

# SUSTAINABLE CREDIT ACTIVE ETF

## As at September 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

\$68.7 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

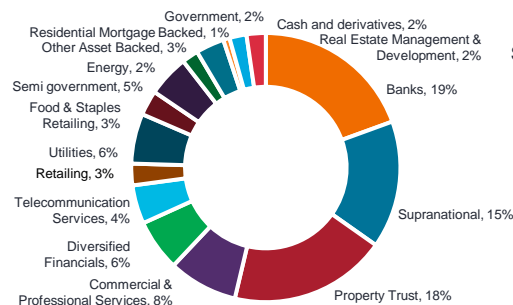
### ASX code

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)	0.48	3.11	3.24	8.14	-	-	-	5.53
Fund (net)	0.44	2.98	2.99	7.60	-	-	-	5.01
Benchmark	0.39	2.34	2.41	5.73	-	-	-	3.66
Excess return*	0.09	0.77	0.83	2.41	-	-	-	1.87

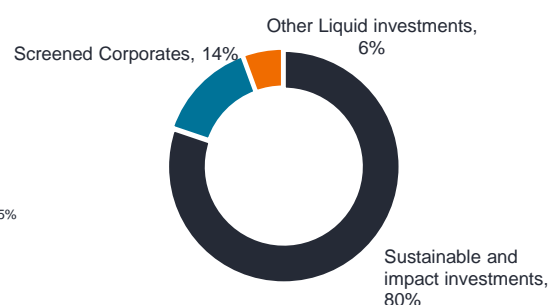
\*In line with the fund objective, the excess return is measured against gross performance. Gross return is gross of management costs and sell spread. Past performance is not a reliable indication of future results.

### Sector allocation

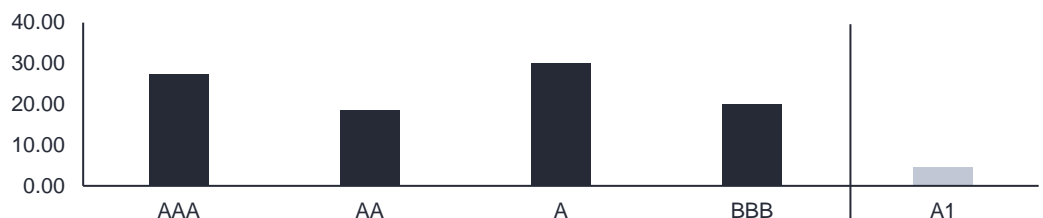


Rounding accounts for small +/- from 100%.

### Investments breakdown



### Credit rating distribution (%)



### Portfolio Characteristics

	Fund	Benchmark
Estimated Weighted Average Yield to Maturity (EWAYTM) <sup>1</sup>	4.73	3.97
Running yield	4.45	3.05
Weighted average credit quality	AA-	AA+
Number of securities (on a look through basis)	83	532
Modified duration	2.73	2.32
Active duration position	0.41	

<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

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
DWPF Finance Pty Ltd 2.6% 04/08/2032 AUD
African Development Bank 1.1% 16/12/2026 AUD
GPT Wholesale Office Fund No1 3.222% 05/11/2031 AUD
Vicinity Centres Trust 4.927% 02/06/2028 AUD REGS
PSP Capital Inc. 4.5% 05/09/2031 AUD

<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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**Head of Australian  
Fixed Interest**  
Jay Sivapalan



**Portfolio Manager**  
Shan Kwee

## Fund Performance

The Janus Henderson Sustainable Credit Active ETF (Fund) returned 0.44% (net) and 0.48% (gross). The Fund outperformed the Bloomberg AusBond Composite 0-5Yr Index (Benchmark) by 0.09% (gross) in September, which returned 0.39% over the month.

Healthy returns in September rounded out a solid quarter with the Fund returning 3.1% (before fees) supported by a diversified mix of sources including income generation, gains on active security selection, as well as a tailwind from an active overweight duration position favouring the two-to-five-year tenors of the swap curve which has rallied the most. Overall, it was a constructive quarter for fixed interest returns and Australian investment grade and global spreads continued to perform well delivering carry and modest spread compression versus cash and government bonds. The Fund's duration position averaged 3.0 years into the August rally in yields, and we subsequently have reduced duration to 2.7 years (0.4 years overweight versus the Benchmark) during September as bond yields hit their recent lows. Active excess returns remain healthy, outperforming the Benchmark by 0.77% for the quarter and outperforming 2.40% over the past 12 months, materially above our longer term annual target of 0.75%. Pleasingly performance is being derived from a range of sources, income advantage, credit allocations and security selection have all outperformed, while active interest rate strategies such as overweight duration positioning and relative value positioning overweight swap versus government bond yields has also added value.

During the quarter the Fund divested from ANZ Sustainability notes as an ongoing ASIC investigation into market conduct highlighted particular 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, priced with a coupon of 5.15% and a credit spread of 1.5% rated A-. During September there were some unique primary opportunities into which we allocated. Scentre Group issued a rare BBB+ rated Corporate hybrid with a spread of 2.3% producing an initial running yield of 6.7%, for a name which is scarce across the Australian debt market this was keenly sought after and has subsequently returned 1.7% since it was first issued a month ago. Scentre does not have a labelled sustainable debt programme, however it does rank well from a sustainability perspective aligned with our People and Planet objectives with a Net Zero (Scope 1&2) 2030 target and observed progress on emitted carbon reduction as well as strengthening waste management practices across its Westfield mall portfolio. Scentre Group also exhibits strong gender diversity credentials across its workforce and management levels.

