

SUSTAINABLE CREDIT ACTIVE ETF

Janus Henderson
INVESTORS

As at October 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[^]

Base currency

AUD

Distribution frequency

(if any)
Monthly

ARSN code

662 889 214

APIR code

HGI0694AU

ISIN

AU000254278

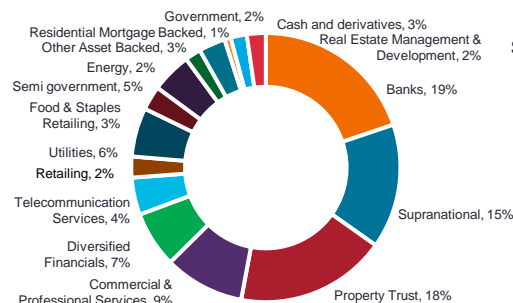
ASX code

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)	-0.78	0.73	3.37	7.87	-	-	-	4.73
Fund (net)	-0.82	0.60	3.11	7.33	-	-	-	4.21
Benchmark	-0.68	0.51	2.42	5.54	-	-	-	3.04
Excess return*	-0.10	0.22	0.95	2.33	-	-	-	1.69

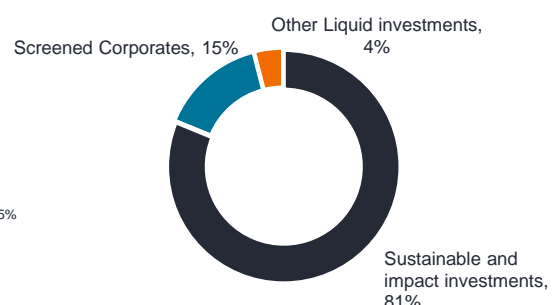
*In line with the fund objective, the excess return is measured against gross performance. Gross return is gross of management costs and sell spread. Past performance is not a reliable indication of future results.

Sector allocation

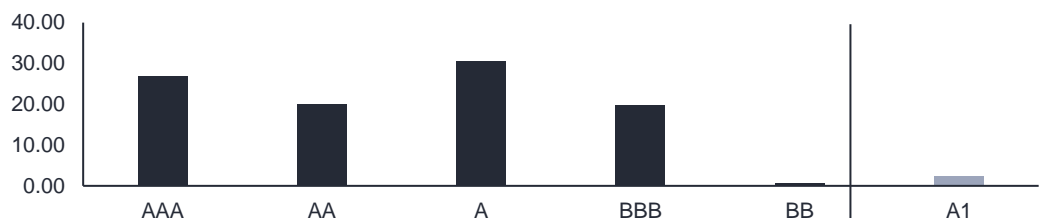


Rounding accounts for small +/- from 100%.

Investments breakdown



Credit rating distribution (%)



Portfolio Characteristics

	Fund	Benchmark
Estimated Weighted Average Yield to Maturity (EWAYTM) ¹	5.11	4.36
Running yield	4.49	3.08
Weighted average credit quality	AA-	AA+
Number of securities (on a look through basis)	87	530
Modified duration	2.89	2.25
Active duration position	0.64	

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

University Of Tasmania	3.97%	24/03/2032	AUD
La Trobe University	5.311%	08/08/30	AUD
Transpower New Zealand Ltd	4.977%	29/11/2028	AUD
NBN CO LTD	4.2%	14/04/2027	AUD REGS
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
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 (Fund) returned -0.82% (net) and -0.78% (gross). The Fund underperformed the Bloomberg AusBond Composite 0-5Yr Index (Benchmark) in October, which returned -0.68% over the month.

The combination of some duration and healthy income from quality credit securities is delivering solid returns for investors with the Fund returning 7.9% (gross) over the past year. In a month where the broader Australian bond market suffered a -2% return, the Fund's solid income and shorter duration buffered returns during October. Performance from income and credit selection were both key positive contributors, however interest rate duration was the primary negative contributor as bond yields rose swiftly in Australia and the US. As the market contemplates elevated cash rates for longer, this is overall a positive environment for ongoing income generation. An overreaction in market repricing of RBA cash rates provides opportunities for us to consider locking in yield levels in the coming months via extending duration.

The Fund rotated into new bank issuance from Judo Bank in Tier 2 with a starting coupon 7.75% and Bendigo bank who issued a four-year senior floating rate note with a coupon of 5.4%. The market environment for local credit income remains positive and well bid, with higher coupon investments being met with very strong demand leaving some deals 8-10 times oversubscribed. The outlook for income generation remains solid and the attractive value on offer in Australian IG spreads has caught investor attention providing a tailwind for local spreads to rally, while US spreads are trading fully valued. Healthy risk adjusted income levels are in the Fund as we maintain a relatively conservative credit risk position. We continue to meaningfully favour Australian IG allocations, paired with CDS credit hedging into the back half of 2024 which can provide robust returns through a range of market scenarios.

