



## Janus Henderson Global Sustainable Equity Strategy

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### Key differentiators

**Long-term thematic approach:** Ten sustainability themes guide idea generation. These themes, derived from four mega trends, reflect a balance between environmental and social sustainability.

**Disciplined fundamental analysis:** Comprehensive stock analysis incorporates both financial modelling and environmental, social, and governance (ESG) research.

**Strict avoidance criteria:** The strategy avoids investing in companies that the manager believes could have a negative impact on the development of a sustainable global economy.

**Diversified, active portfolio:** A highly differentiated portfolio versus its benchmark, the MSCI World Total Return Index. Active share of over 90%<sup>1</sup> (31 January 2019) while seeking balanced overall risk characteristics.

<sup>1</sup> Active share is for illustrative purposes only and may vary over time

### Overview

Janus Henderson's Global Sustainable Equity Strategy invests in companies in any industry and country that the investment manager considers to be contributing to positive environmental or social change and thereby have an impact on the development of a sustainable global economy. It aims to achieve capital growth by investing primarily in a portfolio of global equities. The strategy utilises both positive and negative (exclusion) selection criteria.

This search for sustainability runs throughout the investment process. In researching a stock and building an investment case, the team looks

for evidence of sustainability in every aspect of a company's business, not just in the types of products and services offered, but also in its growth prospects, strategy, capital allocation, cash flows and corporate governance.

### Management team

Hamish Chamberlayne is the Head of SRI and lead portfolio manager. Together with his team, he oversees global SRI assets under management (strategy AUM) of more than £1bn<sup>2</sup>. Hamish has managed the strategy since December 2011.

<sup>2</sup>Source: Janus Henderson Investors as at 31 January 2019.

### Investment philosophy

Janus Henderson has been involved in managing SRI portfolios for more than 30 years and the Global Sustainable Equity Strategy was launched in July 1991. At the heart of the approach is the belief that the best investment returns will be generated by companies which are providing solutions to environmental and social challenges. These companies should have attractive financial attributes such as persistent revenue growth and durable cash flows. The management team aims to achieve capital growth through creating a differentiated global equity portfolio comprising their best sustainability ideas. The team's investment approach is explicitly low carbon and by incorporating environmental, social and governance factors into their analysis they aim to construct a portfolio with a favourable risk profile.

The philosophy is centred around three key tenets:

<b>Sustainability</b>	The management team believes that companies that have products or services connected to the strategy's core long-term themes are more likely to achieve sustainable revenue growth.
<b>Long-term investment</b>	The management team believes that investing for the long-term will lead to superior performance. The thematic approach typically results in a portfolio with low turnover.
<b>Change</b>	Powerful environmental and social trends are going to transform the global economy over the coming decades. The management team seeks companies that are strategically positioned to benefit from this change.

**Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.**

This document reflects the portfolio manager's investment process and style at the time of publication, which may be subject to change without notice.

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## Investment process

### 1. Idea generation

#### Thematic framework

The positive selection criteria lead the team to invest in businesses that have a positive impact on society and the environment. This is by virtue of the products or services they sell, and by the way in which they manage their operations, thereby supporting the Sustainable Development Goals adopted by the United Nations in 2015.

**Idea generation is derived from the four 'core' megatrends: climate change, resource constraints, population growth, and ageing populations.**

The team believes that the defining investment issue of our time will be transitioning to a low-carbon and sustainable economy, while maintaining the levels of productivity necessary to deliver the goods and services that an ageing and growing population requires. Derived from the four megatrends, the strategy has ten sustainability themes of which five are environmental and five are social. For every investment, the team must be able to identify at least one theme operating as a value driver to the business. Productivity is the common thread to all the themes.

The team maintains a large database of companies which is continuously refreshed using a variety of research and company engagement.

Environmental themes	
Efficiency	At its core, efficiency is about minimising environmental impact while still providing essential goods and services to society.
Cleaner Energy	A global energy mix shift to renewable and cleaner energy is crucial in order to limit global temperature increases.
Water Management	Water is under pressure both from the supply and demand side. Substantial investment is required in infrastructure alongside behavioural changes in order to bridge the supply gap.
Environmental Services	Limiting the negative environmental impact associated with population growth and a linear economic model requires effective waste management, pollution control, environmental protection & remediation, and the creation of circular business models.
Sustainable Transport	With transport one of the main contributors to global greenhouse gas emission, there are significant opportunities for companies at the forefront of pioneering new energy technologies and other low carbon solutions.