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.

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

In September, global yields fluctuated significantly. The U.S. Federal Reserve (Fed) initiated a 50bp (basis point) rate cut supporting the softening economy and moderating inflation. As future cuts are anticipated to be smaller, yields rose in second half. Concurrently, China's extensive economic support package boosted global risk sentiment, affecting Australia.

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**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.**

September was broadly constructive for risk assets, and the domestic primary corporate credit and securitised markets continued to be active. The Australian iTraxx Index ended 2bps tighter at 63bps, while the Australian fixed and floating credit indices returned +0.54% and +0.43% respectively.

Higher income credit sectors performed well. USD denominated fixed rate credit benefitted from US yields rallying and spreads outperforming. Loans and floating rate sectors also performed reasonably outperforming cash. ASX listed hybrids bounced strongly to one of the top performing sectors after APRA announced their proposal to phase out future hybrid issuance.

## 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. We skewed the risks to the downside in early September, as global conditions deteriorated, and local data softened. The low case is for an earlier start, and slightly more easing over the whole cycle. The high case presently has no weight and looks to a later start and less easing over the cycle. The market has built in an RBA easing cycle, with around 125bps priced over 18 months. We believe there is value in targeted parts of the curve which outperform into easing cycles. We continue to hold a long duration position.

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 quality, leveraged sectors where signs of credit stress are 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 continue to seek diversified allocations in strong investment grade corporates at attractive yields while primary markets remain active, 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 higher cost 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-Oct24>.

# SUSTAINABLE CREDIT ACTIVE ETF

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September was an extremely quiet month for primary market issuance of green, social, sustainability and sustainability linked bonds.

## ESG Commentary

September was an extremely quiet month for primary market issuance of green, social, sustainability and sustainability linked bonds. Supranational Central American Bank for Economic Integration were the only ones to issue in AUD, bringing a rather small social bond to market. It was a general purpose bond with proceeds used in “projects that foster development to reduce poverty and inequality; strengthen regional integration and the competitive insertion of its member countries in the global economy” which focuses on the central American region.

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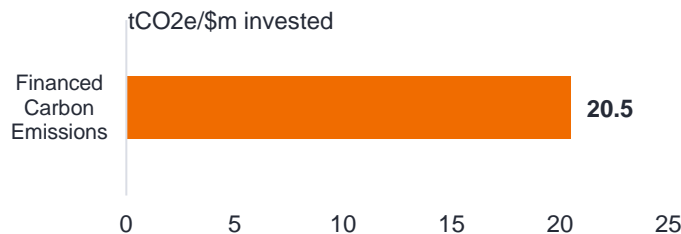
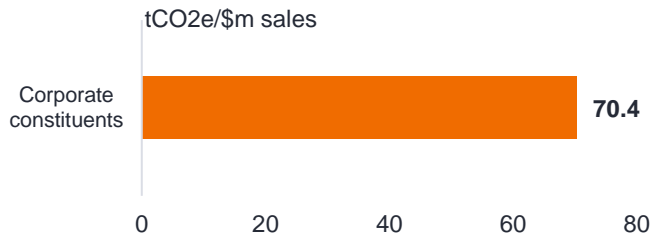
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**As at September Quarter 2024****Labelled bonds# structure breakdown**

	Fund
Sustainability-linked	6%
Sustainability	9%
Social	9%
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 30.9%**

**Weighted Average Carbon Intensity  
(Scope 1 & 2) – Coverage 66.4%**


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	92%	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	85%	96%
PEOPLE	Inclusion & social diversity	% of companies with a minimum of 35% of women in senior positions*	73%	100%
		% of companies with a minimum of 35% of women on the board*	81%	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

This table denotes the percentage of corporate issuers in the portfolio, deemed sustainable and/or impact, that meet those respective measurements.

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

The information in this monthly report was prepared by Janus Henderson Investors (Australia) Funds Management Limited ABN 43 164 177 244, AFSL 444268 (Janus Henderson) and should not be considered a recommendation to purchase, sell or hold any particular security. The Product Disclosure Statement and Target Market Determination for the Fund 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%. 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. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. An investment in the Fund is subject to risk, including possible delays in repayment and loss of capital invested. None of Janus Henderson nor any of the Janus Henderson group entities nor their respective related bodies corporate, associates, affiliates, officers, employees, agents or any other person are, to the extent permitted by law, responsible for any loss or damage suffered as a result of any reliance by any reader or prospective investor. You should consider the current PDS before making a decision about the Fund. Dollar figures shown are in Australian Dollars (AUD), unless otherwise stated. Janus Henderson is a trademark of Janus Henderson Group plc or one of its subsidiaries. © Janus Henderson Group plc.

## Further information

[www.janushenderson.com/australia](http://www.janushenderson.com/australia)