Janus Henderson

# SUSTAINABLE CREDIT ACTIVE ETF (MANAGED FUND)

Janus Henderson INVESTORS

## As at November 2023

**Fund objective**
The Fund seeks to achieve a total return before fees that exceeds the total return of the Benchmark by 0.75% p.a. over rolling three year periods.

**Sustainability objective**
The Fund seeks to invest in credit securities which the Manager expects currently or will in the future contribute positively towards eight 'People' and/or 'Planet' themes.

**Investment approach**
The Manager utilises a proprietary 'Holistic' framework combining qualitative ESG assessments with third-party ESG measures and metrics to assess issuers; a process then complemented by active stewardship and engagement activities.

**Benchmark**
Bloomberg AusBond Composite 0-5 Yr Index

**Risk profile**
Medium

**Suggested timeframe**
3 years

**Active ETF inception date**
14 March 2023

**Underlying fund inception date**
7 February 2023

**Active ETF size**
$0.5 million

**Underlying Fund size**
$55.4 million

**Management cost (%)**
0.50 p.a.

**Buy/sell spread (%)**
0.06/0.10^

**Base currency**
AUD

**Distribution frequency (if any)**
Monthly

**ARSN code**
662 889 214

**APIR code**
HGI0694AU

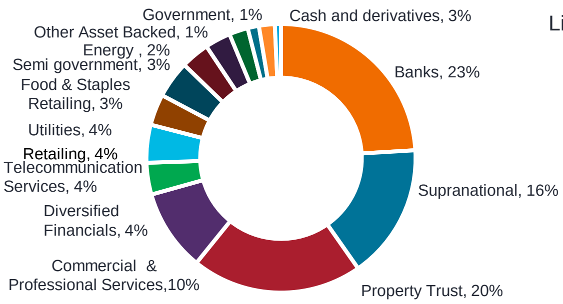
**ISIN**
AU000254278

**ASX code**
GOOD

| Performance | 1 Month (%) | 3 months (%) | 6 months (%) | 1 year (%) | 3 years (% p.a.) | 5 years (% p.a.) | 10 years (% p.a.) | Since inception (%) |
|---|---|---|---|---|---|---|---|---|
| Fund (gross) | 1.71 | 0.60 | 1.38 | - | - | - | - | 1.70 |
| Fund (net) | 1.67 | 0.48 | 1.13 | - | - | - | - | 1.34 |
| Benchmark | 1.32 | 0.44 | 0.71 | - | - | - | - | 0.82 |
| Excess return* | 0.39 | 0.16 | 0.67 | - | - | - | - | 0.88 |

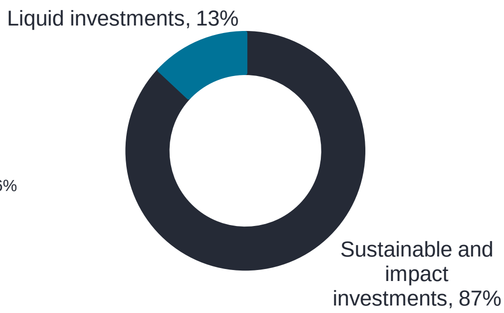
*In line with the fund objective, the excess return is measured against gross performance. Gross return is gross of management costs and sell spread. Past performance is not a reliable indication of future results.

### Sector allocation

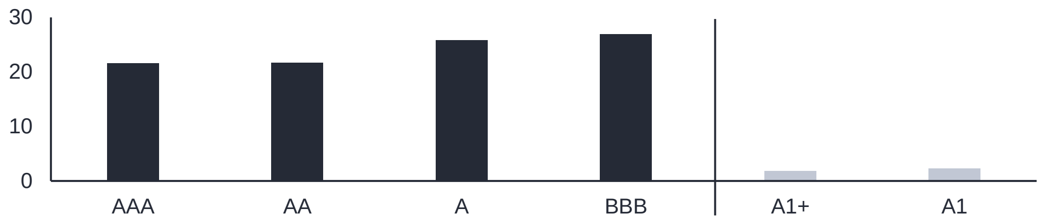



Rounding accounts for small +/- from 100%.

