

JUNE 2021

# ESG INVESTMENT PRINCIPLES

Environmental, Social & Governance (ESG):

Our Active Approach to ESG, incorporating our  
Sustainability Risk Policy

---



# CONTENTS

1. Our Principles, Responsibilities & Commitment .....	1
2. ESG Oversight & Implementation .....	1
3. Investment Considerations .....	2
3.1 Equities .....	2
3.2 Fixed Income .....	2
3.3 Multi-Asset & Alternatives .....	3
3.4 Stewardship & Company Engagement .....	3
3.5 Proxy Voting .....	3
3.6 Monitoring .....	3
4. Governance & Oversight .....	3
5. Review .....	3
6. Escalation Requirements .....	4
7. References .....	4
8. Sustainable Finance Disclosure Regulation (SFDR) .....	4
9. Glossary .....	4

### 1. Our Principles, Responsibilities & Commitment

Being a global asset management organisation comes with important responsibilities. As an active manager, this means that integrating Environmental, Social and Governance (ESG) factors into our investment decision-making and ownership practices is fundamental to delivering the results clients seek. An issue as pressing as ESG investing demands active and ongoing engagement and we are committed to maintaining a focus on long-term sustainability and returns. We also recognise that the ESG investment world is evolving and we seek to partner with clients and act as a guide on that journey.

#### Defining ESG

##### Environmental

Factors include climate change, energy efficiency, resource depletion, and water and waste management

##### Social

Factors include employee and community relations, diversity, quality of life, enhancements in knowledge, and advances in supportive technology for improved sustainability.

##### Governance

Factors include mitigating risks such as bribery and corruption, questioning board diversity, executive pay, accounting standards and shareholder rights, and positively influencing corporate behaviour.

#### ESG Investment Principles for Long-Term Investment Success:

1. Investment portfolios are built with the aim of maximising long-term risk-adjusted returns for our clients.
2. Evaluation of ESG factors is a material component to achieving investment success.
3. Corporate engagement is vital to understanding and promoting sustainable business practices.
4. Investment teams should have the freedom to interpret and implement ESG factors in the way best suited to their asset class and investment strategy objective.

#### Our Commitment to Clients

Janus Henderson understands ESG investing continues to evolve and mature. We are committed to maintaining an open dialogue with our clients, shareholders, employees, industry groups, and regional regulators to ensure we continue to meet their expectations and hold true to our values as a steward of our clients' capital. This includes

listening to client needs and developing new products to meet changing requirements. It also means actively sharing the views of our managers on how they see ESG issues reshaping the investment landscape and where the risks and opportunities lie. The Janus Henderson website provides access to manager insights as well as our ESG policies, voting records and annual reports.

### 2. ESG Oversight & Implementation

As investment professionals, our first responsibility is, and always has been, to our clients' interests and goals – growing and smartly managing their capital and fulfilling our fiduciary responsibilities. In every market, client demand is also increasing for us to invest with processes that incorporate ESG and sustainability.

ESG factors are integral to how we think about risk. Among our clients, attitudes towards ESG and sustainability vary as much as risk profiles. We are respectful of this diversity of values and offer strategies and products accordingly.

As a result, we generally do not impose blanket exclusions across our portfolios. Instead, we strive to manage an investment platform with the tools and flexibility to apply exclusions to meet the spectrum of requirements of our clients. We believe our ability to have the greatest impact as active managers is through active engagement with the firms in which we invest.

ESG considerations are a key component of the active investment processes employed by our investment teams. These teams operate and are structured in ways most suited to their respective asset classes. The investment teams apply their differentiated perspectives, insight, and experience to identify sustainable business practices that can generate long-term value for investors. Commitments and accountability for the execution of ESG factors therefore rests with the relevant investment teams. Each team is responsible for articulating their specific objectives, which means that the implementation of ESG criteria is carried out at the strategy level.

We encourage and support investment teams in embedding ESG factors in their work. This support includes centralised functions, such as data management, research, investment platforms, and risk management tools:

- **Internal Research Platform:** Investment teams are responsible for sharing relevant ESG research produced in-house by analysts across a centralised research platform.
- **ESG – Investments Team:** A specialised group focused on governance and stewardship, ESG investment research, and ESG strategy and development. The team's mission is to promote ESG integration across Janus Henderson and serve as a resource for all investment teams.

