

# SUSTAINABLE CREDIT ACTIVE ETF (MANAGED FUND)

Janus Henderson  
INVESTORS

## As at August 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

\$1.0 million

### Underlying Fund size

\$67.0 million

### Management cost (%)

0.50 p.a.

### Buy/sell spread (%)

0.06/0.10<sup>^</sup>

### Base currency

AUD

### Distribution frequency

(if any)

Monthly

### ARSN code

662 889 214

### APIR code

HGI0694AU

### ISIN

AU000254278

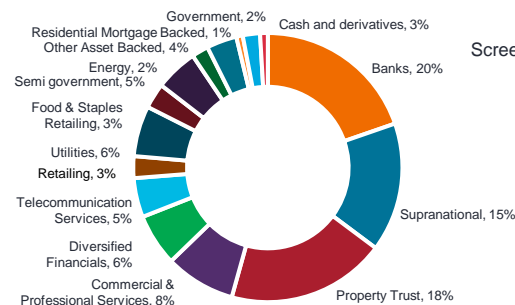
### ASX code

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)	1.04	3.09	3.58	7.01	-	-	-	5.51
Fund (net)	1.00	2.97	3.32	6.48	-	-	-	4.98
Benchmark	0.80	2.30	2.62	4.92	-	-	-	3.59
Excess return*	0.24	0.79	0.96	2.09	-	-	-	1.92

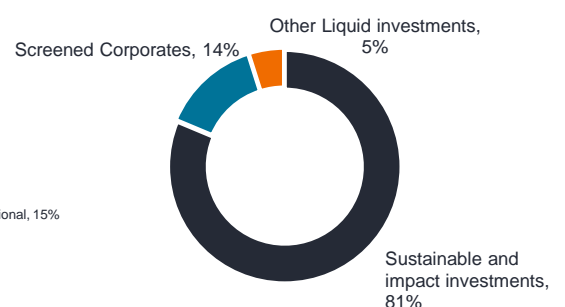
\*In line with the fund objective, the excess return is measured against gross performance. Gross return is gross of management costs and sell spread. Past performance is not a reliable indication of future results.

### Sector allocation

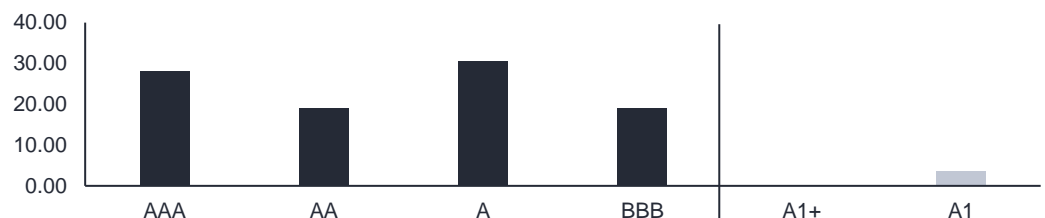


Rounding accounts for small +/- from 100%.

### Investments breakdown



### Credit rating distribution (%)



### Portfolio Characteristics

	Fund	Benchmark
Estimated Weighted Average Yield to Maturity (EWAYTM) <sup>1</sup>	4.77	4.00
Running yield	4.42	3.04
Weighted average credit quality	AA-	AA+
Number of securities (on a look through basis)	82	537
Modified duration	2.91	2.35
Active duration position	0.56	

<sup>1</sup>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
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
PSP Capital Inc. 4.5% 05/09/2031 AUD
Transpower New Zealand Ltd 4.977% 29/11/2028 AUD
Vicinity Centres Trust 4.927% 02/06/2028 AUD REGS

<sup>^</sup> For more information and most up to date buy/sell spread information visit [www.janushenderson.com/en-au/investor/buy-sell-spreads](http://www.janushenderson.com/en-au/investor/buy-sell-spreads).

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(continued)



**Head of Australian  
Fixed Interest**  
Jay Sivapalan



**Portfolio Manager**  
Shan Kwee

## Fund Performance

The Janus Henderson Sustainable Credit Active ETF (Managed Fund) (Fund) returned 1.00% (net) and 1.04% (gross). The Fund outperformed the Bloomberg AusBond Composite 0-5Yr Index (Benchmark) by 0.24% (gross) in August, which returned 0.80% 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.

Another solid month of credit returns aided by a tailwind from an active overweight duration position as bond yields rallied. Australian investment grade spreads continued to perform well delivering carry and modest spread compression versus cash and government bonds. Interest rate duration added a strong tailwind to portfolio returns, with duration positioned in the two- to five-year part of the curve as bond yields bull steepened. The Fund is actively positioned with around 3.0 years duration, which is 0.6 years overweight versus the Benchmark. In Income and yield advantage from credit allocation and security selection continue to produce ongoing positive excess return contributions.