### Investments breakdown




### Credit rating distribution (%)




| Portfolio Characteristics | Fund | Benchmark |
|---|---|---|
| Estimated Weighted Average Yield to Maturity (EWAYTM)1 | 5.49 | 4.44 |
| Running yield | 4.45 | 3.01 |
| Weighted average credit quality | AA- | AA+ |
| Number of securities (on a look through basis) | 67 | 502 |
| Modified duration | 3.08 | 2.33 |
| Active duration position | 0.74 | |

[1]Estimated Weighted Average Yield to Maturity is a measure of the average annual yield of all securities in the Fund (Grossed up for franking credits, where applicable). Benchmark duration is as at month end and therefore does not include rebalancing.

### Top holdings

| |
|---|
| African Development Bank 1.1% 16/12/2026 AUD |
| ANZ Bank Subordinated FRN BASEL III T2 |
| Commonwealth Bank Of Australia Subordinated FRN BASEL III T2 |
| CPPIB Capital Inc 1.5% 23/06/2028 AUD REGS |
| DWPF Finance Pty Ltd 2.6% 04/08/2032 AUD |
| GPT Wholesale Office Fund No1 3.222% 05/11/2031 AUD |
| La Trobe University 5.311% 08/08/30 AUD |
| NBN CO LTD 4.2% 14/04/2027 AUD REGS |
| Transpower New Zealand Ltd 4.977% 29/11/2028 AUD |
| Vicinity Centres Trust 4.927% 02/06/2028 AUD REGS |

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

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# SUSTAINABLE CREDIT ACTIVE ETF (MANAGED FUND)

**(continued)**

Janus Henderson INVESTORS

**Head of Australian Fixed Interest**
Jay Sivapalan

**Portfolio Manager**
Shan Kwee

## Fund performance

The Janus Henderson Sustainable Credit Active ETF (Managed Fund) (Fund) returned 1.67% (net) and 1.71% (gross). The Fund outperformed the Bloomberg AusBond Composite 0-5Yr Index (Benchmark) by 0.39% (gross) in November, which returned 1.32% over the month.

A fall in yields coupled with higher coupon income resulted in very strong positive returns for longer duration bonds. This added value for us as active management on duration positions in the portfolio were rewarded. Curve positioning also added alpha with the longer end of the yield curve outpacing the shorter end during the rally.

We have been selectively taking advantage of the attractive yields on offer in highly rated corporate bonds, securitised prime quality RMBS and bank senior bonds, particularly in the primary markets where transactions have come with new issue concessions. This strategy of taking larger bets in safer parts of credit boded well as spreads tightened. Healthy levels of excess return can be added without the need to chase lower quality credit.

The Sustainable Credit Fund has a dual mandate; a sustainability objective and a performance objective. Each company within the portfolio has gone through our credit approval process, which includes negative screens, credit analysis and a sustainability assessment using our proprietary holistic ESG framework and active stewardship (where appropriate). In conjunction with normal portfolio construction practices, securities are chosen for their alignment with sustainable themes as well as their return potential for investors. These themes include 'Planet' (decarbonisation, circular economy, sustainable buildings, biodiversity) and 'People' (equality and alleviating poverty, inclusion and social diversity, aid disability support, affordable housing).

The Fund invests in a diversified and sustainable allocation of credit and agency securities, with at least 80% exposure to securities deemed 'Sustainable' and/or 'Impact' in our assessment. The Fund has over 75% allocated to investment grade credit, with the remainder across supranationals & agencies, semi governments and liquidity. Interest rate duration was the main negative return contributor for the month as bond yields moved higher, a modest active overweight positioning generated some underperformance versus the Benchmark.

The Fund participated in two inaugural deals from new issuers to the Australian market. Australian Unity Healthcare Property Trust owns 104 properties with a focus on hospitals, Medicare centres, and aged care facilities and issued a six-year bond yielding 6.8%. Contact Energy, a significant generator of renewable energy in New Zealand, issued a green bond yielding 6.4% with proceeds looking to support their ongoing investment in geothermal and hydro power generation capacity. We see the current landscape offering sustainable credit investors attractive income opportunities in the quality end of the credit spectrum. Returns for the month were also significantly boosted by a swift rally in bond yields lifting returns well in excess of 1% for the month. Our active overweight duration position and stock selection also materially outperformed the Benchmark.

