

INVESTMENT PRINCIPLES

Net Zero Transition Resources ETF

JRZO





OUR STORY

The Janus Henderson Global Natural Resources Team consists of four highly experienced investment professionals with cumulative industry experience of over 120 years, blending natural resource investment specialization and stock market expertise with geological, technical, financial and industry knowledge.



We are witnessing first-hand the significant positive and negative economic impacts of the energy transition amid a global decarbonization effort. More than 120 countries have pledged to reach net zero greenhouse gas emissions by around 2050, supported more than 100 regional governments, 800 cities and 1,500 companies. Dramatic action will be required well before 2030 to meet the 2050 target, however, and some countries are therefore beginning to move their established deadlines forward. Furthermore, many trillions of dollars will need to be invested as part of this global effort, creating a once-in-a-lifetime investment cycle across a wide range of sectors, and particularly in many sub-sectors within the natural resources space.

Net zero initiatives are not only significantly increasing the demand and price for those natural resources that enable decarbonization, but also present new opportunities, including renewable infrastructure development, green and blue hydrogen production, accelerated recycling rates to reduce energy consumption (and thereby emissions), agriculture, and the application of innovative science.

Although parts of the natural resources sector are far from being carbon neutral, we believe many of these entities have a unique opportunity to enable aggregated carbon reductions equivalent to multiples of the carbon they generate. Other segments of the resources sector are already making a direct contribution to reducing emissions through certain products and services. The limitations of measuring the downstream reduction in carbon are well known. But while current measures are crude, we are committed to redefining how carbon is measured throughout the supply chain.