Social themes	
Sustainable Property & Finance	Financial services play an integral role in the development of a sustainable economy and urbanisation, with demographic trends and climate change necessitating the construction of sustainable and resilient housing.
Safety	Growing populations, technological change and climate change are leading to an increase in the scope and complexity of risks within, for example, technology, road safety, natural disasters, cyber security and food safety.
Quality of Life	Many companies are producing goods or services that make a positive contribution to society and human culture, e.g. healthy living, sustainable consumer goods and entertainment & leisure.
Knowledge & Technology	Technological innovation and the advancement of knowledge play an integral role in the development of a more sustainable economic model.
Health	Increasing demand for healthcare from ageing populations demands the provision of affordable care and services over a longer time horizon, as life expectancy also rises.

### 2. Avoidance criteria

#### Strict criteria

The negative impact on global prosperity from the cost of economic externalities is becoming increasingly recognised. The team seeks to avoid businesses involved in activities contrary to the development of a sustainable economy, believing these types of business to be at a higher risk from government regulation or disruption.

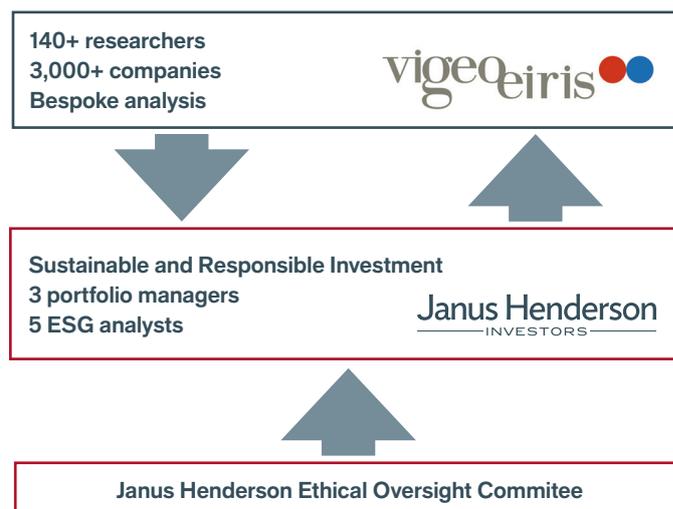
Principle areas avoided	
People	Armaments, gambling, oppressive regimes and tobacco
Environment	Greenhouse gases, mining, nuclear power and water pollution
Animals	Animal testing, fur and genetic engineering

All holdings are compliant with the UN Global Compact, whose Ten Principles cover human rights, the International Labour Organization's declaration on workers' rights, corruption and environmental pollution.

For a full list of avoidance criteria please refer to the Global Sustainable Equity Strategy's Investment Principles.

Janus Henderson has appointed Vigeo EIRIS to provide the negative screening of potential investments. With more than 140 research analysts, Vigeo EIRIS is one of the largest responsible investment research companies globally. Its research team covers more than 3,000 companies and provides detailed reports into a company's activities.

An additional level of oversight is provided by Janus Henderson's Ethical Oversight Committee. This is an independent committee comprising senior figures from across Janus Henderson, responsible for ensuring the strategy's adherence to its exclusion criteria.



Source: Janus Henderson, at 31 January 2019.

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## 3. Fundamental research & ESG analysis

### Integrated approach

Once an investment idea is generated and has passed through the negative screening process, the team carries out fundamental research on the company as well as an assessment of the material ESG factors in the investment case. All companies assessed for inclusion must demonstrate clear management of long-term strategic risks and opportunities, including compliance with the UN Global Compact.

The strategy benefits from the breadth and depth of its global research platform, with 31 global sector specialists and over 150 equity professionals contributing their regional expertise to idea generation.

The management team also uses a variety of resources to conduct their ESG analysis. These include research from MSCI, RepRisk, IVIS, CDP, HOLT, and ISS. In addition, the management team works closely with the Governance and Responsible Investment (GRI) Team, who provides advice and analysis on a range of ESG issues affecting existing and potential investments across Janus Henderson's investment teams.

The GRI team and the management team are able to examine data related to controversies in five areas – environment, governance, human rights, labour rights, and customers. The GRI Team also assists with actively engaging company management on ESG issues and reports on voting actions at corporate meetings.

Based on the research and analysis stage of the process, the management team decides whether the stock should be included in the portfolio. The strategy looks to hold a range of 50-70 stocks and is managed to target effective diversification across regions and sectors.

“ We believe that a sustainable and responsible investment approach should not compromise the potential for long-term performance. Our analysis identifies quality companies that are supportive of a sustainable global economy.”