In the latest edition of the Australian Fixed Interest Quarterly ESG Report we discuss some of our recent engagement meetings, as well as our market update meetings with two of the major banks in Australia. go.janushenderson.com/AFI_ESG_Report_Sep_2023

One of the themes the Fund is targeting is ‘Affordable Housing'. In our recent publication we discuss the following:

• The current housing crisis has deepened. Demand for homelessness services has risen across the country as rent prices soar and vacancy rates are at record lows. Women and children make up 74% of those accessing services.

• To solve the housing affordability crisis, collaborative efforts from a variety of stakeholders will be required.

• While state and federal governments are likely to do most of the heavy lifting, industry can also play a part.

**As the economic, and policy, cycle matures, uncertainty as to the next move remains high and can turn easily.**

• Investors can play a role by putting their capital towards these worthy projects through investing in funds that invest in this sector.

Affordable Housing - How investors can help to solve it

For further insights from our team, please view the following articles:

• Five sustainable investing myths busted

• Can the bond market help solve the housing affordability crisis?

• Green Bonds: an investment in the planet's future?

• Investing in a fairer future: Social bonds in focus

• Promoting decarbonisation, the Aussie way

## Market review

As the economic, and policy, cycle matures, uncertainty as to the next move remains high and can turn easily. November saw such a turn, moving to price a slowing US economy and taking broader markets with them. The Reserve Bank of Australia (RBA) continue to worry about the risks of sticky inflation and raised rates to curtail any reignition of domestic inflation. The cash rate increased 25 basis points (bps), to 4.35%, at their November meeting. Three-year government bond yields ended the month 39bps lower at 4.01%, while 10-year government bond yields were 51bps lower at 4.41%.

In credit markets, a theme of bifurcation continued gather pace. While consumer and corporate fundamentals remained relatively robust on average, weakness is accelerating in the lower to mid quality market segments. Returns on offer in low / no default risk Investment Grade bonds and upper echelons of securitised markets remained attractive on a risk-adjusted basis. Whereas in leveraged and sub-investment grade markets, credit spreads appear not to adequately reflect deteriorating fundamentals, rising defaults and upcoming maturity walls.

Reflecting the risk rally, the Australian iTraxx Index ended 22bps tighter at 75bps, while the Australian fixed and floating credit indices returned +1.84% and +0.45% respectively.

## Market outlook

The RBA continue to monitor the balance between the slowing household sector, the strong labour market, and high wages growth. The economy has peaked and there are increasing signs of slowing in the economy. This does need to be balanced against the stickiness of services inflation, and that will keep the RBA cautious until there is a clearer signal of downside risks and / or lower inflation.

We see the very near-term RBA pricing as reasonable, but the expectation of policy rates held at contractionary levels over a period of years as underestimating the cyclical risks. We currently see the Australian yield curve as under-valued at points in the curve. We remain on the lookout for tactical opportunities to add further duration.

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.

**Earlier in the month Housing Australia also issued sustainable bonds for the financing of affordable housing.**

We continue to identify pockets of opportunity where perceived risks have been overly discounted into the valuations of what would traditionally be considered stable and sustainable credits. We have begun to access such opportunities where a strong case can be made for capital gains over-and-above already attractive cash yields, setting up for outstanding risk adjusted returns for patient investors with a medium-term investment horizon.

For in-depth economic analysis and the Australian Fixed Interest Team's outlook, visit https://go.janushenderson.com/Viewpoint-Dec23

For further insights on our duration view please visit: https://go.janushenderson.com/bond-markets-much-ado-about-duration-monthly-reports

## ESG Commentary

Of note in the month was a green bond issued by Contact Energy. Contact Energy is one of New Zealand’s largest listed companies and is a diversified and integrated energy company focused on the generation of electricity and the sale of electricity, gas and broadband in New Zealand.

The proceeds of Contact Energy’s framework will be used to finance existing and future renewable generation assets. This includes geothermal energy, hydro power energy, solar and wind. Other green assets being financed include investment in improvements to energy efficiency and clean transportation.

Earlier in the month Housing Australia (formerly National Housing Finance and Investment Corporation) also issued sustainable bonds for the financing of affordable housing.