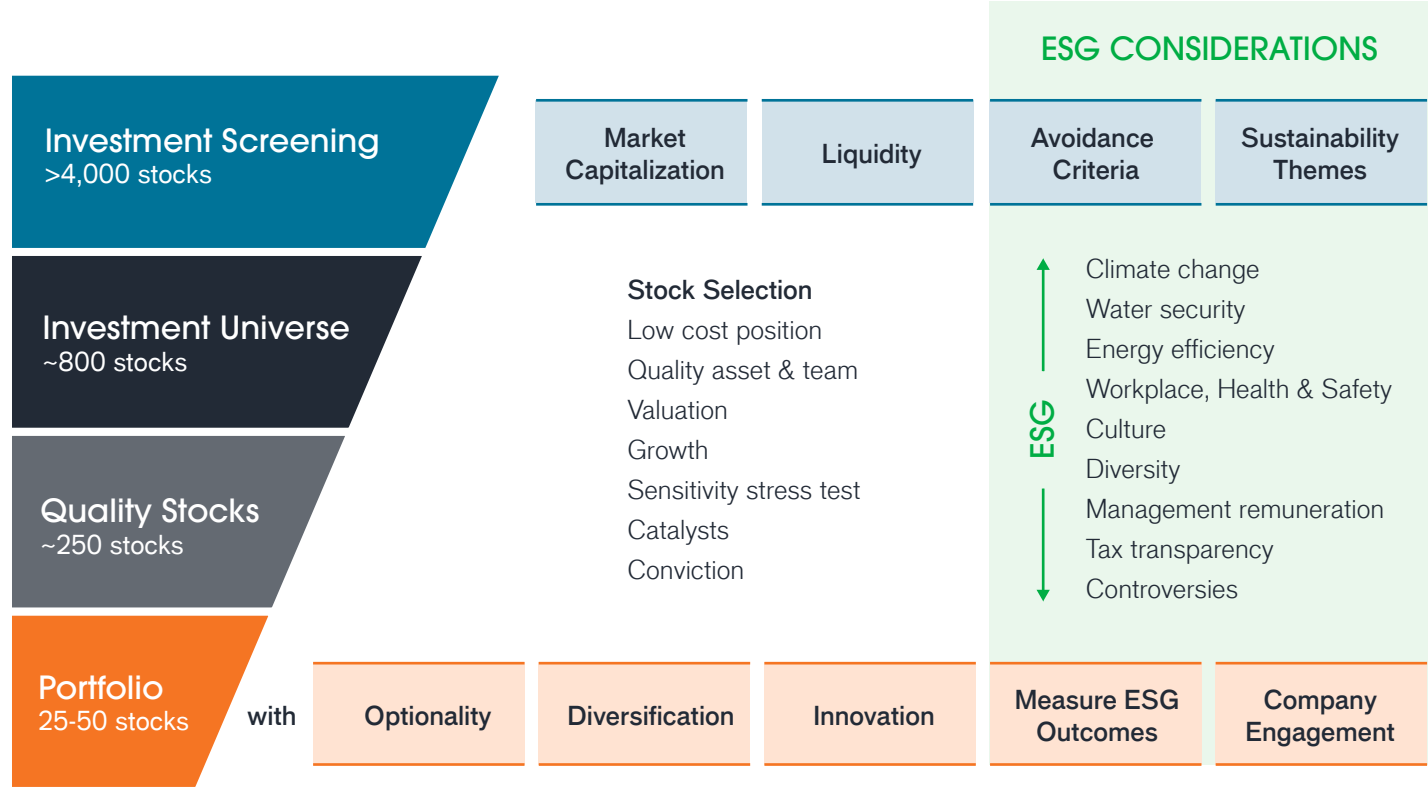
Investment philosophy

Natural resources are the essential building blocks of daily life and continue to underpin our economic and social progress. However, these sectors have potentially high environmental and social impacts associated with their extraction, production, manufacture and distribution. The team believes that sustainable natural resource companies have a key role to play in supporting the transition to a more sustainable and low-carbon economy. In our view, companies that adhere to sustainable practices are best prepared for the future and are therefore more likely to deliver attractive, risk-adjusted returns. In-line with this view, environmental, social and governance (ESG) considerations are embedded in our investment process.

Our core belief is that a global investment approach focused on high-quality mining, energy, agricultural, industrial & utility assets, combined with specialist natural resources investment and industry expertise, is the key to generating attractive investment returns over the long term. The team’s global approach improves the chance of early identification of profitable resource investment trends and pricing inefficiencies across multiple markets. Furthermore, a broad perspective that incorporates companies across the entire natural resources supply chain allows the team to take advantage of cyclical pricing power shifts between upstream and downstream sectors and across a range of industries and companies.

Active fundamental investment process integrating ESG factors

The strategy is actively managed using a fundamental bottom-up stock selection process.



RESEARCH FOCUS

- **Thematic:** Identify companies exposed to positive secular themes
- **Technical:** Focus on the quality of the product, resource or project to identify companies with outstanding advantages
- **Catalyst:** Focus on important valuation catalyst events
- **Differentiation:** Business models or projects that are “outliers” in terms of overall economic return

Aiming to generate alpha from sustainable secular themes


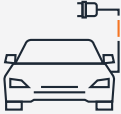



Screening: The investment universe is reduced by the application of negative and positive filters based on avoidance criteria and sustainability themes.

Negative screening: We exclude certain activities such as fossil fuel production and may also exclude companies that underperform on sustainability metrics or do not show a commitment by management to improve. In this regard, the investment manager excludes investment in companies that derive more than 10% of their revenue from the production of fossil fuels (oil production and thermal coal).

Positive screening: Also referred to as “idea generation,” “thematic framework” or “positive selection criteria,” our assessment of companies via positive screening involves determining whether they contribute to our sustainability themes. This assessment is based on the way the company is run and the ESG impact of the products and/or services the company offers. It is quantitative and qualitative in nature and involves assessment of the life cycle of the product or service.

We have developed a formal taxonomy to take the major theme of decarbonization and break it down into a more manageable framework consisting of five high-level sustainability groups: energy transition, sustainable mobility, sustainable industry, sustainable agribusiness and carbon reduction. These consist of investable subthemes and resources sub-industries. It is expected that the subthemes may overlap and will change over time.

SUSTAINABILITY GROUPS

| ENERGY TRANSITION | SUSTAINABLE MOBILITY | SUSTAINABLE INDUSTRY | SUSTAINABLE AGRIBUSINESS | CARBON REDUCTION |
|--|--|--|--|---|
|  |  |  |  |  |
| <ul style="list-style-type: none"> ▶ Resource Enablers ▶ Renewable Energy ▶ Energy Storage ▶ Waste To Energy ▶ Hydrogen ▶ Grid / Power Generation ▶ Energy Services ▶ Fuel Cells | <ul style="list-style-type: none"> ▶ Low Carbon Transport ▶ Batteries ▶ EV Metals | <ul style="list-style-type: none"> ▶ Circular Economy / Recycling ▶ Industrial Gases ▶ Plastic Replacement ▶ Waste Reduction ▶ Construction | <ul style="list-style-type: none"> ▶ Alternative Protein ▶ Sustainable Farms ▶ Low Carbon Food ▶ Precision Farming ▶ Nutrition ▶ Water ▶ Fertiliser | <ul style="list-style-type: none"> ▶ Reforestation ▶ Carbon Pricing ▶ Carbon Capture Utilization and Storage |

