

DIVERSIFIED CREDIT FUND

Janus Henderson
INVESTORS

As at February 2024

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 debt securities.

Benchmark[#]

Bloomberg AusBond Bank Bill Index

Risk profile

Medium

Suggested timeframe

3 years

Inception date

31 October 2012

Fund size

\$971.6 million

Minimum investment

\$25,000

Management cost (%)

Management fee 0.55 p.a.
Indirect costs – 0.01 p.a.*

*Based on costs incurred during the financial year ended 30 June 2023.

Buy/sell spread (%)

0.10/0.20[^]

Base currency

AUD

Currency hedging

\$AUD hedged^{^^}

Distribution frequency (if any)

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.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	0.57	2.80	4.22	7.49	3.65	4.71	4.52	4.92
Fund (net)	0.53	2.66	3.93	6.91	3.11	4.12	3.94	4.34
Benchmark [#]	0.34	1.09	2.12	4.10	1.95	1.47	2.18	2.42
Excess return [*]	0.19	1.57	1.81	2.81	1.16	2.65	1.76	1.92

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

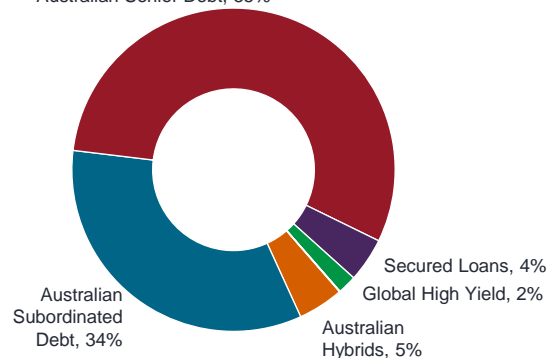
Gross return is gross of management costs and sell spread.

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.

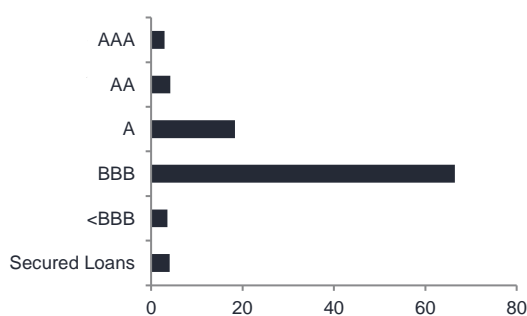
Sector allocation

Australian Senior Debt, 55%

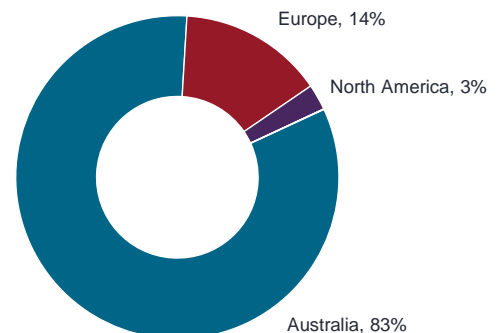


Rounding accounts for small +/- from 100%.

Credit rating distribution (%)



Region of issue



Portfolio statistics

Portfolio Yield ¹	5.71
Running Yield	5.28
Spread Duration	2.74
Modified Duration	1.68
Weighted Average Credit Quality	A+
Number of Securities ²	410

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

	Fund weight (%)
ANZ Bank 5.888% 16/01/2034 Corp USD	3.02
ANZ Bank/UK 6.75% Fix/Perp USD	2.71
Scentre Group Trust 1 / Scentre Group Trust 2 6.5% 01/05/31 AUD	2.56
Brisbane Airport Corp Senior Secured 4.5% 01/10/2030	2.01
ANZ Subordinated FRN Basel III T2 26/02/2026	2.00
CBA Subordinated FRN Basel III T2 10/09/2025	1.93
Lloyds Banking Group Plc 31/08/2023 AUD Regs Sub	1.89
Westpac Banking Corp 7.199% 15/11/2038	1.73
ANZ Subordinated FRN Basel III T2 26/07/2024	1.56
CBA Subordinated FRN Basel III T2 09/11/2027	1.56

³Top 10 is on a look through basis.

[^] For more information and most up to date buy/sell spread information visit

www.janus Henderson.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)

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Portfolio Manager
Shan Kwee

Fund performance

The Janus Henderson Diversified Credit Fund (Fund) returned 0.53% (net) and 0.57% (gross). The Fund outperformed the Bloomberg AusBond Bank Bill Index (Benchmark) by 0.19% (net) in February, which returned 0.34% on the month. The Fund continues its outperformance, beating the Benchmark over the longer term including by 2.81% (net) over the year, and 2.65% (net) per annum over the past 5 years.

