OUR APPROACH TO ESG

Janus Henderson INVESTORS

Janus Henderson Horizon Strategic Bond Fund

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> "Environmental, social and governance (ESG) considerations are integral to our 'sensible income' approach, which is in effect a 'quality' style bias, with ESG a critical feature when screening for quality credit."
>
> Jenna Barnard, Co-Head, Strategic Fixed Income

ESG considerations are embedded in our 'sensible income' philosophy

As a team, we practice an approach to credit investing that diverges from the mainstream. What we term 'sensible income' is, in effect, a quality style bias, which filters out large parts of the credit market as 'too risky' or 'low quality' for investment. We focus on a specific subset of the bond market as we believe this approach can deliver superior risk-adjusted returns through the economic cycle for our clients.

The illustration in chart 1 highlights how the filters we use result in a dramatically smaller pool of potential investments than the 'market'. We focus on lending to large-cap, non-cyclical businesses in developed world markets that can provide our clients with a reliable, stable income stream. The consideration of ESG risks goes hand in hand with this style of credit investing and fits naturally into our due diligence process, ahead of lending to a new business or as part of the ongoing monitoring of portfolio positions.

For example, taking the case of the global high yield (HY) market, there are over a trillion dollars of bonds in the index which we would not consider for investment.

Chart 1: our credit screening methodology

Source: Janus Henderson Investors, February 2020.
Note: OEMs = original equipment manufacturers

Our 'sensible income' investment philosophy is also a function of the profile of our typical end client.

Where we have the direct end client holding data available, we know that our typical client tends to be female, in her 70s, often living on the south coast of the UK and most frequently called Margaret. We believe Margaret expects sensible, consistent fixed income returns, produced by an understandable investment approach with predictable outcomes. This often requires discipline and confidence to say 'no' to many of the new bond issues that are brought to market, aiming to build a bond portfolio that focuses on quality companies and effectively manages downside risk.

Companies that fail our ‘sensible income’ definition tend to have weaker ESG profiles

A number of industries do not adhere to our interpretation of ‘sensible income’ and hence we avoid lending to these sectors. In general, these industries are often capital intensive with high operating leverage, high financial leverage and a low return on capital employed. These sectors tend to include but are not limited to airlines, auto OEMs, energy, metals & mining and shipping. In addition, we avoid lending to sectors that are in structural decline, such as high street fashion retailers.

Over time, we have found that there is a meaningful overlap between those sectors that fail to meet our definition of ‘sensible income’ and those that have weaker ESG profiles. Hence, our style of credit investing tends to shield us from areas of the bond market that are higher risk from an ESG perspective.

For example, we generally avoid heavy industrial sectors; an area of the market that has a higher potential of being associated with pollution related offenses. A further example is our geographic focus — we do not lend to emerging market businesses or Italian corporates; geographies that often score poorly in terms of corporate governance.

ESG ratings per Sustainalytics

Given our quality style bias, we tend to screen well versus the major bond indices across investment grade and high yield credit according to ESG research and ratings firm, Sustainalytics.

Specifically, the Janus Henderson Horizon Strategic Bond Fund has a significantly lower exposure to companies classified in the high or severe ESG risk category. A large proportion of the portfolio can be accounted for by lending to businesses classified in the negligible or low ESG risk category.

In addition, our carbon risk rating and carbon intensity scores are particularly low as our approach precludes us from lending to certain sectors that tend to score poorly such as energy and heavy industrials.

Table: Janus Henderson Strategic Bond Fund ESG ratings per Sustainalytics

Description	Strategic Bond	\$-Investment grade index	£-Investment grade index	Global high yield index
ESG Risk Rating[1] (Low score = good)	21.7	24.9	21.4	29.6
High/Severe ESG Risk Category[2] (% weight)	11%	24%	18%	41%
Negligible/Low ESG Risk Category[3] (% weight)	45%	28%	40%	19%

Source: indices per ICE BofA Merrill Lynch, ESG metrics per Sustainalytics, as at 21 January 2020.
Sustainalytics coverage (weight %): Strategic Bond (76%), $ investment grade index (79%), £ investment grade index (83%), Global high yield index (82%).
Notes:

1. Measures the degree to which a company’s economic value is at risk driven by ESG factors, as assessed through the calculation of unmanaged ESG risks. Unmanaged risk is defined as material ESG risk that has not been managed by a company, and includes unmanageable risk, as well as risks that could be managed by a company through suitable initiatives but which may not yet be managed
2. High or Severe risk of material financial impacts driven by ESG factors
3. Negligible or Low risk of material financial impacts driven by ESG factors

Janus Henderson bottom-up ESG research

ESG analysis is fully integrated into the fundamental, bottom-up credit research efforts at Janus Henderson and is one of many factors we consider in our credit analysis; however, if we deem an issuer un-investable on ESG grounds then this will be an overriding factor. ESG ratings are coordinated across the Fixed Income department by the global credit analysts and built into the internal research tool, Quantum Global, which is then shared across the firm.

