

SUSTAINABLE CREDIT ACTIVE ETF (MANAGED FUND)

Janus Henderson
INVESTORS

As at July 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

\$64.7 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

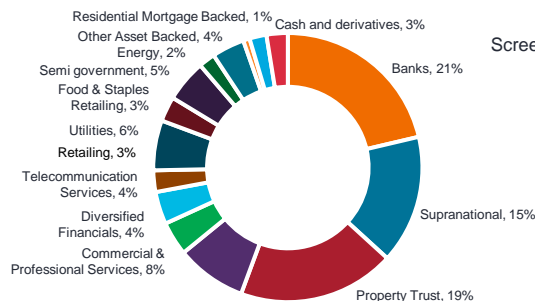
ASX code

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)	1.56	2.62	2.71	6.88	-	-	-	5.07
Fund (net)	1.52	2.49	2.45	6.35	-	-	-	4.54
Benchmark	1.13	1.90	1.82	4.81	-	-	-	3.22
Excess return*	0.43	0.72	0.89	2.07	-	-	-	1.85

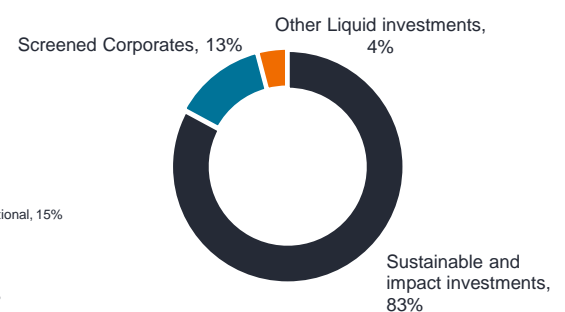
*In line with the fund objective, the excess return is measured against gross performance. Gross return is gross of management costs and sell spread. Past performance is not a reliable indication of future results.

Sector allocation

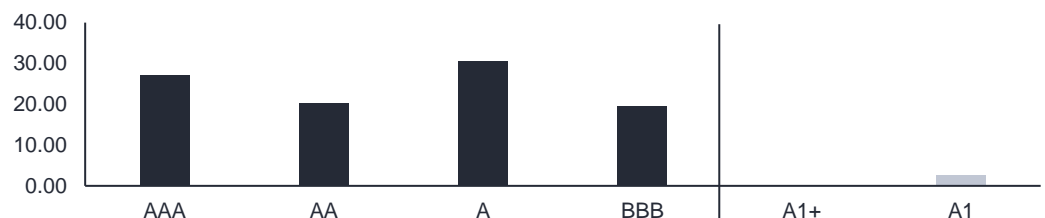


Rounding accounts for small +/- from 100%.

Investments breakdown



Credit rating distribution (%)



Portfolio Characteristics

	Fund	Benchmark
Estimated Weighted Average Yield to Maturity (EWAYTM) ¹	4.95	4.17
Running yield	4.35	3.06
Weighted average credit quality	AA-	AA+
Number of securities (on a look through basis)	80	544
Modified duration	3.05	2.35
Active duration position	0.70	

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

African Development Bank 1.1% 16/12/2026 AUD
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
Australia Government Bond 4.25% 21/06/34 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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(continued)

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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 1.52% (net) and 1.56% (gross). The Fund outperformed the Bloomberg AusBond Composite 0-5Yr Index (Benchmark) by 0.43% (gross) in July, which returned 1.13% 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. 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 securities with at least 80% exposure to securities deemed 'Sustainable' and/or 'Impact' in our assessment, and has around 75% allocated to investment grade credit.

Credit returns remained solid, as Australian investment grade spreads continued to perform well delivering carry and some modest spread compression versus cash and government bonds. Within high grade credit, our favoured allocations to banks and REITs were again the best performing sectors. Interest rate duration added a strong tailwind to portfolio returns to finish July, while an overweight duration position in the two- to five-year part of the curve boosted excess returns as bond yields bull steepened. The Fund is actively positioned with 3.0 years duration, which is 0.7 years overweight versus the Benchmark. In July active interest rate positioning was the primary driver of very strong excess returns versus the Benchmark, assisted further from yield advantage from credit allocations.

Primary issuance was subdued, and no new positions were added during the month, however the Fund elected to divest from ANZ Sustainability notes as an ongoing ASIC investigation into market conduct highlighted Governance risks within the bank. We engaged with key personnel from the bank and will continue to have ongoing engagements with the issuer as the investigation unfolds. In the meantime, the Fund no longer holds exposure to ANZ with credit spreads currently unaffected.

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

- [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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(continued)

A weaker global economic backdrop and local inflation relief allowed yields to fall through July, as the market started to price in a local easing cycle.

Market Review

A weaker global economic backdrop and local inflation relief allowed yields to fall through July, as the market started to price in a local easing cycle. Inflation remains high and is moderating slowly with the underlying measure at 3.9% year on year. Headline employment remains solid, however underlying cracks point towards softening. The US bond market repriced sooner and greater easing from the Federal Reserve (Fed). Australian equities outperformed with the prospect of a Reserve Bank of Australia (RBA) easing cycle.

