

SUSTAINABLE CREDIT ACTIVE ETF (MANAGED FUND)

Janus Henderson
INVESTORS

As at April 2024

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

\$0.7 million

Underlying Fund size

\$61.7 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

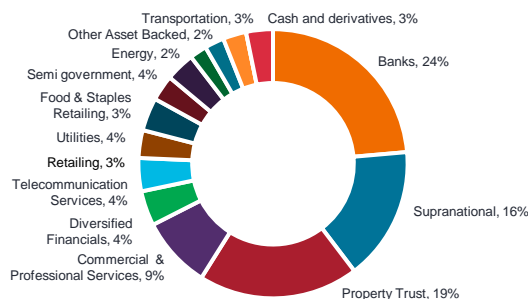
ASX code

GOOD

Performance	1 Month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Fund (gross)	-0.90	0.08	4.35	3.29	-	-	-	3.83
Fund (net)	-0.94	-0.04	4.09	2.78	-	-	-	3.31
Benchmark	-0.70	-0.09	3.04	1.84	-	-	-	2.23
Excess return*	-0.20	0.17	1.31	1.45	-	-	-	1.60

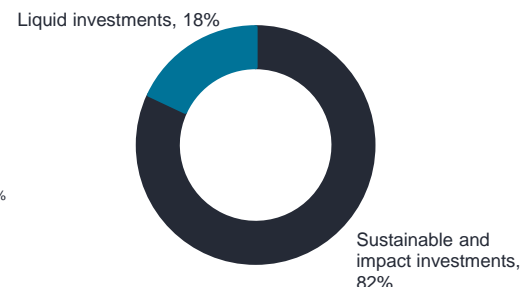
*In line with the fund objective, the excess return is measured against gross performance. Gross return is gross of management costs and sell spread. Past performance is not a reliable indication of future results.

Sector allocation

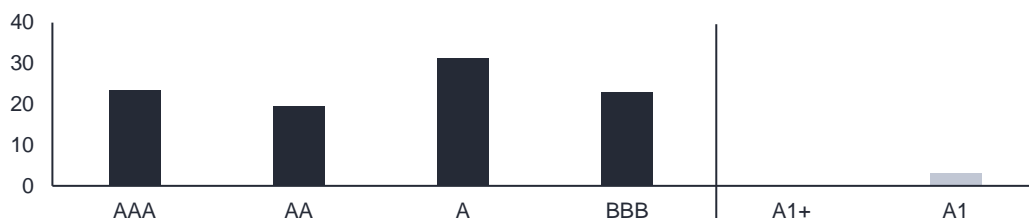


Rounding accounts for small +/- from 100%.

Investments breakdown



Credit rating distribution (%)



Portfolio Characteristics

	Fund	Benchmark
Estimated Weighted Average Yield to Maturity (EWAYTM) ¹	5.35	4.45
Running yield	4.51	3.06
Weighted average credit quality	AA-	AA+
Number of securities (on a look through basis)	75	525
Modified duration	3.20	2.32
Active duration position	0.88	

¹Estimated 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

ANZ Bank Subordinated FRN BASEL III T2
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
Commonwealth Bank Of Australia Subordinated FRN BASEL III T2
CPPIB Capital Inc 1.5% 23/06/2028 AUD REGS
African Development Bank 1.1% 16/12/2026 AUD
DWPF Finance Pty Ltd 2.6% 04/08/2032 AUD
Vicinity Centres Trust 4.927% 02/06/2028 AUD REGS
GPT Wholesale Office Fund No1 3.222% 05/11/2031 AUD

[^] 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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**Head of Australian
Fixed Interest**
Jay Sivapalan



Portfolio Manager
Shan Kwee

Fund Performance

The Janus Henderson Sustainable Credit Active ETF (Managed Fund) (Fund) returned -0.94% (net) and -0.90% (gross). The Fund underperformed the Bloomberg AusBond Composite 0-5Yr Index (Benchmark) by -0.20% (gross) in April, which returned -0.70% over the month.