- **ESG Risk Reporting:** ESG data is incorporated into our risk reporting tools, covering issues such as exposure to companies with low ESG ratings, controversies, weak corporate governance, and climate risk.
- **ESG Research, Data, and Ratings:** Janus Henderson subscribes to a broad range of external ESG information providers and makes this information available directly to the investment teams.

## 3. Investment Considerations

The analysis of ESG factors is an important component across Janus Henderson's investment capabilities that utilise a fundamental research process. Blending quantitative financial analysis with a qualitative evaluation, including any potential impact from ESG factors, helps investment teams make a more informed assessment of the intrinsic value of a security.

### 3.1 Equities

When employing fundamental security analysis, investment teams take a long-term view, seeking to identify companies differentiated by their sustainable competitive advantage, strong earnings potential, and shareholder-friendly management teams. As investment teams understand all drivers of company performance, they should also understand the risks. An evaluation of ESG factors is a component of the spectrum of risks considered.

Governance is a key part of fundamental analysis with good corporate governance supportive of long-term decision-making and investment returns. The interpretation of environmental and social factors can vary in importance depending on the sector and geographic region in which a company operates. Nonetheless, each ESG factor, in addition to the quantitative and qualitative assessments, are important considerations to calculating the opportunity in an equity investment.

Fundamental factors to consider vary by strategy, and may include:

<b>Financial analysis</b>	Capital Structure, Balance Sheet Strength, Revenue Growth, Free Cash Flow, Earnings Growth, Return on Invested Capital, Leverage Ratios
<b>Qualitative evaluation</b>	Executive Management, Business Model, Industry Growth, Barriers to Entry, Competitive Strength, Product Cycle, Macro Cycle
<b>Environmental</b>	Sustainable Sourcing, Emissions, Water Usage, Energy Dependency, Regulatory Impact, Waste Management

<b>Social</b>	Labour Practices, Data Privacy, Workplace Safety, Supply Chain Standards, Diversity, Community Action, Customer Support
<b>Governance</b>	Accounting Standards, Shareholder Rights, Voting Structure, Transparency, Compensation, Board Independence
<b>Valuation</b>	Discounted Cash Flow, Sum of the Parts, Dividend Payout, Price to Earnings, Price to Book, Free Cash Flow Yield, Enterprise Value/EBITDA (earnings before interest, taxes, depreciation, amortisation)

### 3.2 Fixed Income

Janus Henderson's fixed income investment philosophy is built on the belief that rigorous analysis of ESG factors can enhance risk-adjusted returns by reducing investment risk and unlocking opportunities.

Our ESG process blends top-down thematic research with bottom-up assessment and proactive engagement with issuers. The output of our proprietary ESG analysis is an in-house ESG rating for the issuers our credit teams invest in. These are shared globally across the fixed income platform.

Robust ESG analysis is not simply a matter of evaluating a company's products and services, but also its sustainability, conduct, corporate governance, and other considerations applicable to running the business. Analysis must evaluate a company's ESG disclosures as well as its forward-looking strategy. Investment decisions based only on backward-looking ESG metrics is sub-optimal. Janus Henderson adopts a forward-looking, dynamic approach to consider ESG risks and opportunities, allowing the investment team to better understand the potential consequences and the likely response from credit borrowers. This is why the investment teams conduct proprietary ESG analysis and integrate it into their recommendations and processes. The views of the broader responsible investment resources within Janus Henderson, fixed income research teams, and a variety of third-party tools are incorporated into this analysis.

Investment teams assess the materiality of an issuer's ESG risks, but also focus on the underlying trends. An improving company is a potential outperformer. A company with material risks and deteriorating trends should be avoided or divested. A pragmatic trends-based approach is how investment teams prefer to implement an ESG policy, rather than rely on blanket exclusion lists. Engagement allows teams to corroborate whether an issuer is willing and able to navigate material risks. The investment teams inform companies that ESG issues are an important factor in their fundamental analysis and, therefore, their appetite to invest.

### 3.3 Multi-Asset & Alternatives

Janus Henderson manages a wide range of multi-asset solutions that offer clients a variety of outcomes. The implementation of ESG analysis in this group of strategies depends on the method of investment selection and portfolio construction. Our teams combine traditional financial metrics together with non-financial ESG factors to support effective decision-making. These considerations help the team mitigate risk and make better informed decisions on behalf of clients, with the aim to enhance value. Key principles that form a cornerstone to the teams' ESG integration are:

**Active Ownership:** As active investors, Janus Henderson regards voting and engagement as a means of promoting strong governance, accountability, and management of relevant ESG issues.