Example opportunities within our sustainability groups:



ENERGY TRANSITION - RENEWABLE ENERGY

We believe that the switch from fossil fuels to renewables is the single biggest contributor to carbon reduction. The economics speak for themselves, with the Levelized Cost of Energy (LCE) now cheaper than coal in many instances and with renewable facilities no longer being subsidized. The team expects to see vastly more offshore wind, solar and hydroelectric facilities driving decarbonization of the power grid and accelerate the move into zero carbon hydrogen. In turn, this will support the next generation of carbon reduction from the industrial sector, through the production of green hydrogen for utilization in hard-to-abate sectors such as steel, chemicals and cement. Servicing of such facilities will emerge as a major new business opportunity. Companies specializing in the construction of turbines and the logistics of getting them transported and erected may generate robust returns over time.



SUSTAINABLE MOBILITY - RESOURCE ENABLERS

The products produced by resource enablers – whether copper, nickel, lithium, steel or aluminum – are the backbone of the technology used to implement decarbonization. The economics for these companies are strong. If a quicker take-up of renewables and electronic vehicles (EVs) occurs, then there is a risk to resource security of supply and we could see many years of elevated commodity prices and excess returns, as there is little in the way of direct substitution. There is also a threat that materials could be sourced from countries with low environmental standards and poor labor practices.



SUSTAINABLE INDUSTRY - CIRCULAR ECONOMY/RECYCLING

Companies that use high levels of recycled material in their production processes already make a significant contribution to carbon avoidance by virtue of using less energy and hence less carbon emissions per unit produced. As collection rates lift, the rate of recycled product usage lifts. As recyclers increasingly use renewable energy as their primary source, product weight is reduced and yield increases. Thus the carbon avoided through recycling is set to accelerate. Furthermore, new technology means that recycled steel can increasingly be used in high value areas such as autos. For example, blockchain will make it easier to recycle aluminum or steel that has already been manufactured using green sources of energy.



SUSTAINABLE AGRIBUSINESS – FARMS, NUTRITION

Agribusiness has a huge role to play in decarbonization, but at a somewhat slower pace. On the negative side, the carbon emitted by the beef industry is a factor of 10 times higher than some fish alternatives and 100 times higher than legumes. There is a massive incentive to change, however, driven in part by people's eating behaviors, due not only to the environmental impact but to animal welfare and health considerations as well. Furthermore, there is a growing realization that carbon emissions can be minimized via improved land management, including less land clearing. There could also be massive gains from soil carbon sequestration. Over time, changes in eating behaviors in the West and active programs to improve nutrition in developing countries should lead to significant reductions in carbon emissions. Additionally, changes in farm management and crop rotation as well as more focused application of the right mix of fertilizer is being facilitated by new technology such as digitization and artificial intelligence. Increased pressure on the availability of arable land coupled with a need to plant more forestry suggests that fertilizer will continue to be key to producing the amount of food needed as the global population grows toward 10 billion.



CARBON REDUCTION – FORESTRY

The impact of carbon reduction by the forestry sector is two-fold. First there is the carbon absorbed by trees as forests mature. Second, there are benefits from the substitution of wood products for alternatives such as concrete, steel or aluminum. New technology is enabling forestry companies to come up with ways to fully use wood products. This includes finding ways to produce renewable glues and solvents to replace fossil fuel-based products. Asset values are likely to increase as more trees are planted and more carbon is sequestered at the same time as the value of carbon credits increase.

Stock selection

Stock selection is structured to consider competitive operating costs/margins, quality, valuation and growth, and considers ESG factors throughout. It incorporates stress testing and identification of investment catalysts.

The investment universe of several thousand companies is screened to develop a quality watch list of typically several hundred companies for potential portfolio inclusion.