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.

Despite the strong income and ongoing gains from credit spreads, it was a tougher month for Australian duration exposure. Government bond yields rose by 44bps across the curve negatively impacting bond returns. The Fund is actively navigating duration positioning with an overweight bias to the two- to five-year maturity range which underperformed in April. Income generation and credit carry and spread compression continue to be positive contributors to excess returns throughout 2024. Whilst the market concerns itself with timing of the first central bank easing, we see an attractive opportunity for investors to lock in the yields on offer. As such we did increase duration to 3.2 years, which is 0.7 years overweight versus the Benchmark. For good quality and defensive sectors we are seeing ongoing strong demand for IG credit. This saw credit continue to outperform despite a sharp spike in government bond yields with the broader market coming to an agreement that a sweet spot of risk adjusted return opportunities lies in IG for this stage in the credit cycle. We continue to see select securities deliver near term gains rallying between 5 to 15bps in spread post issuance, so actively navigating the primary market remains fruitful.

We added two new securities in April, one of which was Vicinity Centres 2034 maturity at a yield of 6.2% with an A quality credit rating. This is an example of our active approach where we can identify companies operating more sustainably with the bond not necessarily needing to be a labelled ESG bond. Vicinity has a focus on lowering greenhouse gas emissions, having already reduced emissions by 32% since 2016, they have a net zero target of 2030 for wholly owned assets and have invested to deliver Australia's largest solar installation program across shopping centres. Vicinity also focuses on encouraging waste avoidance and minimisation from their retailers and their centres with recycling targets to minimise waste sent to landfills. From a social perspective, Vicinity also provides grants to target youth engagement and employment, environment education and community well-being. Community groups can apply for between \$1000-\$10,000 as part of Vicinity's Community Grants.

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](#)

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The Australian economy is slowing gently, and while no recession is forecast, the pressure of higher interest rates is expected to continue to broaden out across sectors of the economy.

Market Review

Bond markets worry about stubborn inflation pressures, moving to price a higher for longer rate environment.

During the month, risk markets were driven by three powerful forces. These were a significant escalation in geopolitical risk in the Middle East, upside surprises to inflation pushing yields higher, and remarkably resilient earnings released by corporates during Northern Hemisphere first-quarter reporting season. Credit investors chose to focus on still reasonable growth, solid fundamentals and attractive all-in yields, creating a strong demand technical which held credit spreads in check.

The Australian iTraxx Index ended 12bps wider at 75bps as volatility picked up, while the Australian fixed and floating credit indices returned -0.91% and +0.48% respectively.

As had been widely anticipated by investors, ratings agency Standard & Poor's undertook ratings actions on a swathe of Australian Banks during the month. Of particular relevance was the elevation of the credit ratings of the Tier 2 Subordinated Debt of the Major Banks, from BBB+ to A-, making them even more attractive to global credit investors as a source of high quality yield.

Market Outlook

The Australian economy is slowing gently, and while no recession is forecast, the pressure of higher interest rates is expected to continue to broaden out across sectors of the economy. While households should be able to stabilise through year end, we see softening of the investment outlook and continued below trend economic growth. Under these conditions, the labour market should weaken, and inflation move slowly back to target.

Our base case is for the RBA to remain on hold at current rates before commencing an easing cycle late 2024. We price a more modest than historically average easing cycle, of around 175bps, spread over an extended period. There are a myriad of risks to the base case at this stage, with the high case of no easing until 2025, and a slow cycle through to 2026, and the low case of a modestly earlier commencement, which finishes with slightly more easing over the whole cycle. Both are possible given the current set of uncertainties.