**Risk Management:** Financial risk and ESG risk are two sides of the same coin. Therefore, in analysing investment opportunities, the teams focus on any material ESG risks, which are those that are reasonably likely to impact the financial condition or operating performance of the investment.

**Investment Opportunities:** In addition to mitigating risks, there are clearly interesting investment opportunities and the Multi-Asset and Alternative teams assess these in accordance with their individual processes and objectives.

### 3.4 Stewardship & Company Engagement

Stewardship is an integral and natural part of Janus Henderson's long-term, active approach to investment management. Strong ownership practices, such as management engagement and proxy voting, can help protect and enhance long-term shareholder value. We support a number of stewardship codes, such as the UK and Japanese stewardship codes, and broader initiatives around the world including the UN Principles for Responsible Investment.

Investment teams naturally develop long-term relationships with the management of firms in which they invest. Should concerns arise over a firm's practices or performance, investment teams seek to leverage these constructive relationships by engaging with company management or expressing views through voting on management or shareholder proposals. Escalation of engagement activities depends upon a company's individual circumstances.

### 3.5 Proxy Voting

Corporate governance regimes vary significantly as a function of factors such as the relevant legal system, extent of shareholder rights, and level of dispersed ownership. Janus Henderson varies its voting and engagement activities according to the market and pays close attention to local market codes of best practice. However, we consider certain core principles to be universal:

- Disclosure and transparency
- Board responsibilities
- Shareholder rights
- Audit and internal controls

A key element of our approach to proxy voting is to support these principles and to foster the long-term interests of clients.

Janus Henderson also recognises that, in some instances, joint action by shareholders has the potential to be more effective than acting alone. This is especially true when shareholders have a clear common interest. Where appropriate, we pro-actively collaborate with other investors on governance and wider environmental and social engagement issues, directly and through industry bodies.

Janus Henderson has a Proxy Voting Committee, which is responsible for positions on major voting issues and creating guidelines overseeing the voting process. The Committee is comprised of representatives of investment portfolio management, corporate governance, accounting, legal and compliance. Additionally, the Proxy Voting Committee is responsible for monitoring and resolving possible conflicts of interest with respect to proxy voting. Public links to our voting records are available on company websites in applicable jurisdictions.

### 3.6 Monitoring

Janus Henderson's investment teams define and regularly review their ESG priorities. These are included in fund disclosures and reviewed by centralised risk management, with specialised technical support provided by the ESG team and monitoring provided by Compliance.

## 4. Governance & Oversight

Janus Henderson's ESG Investment Steering Committee oversees the integration of ESG into our investment activities. This group is made up of senior investment leaders from across the organisation, with oversight from the Global Chief Investment Officer.

The Front Office Governance and Risk Committee is ultimately responsible for front office policies and procedures, including sustainability risks and the integration of sustainability risks into investment decision making.

## 5. Review

This policy will be reviewed on at least an annual basis or as and when required.



## 6. Escalation Requirements

Violations of any company policy must be reported immediately upon detection by employees via the incident management form within the governance, risk management and compliance system. Anonymous reports can also be made by employees calling a toll-free hotline. Failure by employees to report policy violations may lead to appropriate disciplinary action.

## 7. References

Janus Henderson maintains other policies and documentation related to ESG and sustainability, including:

- ESG Corporate Statement
- Impact Report
- Diversity & Inclusion Report
- Annual ESG Company Engagement & Voting Review
- Proxy Voting Policy and Procedures
- Fund disclosures

Additional information, including our ESG Corporate Statement, can be found on [janushenderson.com](https://janushenderson.com).

## 8. Sustainable Finance Disclosure Regulation (SFDR)

This document also sets out Janus Henderson's policies with respect to the integration of sustainability risks in its

investment decision-making process for funds domiciled and marketed in the European Union ("EU") and for segregated mandates contracting with Henderson Management Société Anonyme (HMSA), or where the client is domiciled in the EU, as required by Article 3 of the EU Sustainable Finance Disclosure Regulation ("SFDR").

The external harm of investments is covered by a separate regime under SFDR, which considers the principal adverse impacts of a firm's investment decisions on sustainability factors. Further information on the extent to which Janus Henderson is compliant with the principal adverse impact rules under Article 4 of SFDR can be found on [janushenderson.com](https://janushenderson.com).

## 9. Glossary

**Price-to-book ratio:** Calculated by dividing a company's market value (share price) by the book value of its equity (value of the company's assets on its balance sheet).