**Hamish Chamberlayne**

Portfolio Manager; Janus Henderson Global Sustainable Equity Strategy

## 4. Portfolio construction and risk control

### Diverse active portfolio

Every stock selected for the portfolio must fit at least one theme; but for the purposes of portfolio construction, there is no forced distribution of themes. Portfolio construction is driven by stock selection, with each stock assessed within the disciplined analytical framework.

Portfolio construction is a continual process. The team seeks appropriate diversification of risks and considers position size, market capitalisation and sector and theme weightings in constructing the portfolio. The team can also draw on the resources of the Investment Risk Team to assess the likely impact of portfolio reorganisations in terms of risk and return.

To ensure adequate diversification, the team uses the following informal guidelines to assist with portfolio construction.

Characteristic	Indicative range
Active share*	>90% active
Position size	0.5-2.0% initially (3% maximum weight imposed by the managers)
Typical no. of holdings	50-70
Indicative tracking error range	5-7% per annum
Turnover	20-30%
Regional allocation	+/-3% vs the MSCI World Total Return Index
Sector positions	Unconstrained
Cash	1-3%

\*Active share = the measure of the percentage of stock holdings in a portfolio that differs from the benchmark index.

Please note that these ranges are reflective of the portfolio managers' investment process and style at the time of publication. They may not be hard limits and are subject to change without notice. Individual mandates may vary.

### Sell discipline

Sales will be executed when the long-term investment thesis is impaired, or when corporate responsibility issues emerge and there is no possible resolution from engagement with the company. Additionally, a position will be sold if new information identifies a breach of the strategy's avoidance criteria.

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## Risk management

### Team specific

Portfolio risk is assessed using FactSet attribution, Bloomberg and in-house risk reports produced by the independent Investment Risk team. Given the highly active nature of the strategy the largest contributor to portfolio risk is stock specific. The investment team's quantitative and qualitative analysis provides a deep and detailed understanding of this intended risk.

### Independent risk monitoring

Janus Henderson has an independent Investment Risk Team (reporting into the Chief Risk Officer), which is ultimately responsible for the oversight and challenge of market risk. The day-to-day market risk activities are carried out by the Portfolio Risk & Analytics Team reporting into the Chief Investment Officer (CIO). This ensures that the resourcing of market risk is appropriate and in line with the investment strategies followed under the CIO, while providing an independent check of the suitability and effectiveness of the market risk function.

The Janus Henderson Market Risk Function, comprising the Portfolio Risk & Analytics Team and the Investment Risk Team, work closely with senior management and portfolio managers as part of the overall investment risk management and oversight process.

Portfolio managers and senior management have access to a variety of third party and internally built risk management tools in order to qualify and quantify the various types of market risks. Daily reports and dashboard are used for day to day monitoring of the portfolio's exposures and risks and regular oversight meetings are held with the portfolio managers to discuss any relevant risk in the portfolio. A monthly investment performance and risk meeting is held with senior management, allowing the teams to escalate any potential remaining issue and provide senior management with an independent view of the portfolio.

## Portfolio Manager



### Hamish Chamberlayne, CFA Head of SRI, Portfolio Manager

Hamish Chamberlayne is Head of SRI at Janus Henderson Investors. He is also Portfolio Manager of the Janus Henderson Global Sustainable Equity and Institutional Global Responsible Managed strategies, a role he has had since 2012. Hamish joined Henderson in

2011 from Gartmore, where he was an equity analyst with the global equity team. Prior to this, from 2004 to 2007 he worked as a senior auditor at PricewaterhouseCoopers, where he covered a variety of sectors, including energy, technology, and communications. He began his career at Burlington Consultants in 2003 performing commercial due diligence on businesses identified as acquisition targets by private equity houses. Hamish graduated with a master's degree in chemistry from New College, Oxford University. He holds the Chartered Financial Analyst designation and is a qualified accountant. He has 16 years of financial industry experience.

## Portfolio Management and Research

### Global integrated team of investors and ESG analysts

#### Global SRI Equities Team

- Hamish Chamberlayne – Head of SRI
- Aaron Scully – Assistant Portfolio Manager – US based
- George Crowdy – Investment Manager
- Ama Seery – ESG Analyst

#### Governance and Responsible Investment (GRI) Team

- Antony Marsden – Head of GRI
- Olivia Gull – Analyst, GRI
- George Birch – Analyst, GRI
- David Ray – Analyst, GRI

**31 global research analysts with an average of 17 years of financial industry experience.**

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