The domestic market was extremely active with numerous issuers issuing bonds. Both financial and non-financial issuers were represented, and transactions spanned the capital structure.

Credit spreads tightened over the month despite heavy supply in markets. Credit returns were solid, generating excess return from income advantage and spread contraction. The portfolio's sector allocation contributed to alpha, with the banking sector adding significant value.

Our favoured allocation in Australian bank Tier 2 was once again amongst the top performing global credit sectors with strong income generation and yields of 6% still keenly sought by investors, contributing positively to returns. Domestic hybrids also performed well despite supply from ANZ and Bendigo bank, both deals well oversubscribed. Globally spreads rallied across IG and high yield however longer duration fixed rate asset classes underperformed as offshore yields rose.

It was another significant month of active portfolio rotation, increasing interest rate duration and participating in a variety of anticipated new primary transaction opportunities. February marked the first month where more diverse credit issuance including banks, corporates and securitised markets were all firing simultaneously. After retaining some capacity in anticipation of impending credit supply, we continued to rotate into securities which offer attractive carry but also potential for capital gains via spread compression over the coming year. We pursued opportunities across bank senior from Bank Australia, Newcastle Mutual Group and Lloyds, as well as Tier 2 transactions from NAB and Macquarie all of which came with healthy yields of 5.5 - 6%. We also began reallocating back into hybrids for the first time in over 2 years using the ANZ primary, ahead of the APRA review of local Additional Tier 1 capital which we believe will be supportive for exiting instruments with spreads between 290-350bps. Corporate issuance was also well sought after as we added positions in Telstra, Perth Airport, and Region REIT. The market demand environment remained very well, supported with Macquarie receiving the largest ever book for a local Tier 2 transaction, and all the corporate deals being significantly oversubscribed as investors globally look to lock in high quality fixed interest at attractive yields. These securities delivered some near term gains rallying between 5 to 15bps in spread post issuance. We continue to prefer to take larger active positions in safer parts of credit, which has added to outperformance in the past three months as spreads have consolidated.

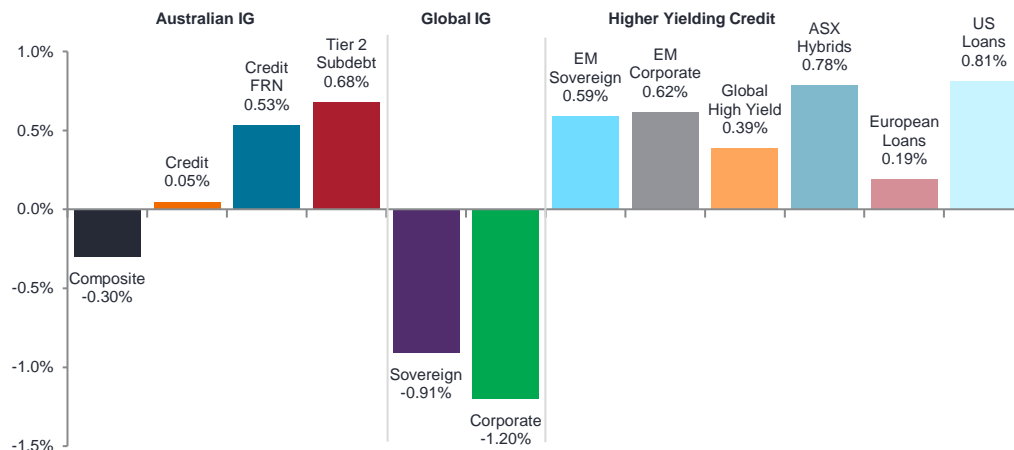
Australian government bond yields rose by 12bps with a 30bps intra-month trading range, driving a negative return from the Australian bond market for the month. We used this environment and signals of weakening in Australian macro data as an opportunity to further add to our overweight duration position moving the Fund to 1.7 years duration. We also moved late in February to implement additional credit protection hedges as CDS pricing and low equity volatility are providing cheap entry points into portfolio protection. Combining these positions with low levels of sub investment grade exposure, continues to balance the opportunity set with the outlook for slowing growth and lagged impact of policy tightening. We remain positioned to partake in healthy risk adjusted income levels from the investment grade credit spectrum, while we are poised to take advantage of any weakness in sub investment grade spreads which remain at near term tights.

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(continued)

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The RBA released its new format Monetary Policy Statement, modestly downgrading their GDP forecasts, as well as their CPI expectations; but maintain there is a high degree of uncertainty.