**Price-to-earnings (P/E) ratio:** Used to value a company's shares, calculated by dividing the current share price by its earnings per share.

**Free cash flow (FCF):** FCF is cash that a company generates after allowing for day-to-day running expenses and capital expenditure. It can then use the cash to make purchases, pay dividends or reduce debt. FCF yield compares the expected FCF per share against its market value per share.

FOR MORE INFORMATION, PLEASE VISIT [JANUSHENDERSON.COM](https://JANUSHENDERSON.COM)

**Janus Henderson**  
INVESTORS

### Important information:

The views presented are as of the date published. They are for information purposes only and should not be used or construed as investment, legal or tax advice or as an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell or hold any security, investment strategy or market sector. Nothing in this material shall be deemed to be a direct or indirect provision of investment management services specific to any client requirements. Opinions and examples are meant as an illustration of broader themes, are not an indication of trading intent, are subject to change and may not reflect the views of others in the organization. It is not intended to indicate or imply that any illustration/example mentioned is now or was ever held in any portfolio. No forecasts can be guaranteed and there is no guarantee that the information supplied is complete or timely, nor are there any warranties with regard to the results obtained from its use. Janus Henderson Investors is the source of data unless otherwise indicated, and has reasonable belief to rely on information and data sourced from third parties. **Past performance is no guarantee of future results. Investing involves risk, including the possible loss of principal and fluctuation of value.**

Not all products or services are available in all jurisdictions. This material or information contained in it may be restricted by law, may not be reproduced or referred to without express written permission or used in any jurisdiction or circumstance in which its use would be unlawful. Janus Henderson is not responsible for any unlawful distribution of this material to any third parties, in whole or in part. The contents of this material have not been approved or endorsed by any regulatory agency.

Janus Henderson Investors is the name under which investment products and services are provided by the entities identified in the following jurisdictions: (a) **Europe** by Janus Capital International Limited (reg no. 3594615), Henderson Global Investors Limited (reg. no. 906355), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Equity Partners Limited (reg. no. 2606646), (each registered in England and Wales at 201 Bishopsgate, London EC2M 3AE and regulated by the Financial Conduct Authority) and Henderson Management S.A. (reg no. B22848 at 2 Rue de Bitbourg, L-1273, Luxembourg and regulated by the Commission de Surveillance du Secteur Financier); (b) the **U.S.** by SEC registered investment advisers that are subsidiaries of Janus Henderson Group plc; (c) **Canada** through Janus Capital Management LLC only to institutional investors in certain jurisdictions; (d) **Singapore** by Janus Henderson Investors (Singapore) Limited (Co. registration no. 199700782N). This advertisement or publication has not been reviewed by Monetary Authority of Singapore; (e) **Hong Kong** by Janus Henderson Investors Hong Kong Limited. This material has not been reviewed by the Securities and Futures Commission of Hong Kong; (f) **Taiwan R.O.C** by Janus Henderson Investors Taiwan Limited (independently operated), Suite 45 A-1, Taipei 101 Tower, No. 7, Sec. 5, Xin Yi Road, Taipei (110). Tel: (02) 8101-1001. Approved SICE licence number 023, issued in 2018 by Financial Supervisory Commission; (g) **South Korea** by Janus Henderson Investors (Singapore) Limited only to Qualified Professional Investors (as defined in the Financial Investment Services and Capital Market Act and its sub-regulations); (h) **Japan** by Janus Henderson Investors (Japan) Limited, regulated by Financial Services Agency and registered as a Financial Instruments Firm conducting Investment Management Business, Investment Advisory and Agency Business and Type II Financial Instruments Business; (i) **Australia and New Zealand** by Janus Henderson Investors (Australia) Limited (ABN 47 124 279 518) and its related bodies corporate including Janus Henderson Investors (Australia) Institutional Funds Management Limited (ABN 16 165 119 531, AFSL 444266) and Janus Henderson Investors (Australia) Funds Management Limited (ABN 43 164 177 244, AFSL 444268); (j) the **Middle East** by Janus Capital International Limited, regulated by the Dubai Financial Services Authority as a Representative Office. No transactions will be concluded in the Middle East and any enquiries should be made to Janus Henderson. We may record telephone calls for our mutual protection, to improve customer service and for regulatory record keeping purposes.

**Outside of the U.S.:** For promotional purposes.

Janus Henderson, Janus, Henderson, Perkins, Intech, Knowledge Shared and Knowledge Labs are trademarks of Janus Henderson Group plc or one of its subsidiaries. © Janus Henderson Group plc.