- **Low-cost position:** Cost curves and margin analysis screen out high operating-cost companies. Only companies within the lower half of comparable global operating costs or above average margin move to the next stage of stock selection.
- **Quality Asset and Management:** A quality screen enables the team to seek companies with compelling advantages. Quality parameters include ROE, ESG quality, balance sheet and financial strength quality, location and availability of infrastructure, capital allocation history and appraised management quality.
- **Valuation:** Net present value (NPV) discounted cash flow analysis, dividend yield and multiple basis analysis are the key valuation tools.
- **Growth potential:** Screens incorporate organic production and earnings growth forecasts using four key screens: production growth, reserve/resource growth, earnings per share growth and cash flow per share growth.
- **Sensitivity Stress Test:** Assumptions in valuations are flexed through commodity price, exchange rate and production volume assumptions to determine risk and reward potential.
- **Catalysts:** New orders, exploration success, resource definition, completion of feasibility studies, financing by debt and equity providers, and the commissioning of new capacity are often catalysts for stock re-ratings, along with progress made against ESG targets, including carbon reductions.
- **Conviction:** The key reasons for owning a stock and ensuring that there is a high-level of insight about the environmental, social and governance issues. We consider the key issues in our industries to be governance, workplace health and safety, climate change and protecting and enhancing a company's reputation and social license to operate and grow.

Sustainability defined: “Providing for the needs of today without sacrificing the needs of tomorrow.”

As long-term, active investors, we believe that natural resource companies that understand that their social license to operate and grow does not come at the expense of long-term detrimental effects to the environment and society are likely to be better prepared for the future and demonstrate attractive shareholder returns over the longer term.

Natural resources are the essential building blocks of daily life and continue to underpin our economic and social progress. We acknowledge that these sectors have potentially high environmental and social impacts associated with their extraction, production, manufacture and distribution.

However, we also believe that sustainable natural resource companies have a key role to play in supporting the transition to a more sustainable and low-carbon economy. A good example is the deployment of renewable energy technologies (e.g., solar, wind, battery storage and electric vehicles) on a large scale, which will require significantly larger amounts of minerals such as copper, aluminum, nickel, lithium, and cobalt. We recognize community and government expectations of sustainability issues are continually evolving, and through our research, engagement, Socially Responsible Investment team and ESG research providers, we aim to keep abreast of these changes to ensure we meet or exceed recognized global standards.

Our belief is that key areas of concern and performance need to be identified, monitored and measured actively with the companies in our portfolios and within our investment process. We believe that companies that adhere to sustainable practices are likely to be best prepared for the future and will tend to deliver attractive risk-adjusted returns. Our investment decision-making, engagement and ownership activities will be informed by internationally recognized standards, quality external sector/thematic research and company-level ESG performance data.



ESG - Consideration of non-financial factors

As an investor operating across the mining, energy and agricultural sectors, the consideration of material ESG factors is critical. ESG factors put value at stake – both risks and opportunities – and therefore their consideration is integral to exercising our fiduciary duty. We also believe a responsible, active investment approach toward ESG provides us with a competitive advantage and contributes to the creation of investor value and attractive risk-adjusted investment returns over the long term.

Based on the Team's collective experience analyzing and investing in natural resource stocks, we believe there are four material ESG drivers in the natural resource sector over the long term:

1. GOVERNANCE

Corporate governance is a means by which companies achieve long-term business success. We attach particular importance to the assessment of corporate culture, values, business strategy, board composition and diversity, tax transparency, audit, controls and remuneration.

2. WORKPLACE HEALTH AND SAFETY

Companies must place high priority on the safety of employees and contractors.

3. CLIMATE CHANGE

Climate change is a material issue for our society and has particular significance for natural resource assets as society moves to a low-carbon economy, including:

- Transitional risks and opportunities (e.g., policy, regulation, technology)
- Physical impacts of extreme weather events (e.g., flooding, heating, drought, etc.)

4. PROTECTING AND ENHANCING A COMPANY'S REPUTATION AND SOCIAL LICENSE TO OPERATE AND GROW

In addition to the above broad value drivers, we have also identified a number of sector-specific ESG drivers that help guide our decision making (see Annexure 1).

Screening and performance thresholds

In keeping with our responsible investment principles outlined above, our assessment of the longer-term ESG trends and potential impacts on company valuations, the following screens and performance thresholds currently guide our investment decision making and active ownership activities. Our preferred approach is "best of sector," however, where appropriate, we also consider specific screens and/or performance thresholds. As owners, we seek to engage with companies on material ESG issues that may adversely impact company valuation, but we may consider divestment in cases where no improvement is being made.

