see credit spreads continue to narrow, potentially well beyond pre-COVID levels, as we have seen already in pockets of the market directly impacted by policy actions. This momentum will likely accelerate as the economy works its way past the peak in defaults over the next 12-18 months. The reality of a recession, despite significant policy support, is that not all can be saved, and we anticipate pockets of stress across SMEs, households and corporate sectors will remain, albeit policy has materially trimmed the risk of large-scale defaults. Stress on asset prices is further mitigated by deferral actions like CBA's recently announced moratorium on home foreclosures until September 2021.

Our focus on building recession proof portfolios sees us currently favour being positioned predominantly in investment grade debt. We still see attractive relative value opportunities in quality corporates across the capital structure. Positioning longer tenor in select issuers best aligns investors for capital gains, whilst steering clear of the still looming threat of permanent loss of capital.

As the economic recovery gains traction and financial conditions remain extremely accommodative for years, we anticipate spreads will be able to be sustained at levels well below those prevailing at the start of the year. Our activity remains focused on extracting income and capital gains from this opportunity where scarce supply and strong policy support underpins markets. The Fund remains well positioned to capitalise on further gains from income and capital gains delivered via spread compression.

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.