After last month divesting from ANZ Sustainability notes as an ongoing ASIC investigation into market conduct highlighted certain Governance risks within the bank, the portfolio rotated into two new green bonds. An NBN seven-year green bond and one from Mirvac which was their first AUD Green bond, and priced with a coupon of 5.15% and a credit spread of 1.5% rated A-.

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](#)

## Market Review

As the global monetary policy easing cycle broadened, bond yields moved lower across the curve. Economic conditions softened with six of the ten major developed economies having already lowered their monetary policy rate, likely followed by the US Federal Reserve easing at their September meeting. The RBA kept interest rates on hold at 4.35% and noted any further upside inflation surprises would not be tolerated.

Markets experienced severe volatility as Japanese carry-trade unwinds, weaker US employment data, and spiking volatility gauges caused a short-lived bout of wide-spread market panic. This was swiftly reversed, and credit spreads actually finished slightly stronger. The Australian fixed and floating credit indices returned 0.93% and 0.43% respectively.

Higher income credit sectors saw volatility but generally performed well. Fixed rate credit markets like investment grade, EM hard currency, and high yield credit benefitted from a significant tailwind from US and Australian yields heading lower which led to outperformance versus loans and floating rate sectors. ASX listed hybrids was the worst performing sector, underperforming cash.

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## Market Outlook

The Australian economy is slowing, and while no recession is forecast, the pressure of higher interest rates is broadening out across sectors of the economy. Inflation is moderating slowly from high levels. The RBA needs to balance these risks along their so-called narrow path. An extended period of policy at restrictive levels will slow growth further, rebalance the labour market and subdue inflation. The global economic backdrop is slowing, and while there remain volatility risks, the policy path is lower.

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. We hold an alternate case of an earlier commencement, which finishes with more easing over the whole cycle. This is equally possible as the high case, under the current environment.

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 is increasing. While we acknowledge that credit spreads in general are tight, all-in yields particularly in low/no default-risk 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 sense.

We remain overweight in the Tier 2 market and continue to take profit in longer maturities as technical demand for healthy yields on investment grade debt 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.

Compensation for risk remains low in sub investment grade and illiquid credit, and investors face the ongoing impacts of more costly leverage in a slower growth environment. Our strong preference is to earn reasonable income and capital gains up in quality for now, leaving capacity and liquidity to take advantage of more attractive entry points for global high yield, hybrids and emerging market debt. We continue to hold credit protection (via CDS) which is cheap, as risk markets are no longer well priced for the lingering impacts of policy tightening.

Janus Henderson's publicly available Australian Fixed Interest Funds have now been serving clients for 30 years. We thank our clients for their enduring support.

We are privileged to have been a trusted steward of our clients' assets for the last three decades and we are excited about the prospect of continuing to offer valuable investment solutions for investors.

For the Australian Fixed Interest Team's outlook, visit <https://go.janushenderson.com/Viewpoint-Sep24>.

## ESG Commentary

With busy primary market activity, four new benchmark sized labelled bonds were issued into the Australian market. Mirvac issued their first Australian dollar green bond. Mirvac are ahead of many of their property peers in terms of ESG credentials, having reached net zero for Scope 1 and 2 ahead of time, while also focusing on Scope 3 emissions. NBN also issued a seven-year green bond with the use of proceeds for 'improvements in energy efficiency of the NBN Co network technologies and infrastructure'.

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>.

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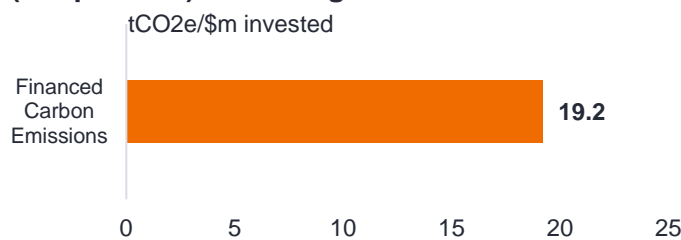
As at June Quarter 2024

Labelled bonds# structure breakdown	Fund
Sustainability-linked	7%
Sustainability	9%
Social	10%
Green	43%

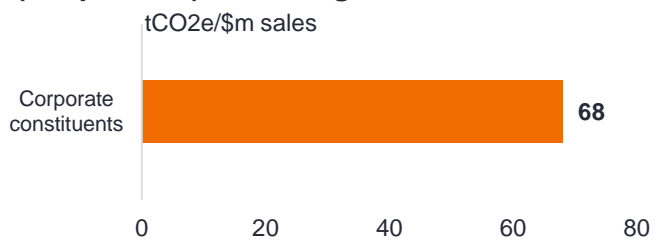
# Labelled bonds include use of proceeds bonds such as green, social and sustainability bonds which fund projects with specific and dedicated environmental and/or social benefits and sustainability-linked bonds that do not finance particular projects but rather have their coupons linked to the issuers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

## 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](http://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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