As part of our investment screening process, we seek to identify and screen out the following types of companies and activities:

1. Companies that have a public record of repeated breaches of internationally and locally recognized:
 - a. human rights and labor standards and norms of behavior, including modern slavery and native title rights;
 - b. environmental standards and regulations, including biodiversity, water, pollution, and deforestation; and
 - c. generally accepted corporate governance standards, adjusted for smaller organizations where appropriate.
2. Activities in, or that have direct significant adverse impacts on, internationally recognized high conservation value areas, including UNESCO (The United Nations Educational, Scientific and Cultural Organization, World Heritage Sites) and Ramsar (The Convention on Wetlands) sites.
3. Water intensive activities that occur in areas of high water stress as defined by the internationally recognized agencies.

Strategy specific exclusions

Where possible, we will seek to achieve zero exposure with respect to the avoidance criteria. However, there may be instances when we will apply a de minimis limit. A de minimis limit is a threshold above which investment will not be made and relates to the scope of a company's business activity. The limit may be quantitative (i.e., expressed as a percentage of a company's revenues), or may involve a more qualitative assessment. De minimis limits exist because sometimes avoiding an industry entirely may not be feasible given the complex nature of business operations.

In such instances, we will invest in a company only if we are satisfied that the avoided activity forms a small part of the company's business, and when our research shows that the company manages the activity in line with best practices.

When the activity relates to a company's revenues, we use a 10% threshold, unless otherwise stated. When the activity relates to a company's operations, we will seek to gain comfort that the company is taking action to improve its performance or is managing it in an exemplary fashion. Any company with a persistent record of misconduct will be excluded unless there is unmistakable evidence of considerable progress.

| We seek to avoid businesses that have products or operations directly associated with the following criteria: | | De minimis threshold |
|---|--|----------------------|
| Alcohol | We avoid companies involved in the production of alcohol. | 5% |
| Armaments | We avoid companies involved in the direct production of weapons. We will not invest in companies involved in the direct production of land mines, cluster munitions, biological/chemical weapons and nuclear weapons. | 5% |
| Animal testing (cosmetics) | We avoid companies that use animal testing for cosmetic purposes other in cases where required by law or regulation | 10% |
| Chemicals of concern | We avoid companies that manufacture or sell chemicals or products containing chemicals subject to bans or severe restrictions in major markets around the world. This includes microbeads, persistent organic pollutants and the manufacture of any other substances banned or restricted under international conventions. Ozone-depleting substances may be allowed in cases where the company's strategy involves a transition away from these substances. | 10% |
| Controversial fossil fuel extraction & refining | We will not invest in companies engaged in extraction of fossil fuels from oil sands, thermal coal extraction and Arctic drilling & exploration | 10% |
| Controversial fossil fuel power generation | Avoid companies who predominantly rely on thermal coal power generation without a credible plan for transition to net zero or renewable energy | 30% |
| Fur | We avoid companies involved in the sale or manufacture of animal fur products. | 5% |
| Gambling | We avoid companies with activity related to gambling. | 5% |
| Pornography | We avoid companies that publish, print or distribute newspapers or magazines or distribute films or videos classed as pornographic material. | 5% |
| Tobacco production | We avoid companies that engage in activities related to the production and sale of tobacco products. | 5% |
| UN Global Compact Violators | We avoid companies who do not meet the UN Global Compact Principles | 5% |

Portfolio construction

In the context of decarbonization, the companies of most interest are low-cost, high-margin producers, where possible, with high-quality assets and management teams and sensible debt levels as we believe they are best positioned to adapt to decarbonization. Importantly, we consider the market interplay of growth and valuation expectations, and then look for key catalysts and risks in timing and outlook to drive inclusion and sizing in the portfolio.

A key element of the strategy is the flexibility to move across the entire resource supply chain, including the exploration, production, processing and distribution of natural resources. This broader approach allows the strategy to take advantage of pricing shifts between upstream and downstream sectors and across a range of commodity industries. Weightings across sectors will vary over time, reflecting shifting value as various parts of the vertical decarbonization sector price in different scenarios. Diversification is across sub-industries and their commodity exposures, countries, company size and business asset maturity.