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 October, markets shifted, buoyed by strong US economic data, reducing easing cycle expectations. A potential Trump presidency increased the likelihood of higher tariffs and lower taxes, driving expectations of inflation and growth. China's expected fiscal easing and ongoing global conflicts contributing to uncertainty.

Risk assets rallied supported by resilient US corporate earnings, boosting investor optimism. Despite rising bond yields, global credit markets were busy as issuers aimed to secure funding before anticipated November US election volatility, with Australian credit and securitised markets also active. The Australian iTraxx Index ended 3bps wider at 66bps, while the Australian fixed and floating credit indices returned -0.88% and +0.50% outperforming government bonds and cash respectively.

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The Australian economy is slow, and while no recession is forecast, the pressure of higher interest rates is broadening out across sectors of the economy

Higher income spread sectors saw positive spread performance, however fixed rate credit returns were dragged lower by bond yield rises. Loans was the top performing sector, while other floating rate sectors such as Bank Tier 2 and ASX hybrids also performed reasonably outperforming cash. Interestingly the higher ranking, and better quality, Tier 2 market outperformed hybrids indicating better risk reward higher in the capital stack after the hybrid market's positive reaction to their potential phasing out.

Market Outlook

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

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 110bps, spread across 2025. We presently have no tilt to the upside or downside. The low case is for an earlier start, and more easing over the whole cycle. The high case looks for just 85bps of easing. The market has built in an RBA easing cycle, with only 53bps 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 and look to adjust the position through market volatility.

We favour remaining overweight credit skewed towards high-quality, investment grade issuers with resilient business models, solid earnings power and conservative balance sheets. Offshore credit spreads in general are tight, however high quality all-in yields particularly in low/no default-risk Australian Investment Grade credit remain reasonably attractive with better spread compensation. 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. Conversely, we are avoiding tightly priced lower credit quality and cyclical sectors where stress from leverage and higher for longer rates remains a challenge. The tightness in CDS spreads against a buoyant equity market backdrop still offers cheap entry points for protection hedging.

Primary credit markets remain active, and we seek to use them to diversify allocations at attractive yields, whilst taking some profit on areas of credit that have released most of their relative value. BBB rated cyclicals and consumer discretionary subsectors seem to offer little spread advantage over more defensive corporates. In bank capital, hybrids look poor value versus Tier 2, and we favour deallocating from the riskier hybrids at this stage.

Compensation for risk remains low in sub investment grade and illiquid credit, 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 global index CDS) which remains cheap, as risk markets are no longer well priced for negative surprises.

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 detailed outlook, visit <https://go.janushenderson.com/Viewpoint-Nov24>.

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There was a lift in sustainable bond issuance in October.

ESG Commentary

There was a lift in sustainable bond issuance in October. Of note was a benchmark sized deal from EnBW who are one of Germany's largest energy companies with operations in electricity generation, distribution and transmission and retail. They issued two green bonds with proceeds allocated to projects in:

- Energy generation from renewables: (onshore/offshore wind, solar/photovoltaics and hydropower)
- Electricity transmission and distribution infrastructure
- Smart meters
- E-mobility charging infrastructure.

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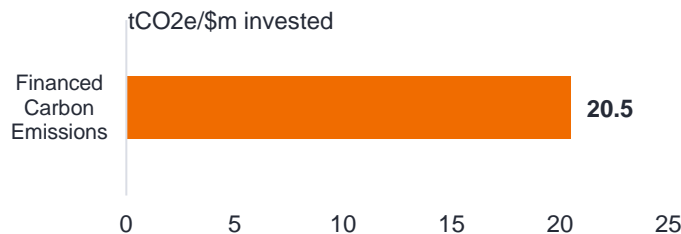
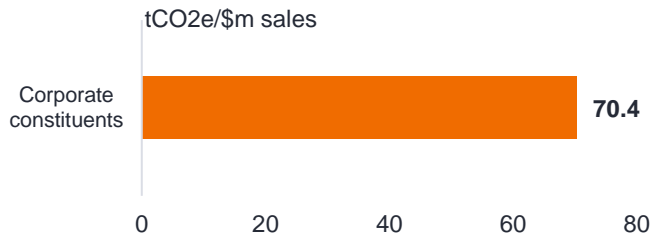
As at September Quarter 2024

Labelled bonds# structure breakdown

	Fund
Sustainability-linked	6%
Sustainability	9%
Social	9%
Green	45%

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, 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.