In terms of ESG considerations, we look for materiality and whether the ESG risks identified for each issuer are improving or deteriorating. A key question is whether a company is willing or able to manage and mitigate material ESG risks and whether we can see actual evidence of it.

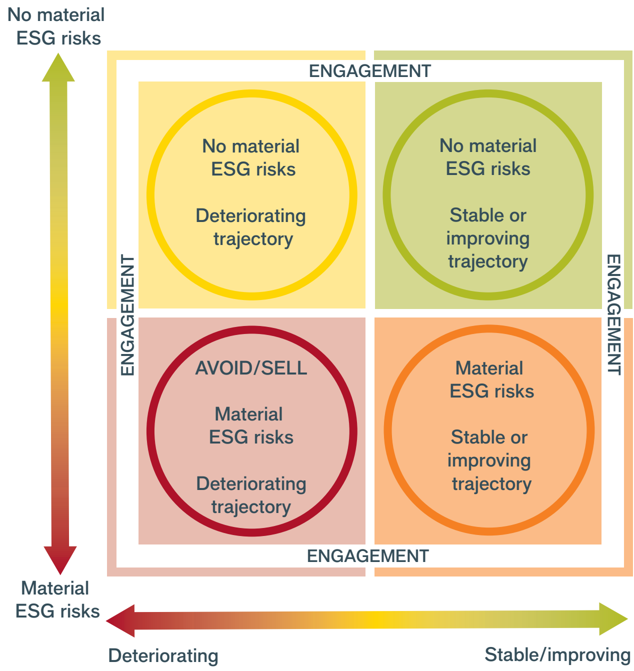
If a company has material ESG risks and is ignoring them or is not able to actively mitigate them, it is very likely that its bond prices will suffer in the future. We aim to avoid issuers where we think significant ESG risks exist and the company is experiencing a deteriorating ESG risk profile (red quadrant in chart 2). We do not buy bonds from these issuers or if we have an existing holding we will systematically sell down exposures across all our fixed income portfolios at Janus Henderson.

Engagement

As bond investors, we may not hold voting rights to be able to directly shape the direction of a company, but we believe we can still have influence over companies, particularly those in which we are a large creditor. We engage with companies not only through company meetings but also surveys, emails and calls with an ultimate objective of achieving positive outcomes in the issues we raise.

We collaborate with our equity colleagues and attend company meetings together, engaging with issuers on ESG issues at the wider firm level. The dedicated in-house Governance & Responsible Investment Team support us on specific ESG issues as well as representing us through industry wide initiatives, such as the Climate Action 100+ initiative. We can also draw upon the dedicated Fixed Income ESG Working Group, of which the Strategic Fixed Income Team is an active member. This in-house research strength is complemented by subscriptions to third party data and research providers.

Chart 2: key criteria for formulating our ESG assessment



Source: Janus Henderson Investors, February 2020.

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A copy of the Fund's prospectus, key investor information document, articles of incorporation, annual and semi-annual reports can be obtained free of cost from the local offices of Janus Henderson Investors: 201 Bishopsgate, London, EC2M 3AE for UK, Swedish and Scandinavian investors; Via Dante 14, 20121 Milan, Italy, for Italian investors and Roemer Visscherstraat 43-45, 1054 EW Amsterdam, the Netherlands. for Dutch investors; and the Fund's: Austrian Paying Agent Raiffeisen Bank International AG, Am Stadtpark 9, A-1030 Vienna; French Paying Agent BNP Paribas Securities Services, 3, rue d'Antin, F-75002 Paris; German Information Agent Marcard, Stein & Co, Ballindamm 36, 20095 Hamburg; Belgian Financial Service Provider CACEIS Belgium S.A., Avenue du Port 86 C b320, B-1000 Brussels; Spanish Representative Allfunds Bank S.A. Estafeta, 6 Complejo Plaza de la Fuente, La Moraleja, Alcobendas 28109 Madrid (Registered in Spain under CNMV 353. The Custodian in Spain is BNP PARIBAS SECURITIES SERVICES S.C.A.); Singapore: Singapore Representative Janus Henderson Investors (Singapore) Limited,138 Market Street, #34-03/04 CapitaGreen, Services Limited, 51/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, Tel: +852 2978 5656 is the Fund's Representative in Hong Kong.

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