Janus Henderson

GLOBAL SUSTAINABLE EQUITY ACTIVE ETF (MANAGED FUND)

Janus Henderson INVESTORS

As at December 2022

Fund objective
The Fund seeks to provide capital growth over the long term and to achieve a total return after fees that exceeds the total return of the Benchmark over rolling five year periods.

Investment approach
The Fund seeks to provide exposure to a diversified global portfolio of equities considered by the Manager as contributing to positive environmental or social change, and thereby have an impact on the development of a sustainable global economy.

Benchmark
MSCI World Index (net dividends reinvested) in AUD

Risk profile
High

Suggested timeframe
5 years

Inception date
20 September 2021

Active ETF size
$0.9 million

Underlying fund size
$29 million

Management cost (%)
0.80 p.a.

Buy/sell spread (%)^
0.10/0.10

Base currency
AUD

Distribution frequency
Semi-annually (if any)

ARSN code
651 993 118

APIR code
HGI8931AU

ISIN
AU0000169229

ASX ticker
FUTR

Performance	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since inception (% p.a.)
Fund (net)	-5.46	3.61	3.95	-18.61	-	-	-13.07
Benchmark	-5.44	4.07	4.42	-12.24	-	-	-5.36
Excess return	-0.02	-0.46	-0.47	-6.37	-	-	-7.71

Past performance is not a reliable indication of future results.

Fund performance – net (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep*	Oct	Nov	Dec	YTD
2021	-	-	-	-	-	-	-	-	-2.77	1.46	4.06	0.06	2.72
2022	-5.95	-5.29	-1.47	-4.51	-1.54	-5.12	9.12	-4.02	-4.20	6.37	3.02	-5.46	-18.61

*Fund inception date is 20 September 2021, therefore part month performance is shown.

Top 10 Holdings	(%)
Microsoft	5.76
Westinghouse Air Brake Technologies	3.22
Aon	3.12
Humana	2.91
Intact Financial	2.83
Progressive	2.80
Microchip Technology	2.75
AIA Group	2.69
Autodesk	2.62
Texas Instruments	2.49

Characteristics	
Number of Holdings	52

Sector Weightings	(%)
Information Technology	33.84
Industrials	17.54
Financials	15.48
Health Care	7.73
Consumer Discretionary	6.73
Utilities	6.11
Communication Services	4.40
Real Estate	3.44
Materials	2.04
Consumer Staples	0.51
Cash	2.18

Country Weightings	(%)
United States	63.54
Japan	9.48
Canada	6.75
France	4.83
United Kingdom	4.23
Netherlands	3.46
Hong Kong	2.69
Germany	2.24
Australia	0.31
China	0.28
Cash	2.18

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

GLOBAL SUSTAINABLE EQUITY ACTIVE ETF (MANAGED FUND)

(continued)

Head of Global Sustainable Equities
Hamish Chamberlayne

Portfolio Manager
Aaron Scully

Fund commentary

The Janus Henderson Global Sustainable Equity Active ETF (Managed Fund) (ASX: FUTR) (Fund) returned -5.46% in December, compared with -5.44% from the MSCI World Index (net dividends reinvested) in AUD (Benchmark).

Relative Fund performance was supported by our holdings in consumer discretionary and our underweight position to the sector as a whole. Having no position in Tesla was especially beneficial, as was the zero-weight to other automotive manufacturers. Nike outperformed due to strong third-quarter results, and this read across well to Adidas, which we also own. Relative returns also benefited from the Fund's overweight position to utilities, which is driven by our positions in renewable energy firms. Among these, British utility SSE and renewable energy asset developer Boralex performed especially well. The outperformance of DS Smith, our only holding in materials, more than offset the slightly negative effect of our underweight position in the sector.

The Fund's underweight position to the health care sector was detrimental. Selections within health care also detracted as several of our growth-style holdings lagged defensive plays such as pharmaceutical companies, many of which we chose not to own. Our stock picks in industrials also dragged and more than offset the benefit of our sector overweight. The increasingly 'risk-off' environment weighed on fast-growing companies in our portfolio like Evoqua and Advanced Drainage Systems (ADS), although our holding in Xylem was beneficial. Relative returns were also hampered by the Fund's underweight position in consumer staples. Tobacco and household product names, which we also do not own on the basis of our avoidance criteria, performed well. Information technology (IT), our biggest sector position by weighting, was marginally detrimental to relative performance. While our overweight position in the sector detracted, this was largely offset by strong stock selection. The zero-weight in Apple contributed the most, while software firms Workday, Atlassian and Linklogis provided further support. By contrast, our sizeable exposure to semiconductor stocks hurt as the industry gave back some of the gains made in previous months.

At the stock level, top contributors included pan-Asian life insurance firm AIA Group, cardboard packaging company DS Smith, and renewable energy asset developer Boralex.