In recognition of the complex macroeconomic and geopolitical environment, our credit strategy remains skewed towards high-quality, investment grade issuers with resilient business models, solid earnings power and conservative balance sheets. While acknowledging that credit spreads in general have tightened considerably, all-in yields particularly in low/no default-risk Investment Grade credit remain highly attractive. We have been actively and selectively taking advantage of these yields in highly-rated corporate bonds and structured credit, particularly in the primary markets where transactions have come with new issue concessions. Further, backed by fundamental research and experience, we also 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. In such instances, a strong case can be made for capital gains over-and-above already attractive cash yields, setting up for attractive risk-adjusted returns for patient investors with a medium term investment horizon.

While we remain overweight the Tier 2 market, we elected to selectively take profit and redeploy capital into healthy primary market supply. We actively invested in strong investment grade rated A-REIT and infrastructure names at attractive yields. Looking forward, we favour continuing to allocate to quality investment grade credit where risk adjusted return prospects over a medium term horizon are strong.

We are electing to be under allocated to sub investment grade and illiquid credit, as we fear investors may be underappreciating the risks created by a potent combination of high and costly leverage, in a slower growth environment. Our strong preference is to earn reasonable income and capital gains up in quality for now. We are withholding risk and liquidity capacity in anticipation of more attractive entry points for global high yield and loans. We continue to favour holding meaningful 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-May24>.

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**The Australian
Office of Financial
Management
(AOFM) gets ready
to embark on their
inaugural green
bond due to come
to market in May.**

ESG Commentary

The Australian Office of Financial Management (AOFM) gets ready to embark on their inaugural green bond due to come to market in May. They undertook a number of investor meetings in preparation, including two in person meetings with the Janus Henderson Australian Fixed interest team to discuss the eligible projects and structure of this new deal. While our state governments have been active in the labelled bond market for several years, it is hoped that a green bond program by our federal government will encourage other issuers to come to market.

For insights on the Australian fixed income team's company engagements, please view our recently published ESG quarterly here:

[https://go.janushenderson.com/AFI ESG Report Mar 2024](https://go.janushenderson.com/AFI_ESG_Report_Mar_2024).

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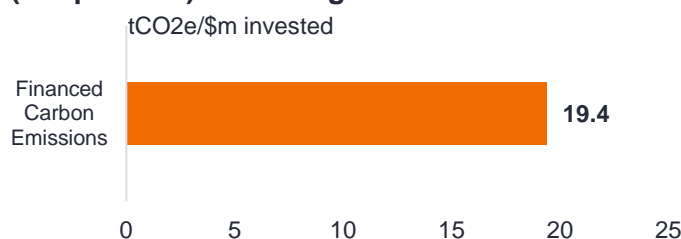
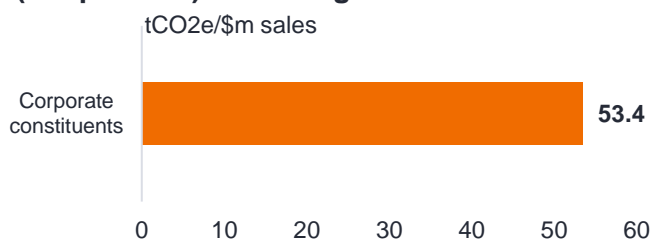
As at March Quarter 2024

Labelled bonds# structure breakdown

	Fund
Sustainability-linked	8%
Sustainability	12%
Social	10%
Green	41%

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

**Financed Carbon Emissions
(Scope 1 & 2) – Coverage 35.8%**

**Weighted Average Carbon Intensity
(Scope 1 & 2) – Coverage 72.0%**


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	97%	100%
	Circular economy	% of companies with programs for recycling, re-using and composting	92%	55%
	Sustainable buildings	% of companies who have obtained green building certificates	50%	55%
	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*	83%	100%
		% of companies with a minimum of 35% of women on the board*	86%	100%
	Affordable housing	Number of dwellings developed to provide more affordable housing projects*	4,900	
		Number of Australians who were assisted in the purchasing or building of a home*	61,000	
	Disability support & services	Of those assisted in the purchasing of new homes, % of households with a disability supported*	30%	
	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.

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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.

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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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