All four team members of the Global Natural Resources team function as Portfolio Managers, each with responsibility for analyzing companies to ensure the portfolio remains positioned in their preferred companies, while remaining alert to other considerations such as changed macro circumstances, over or underperformance, management performance, and changed debt or country risk metrics, to name a few.

Company engagement and voting

Company engagement forms an important part of the investment process. Our meetings with companies incorporate a wide range of topics, including environmental and social issues. We take an active approach to communicating our views to companies and seeking improvements in performance, including appropriate standards of corporate responsibility. Janus Henderson's Responsible Investment Policy sets out our approach to ESG issues, including proxy voting policy.

We believe that in order to achieve long-term success, companies need not only to conceive and execute appropriate business strategies but also to maintain high standards of corporate governance and corporate responsibility. We therefore expect companies to operate according to recognized national and international standards in these areas.

Annexure 1 – ESG sector drivers

Mining and processing

- Mine and rig rehabilitation – evidence of plans, provisions, regular updates
- Land conservation
- Tailings disposal – appropriateness/science, risks, monitoring and marine tailings
- Community engagement – dislocations, indigenous rights, education, small business, micro-finance
- Human / labor rights / modern slavery
- FPIC and resettlement, Indigenous / local rights
- Security
- Bribery and corruption
- Carbon emissions – trends, initiatives, offsets including renewables, risks, scenario analysis, disclosure
- Energy including infrastructure
- Water – quality, usage, rights, disposal (appropriateness/science, risks, monitoring)
- Fracking risks – leakage, seismic activity, water quality
- Uranium levels in transported material, storage and disposal
- Use of chemicals

Energy including infrastructure

- Rig and site rehabilitation – evidence of plans, provisions
- Community engagement – dislocations, indigenous rights, pipeline easements
- Water disposal – appropriateness/science, risks, monitoring, quality, usage, rights
- Carbon emissions – trends, initiatives, offsets including renewables, risks, scenario analysis
- Fracking risks – leakage, seismic activity, water quality
- Coal versus Oil and Gas
- Stranded assets (fossil fuels)
- Energy security
- Energy poverty – in Less Developed Countries
- Renewables versus fossil fuels and carbon footprint (Paris and 2 degrees)

Agriculture including food processing

- Ecosystems including bio-diversity and conservation
- Carbon emissions – trends, initiatives, offsets including renewables, risks, scenario analysis
- Carbon (land clearing, methane), carbon farming
- Land clearing, soils depletion, pollution, desertification
- Water rights / access / quality / water disposal (quality, accountability, and community costs)
- Oceans / seafood – aqua-culture, fish stock depletion, aquaponics, coral reef health, phosphate run-off and dead-zones, shipping
- Meat versus plant-based foods
- Animal welfare – on-farm, transport, abattoirs
- Feedstock sources
- Industrialization/factory farming and Animal welfare – animal husbandry, antibiotics, humane killing
- Human / labor rights / modern slavery – especially off-shore workers, fishers
- Health and well-being / junk foods / sugar / obesity
- Organics versus pesticides
- Genetically Modified Organisms (GMOs) Food security
- Waste and packaging
- Community engagement – dislocations, indigenous rights

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Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

Natural resources industries can be significantly affected by changes in natural resource supply and demand, energy and commodity prices, political and economic developments, environmental incidents, energy conservation and exploration projects.

Industrial industries can be significantly affected by general economic trends, changes in consumer sentiment, commodity prices, government regulation, import controls, and worldwide competition, and can be subject to liability for environmental damage and safety.

Actively managed portfolios may fail to produce the intended results. No investment strategy can ensure a profit or eliminate the risk of loss.

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Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Alpha compares risk-adjusted performance relative to an index. Positive alpha means outperformance on a risk-adjusted basis. **Return on equity (ROE)** The amount of income a company generates for shareholders as a percentage of the company's equity that is owned by shareholders. It is a measure of a company's profitability as it shows how much profit a company generates relative to the money shareholders have invested. **Net Present Value (NPV)** is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. **Dividend Yield** is a financial ratio that tells you the percentage of a company's share price that it pays out in dividends each year.

There is no assurance the stated objective(s) will be met.

Environmental, Social and Governance (ESG) or sustainable investing considers factors beyond traditional financial analysis. This may limit available investments and cause performance and exposures to differ from, and potentially be more concentrated in certain areas than, the broader market.

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