AIA Group outperformed as sentiment was boosted by news that China had scrapped its zero-Covid policy. This followed a strong November, where the firm impressed the market by returning to growth despite the tough conditions. We continue to view AIA as a quality company with growth opportunities that we think could surpass the market's low expectations. The firm's markets in China, India and Southeast Asia have relatively low penetration and good growth potential. Meanwhile, life insurance sales in more developed markets are being driven by ageing populations. AIA's products offer a layer of protection for citizens of countries that often lack a social safety net.

Boralex shares recovered after a third-quarter quarter earnings miss in November which caused the company's shares to be oversold in our view. In December, Boralex announced 42MW of new project wins in France. Its management also put the firm's strong balance sheet to work by buying a 50% interest in five US wind farms from EDF. As a poster child for renewable development, Boralex is well placed to benefit from global decarbonisation efforts. Regulations such as the US Inflation Reduction Act and the EU's Green Deal should also drive new business and may lead to better project economics. Further, Boralex's balance sheet position is strong thanks to the partial divestment of its French business in early 2022. The company has a highly advantaged geographic profile and holds strong positions in markets with tight supply and clear demand growth.

Cardboard manufacturer and recycler DS Smith outperformed after posting strong first-half results. Volumes were down slightly year-on-year, but its operating profits rose 45%, suggesting the firm wields significant pricing power. This is especially attractive during periods of high inflation. DS Smith's results also showed healthy free cash flow, much of which has been used to reduce net debt by around £500 million over the past 12 months. As a leading manufacturer and recycler of cardboard, DS Smith is a key player in the transition away from plastic packaging. The firm aims to create a completely circular supply chain, thereby achieving zero waste. This seems achievable given the highly integrated nature of its operations. This commitment to sustainable packaging solutions is enabling customers to reduce the environmental impact of their products.

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Top detractors included semi-conductor supplier Microchip Technology, vehicle technology firm Aptiv, and Icon, the clinical research organisation (CRO).

Shares in Microchip slumped with other technology and semiconductor names, as the risk-off move in equity markets resumed. Microchip also likely suffered from weakness in auto manufacturers, as 15% of the firm's revenue comes from the sector. We continue to like Microchip's position as a leading supplier of microcontrollers. Microcontrollers are small, low-cost computing devices that are embedded into products to help control and manage their operations. They are used in a wide variety of advanced technologies, enabling innovation and improved efficiency in areas including 5G, data centres, edge computing, electric vehicles and artificial intelligence (AI). The company's end markets are growing fast and have relatively little exposure to consumer spending. Microchip's products also have excellent traction in verticals that are typically less vulnerable to oversupply. This was visible in the company's recent third-quarter results, which showed impressive revenue growth and gross margin expansion.

Vehicle technology firm Aptiv was caught up in the automotive sell-off led by Tesla and other electric vehicle manufacturers. Aptiv posted strong results in November and there was no stock-specific news in December. Going back to those third-quarter results, Aptiv beat expectations for sales, operating profit and earnings per share. The only thing missing was an upgrade to its full-year guidance, but we understand management's conservatism. Aptiv remains a core holding in our long-term secular trend of electrification and digitalisation. There is also a strong sustainability angle, as Aptiv's leading vehicle safety solutions could vastly reduce the number and severity of road collisions. For example, the company produces rear automatic braking systems – a crash avoidance technology that can detect and mitigate back-end collisions with other vehicles. A study by an insurance industry non-profit found that the technology reduced front-to-rear crashes by 50%. Given the recent fall in its share price, we view Aptiv as one of the most attractive ways to gain exposure to electric vehicles.

Like our other top detractors, no stock-specific news accompanied the fall in Icon's share price. If anything, recent updates from the company have been positive. At a recent roadshow, its management pointed to strong demand and upheld its target of reaching $10 billion in annual revenue by 2025. Like many other growth stories, Icon shares likely fell on the prospect of higher interest rates. Small biotech firms can be especially sensitive to interest rate hikes, and investors may also hold concerns about how this will affect demand for Icon's services. However, we think this is overblown, as only 15% of Icon's revenue is tied to emerging biotech spending. CROs like Icon help pharmaceutical and biotech clients launch new drugs by managing the clinical trial process. The complexity of running clinical trials has increased markedly in the last 20 years, with regulators requiring more data and longer treatment periods to prove the safety and efficacy of drugs. Within the industry, Icon's exceptional record and innovative approach to new technologies set it apart. As a result, we think Icon is well placed to benefit from strategic partnerships with major biotech and pharmaceutical firms. The company's balance sheet also provides significant financial flexibility.

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Market review

The winter rally in equities came to an end in December. Despite central banks slowing the rate of interest rate hikes, hawkish comments from policymakers dashed investors' hopes of a larger pivot in early 2023. China's removal of Covid-19 restrictions provided a welcome boost to sentiment, although attention soon turned to the country's surging case numbers.

Aside from utilities, all sectors within the MSCI World Index ended lower in US dollar terms. As the prospect of further interest rate rises stoked recession fears, traditionally defensive sectors performed far better than growth sectors. Utilities, health care and consumer staples held up best. Consumer discretionary, information technology (IT) and communication services posted the biggest losses.