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**(continued)**

## As at September Quarter 2023

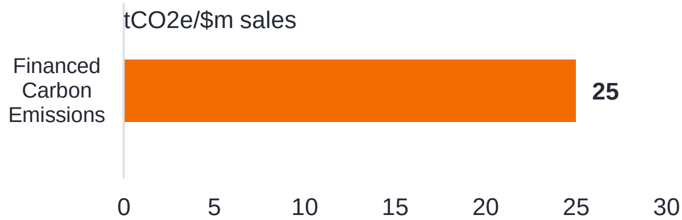
| Labelled bonds# structure breakdown | Fund |
|---|---|
| Sustainability-linked | 8% |
| Sustainability | 11% |
| Social | 10% |
| Green | 43% |

# Labelled bonds include use of proceeds bonds such as green, social and sustainability bonds which fund projects with specific and dedicated environmental and/or social benefits and sustainability-linked bonds that do not finance particular projects but rather have their coupons linked to the issuers reaching predetermined sustainability performance targets and key performance indicators. Percentages may not add up to 100% as the breakdown only considers labelled bond investments in the fund.

Source: Janus Henderson Investors

### Carbon emissions (Scope 1 & 2) – Coverage 40%


### Carbon intensity (GHG) – Coverage 71.6%




Source: Janus Henderson Investors

The Coverage refers to the data that is available from MSCI ESG analytics. They do not provide ESG data for all investable companies.

| | Theme | Measure | Fund | Coverage |
|---|---|---|---|---|
| PLANET | Decarbonisation | % of issuers with a net zero target by 2050 | 94% | 100% |
| PLANET | Circular economy | % of companies with programs for recycling, re-using and composting | 92% | 55% |
| PLANET | Sustainable buildings | % of companies who have obtained green building certificates | 50% | 55% |
| PLANET | Biodiversity | % of companies with a policy on biodiversity in place | 67% | 55% |
| PEOPLE | Inclusion & social diversity | % of companies with a minimum of 35% of women in senior positions | 57% | 40% |
| PEOPLE | Inclusion & social diversity | % of companies with a minimum of 35% of women on the board | 88% | 40% |
| PEOPLE | Affordable housing | Number of dwellings developed to provide more affordable housing projects* | 4,900 | |
| PEOPLE | Affordable housing | Number of Australians who were assisted in the purchasing or building of a home* | 61,000 | |
| PEOPLE | Disability support & services | Of those assisted in the purchasing of new homes, % of households with a disability supported* | 30% | |
| PEOPLE | Social equality & poverty | % of companies that support charitable program, direct contributions to community and have affirmative action policies in place | 50% | 55% |

Source: Janus Henderson Investors

Note: * These figures represent outcomes aligning to the relevant 'People' theme, which result from funding provided via instruments in which the Fund invests. Coverage refers to the percentage of companies in our corporate universe that report on the respective metrics. This data is collated from company sustainability statements as well as third party systems by the investment team.

## Important information

A Product Disclosure Statement, dated 29 September 2023, and Additional Information Guide, dated 29 September 2023 is available at www.janushenderson.com/australia and contains more information on the investment objective, how we make ESG assessments and identify ' Sustainable' and 'Impact' investments contributing to 'People' and 'Planet' themes.

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. 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 (Janus Henderson) in respect of the Janus Henderson Sustainable Credit Active ETF (Managed Fund) (**Fund**) 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 is not intended to be nor should it be construed as advice. This monthly report does not take account of your individual objectives, financial situation or needs. Before acting on this information you should consider the appropriateness of the information having regard to your objectives, financial situation and needs. You should obtain a copy of the Product Disclaimer Document (PDS) and read it before making a decision about whether to invest in the Fund.

No person guarantees the performance of, rate of return from, nor the repayment of capital in relation to the Fund. An investment in the Fund is not a deposit with, nor another liability of, Janus Henderson Investors (Australia) Funds Management Limited nor any of the Janus Henderson group entities nor any of their related bodies corporate, associates, affiliates, officers, employees or agents. An investment in the Fund is subject to risk, including possible delays in repayment and loss of income and capital invested. Prospective investors should refer to the risk sections in the PDS for full disclosure of all risks associated with an investment.

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**Further information**
www.janushenderson.com/australia