Credit spreads outperformed as demand for extra income remains robust. The Australian fixed and floating credit indices returned +1.56% and +0.52% respectively with fixed rate duration a key tailwind.

Higher income credit sectors generally performed well. Fixed rate credit markets like high yield and investment grade credit benefitted from a significant tailwind from US and Australian yields heading lower which led to outperformance versus loans and floating rate sectors.

Market Outlook

The Australian economy is slowing gently, and while no recession is forecast, the pressure of higher interest rates is expected to broaden out across sectors of the economy. Inflation remains high and is moderating slowly. The RBA needs to balance these risks along their so-called narrow path. An extended period of policy at restrictive levels will further slow growth, rebalance the labour market and subdue inflation. The global economic backdrop is slowing, but a growing number of geopolitical and structural concerns, such as elections and government debt concerns, raise market volatility risks.

Our base case is for the RBA to remain on hold at current rates before commencing an easing cycle in Q1 2025. We price a more modest than the historically average easing cycle, of around 175bps, spread over an extended period. There remain a myriad of risks to the base case, with the high case of a late cycle hike in H2 2024, and a slow cycle easing through to 2026. Post the inflation data, and given the rise in global slowing, this risk has eased back of late. We hold an alternate case of a modestly earlier commencement, which finishes with slightly more easing over the whole cycle.

Our credit strategy remains skewed towards high-quality, investment grade issuers with resilient business models, solid earnings power and conservative balance sheets. Conversely, we are avoiding lower credit quality and leveraged sectors where default stress remains. While we acknowledge that credit spreads in general are tight, all-in yields particularly in robust Australian Investment Grade credit remain reasonably attractive. We continue to actively and selectively take advantage of these yields in highly-rated corporate bonds and structured credit in both primary and secondary markets, where risk adjusted returns make the most sense.

We remain overweight in the Tier 2 market and continue to take profit in longer maturities as technical demand across bank capital drives spreads lower. We have diversified allocations to invest in strong investment grade corporates at attractive yields, whilst minimising exposure to cyclical, consumer discretionary, and SME lending. Looking forward, we favour continuing to hold an allocation in defensive credit where risk adjusted return prospects over a medium term horizon are strong and better value exists in Australia versus more expensive offshore markets. To help buffer from any widening in offshore spreads, we favour holding some credit protection positions in CDS which is currently cheap.

At this stage in the cycle, we prefer to be under allocated to sub investment grade and illiquid credit. Compensation for risk has declined further, and investors face 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, and capacity and liquidity to take advantage of more attractive entry points for global high yield, loans, hybrids and Emerging Market Debt. We continue to hold meaningful levels of credit protection (via CDS) as risk markets are no longer well priced for more evident impacts of policy tightening.

For the Australian Fixed Interest Team's outlook, visit <https://go.janushenderson.com/Viewpoint-Aug24>.

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New issuance in labelled bonds was extremely light in July, with a three-year green bond by the Canada Pension Plan Investment Board (CPPIB) being the only benchmark sized deal printed in Australia.

ESG Commentary

New issuance in labelled bonds was extremely light in July, with a three-year green bond by the Canada Pension Plan Investment Board (CPPIB) being the only benchmark sized deal printed in Australia. Globally, sustainable bond issuance eased off in the second quarter of this year, after having a robust first quarter.

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 Jun 2024](https://go.janushenderson.com/AFI_ESG_Report_Jun_2024).

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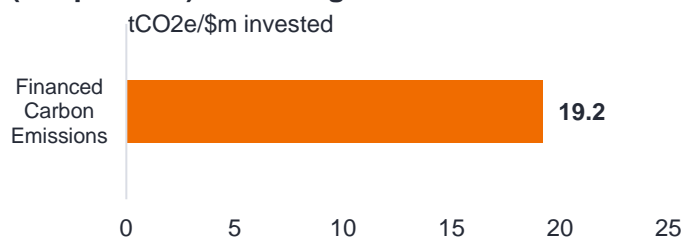
As at June Quarter 2024

Labelled bonds# structure breakdown	Fund
Sustainability-linked	7%
Sustainability	9%
Social	10%
Green	42%

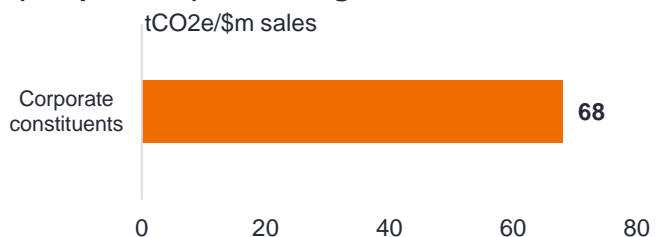
Labelled bonds include use of proceeds bonds such as green, social and sustainability bonds which fund projects with specific and dedicated environmental and/or social benefits and sustainability-linked bonds that do not finance particular projects but rather have their coupons linked to the issuers 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 32.8%



Weighted Average Carbon Intensity (Scope 1 & 2) – Coverage 68.7%



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 16 July 2024 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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