Janus Henderson
INVESTORS

2021 ESG COMPANY ENGAGEMENT & VOTING REVIEW

Environmental, Social & Governance (ESG)

INTRODUCTION

Janus Henderson Investors is a leading global active investment manager committed to helping our clients achieve their long-term financial goals. We seek to be at the forefront of anticipating and adapting to change to deliver long-term, market-leading, risk-adjusted returns. That commitment includes a focus on managing our business and clients' assets in support of long-term sustainable business practices.

In line with our **Knowledge Shared** ethos, we seek to provide transparency of this approach and share investment insights to support our clients in meeting their goals. This report provides an overview of work undertaken on environmental, social and governance (ESG) engagement across the firm in 2021, and shared on our internal research platform, as well as a summary of proxy voting activity.

Voting examples within the report are based on all portfolios where Janus Henderson's portfolio managers have voting authority and where the voting position was the same across all portfolios. Subsidiaries of Janus Henderson are not included within the report's findings.

ESG Engagement on the Janus Henderson Research Platform

Stewardship is an integral part of Janus Henderson's long-term, active approach to investment management. Strong ownership practices such as company management engagement can help enhance long-term shareholder value. As long-term active investors, we regard voting and engagement as a means of promoting strong corporate governance, accountability and management of relevant environmental, social and governance (ESG) issues. This report provides an overview of work undertaken on ESG engagement across the firm in 2021, and shared on our internal research platform, as well as a summary of proxy voting activity.

The Governance & Stewardship Team support the investment teams on relevant ESG issues and developing stewardship themes. Above and beyond the expectation that investment teams incorporate ESG considerations in issuer engagement as appropriate to the respective strategy and individual circumstances.

The Governance & Stewardship Team also engages on relevant and emerging themes, such as access to medicines, human rights and other pertinent issues.

We support a number of stewardship codes, such as the UK stewardship code, and broader initiatives around the world including the UN Principles for Responsible Investment. In 2021, we successfully became a signatory to the Financial Conduct Authority's UK Stewardship Code, regarded as a benchmark in investment stewardship.

2021 Highlights

- Recorded more than 1,000 engagements with over 680 companies where ESG topics were part of the discussion
- Participated in several collective engagements with industry peers, including the Access to Medicine Index initiative and the Mining and Trailing Dam Safety initiative
- Conducted engagements across a wide range of E, S and G topics:

ENVIRONMENTAL THEMES	SOCIAL THEMES	GOVERNANCE THEMES
*Climate Change – Energy Transition	*Human Capital	*Shareholder Rights
*Climate Change – Emissions / Energy Efficiency	*Diversity, Equity & Inclusion	*ESG Reporting & Disclosure
*Recycling / Plastic / Packaging Waste	*Communities	*Executive Compensation
Land Use & Biodiversity	Supply Chain / Human Rights	Board Composition / Diversity
Real Estate Sustainability	Consumer & Products	Audit & Accounting
Water	Data Security & Privacy	Management Change / Succession Planning
Green Bonds / Green Financing	Nutrition & Health	Business Ethics & Culture
Sustainable Design & Products	Access to Medicine	Board Oversight of ESG

*Most discussed themes with companies during 2021.
Source: Janus Henderson as at 31 December 2021.

Engagement Summary

As a responsible steward of capital, Janus Henderson aims to maximise long-term value for our investors. We are committed to engaging and voting proxies as ways of enhancing value, including by encouraging issuers to mitigate material ESG risks as appropriate.

Below is a summary of the main engagements our investment teams have conducted across an array of ESG themes in 2021.

Environmental Engagements

Climate Change – Energy Transition

How companies are supporting the energy transition by decarbonising their operations and supply chain, and positioning themselves to benefit from the low-carbon economy has been at the forefront of many of our company engagements. In markets such as Europe, where regulatory change is most pressing, this is a frequent engagement topic. In 2021, we met with companies in the mining, steel, oil and gas, and engineering sectors, to discuss pathways to decarbonise in line with regulatory and societal expectations.

Many company discussions focused on opportunities to lead on innovative solutions like hydrogen production, green steelmaking, electrifying truck fleets, and building electrolyser and renewables equipment. A common theme discussed was how companies are shifting capital allocation to future technologies to become diversified resources and energy companies.

In contrast to an exclusionary approach, many investment teams seek to invest in companies that present credible decarbonisation strategies. For example, steel is one of the most recyclable materials on earth, yet due to lack of scrap availability, steelmaking continues to rely heavily on the conversion of iron ore, which is a very carbon intensive process. Each tonne of steel produced from iron ore generates around 2.3 tonnes of CO_2 due to the energy required in the process. We engaged with steelmakers on their decarbonisation strategy, focusing on:

1. Smart carbon – including technologies such as carbon capture, storage and re-use, and the replacement of coking coal with bioenergy sources
2. Green hydrogen – Hydrogen from renewable energy sources used in the direct reducing iron (DRI) process. The cost implications of this are very significant – firstly to convert steelmaking sites, but more importantly to establish the shared clean energy infrastructure in society that will be required to decarbonise steel, cement, heating, transport and other sources of emissions.

How these transitioning industries operate within the changing European regulatory environment was frequently discussed, including carbon hedging policies and potential European Union (EU) policy support (e.g. carbon border taxes on steel imports and contracts for difference) to help steelmakers to reduce operating expenditure. If an EU-based company imports a tonne of steel from a country that does not have an established carbon pricing mechanism, such as the EU's emissions trading system (ETS), then the producer of that imported steel is at a cost advantage compared to domestic EU steelmakers who have to pay for their emissions. This is commonly known as "carbon leakage" and risks undermining the profitability of the EU's steel industry and preventing investment in decarbonisation technologies. Accounting for carbon could reverse the EU steel industry's economic erosion from cheap imports over the last decade, transforming margin volatility and the industry's ability to invest in decarbonisation.

The aviation industry is an increasing focus for policymakers seeking to cut carbon emissions. Prior to the COVID-19 pandemic, aviation contributed approximately 2% of global CO_2 emissions. However, if emissions growth continues at the historical rate, aviation carbon emissions would triple by 2050. The International Air Transport Association (IATA) has signed a resolution to achieve net-zero carbon emissions by 2050, with a plan that will abate a total of 21.2 gigatons of carbon between now and 2050.

The most effective way for airlines to reduce total emissions is investing in more efficient aircraft and new technology provided by the aerospace supply chain. Developing products that offer superior environmental performance versus competitors will potentially become a significant advantage for suppliers in the marketplace and will ultimately impact financial performance.

Today, the aviation industry is concentrating its focus on engine technology and sustainable fuels as a primary way to cut emissions and enable customers to reduce their overall climate impact. Our conversations with airlines focused on the growth of sustainable aviation fuel (SAF), and how airlines were partnering with energy companies to accelerate this production. SAFs are a substitute for kerosene and are produced from sustainable feedstock (used cooking oils, animal fats, crop residues amongst others). They are referred to as 'drop-in' fuels as they can be safely blended with existing fossil fuels. SAFs are considered net zero, not zero carbon, but they offer major life-cycle carbon reduction (up to 90%). The primary challenge with SAFs is production capacity, with less than 1% of annual aviation fuel provided by SAFs. Scale is limited by the availability of feedstocks, the cost (currently three to eight times more than kerosene) and the complex and expensive plant infrastructure needed to produce it.

Carbon capture, utilisation and storage (CCUS) initiatives are an increasing topic of conversation with issuers, and we also met with dedicated carbon capture businesses to discuss technological progress, business model/strategy and regulatory tailwinds.

Climate Change – Emissions / Energy Efficiency

We engaged with numerous companies across different sectors on encouraging improvements to disclosure of carbon emissions, particularly scope 3 indirect emissions that occur in a company's value chain. Given the high prominence of climate change issues, companies were usually very responsive to our recommendations on enhancements to data collection, monitoring and disclosure. Where possible we shared peer comparisons and best industry practices. This topic is receiving a lot of regulatory attention and therefore is a productive area of engagement in terms of changes implemented over time.

For companies that have set net zero targets, engagement frequently focused on how targets have been determined and how the goals will be met. Scope 1 (direct emissions from owned or controlled sources) and scope 2 (indirect emissions from the generation of purchased electricity, steam, heating and cooling used by the reporting company) targets are more in a company's control and are frequently associated with operational efficiencies. However, scope 3 reduction plans are often reliant on business partners and companies need to incentivise suppliers to cut emissions. Active discussions and action plans are often needed across product types and regions in order to realistically meet these targets.

As part of our engagements, we frequently encourage companies to adopt best practice standards. These include participation in the Carbon Disclosure Project (CDP), work with third parties to conduct physical and transition climate risk assessments and scenario analyses, Task Force on Climate-related Financial Disclosures (TCFD) reporting, and alignment with the Science Based Targets initiative (SBTi) or equivalent.

Recycling/Plastics/Sustainable Design

A common engagement topic with consumer goods companies was efforts to improve recycling and reduce packaging and waste. For example, we engaged with a leader in aluminium recycling to understand its collection and recycling rates, the source of its scrap aluminium and the balance of non-scrap aluminium. On average, for every tonne of aluminium produced there is about 15 tonnes of CO_2 emitted. This can range from high emissions in excess of 20 tonnes from energy sourced from coal to less than 4 tonnes using hydro-sourced energy.

We also engaged with a consumer goods company on inventory management and supply chain efforts to use fewer virgin materials and be more circular.

Recycling is a key issue for beverage companies, especially for those operating across different markets with complex regulatory requirements. For example, companies operating in India cannot use recycled bottles for their beverage products due to Indian law banning the use of recycled Polyethylene terephthalate (PET) for food grade items. One company we engaged with is investing in technology to add a silica layer to prevent its product from contact with recycled plastic and expects the government to approve the use of recycled plastic in the next one to two years in the hope of building a closed loop recycling system in the country.

CASE STUDY:

Cosmetics industry engagements

The beauty industry has been increasingly focused on transitioning its product range to more sustainable products. We carried out a thematic engagement with cosmetics companies to explore how they are approaching sustainability with the aim of understanding which companies are catering to the growing 'clean' beauty market. Conversations focused on ingredient transparency and sustainability R&D.

Some companies asked for our feedback on their reporting and we highlighted that more transparency around ingredients and consumer awareness would be positive in line with what peers are doing in the US and Europe.

We have since followed up with some companies regarding the phase-out of PFAS 'forever chemicals'. We plan to monitor each of the company's progress with regards to ingredient transparency and sustainability, and we continue to engage.

Land Use & Biodiversity

Biodiversity and responsible forest management are an increasingly important topic of engagement. Many companies aim to manage forests commercially whilst maintaining (sometimes even improving) biodiversity. This can be incentivised through sustainable financial products such as revolving credit lines being tied to biodiversity targets. Large forest assets owned by the industry are an opportunity for large-scale carbon capture as trees capture carbon dioxide from the atmosphere and transform it into biomass through photosynthesis. According to the Confederation of European Paper Industries (CEPI), the European forests and the forest-based sector has a positive climate effect estimated at 806 million tons of carbon dioxide equivalents annually. This corresponds to around 20% of all fossil fuel emissions in the European Union.

The EU's 'Fit For 55' initiative, part of the European Green Deal, is still a work in progress regarding forests and opinions are spread quite wide among EU members given the vastly different importance of forests to each member state. Currently, policymakers are concentrating on renewables and mobility for carbon abatement measures, but by 2030, forestry may become increasingly important as negative emissions are required to offset the hard-to-abate sectors through the next decade. However, it is still important to monitor company practices. For example, we engaged with a company accused of land grabbing and the associated negative environmental impacts. We will be monitoring the company's actions and communication with indigenous groups on the matter.

We also engaged with food companies to discuss sustainable sourcing of soy and palm oil. This included purchasing assurance, traceability and how companies ensure that the crops they purchase are not grown on deforested land in Brazil in the case of soy, or Asia in the case of palm oil. One company we spoke to finds satellite tracking and GPS mapping an effective way of ensuring that the company does not purchase soybeans from land-cleared forests and can maintain a high degree of traceability. Another method is sourcing directly from farmers (avoiding potentially unscrupulous traders), and having suppliers commit to the UN Global Compact principles.

CASE STUDY:

Mining & Tailings Dam Initiative

Following the Brumadinho disaster in Brazil in 2019, when the collapse of a tailings dam resulted in 270 deaths, Janus Henderson joined a collaborative engagement initiative aimed at preventing future tragedies. We have been an active participant in the Global Investor Mining & Tailings Safety Initiative from early on and have been involved in advising on the drafting of new standards and engaging with companies to encourage improvements. The initiative achieved one of its core objectives, with the publication of the first Global Industry Standard on Tailings Management.

The new standard was launched in August 2020 by the investor group, alongside the International Council of Metals and Mining, the United Nations Environment Programme and Principles for Responsible Investment with the ultimate goal of zero harm to people and environment. Comprising six topic areas, 15 principles and 77 auditable requirements, the standard is a step change in terms of transparency, accountability and safeguarding of the rights of project-affected peoples.

In 2021, our engagement with mining companies as part of the initiative has concluded with a significant number of companies publishing information on tailings facilities, which can now be tracked and is included in the database born out of the collaborative Investor Mining and Tailings Dam Safety Initiative. Engagement with mining companies on tailing issues is now focused on seeking confirmation from companies that they will commit to the standard's implementation.

https://globaltailingsreview.org/

Water

In addition to land usage, water stewardship is another growing area of engagement with companies. We've engaged with numerous companies on how they approach water risk, especially in high-stress areas, and how they are reducing water intensity. For some businesses, achieving a reduction in water use can be a significant challenge, as water is relatively inexpensive compared to power, and therefore water reduction has a much lower return on investment. However, the growing prevalence of water scarcity and competing demand between business and private individuals means companies that are not getting ahead of the curve in reducing water use or relocating to water-rich areas are storing up significant future risk as to the sustainability of their operations.

Water risk is particularly prevalent for companies operating in China. China suffers from severe water shortages and is one of the most water-deficient countries in the world (average per capita freshwater resource is slightly above one-third of global average). It also suffers from uneven distribution with shortages in northern and eastern China. Quality of supply is also becoming a major issue with over 30% of water resources now being deemed grade 4 or 5 (i.e. not drinkable). Increasing industrialisation and urbanisation are resulting in growing demand, which is further exacerbating the mismatch between demand & supply. It is estimated that 400 out of 660 cities of size suffer from water shortage and that by 2030 China will be short by ~200 billion cubic meters.

Real Estate Sustainability

We engaged with numerous real estate companies on sustainability topics, including company efforts to reduce carbon emissions and increased carbon disclosure. In light of COVID-19, we engaged with companies on how they handled rent arrears for residential tenants experiencing financial hardship. We encouraged companies to commit to RE100 (100% renewable energy) and EP100 (committing to smart energy use). We also promoted participation in the Global Real Estate Sustainability Benchmark (GRESB) and discussed significant score changes. For example, a company's score may reflect the older nature of their assets, especially if they focus on reusing existing assets rather than knocking down to build new. We also encouraged companies to consider linking management compensation to relevant ESG targets.

As part of our ESG engagement work, we regularly seek to engage with sector leaders to benefit and inform our understanding of best practice. During one such meeting, we explored a range of topics including the sustainability performance, quantifying the 'S' in ESG, absolute versus intensity-based emissions targets, embodied carbon, third-party benchmarking and Science-Based emissions targets. Although various measures were in place to achieve net zero, it is not currently possible to develop a building with zero embodied carbon or to replace all gas boilers with heat pumps. Therefore, the use of a small amount of fossil fuels even in 2030 is still envisaged, which will be offset as a last resort.

We also engaged with a US indoor air quality solutions manufacturer on driving greater energy efficiency and superior indoor air quality within residential and commercial structures. Only 14% of all commercial office buildings across the 30 largest US office markets are “green certified” by Commercial Real Estate Services (CBRE) and it is been identified that less than 3% of office space today has a high standard of indoor air quality.

A study conducted by Harvard Public Health Centre for the Global Environment found that office workers’ cognitive function scores were 61% higher in green building conditions and 101% higher in enhanced green building conditions. Since people spend 90% of their time indoors, air quality can have a significant effect on health.

Banking

We engaged with companies in the banking sector to discuss sustainable financing. This included issues like phasing out thermal coal financing, aligning financed emissions to the Paris agreement to achieve net zero by 2050 or sooner, managing the level of exposure to certain carbon-intense industries and integrating an ESG risk assessment into credit scoring. This can potentially influence pricing and define targets for syndicated oil & gas and shipping loans to include sustainability clauses.

We also took part in a collaborative engagement with a Chinese bank to discuss its climate risk management, to gain an understanding into how the bank oversees climate change risks, green finance goals, stress testing and integration of ESG into its credit review process. With China’s national goal to invest in low-carbon assets, banks will be required to make structural adjustments to increase provision of clean credit to certain industries/customers, and control loans to high-carbon industries. We encouraged the company to align its climate change reporting with the Carbon Disclosure Project (CDP) and the Task Force on Climate-related Financial Disclosures (TCFD).

Social Engagements

Human Capital

Human capital-related issues continue to be a major focus for company engagement. We have seen an increase in companies facing public accusations of harassment and bullying, and during the year we engaged on this topic with a number of issuers. We pressed companies on what changes had been made off the back of allegations to address workplace culture, the potential for an external audit to be been conducted, the use of independent employee helplines and whistle-blower programmes, and provision for management training.

We discussed employee engagement with management teams as well as with Board Chairs, asking what mechanisms were in place for board engagement with the workforce and how these had faired during the pandemic, and whether the board was measuring performance against key metrics such as employee retention.

CASE STUDY:

Harassment within franchised units

We have held numerous calls with a US retailer to discuss employee rights, protections, and management oversight of conditions at franchisees. We focused the discussion on restaurant labour – specifically, recent harassment / abuse allegations and what the company is doing to fortify its franchisee auditing process.

This is a complex topic for franchisors because the employees at franchised units are not legally employees of the company. We emphasised that what happens inside every restaurant reflects on the brand. We pushed the company to do more to codify brand standards, strengthen the franchisee audit process, and ultimately hold franchisees accountable when they fail their employees or customers.

Our message to management has been that the company has an opportunity to lead on this issue and establish best practices for franchised restaurant systems globally.

We engaged with companies in the hospitality sector regarding employee welfare, staff retention and recruitment, KPIs for employee satisfaction and turnover levels, and we encouraged these types of human capital metrics to feed into executive compensation. Shift management and overwork are issues companies in this industry are working to address, especially for back of house staff. One company we spoke to was trialling a new system on stock taking to reduce hours worked. Some groups are quite decentralised and therefore are aiming to share best practice across different businesses, for example wages/tip sharing and shift management practices.

CASE STUDY:

Diversity, equity & inclusion

We wrote to companies in a UK smaller companies portfolio to highlight the importance of a range of key ESG issues. As part of this, we highlighted the importance of boardroom diversity and our voting policy to hold the Chairman responsible for any significant lack of diversity.

Following up on the letter, we engaged with numerous companies; many engagements were follow-up discussions after sending this letter outlining the fund's proxy voting stance on various themes including board diversity.

Conversations were also organised to discuss companies' internal efforts to promote broader diversity and inclusion, specifically with companies within the financial sector. We spoke to companies to understand policies and processes in place to recruit, promote, and retain a diverse workforce, use of maternity leave, reverse mentoring, turnover levels, and encouraging the use of gender pay gap reporting.

The engagements were undertaken in order to help analyse how companies compared to peers and whether they were taking a pro-active approach. We intend to continue to engage on this topic in future years.

Diversity and inclusion continued to be a topic of engagement across businesses. We engaged with the incoming Chair of a financial institution about board diversity and discussed the business value of diversity especially as the proportion of wealth being accumulated by women is increasing. Conversations also focussed on the transparency of gender pay gap reporting and the need for a Human Resources deep dive to stay ahead of the curve on this issue. We have encouraged companies in the US to make their EEO-1 diversity statistics publicly available.

Racial diversity is another engagement issue of growing importance, particularly prominent within the US market. Common practices we discussed aimed at improving racial equity, including better representation of minority ethnic groups at board and management levels, recruitment policies, unconscious bias training, measuring the ethnicity pay gap and product governance issues. For example, we spoke to a financial institution on its commitments to improve racial equity across home ownership, business loans and financial health.

CASE STUDY:

Diversity in clinical trials

Within the healthcare industry, there has been a persistent underrepresentation of diversity within clinical trials. This is of significant concern as it is widely recognised that therapeutics can have varying effects based on one's age, sex, race, and ethnicity. To gain a more holistic perspective on the efficacy and safety of therapeutics on a particular population, companies need to improve the diversity of those enrolled in the clinical trial process.

In 2021, we engaged with a range of healthcare companies on this issue and will continue to monitor progress over time. Many companies have agreed to raise this issue internally with their research and development/trial teams and we are pleased to see some companies appointing a Director of Clinical Trial Diversity, and others committing to track trial diversity and make this data available publicly.

Supply Chain / Human Rights

Supply chain management was prominent in a lot of company conversations, especially in light of disruptions due to the COVID-19 pandemic. We engaged with companies to understand the oversight of their supply chains and the extent to which they are audited, particularly in relation to sourcing and manufacturing which are high-risk areas. We also discussed the level of exposure (or potential exposure) to countries and areas with high human rights risks such as forced labour.

We provided feedback on company reporting on human rights, requesting more information on how companies measure human rights risks, and whether they audit third-party suppliers on human rights issues.

With regards to supply chain auditing, some companies rely heavily on third-party verifications, whereas other companies conduct all their own audits and due diligence work. We encouraged companies to accompany any sustainability clauses in their supplier contracts with rigorous checks and balances to ensure adherence to them.

Another supply chain issue was animal welfare. We engaged with a British supermarket on allegations that a supplier was raising pigs in abusive conditions breaching local regulations. We also asked for more clarity about the company's procedures for selecting and monitoring the quality of suppliers across the chain.

CASE STUDY:

UN Global Compact engagements

We engaged with a company regarding the potential violation of the UN Global Compact. The concerns were based on the alleged provision of biomedical / bioinformatics technology to a government that might then make use of the technology for compulsory mass DNA collection, expanding biometric surveillance and other potential human rights abuses.

Objectives of our engagement were the following:

- Verify whether the company had ever designed and/or sold products specifically for certain ethnicities
- Assess how the company is addressing the risks involved; what measures have been put in place to date, and what progress has been made
- Encourage the company to publish a human rights policy
- Encourage further risk assessment analysis in relation to changes in the regulatory environment

The company has since implemented policies and procedures to help identify and restrict sales to certain end-users. In addition, the firm has put in place a bioethics committee staffed with senior leaders which attempts to identify anticipated misuse of their products/technology. They have made significant progress in developing their own human rights policy that identify and address human rights violations across the value chain including customers.

Consumer & Products

We engaged with housebuilding companies to discuss fire safety in the wake of the London Grenfell Tower tragedy, and the issues that this has raised regarding building specifications and potential liabilities for housebuilders. The calls were held in part with the intention of gaining better understanding of the complexities surrounding current developments, and in response to significant reputational issues facing the industry with homeowners facing serious financial consequences due to ongoing uncertainty over liability. The Chief Executive Officer provided a breakdown of various issues taking place - both company and industry-specific - in terms of provisions for compensating homeowners.

CASE STUDY:

Access to medicine

Janus Henderson has been a supporting signatory of the Access to Medicine Index for many years and is a lead investor on an engagement with a European pharmaceuticals company. This engagement series started in 2019 with the objective of encouraging pharmaceutical companies to improve on their access strategy, governance and initiatives progressing towards the United Nation's Sustainable Development Goal 3 "Good Health and Well-being" by 2030.

Companies have committed to further transparency on their access initiatives and further engagement with the Access to Medicine initiative and have consequently provided more resources to this issue. The initiative has seen progress with regards to access planning and accountability at senior management level. However, this is a long-term engagement and results will be seen over the course of a few years.

On the topic of nutrition and safety, we engaged with a company accused of sending out inadequate food parcels to families of children receiving free school meals, and we arranged a call with the company to understand what had happened, and steps it is taking to prevent a recurrence. The company explained the misunderstanding and background to the social media outcry and confirmed that this issue was had been resolved.

CASE STUDY:

Welfare of gig economy workers

Many companies with exposure to food delivery and the gig economy have come under heightened scrutiny over the past couple of years with regards to wages and benefits. The purpose of this engagement plan was to identify an appropriate sustainable employment model for the food delivery sector, looking at where companies are able to balance the interests of different stakeholders and what best practices feed into achieving this.

We will continue to engage and monitor the progress of each of these companies with regards to rider engagement and welfare.

We also engaged with a food company to discuss nutrition and how it manages its supply chain to ensure food safety. This is a complex issue facing many consumer goods companies trying to balance consumer health with providing consumers with choice, affordability, and meeting customer demand. It forms part of a broader conversation on the role companies should play in promoting healthy eating, rather than following consumer demand or placing responsibility for consumer health squarely on food choices made by individuals. One food company we spoke to on the subject of food labelling and nutrition highlighted an internal scheme focused on encouraging consumers to consume less salt, fat and sugar through the use of herbs and spices as substitutes.

Governance Engagements

Discussions with company management teams focused on governance topics ranging from shareholder rights, remuneration, succession planning, business ethics and culture, and ESG strategy and disclosure. We spoke with companies where we felt a merger or acquisition would damage shareholder value, discussed short-seller reports and allegations of overstatement of revenues, tax fraud or financial risk from related party transactions. We also engaged with companies around proxy voting season to discuss shareholder resolutions including those that may improve shareholder rights. Examples of resolutions include removing a classified board structure, shareholder right to call a special meeting, the right to act via written consent, improving proxy access or removing poison pill requirements (a company's defence against a potentially hostile or unwanted takeover). We also encouraged management to have a sufficient shareholding position to show they had 'skin in the game' (an ownership stake).

Management Remuneration

One of the most frequent corporate governance topics of conversations with management and board members was executive compensation. Often, we conducted these conversations leading up to company annual general meetings.

We had several in-depth conversations with UK companies who were proposing moving to a restricted share plan (RSP) and away from a more orthodox Long-term Incentive plan (LTIP). We shared feedback regarding the lack of incentivisation and the potential for substantial rewards for failure, which are inevitable downsides of the new structure. We had some concerns over companies switching from a performance-based share plan to a time-based share plan without rigorous performance conditions, especially if the company failed to provide adequate explanation as to how this related to the company strategy. We stressed the need for transparency in this area as we expect enough detail to gain comfort that the metrics being used are sensible and sufficiently robust.

On occasion, we also raised concerns regarding vesting targets being too low for the earnings per share (EPS) target hurdle, preferring to see higher hurdles for the awards to vest. We discussed which key performance indicators were the most relevant for new LTIP plans, pushed management on retention grants, and pushed back on the size of LTIP awards. Often remuneration committee chairs took our feedback on board and submitted a change to the proposal.

We also escalated concerns about remuneration practices, often speaking with the Chair to draw attention to why we had historically voted against particular remuneration practices and encouraging greater transparency on changes made. We also raised concerns with companies who made retrospective changes to remuneration policies due to the impact of the COVID-19 pandemic. In one instance, we escalated this issue by voting against the re-election of its Remuneration Committee Chair owing to poor communication over amendments to its remuneration report.

We encouraged companies to align executive pensions with the broader workforce in line with local market practices. We also engaged on executive compensation issues around severance payments and accelerated equity vesting being awarded to former executives who left the company voluntarily.

Board Independence & Composition

Board composition was another common topic of engagement where we encouraged board refreshment, independence and diversity in many conversations with management and directors. In some cases, we encouraged classified boards to abolish this structure and sometimes escalated this by voting in favour of shareholder resolutions to declassify the board. In some conversations with the Chairman, we communicated that not putting all directors up for re-election is against best practise and in our view as a shareholder, not acceptable. We voiced our concerns that not doing so may lead to protest votes on other proxies (e.g. issuance of shares) which could restrict the strategic levers the board can pull.

We encouraged smaller companies that are still growing and establishing themselves to adopt corporate governance best practice, including eliminating supermajority voting requirements, setting up Board Audit, Remuneration and Nomination Committees, and improving internal controls.

We also challenged the level of independence of directors who had had a long tenure, received company bonuses, held share options, were an employee of a major shareholder and/or provided advisory services to the company, especially if the director chaired board committees. Although in many instances the lack of board committees was reflective of a smaller board, we highlighted that we expect to see corporate governance developments in line with business growth developments.

We engaged with companies facing activist investor interest, supporting independent candidates to join the board where it was in the long-term interest of shareholders and the business.

We also frequently engaged with boards to understand succession planning strategies. Where a replacement was underway, we discussed the quality of the shortlist, timing and handover process.

We frequently discussed ESG governance, asking management teams about the oversight of their respective company's ESG strategy and encouraging transparent reporting and disclosure. Many companies sought our views on how to improve their ESG disclosure. Numerous companies struggled to navigate their way around the confusing array of ESG initiatives and standards. Direction was also sought from us on what was considered best practice. We encouraged companies to align with Sustainability Accounting Standards Board (SASB) guidance and conveyed the view that the fostering of a strong organisational ESG culture is key to ensuring success in ESG endeavours, from which everything else would follow. Many companies were keen to discuss their external ESG ratings by third parties, and we also had dedicated discussions with companies if they were flagged as violating the United Nations Global Compact – a voluntary initiative based on chief executive officers' commitments to implement universal sustainability principles – by external research providers.

CASE STUDY:
Collaborative engagement with Japanese companies on corporate governance

We joined a series of collaborate company engagements in Japan organised by the Asian Corporate Governance Association (ACGA). The purpose was to establish a long-term dialogue to promote better corporate governance practices. Common issues addressed in the engagements included board effectiveness, independence, diversity, cross-shareholdings, audit firm tenure, and management and reporting of sustainability issues.

The engagements have seen some early successes in terms of company commitments to greater transparency and to review certain practices that have fallen behind local market standards. These engagements are intended to continue for a significant period of time as we seek to build up a constructive dialogue both with senior management representatives and also independent directors.

Proxy Voting

Janus Henderson typically exercises voting rights on behalf of clients at meetings of all companies in which we have a holding. Exceptions may occur if a client retains voting rights, or where share blocking, voting restrictions or other unique situations apply.

As an active manager our preference is to engage with corporate management and boards to resolve issues of concern rather than to vote against shareholder meeting proposals. In our experience, this approach is more likely to be effective in influencing company behaviour. We therefore actively seek to engage with companies throughout the year and in the build up to annual general meetings (AGMs) with shareholders to discuss any potentially controversial agenda items. However, we will vote against a board recommendation when we believe proposals are not in shareholder interests or where engagement proves unsuccessful.

To assist us in assessing the corporate governance of investee companies we subscribe to ISS (an independent proxy voting adviser). ISS provides voting recommendations based upon Janus Henderson's corporate governance policies and highlights key voting issues requiring review by investment teams. Our in-house Governance and Stewardship Team works with our investment teams and provides input into voting decisions. Fund managers have ultimate voting authority.

Janus Henderson has a Proxy Voting Committee, which is responsible for developing Janus Henderson's positions on major voting issues, creating guidelines and overseeing the voting process. The Committee is comprised of representatives of fund administration, compliance, portfolio management, and governance and stewardship. Additionally, the Proxy Voting Committee is responsible for monitoring and resolving possible conflicts of interest with respect to proxy voting. During 2021, all conflicts of interest identified as part of the voting process were referred to the Proxy Voting Committee and resolved in accordance with our policy and procedures.

Stock lending makes an important contribution to market liquidity and provides additional investment returns for our clients. However, stock lending also has important implications for corporate governance policy as voting rights are transferred with any stock that is lent. We maintain the right to recall lent stock across all our funds under management for voting purposes. All decisions to recall stock are made by the relevant fund manager.

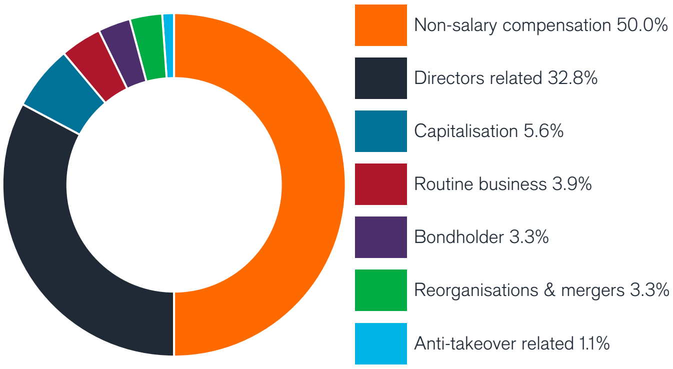
Overall, Janus Henderson voted in excess of 4,000 shareholder meetings in 2021. On average, we voted against board recommendations on 7% of resolutions. This works out as a vote against at least one board recommendation at approximately one-third of shareholder meetings.

Below, we highlight key proxy voting themes across major global markets together with examples of some notable meetings where Janus Henderson voted against board recommendations. Notable meetings have been selected to highlight the most frequently reoccurring issues on which Janus Henderson votes against board recommendations and meetings with unusually high levels of shareholder opposition.

Voting examples within the report are based on all portfolios where Janus Henderson's portfolio managers have voting authority and where the voting position was the same across all portfolios. Subsidiaries of Janus Henderson are not included within the report's findings.

UK – 2021 Proxy Season Voting Themes and Notable Meetings

Votes Against by Resolution Type



Source: Janus Henderson as at 31 December 2021. The chart may not add up to 100% due to rounding.

Remuneration continues to be the most contentious resolution type at UK meetings. The 2021 proxy voting season was dominated by the impact of the Covid-19 pandemic, and remuneration committees frequently had to make some challenging decisions in the face of the business impact of the pandemic. We recognise that every company situation is unique and discretion is an important tool for remuneration committees to ensure decisions are taken in the best interests of shareholders. However, in challenging circumstances for employees, shareholders and other stakeholders, we believe the onus is on companies to explain and fully justify any exceptional decisions taken to amend remuneration policy.

One company that exercised significant discretion in response to the pandemic was Informa. At the June 2021 AGM, Informa's remuneration report was defeated with 62% of votes cast against. Concerns had been identified with adjustments made to performance measures of in-flight long-term incentive awards.

The Remuneration Committee exercised discretion to replace an earnings-per-share (EPS) performance measure with operating cash flow for the final year of the performance period, increasing the resulting vesting of the award to 40% of maximum. Without these adjustments, the award would have lapsed in full. Longstanding concern over remuneration policy at the company led us to also vote against the chair of the Remuneration Committee. Opposition fell just below a majority of shareholders. In addition to voting against the report we engaged with the company to highlight our views and provide feedback on changes required to bring remuneration policy into line with good practice.

A similar situation was at supermarket company WM Morrison, where the company excluded the impact of Covid-19 costs from incentive pay, significantly boosting incentive pay-outs. Approximately 70% of shareholders, including Janus Henderson, voted against the remuneration report, which made it one of the highest ever UK examples of shareholder dissent on pay.

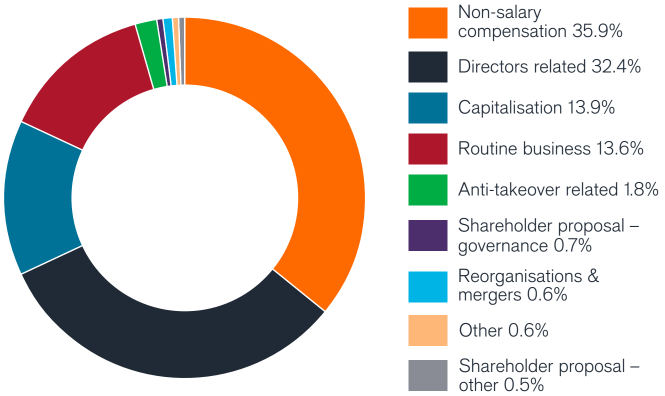
A more unique example of opposition to remuneration was at mining company Rio Tinto, where the remuneration report was defeated with approximately 60% of shareholders voting against. The company had been criticised for its part in the destruction of two ancient aboriginal rock shelters at Juukan Gorge in Western Australia in May 2020. Following a board review and shareholder engagement it was determined that several senior executives' positions, including that of the CEO, were no longer tenable. In determining the leaving arrangements of the CEO, the remuneration committee allowed a significant portion of outstanding incentive awards to be retained, raising concern that the actions of the remuneration committee did not sufficiently reflect the gravity of failures at Juukan Gorge.

Director elections was the second most significant resolution type in terms of our opposition. One interesting trend here is the growing tendency for shareholders to hold the chairs of board committees accountable for failures in the areas they oversee. This now regularly includes board committees responsible for overseeing ESG issues, in addition to remuneration, audit and nomination committees. One example during the year was reflected in our concerns over the Juukan Gorge incident and the company's subsequent response. We voted against the re-election of the chair of the Corporate Social Responsibility (CSR) committee. Opposition was 26%.

Although sustainability issues are an ever more important part of the governance conversation with UK companies, there are still relatively few shareholder proposals addressing ESG issues. This reflects both the difficulty of filing proposals and the focus on shareholder engagement. Two of the most significant shareholder proposals in 2021 were on climate issues at BP and Royal Dutch Shell. We voted against these proposals and in favour of management at both companies on the basis that we considered their climate strategies and reporting acceptable. While both companies have significant room for improvement, and we plan to continue engagement on these issues, in our view they are making progress in setting short, medium- and long-term targets, and therefore warranted support at this time.

Europe – 2021 Proxy Season Themes and Notable Meetings

Votes Against by Resolution Type



Source: Janus Henderson as at 31 December 2021. The chart may not add up to 100% due to rounding.

Management proposals linked to executive compensation were the most common source of opposition across European markets in 2021. Many of the issues underpinning our voting against management proposals are longstanding and included poor disclosure & transparency, inadequate performance targets and potential for excessiveness in areas such as compensation for loss of office. In 2021, there was also a major focus on the exceptional challenges of Covid-19 and the extent to which adjustments made to executive pay were made in response. We were reticent to support changes to in-flight incentive packages solely due to market conditions. Such changes required a compelling rationale as to why these changes were in shareholder interests and appropriate in the context of overall pay and conditions throughout the company.

Examples of significant votes against remuneration resolutions included Italian banking group UniCredit and Luxembourg real estate company AroundTown. At theUniCredit meeting we voted against remuneration due to concerns over the incentive package offered to the new CEO that included a guaranteed bonus (opposition was 46%). Our opposition to the remuneration at AroundTown concerned exceptionally poor disclosure and a lack of adequate performance targets for incentive awards. Both relevant resolutions failed to pass with opposition of approximately 53%.

At the Saint Gobain meeting we voted against remuneration in response to changes to in-flight performance criteria and an incentive award for the departing CEO (opposition was 33%). Ipsos, the multinational market research and consulting firm, was another example where we voted against remuneration due to changes to performance conditions we felt were not adequately justified and which created a misalignment with company performance.

The resolution to approve the CEO remuneration policy was defeated with 53% of shareholders voting against.

Director elections was the other major resolution category across European markets where we were most likely to vote against management. The most common rationale was a lack of board and committee independence, and misalignment between the proportion of share capital held by minority shareholders and their representation on the board. Other regular issues included concerns over broader corporate governance, and over board effectiveness and performance. A notable meeting where we voted against proposed director elections was at German wind turbine company Nordex due to concerns over a lack of board independence. Opposition ranged from 25% to 34%.

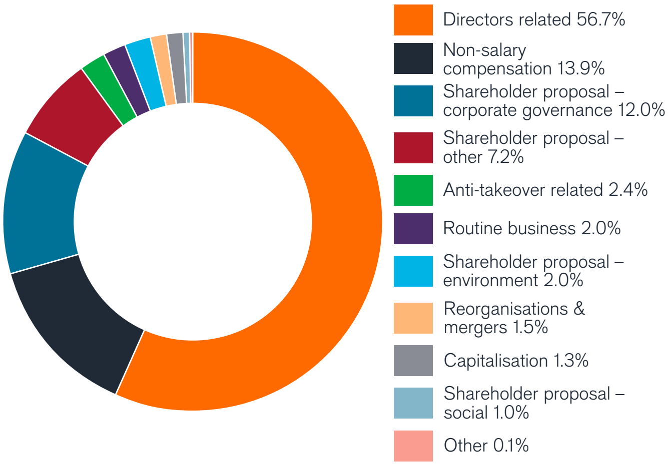
The third most regular item on which we voted against management proposals was related to share capitalisation issues. There has been considerable progress across Continental European markets in recent years in restricting general open-ended share issuance authorities to within reasonable thresholds. This represents an important shareholder protection as large open-ended authorities are potentially open to abuse, for example, in enabling large corporate acquisitions to proceed without any requirement for shareholder approval. We continue to vote against share issuance authorities that do not respect generally agreed local market practice. An example during 2021 was at the German employment agency company Amadeus FiRe AG. We voted against a share issuance authority that we viewed as excessive. The resolution was defeated with shareholder opposition of approximately 77%.

While still representing a relatively small share of companies, proposals specifically on environmental and social issues are on the increase across Europe and climate change is a major focus. According to ISS, there were 19 proposals submitted by managements and six shareholder-led proposals on climate change issues during 2021 across the main European indexes. One of the more notable was French oil and gas company TotalEnergies putting their climate policy to a shareholder vote.

We expect this to be a growing trend in the years to come as shareholder scrutiny of this area increases, and boards seek to attain shareholder support for their decarbonisation strategies. We supported the resolution, which was approved by more than 90% of shareholders. In our view, TotalEnergies has been a leader amongst the oil majors on developing climate policy, although much more will be required in the coming years to align with the Paris Agreement goals.

North America – 2021 Proxy Season Themes and Notable Meetings

Votes Against by Resolution Type



Source: Janus Henderson as at 31 December 2021. The chart may not add up to 100% due to rounding.

In the US market the most common company proposal type where we voted contrary to management was on the re-election of directors. According to ISS, the proportion of US company directors within the Russell 3000 Index receiving less than 80% support at shareholder meetings reached a multi-year high in 2021. This reflects a growing willingness from large institutional shareholders to vote against director candidates due to concerns on legacy issues. The most frequently reoccurring issues are material failures of governance, such as limitations on shareholder rights, insufficient board independence and a failure to adequately respond to shareholders' views as expressed at prior shareholder meetings. Another common issue for opposition was 'over-boarding', where non-executive directors have multiple other board positions in excess of market practice.

At Cable One, a broadband communications provider, we voted against two directors and members of the governance committee due to the company not acting to amend the supermajority requirement to enact changes to the bylaws. An additional concern was in relation to a potentially excessive number of board positions held by one director. The overall level of opposition was 53% and consequently the director was forced to offer their resignation. This was ultimately not accepted by the board, but the director was required to reduce their board positions in line with market practice.

At Collegium Pharmaceutical, we also voted against a director due to over-boarding concerns. The director failed to receive shareholder support and was subsequently required to offer their resignation to the board. This was accepted and the director subsequently left the board.

The second most frequent issue category for opposition was executive remuneration, most commonly reflected with a vote against the annual say-on-pay vote. Our decision to vote against was most frequently based on concerns over the alignment of pay and performance. We voted against the say-on-pay at Marathon Petroleum due to concerns over the structure of incentive schemes and the lack of robust performance targets applied to executive incentive awards. The resolution failed to pass with approximately 70% of shareholders voting against.

We also did not support the say-on-pay at technology firm Intel, where shareholder opposition was 61%. The reason for the high level of opposition was concerns over the very high level of share awards made to the new CEO and the absence of rigorous performance conditions applied to awards. Another large opposition vote was the say-on-pay at video game company Electric Arts. We voted against due to an outsized share award made to the CEO without sufficiently strong performance targets applied. Opposition was 58%.

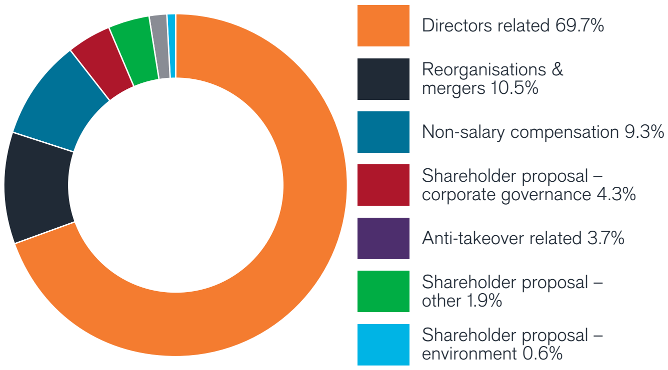
Shareholder proposals on corporate governance issues that we most regularly supported were connected to strengthening shareholder rights around director elections. Proposals that we supported and were passed by a majority of shareholders included requiring a majority vote for the election of directors (Alarm.com, Axon Enterprise and Redfin) and declassifying the board of directors (Charles Schwab and Tesla).

Other shareholder proposals we supported on corporate governance issues receiving majority shareholder support included a proposal to eliminate supermajority vote requirements (CoStar Group).

There was a record number of environmental and social shareholder proposals in 2021, and a record number receiving majority shareholder support. Examples of proposals we supported that received majority shareholder backing included proposals to report on diversity and inclusion at Tesla and a proposal to report on efforts to reduce scope 3 emissions at energy corporation Chevron. Another notable proposal we supported receiving a significant level of shareholder support was a proposal at Facebook to report on platform misuse. We felt support was warranted in view of the very high level of content-related controversies impacting the business. At Microsoft, we supported a shareholder proposal to report on the gender/racial pay gap. Whilst we recognised Microsoft as a leader on many aspects of ESG, in our view, further information on median pay gap statistics would be a positive step towards boosting equality in the company and in the industry.

Japan – 2021 Proxy Season Themes and Notable Meetings

Votes Against by Resolution Type



Source: Janus Henderson as at 31 December 2021. The chart may not add up to 100% due to rounding.

Director elections remain the most common agenda item at Japanese company shareholder meetings that we oppose. However, the trend in the Japanese market is a gradual improvement of corporate governance best practices around key voting issues such as board independence. According to ISS, as of June 2021, practically all company boards have at least one outside director who is not an employee, 93% have at least two and 73% now have at least one-third of board members that are outsiders. Gender diversity is also improving, albeit gradually, with just over half of Japanese companies now having at least one female director. This figure was around one quarter of companies five years ago.

Our opposition to directors is most frequently based on corporate governance concerns around a lack of board independence. Examples included Sumitomo Corporation, where we voted against a director who was not independent and where the board lacked independent directors. Opposition was approximately 27%. Another example was at Japanese consumer finance company Aiful, where we voted against the most senior board directors to highlight concerns on board composition. Opposition was 19%.

A related issue underpinning votes against management proposals is over a lack of independence amongst the statutory auditor board, a special feature of Japanese corporate governance. We voted against the appointment of statutory auditor elections at construction company Kyudenko, which received opposition from approximately one-third of shareholders.

Management remuneration issues are less prevalent in Japan than other markets, as companies still tend to have relatively modest incentive pay schemes by global standards. Nevertheless, Nixon was a company where we voted on this issue.

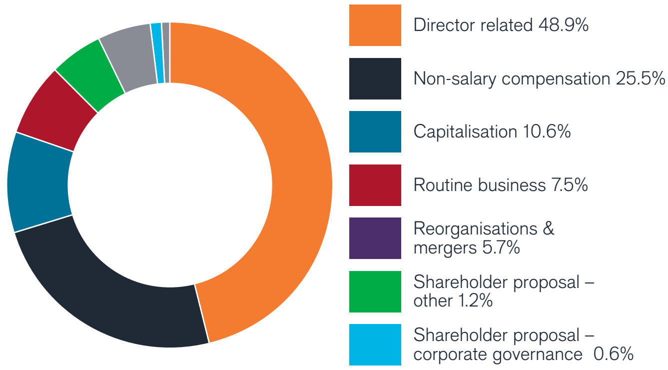
The company proposed a stock option plan which lacked adequate performance hurdles and sufficiently long-term vesting conditions. Opposition was 22%. At Otsuka Corporation, we voted against retirement bonuses due to insufficient disclosure provided to shareholders, and opposition was unusually high at 31% in respect of directors and 41% in relation to statutory auditors.

Another positive corporate governance trend in the Japanese market has been the prevalence of anti-takeover devices. So-called 'poison pills' used to be very common at Japanese companies, but now arise much less frequently as a voting issue. Where they do come up, we will generally oppose them unless they are structured in such a way as to ensure shareholder interests are respected. At motor vehicle parts and agricultural machinery manufacturer Yorozu, we voted against the approval of a takeover defence plan. In our view, there was insufficient justification for maintaining a takeover defence that had been in place since 2006. The resolution was opposed by approximately 39% of shareholders. We also voted against an anti-takeover device at DKK, a manufacturer of measuring instruments, where the resolution only narrowly passed with 56% support.

Shareholder proposals on climate change issues are still relatively few and far between in the Japanese market. One notable proposal this year was at Sumitomo Corporation. We voted in favour of a proposal calling on the company to improve disclosure around plans to align investments with the goals of the Paris Agreement. Support for the resolution was 20%.

Asia Pacific – 2021 Proxy Season Themes and Notable Meetings

Votes Against by Resolution Type



Source: Janus Henderson as at 31 December 2021. The chart may not add up to 100% due to rounding.

Across the Asia Pacific region, director-related resolutions were the biggest source of opposition votes in 2021. The most common issue of concern was a lack of board independence. The high proportion of companies with significant shareholders often results in board composition that is heavily weighted towards representation of the largest shareholder. We frequently vote against directors where we consider independence is lacking.

We voted against two executive directors at Hong-Kong based international conglomerate Swire Pacific due to concerns over board composition and independence. Opposition was 10%. At Indian company Reliance Industries, an integrated group across energy, materials, retail, entertainment and digital services, our opposition to the re-election of two directors also represented concerns over lack of independence. At Australian property company Vicinity Centres, we voted against a director on independence grounds, and opposition was 21%. Another frequent issue on which we vote against directors is over-boarding. We voted against a director at Hong Kong company Power Assets who sat on more than six public company boards (30.6% opposition). At Hong Kong company Sun Hung Kai Properties, we also voted against directors due to inadequate attendance at board meetings. Opposition was 27%.

Compensation issues are the second most regular source of opposition votes, particularly in markets such as Australia. We voted against a share incentive award at resource company Orocobre due to concerns over the award of merger and acquisition (M&A) related bonuses without ongoing performance conditions. In our view, incentives in connection to M&A should be structured to reward the long-term success of transactions rather than making transactions per se. Ultimately, 35% of shareholder voted against the proposal. At Cromwell Property Group, we voted against the accelerated vesting of share awards made to the retiring CEO. In our view, equity grants should be pro-rated and based on performance to ensure alignment with shareholders. Opposition was 29%.

The third most frequent issue where we voted against was share capital authorities that exceed what we see as reasonable thresholds. China Mengniu Dairy Company saw an unusually high level of shareholder opposition at 49%. Other companies with significant votes against on this issue included Minth Group (46% opposition), Shenzhou International (38% opposition) and China Longyuan Power (22% opposition).

Another relatively significant level of opposition was seen at Weichai Power. We voted against audit committee members due to poor disclosure and failure to report the breakdown of fees paid to the company's auditor. Opposition was 28%.

One of the most significant Australian meetings was at resources company Rio Tinto Limited, where we voted against the remuneration report (61% opposition) and a director (26% opposition) due to the failures in risk oversight and governance at Juukan Gorge. Also of significance was the shareholder meeting at material company BHP, which became the first company in Australia to present a Climate Transition Action Plan for shareholder approval. We voted in favour of the plan, which received the support of 85% of shareholders.

FOR MORE INFORMATION, PLEASE VISIT **JANUSHENDERSON.COM**

Janus Henderson
INVESTORS

GC-0622-119072 06-30-23

200-99-113320 05-22