Source: Bloomberg (Ausbond Composite Index, Ausbond Bank Bill Index, Ausbond Credit FRN Index), JPMorgan (Global Bond Index (GBI Global), JPMorgan Emerging Market Global (EMBI Global), CEMBI Broad Diversified), BofAML (BofAML ICE Global Broad Mkt Corp (G0BC), ICE Global High Yield Constrained (HW0C)), SolActive Hybrids Gross Franking, Credit Suisse (Western European Leveraged Loan Index), S&P LTSA US Loans Index as at 29 February 2024

Market review

The Reserve Bank of Australia (RBA) kept policy unchanged at 4.35% in February, as expected.

Global moves continue to be a strong influence, as the debate over the strength of the cycle and policy easing rages. Australian three-year government bond yields ended the month 13 basis points (bps) higher at 3.70%, while 10-year government bond yields were 12bps higher at 4.14%.

There is more consistency around the global start of the major market easing cycles, with markets now looking at mid-year for rate cuts to commence. Europe is expected to be first, with the US thereafter.

In risk markets, a consistent theme during Corporate Reporting Season was one of resilience and robust fundamentals, particularly for Investment Grade issuers. When combined with evidence of slowing inflation and expectations of an imminent rate cutting cycle, this catalysed an impressive credit rally as institutional investors including pension funds, insurers and annuity providers, sought to lock-in attractive yields from high-quality liquid assets.

The Australian iTraxx Index ended 5bps tighter at 63bps, while the Australian fixed and floating credit indices returned -0.04% and +0.51% respectively.

Market Outlook and Investment Strategy

The RBA released its new format Monetary Policy Statement, modestly downgrading their GDP forecasts, as well as their CPI expectations; but maintain there is a high degree of uncertainty. The data has backed up this uncertainty, with a high degree of volatility. Unemployment has risen to 4.1%, wages sit at 4.2% yoy, and the retail data has bounced a less than expected 1.1% mom.

Our base case is for the RBA to remain on hold at current rates before commencing an easing cycle in August 2024. We price a more modest than historically average easing cycle, of around 175bps, spread over 12 months. We see the risks skewed to the downside, with a rising probability that the RBA may have to move earlier and slightly faster than our base case. In this scenario, the RBA starts moving in August 2024, with a total of 250bps of cuts, to below neutral interest rates.

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(continued)

Close to \$1 billion AUD was issued domestically in labelled ESG bonds in February, with new bonds coming from both government and asset backed sectors.

In recognition of the softening growth environment, our credit strategy remains skewed towards high-quality, investment grade issuers with resilient business models, solid earnings power and conservative balance sheets. We have been actively and selectively taking advantage of the attractive yields on offer in highly rated corporate bonds and structured credit, particularly in the primary markets where transactions have come with new issue concessions.

A strong rally in Tier 2 has normalised the relative value in bank capital instruments, and for the first time in two years we see some value emerging in existing hybrid structures before the APRA Additional Tier 1 Capital recommendations are likely revised later this year. We remain overweight in Tier 2, and used primary markets to begin a minor rotation toward major bank hybrids. Primary market supply remains healthy and has accelerated post reporting season. We continue to see opportunities to add securities producing strong risk adjusted yields in the investment grade spectrum, with conservatively geared Australian real estate investment trust (REIT) senior debt showing attractive relative value together with selected core infrastructure subsectors. We favour allocating now while all in yields remain attractive ahead of a potential cutting cycle.

We are electing to be under allocated to sub investment grade and illiquid credit, with a strong preference to earn reasonable income and capital gains up in quality for now. Our expectation remains for lower quality credit spreads to remain bumpy as investors digest higher costs of capital and slowing growth this year. We are withholding risk and liquidity capacity in anticipation of more attractive entry points for global high yield and loans. We favour further bolstering levels of credit protection (via credit default swaps) as we approach the point in the cycle where effects of policy tightening become more apparent.

For the Australian Fixed Interest Team's outlook, visit <https://go.janushenderson.com/Viewpoint-Mar24>

For further insights on our views for 2024 please visit: <https://go.janushenderson.com/AFI-2024-Outlook>.

Environmental, Social and Governance (ESG)

Close to \$1 billion AUD was issued domestically in labelled ESG bonds in February, with new bonds coming from both government and asset backed sectors.

Globally, data out from Amundi showed that investment into "responsible funds" have increased 4 times since 2020, now making up 17% of total assets worldwide.

For insights on the Australian fixed income team's company engagement, please view our recently published ESG quarterly here: https://go.janushenderson.com/AFI_ESG_Report_Dec_2023.

The Product Disclosure Statement for the Fund, dated 29 September 2023, and the Additional Information Guide, dated 29 September 2023, are 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. Target Market Determinations for funds issued by Janus Henderson are available here: www.janushenderson.com/TMD. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated.