

# ESG Quarterly Review

September 2022

## Welcome to the latest edition of our ESG Quarterly Review

Janus Henderson is committed to maintaining an open dialogue about environmental, social and governance (ESG) principles and market trends. The information we share in this review highlights the work that is being implemented across the firm and our thinking on topics that may be of interest to clients.

### Marika Christopher, Senior Director, Product Strategy & ESG



At Janus Henderson, we continue to evolve our range of ESG-related products and strategies across regions and markets. In the US, we launched a sustainable multi-asset portfolio in August that can invest in a range of underlying exchange traded funds (ETFs) and mutual funds. In September we celebrated the first anniversary of our sustainability ETF product suite in the US. We also launched a US sustainable equity product for the UK market, managed by Hamish Chamberlayne and Aaron Scully from the Global Sustainable Equities Team.

These advancements evidence our commitment to provide clients with the building blocks they need to integrate sustainability into their portfolios and help investors manage wealth with a sense of purpose.

Looking ahead, fourteen additional funds will be categorised as Article 8 under the European Union's Sustainable Finance Disclosure Regulation in the final quarter of 2022.

## ESG: Balancing between extremes amid high energy prices

### Natasha Page, Director of Fixed Income ESG, counters criticism of ESG amid higher energy prices, explaining how it is part of the solution

A year ago, ESG dominated the agenda, culminating in global leaders making a strong commitment to address climate change at COP26 in Glasgow.

Fast forward to 2022 and the Russia-Ukraine conflict has created a more challenging climate. Supply constraints and sanctions have combined to make energy more expensive and disparaging accusations have been aimed at ESG as energy prices have rocketed. "Underinvestment in fossil fuels is to blame." Refrains such as these have recently become commonplace and ignore the counterfactual that if more had been spent on renewables and energy storage there might be less reliance on fossil fuels today. Moreover, they absolve the real reason for high gas prices – the disruption to gas supplies coming from Russia.

The consequences of such sentiment are reflected in the actions of some US states that are actively legislating against ESG, and some asset managers that have launched funds clearly distancing themselves from ESG considerations.

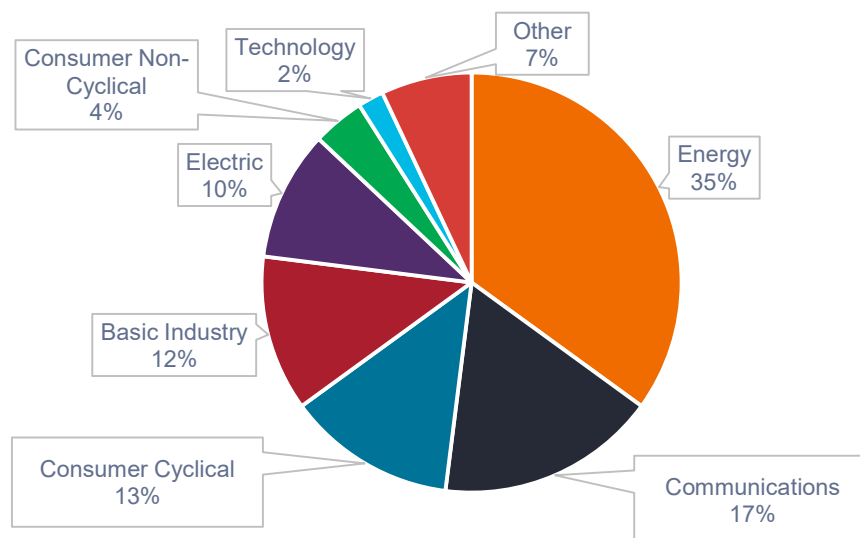
But higher energy prices should not mean abandoning ESG as some would advocate, least of all running at full speed into fossil fuel investing. Within Janus Henderson Fixed Income, we believe that pure divestment from higher polluting sectors is not the sole answer to resolving climate problems. Indeed, our focus is on supporting,



through investment and engagement, those companies (including in the fossil fuel industry) that are making credible efforts to responsibly transition towards cleaner, renewable energy generation. One thing is clear, however: this will not happen overnight.

It is important to remember that commodity prices can be highly volatile and the energy sector is one that demands careful credit analysis. In the US, energy has accounted for one third of defaults since 2000, and the figure rises to 45% since 2010 – a period that takes in the abrupt collapse in the oil price in 2014/15. A reminder that energy prices can fall as well as rise, even though it might not feel that way now.

**Figure 1: Look before you leap – sector weight of defaults in US since 2000**



Source: Bloomberg, Barclays Research, January 2000 to July 2022.

Note also that renewables typically become cheaper every year. The main area of cost lies in the total installed cost (equipment and installation) which has been trending down. The International Renewable Energy Agency, an intergovernmental body based in the oil-rich United Arab Emirates, reported that the cost of electricity globally from onshore wind in 2021 fell by 15% compared with a year earlier and was down by 13% in offshore wind and down by 13% in solar photovoltaics. Furthermore, almost two thirds of renewable power generation added in 2021 had lower costs than the cheapest coal-fired options in G20 countries.<sup>1</sup>

These figures are important. Investment in green energy is not just an environmental nicety – it makes long-term financial sense. That is why it is important to differentiate between short-term shocks and the medium to long-term investment case. The scramble for gas in Europe currently is predicated on national energy and security concerns brought about by the sudden reduction of gas supplies from Russia – which had been responsible for around 40% of the European Union's gas imports prior to the Russia-Ukraine conflict.<sup>2</sup> Substituting for that will take time but it is underway. In the very short-term that means finding alternative sources. Longer term, however, the solution to overseas gas dependency is through new technologies and to have a varied domestic energy mix. Renewables offer the dual prize of energy independence with free fuel (wind, sun and rain) and a greener economy.

The result of the gas supply shortages from Russia was equivalent to a carbon tax that was beyond the realms of anything the most ardent green lobbyist would have demanded. Governments are having to borrow heavily to offset the costs of the spike in energy prices.

## Fundamentals and pragmatism

ESG factors have long been considered in informing investment decisions. In fixed income, in particular, where downside risk mitigation is at the core of investing, identification and understanding of elevated ESG risks are essential. It also aids in finding improving ESG stories, which, over time, should translate into a reduced cost of capital and better returns.

Within Janus Henderson Fixed Income we recognise that this is not a sprint but a marathon. It must be 'run' consistently and be all-inclusive (rather than based on blanket exclusion of 'dirtier' sectors). We work with companies, through rigorous engagement, to help facilitate their transition towards more environmentally friendly business models, for example encouraging fossil fuel companies to adopt carbon disclosure reporting, move to greener fuels or build carbon capture. After all, it can often be more efficient to repurpose existing capital and labour than to have to start from scratch.

There will likely always be occasions where taking a short-term tactical approach can pay off. ESG reveals its true results over the medium to long-term. The energy crisis has led to some near-term criticism of ESG but it is unlikely that the pendulum that has trended towards ESG is going to swing in the other direction. ESG can make a critical contribution in helping to mitigate downside risk and the significant amounts of investment related to the net zero transition alone mean it is not something to be overlooked.

<sup>1</sup>Source: IRENA, Renewable Power Generation Costs in 2021, 13 July 2022.

<sup>2</sup>Source: Eurostat database (Comext) and Eurostat estimates (April 2022), Extra-EU imports of natural gas by partner, % share, 2020 and 2021.

*The full article from Natasha will be published in Fixed Income Perspectives, available early October via the Insights section of our website.*

## An investor perspective on biodiversity loss: research trip takeaways



**Bhaskar Sastry, ESG Content Manager, outlines key takeaways from a visit to the Durrell Wildlife Conservation Trust in Jersey.**

Biodiversity loss risks impacting us all and finance has a key role to play in addressing this global challenge. Our ESG and equity investment specialists recently conducted a research trip to the Durrell Wildlife Conservation Trust and here Bhaskar Sastry summarises key findings and reflections from the visit.

*"When man continues to destroy nature, he saws the very branch on which he sits since the rational protection of nature is at the same time the protection of mankind."*

### Gerald Durrell, writer and conservationist

In 1959, Gerald Durrell founded Jersey Zoo on the largest of the Channel Islands between England and France. His pioneering work and mission to save species from extinction continues through the Durrell Wildlife Conservation Trust ('Durrell'), one of the world's leading conservation charities. Janus Henderson is a supporter of Durrell and we have made donations towards Durrell's conservation efforts. Conservation success is measured over many years and when Durrell commits to a project it is for the long term. As a result, we plan to make annual donations to Durrell going forward.

Janus Henderson arranged a two-day research trip to Durrell to learn about the conservation work undertaken, the challenges that biodiversity loss poses and the role of finance in protecting nature. Members of our Global

Sustainable Equities, Global Natural Resources, Global Technology Leaders, UK Responsible Income, and ESG Investment teams spent time extending their understanding of biodiversity loss and the role of investors in addressing the challenge.

### **Biodiversity loss: an enormous challenge**



The first day focussed on the scale of biodiversity loss and ecosystem degradation, and the need for global conservation policies. Globally, one million plant and animal species are at risk of extinction<sup>1</sup> and animal populations worldwide have declined nearly 70% in the last 50 years<sup>2</sup>. This poses a tragedy for humanity<sup>3</sup>. Not only does nature provide intrinsic benefits in the form of individual, community and societal wellbeing, but also enormous extrinsic financial benefits. More than half of the world's total GDP, or \$44 trillion, involves activities that are moderately or highly dependent on nature, according to the World Economic Forum<sup>4</sup>. By working to protect biodiversity, we are protecting ecosystems and the climate, and ultimately the global economy.

We discussed various human activities that have driven many species to extinction, particularly through climate change, land use and pollution. Worryingly, the impact of human activity extends to the most isolated parts of the Earth.

### **Sustainable finance**

The second day focussed on the role of the financial sector in addressing nature-related risks and opportunities. Andrew Mitchell, a leading thinker on sustainability and Vice Chair of the Taskforce on Nature-related Financial Disclosures (TNFD), explained the critical importance of negative externalities, where the production or consumption of a good is not factored into its price and results in a cost to a third party. Traditional economics has failed to consider the cost we all bear for biodiversity loss, climate change, pollution and other environmental impacts.

The TNFD aims to support a shift in global financial flows into nature-positive outcomes by creating a risk and disclosure framework for companies to adhere to, akin to the Task Force on Climate-Related Financial Disclosures (TCFD) for climate risks. The Framework was launched in June 2021 with 35 representatives from finance and the corporate sector feeding into the evolving framework. Janus Henderson has also joined as a TNFD Forum member. The final version of the TNFD framework is due to be published in September 2023 and if it follows a similar path to TCFD, we could expect biodiversity-related reporting requirements for companies, investors and asset owners within a few years.

### **To value or not to value**

The course concluded with a discussion of the importance of assigning a value to nature. To drive nature-positive change, we must convince decision makers in government and business to fully understand and

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<sup>1</sup> UN Report: Nature's Dangerous Decline 'Unprecedented'; Species Extinction Rates 'Accelerating' - United Nations Sustainable Development, May 2019.

<sup>2</sup> Animal populations worldwide have declined nearly 70% in just 50 years, new report says - CBS News, September 2020.

<sup>3</sup> Nature Is Speaking – Julia Roberts is Mother Nature | Conservation International (CI) - <https://www.youtube.com/watch?v=WmVLcj-XKnM>, October 2014.

<sup>4</sup> Half of World's GDP Moderately or Highly Dependent on Nature, Says New Report > Press releases | World Economic Forum (weforum.org), January 2020.

appreciate our dependencies and impact on nature. Relevant metrics and targets can then be set that align with the restoration of ecosystems that we depend on.

The Dasgupta Review, a UK government-commissioned report, states that we should replace GDP growth with a measure of 'inclusive wealth' that considers natural capital, human capital and produced capital, with an emphasis that natural capital should be protected and increased over time.

Armed with new knowledge and new tools, we all felt empowered to contribute to nature's protection and restoration in the best interests of our planet.

*The full article is available via the Insights section of our website [www.janushenderson.com](http://www.janushenderson.com).*

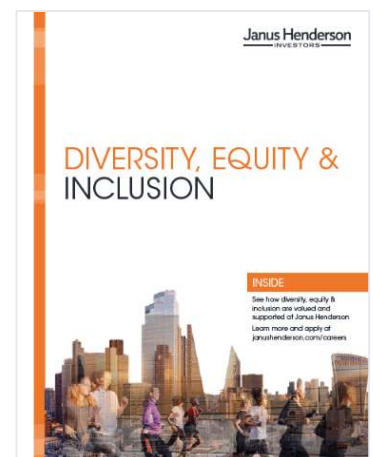
## Diversity Equity & Inclusion (DEI)

**Demesha Hill, Head of Diversity & Community Relations**



Janus Henderson has always held the belief that diversity, equity and inclusion is crucial for sustained success. As a global, active asset manager, our mission is focused on helping our clients achieve their long-term financial goals. By leveraging the diversity of our people, we're able to experience a level of human connection that results in a workplace where trust and collaboration can thrive.

In our business operations, we are committed to acting responsibly, not only in the way we invest and engage with our clients, but also in supporting our people and the diverse communities where we live and work. Our differences are what sets us apart and enable us to better understand our clients, to provide them with customised experiences and to identify the best investment ideas and approaches. Janus Henderson is an organisation that recognises and celebrates this. It's embedded into our culture and helps us to attract and engage a broad range of talent, resulting in a more enjoyable work environment, while also being better positioned for long-term growth.



Within our latest Diversity, Equity and Inclusion [brochure](#), you'll see how our values and continuous commitment to this work comes to life and how the collective efforts of our people create authentic and meaningful impact.

## Stronger together

**Georgina Fogo, Chief Risk Officer and Chair of the Janus Henderson Global Diversity Equity & Inclusion Committee**

As we continue to embrace and celebrate DEI, hundreds of colleagues from many of our offices recently gathered to celebrate PRIDE. This year was especially meaningful for colleagues in Denver who marched in honour of a colleague who sadly passed away in June.



Colleagues in the UK showed their support and allyship in July by marching in London's Pride Parade and participating in LGBT Great's Pride breakfast. In addition, UK PRIDE employee resources group members gave up their time to volunteer at the Whitechapel Mission, a shelter for the homeless close to our London office.





Our spirit of support for minority groups continued in Australia as our colleagues celebrated National Aborigines and Islanders Day Observance Committee (NAIDOC) Week and highlighted the diverse cultures, rich history, contributions, and achievements of Aboriginal and Torres Strait Islander people to the nation and around the world.

### Diversity of talent

I was delighted that in recent months we have been joined by a number of talented and ambitious students from several of our partner organisations. In London, we placed interns across the business from our partners at 10,000 Black Interns, GAIN (Girls Are Investors) and Imperial College. We also partnered with social mobility charity, Causeway Education, and hosted insight sessions for over 50 students from

widening participation backgrounds as part of our inaugural Janus Henderson Foundation Scholarship UK scheme.

In Denver, we were joined by interns across the business, and we worked with College Track, INROADs, Greenwood Project and College Career Centers for the placements this year. We have also made a US\$450,000 multi-year grant from the Janus Henderson Foundation to the Greenwood Project to support their goals of continuing to provide career opportunities to high-achieving Black and Latinx students in the US.

## 2021 UK Stewardship Code Report

Antony Marsden, Head of Governance & Stewardship Investments, Ruchi Biyani, Governance & Stewardship Analyst

At Janus Henderson stewardship is an integral part of our long-term, active approach to investment management. Strong ownership practices such as company management engagement can help enhance long-term shareholder value.

Following the submission of our 2021 UK Stewardship Code Report to the Financial Reporting Council (FRC) in April 2022, we recently received notification that our application to remain a listed signatory of the UK Stewardship Code has been successful.

The UK Stewardship Code sets high stewardship standards for those investing money on behalf of UK investors, and those that support them. As defined by the FRC, stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

To become a signatory to the Code, organisations must submit to the FRC a Stewardship Report demonstrating how they have applied the Code's Principles in the previous 12 months. The FRC assesses the report and if it meets the reporting expectations, the organisation will be listed as a signatory to the Code.

Once listed, organisations must annually report to remain signatories. The Code comprises a set of 12 'apply and explain' Principles for asset managers and asset owners, and a separate set of six Principles for service providers.



## Janus Henderson ESG thought leadership

As ESG issues continue to evolve and mature, we are committed to maintaining an open dialogue with our clients, shareholders, employees, and industry groups. As part of our Knowledge Shared approach, we seek to make the thinking of our investment teams widely available with articles, videos, podcasts and white papers on our website. A selection of recent articles, including some of the following, can be found via the Insights section of our website [www.janushenderson.com](http://www.janushenderson.com).

### GPUs are driving the future of computing

Hamish Chamberlayne, Head of Global Sustainable Equities, and Richard Clode, technology equities portfolio manager, discuss how the tiny graphics chip is playing a huge role within the global digital transformation.

### US Climate Bill: a significant step towards net zero and a boost for natural resources

The US Inflation Reduction Act (IRA) represents major progress towards the move to net zero, and supports the long-term case for resource equities according to portfolio manager Tal Lomnitzer.

### Can a manager follow a value style and still be ESG?

Richard Brown, Client Portfolio Manager on the European Equities Team led by John Bennett, explains why it is prudent to apply a value lens when investing in the ESG space.

### Decarbonisation in emerging markets: perspectives and insights from Asia

The second edition of the Janus Henderson Decarbonisation in Emerging Markets Report – Perspectives and Insights from Asia – indicates that decarbonisation efforts across Asia are hampered by a fragmented market, but recent trends are encouraging.

### An investor perspective on biodiversity loss: research trip takeaways

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**We hope you found this ESG Quarterly Review informative. We welcome any feedback you may have on it and please speak to your usual Janus Henderson representative if you would like any further information relating to anything covered in this update.**

## IMPORTANT INFORMATION

**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. Net zero refers to greenhouse gas production being balanced by removal from the atmosphere.**

**Fixed income securities** are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.

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