Janus Henderson
INVESTORS

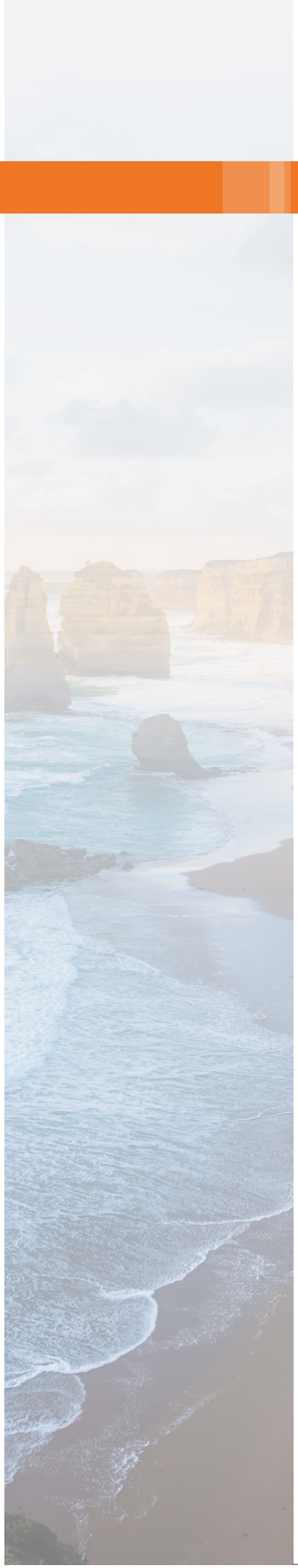


October 2024

AUSTRALIAN FIXED INTEREST TEAM APPROACH TO ESG

Environmental, Social & Governance (ESG)

For financial services professionals only.



THIS APPROACH RELATES TO THE ESG INVESTMENT PROCESS UNDERTAKEN BY THE AUSTRALIAN FIXED INTEREST TEAM THAT IS USED ACROSS ALL FUNDS AND MANDATES. IT IS IN ADDITION TO THE FIRMWIDE RESPONSIBLE INVESTMENT POLICY WHICH IS PUBLICLY AVAILABLE.

Our beliefs

We fundamentally believe that the consideration of ESG factors is vital to making sound investment decisions that are consistent with our "quality before price" philosophy. As such, ESG analysis is integral to, and not a separate aspect of, our investment approach.

ESG risk considerations are a part of our four-pillar approach to bottom-up credit analysis, as well as being a gate for portfolio inclusion. In addition, our approach to company engagement on all issues, including ESG topics, demonstrates that ESG risk analysis is incorporated throughout our investment process.

We apply this approach across the board, rather than limit this approach to certain portfolios or strategies that are specifically labelled as "ESG" or "sustainable". The approach outlined below is implemented systematically and consistently across all clients and portfolios of the Australian Fixed Interest Team (Team).

Our integrated approach to ESG follows the simple logic that if we are successful in avoiding companies that have material ESG risks that aren't being mitigated, this will result in a higher quality portfolio for our clients. We define material ESG risks as those that are likely to negatively affect the financial profile of the company and in turn the price of their bonds. For the companies remaining in our investible universe, all things being equal, they should be recipients of a lower cost of capital and therefore exhibit better bond price performance.

Our investment philosophy leads us to only invest in companies that are stable and sustainable in credit quality and we believe this aligns with the desires of our clients.

Investing in companies that are stable and sustainable aligns with our "quality before price" investment philosophy and our goals of being a responsible investor. We are committed to holding borrowers accountable to a higher standard of behaviour and we believe our integrated ESG approach, along with our engagement efforts can shape corporate behaviour for the betterment of society.

Our approach

The philosophical approach to credit investing by the Team is underpinned by our "quality before price" approach and the recognition of the asymmetric risk that is involved. At best, this means receiving coupon payments when they fall due and the repayment of the principal in full at maturity. At worst, this can mean losing 100 cents on the dollar. This is why our formal credit review process is undertaken on each issuer prior to the evaluation of the price of their bonds.

Our credit research process seeks to answer the following question: Is this company stable and sustainable in credit quality? This question ensures that we focus on companies whose business model will be able to survive and prosper by maintaining their social licence to operate over the longer term as the demands of society and consumers change as does government regulation. If we believe a company does not meet these criteria, they cannot form part of our investible universe, regardless of price.

At a very high level our four-pillar approach to bottom-up credit analysis entails an assessment of:

Business risk

An assessment of the company's competitive position and overall industry dynamics.

Financial risk

A review of key debt metrics such as leverage and interest cover as well as measures like profitability and revenue trends.

Management profile

An assessment of the company's management including their attitude to bond holders; and corporate strategy.

ESG risks

A thorough review of any material Environmental, Social and Governance (ESG) risks involving the company in question.

Following a peer review by the Team's internal credit committee, if we are satisfied that following this credit evaluation the company is stable and sustainable in credit quality, it is added to our Approved List of allowable investments.

Negative Screens

In the first instance, the Australian investment team apply negative screens by excluding companies that perform poorly on environmental, social, and corporate governance (ESG) criteria. By avoiding companies that engage in harmful activities, this aligns our investable universe with the values and standards that is expected of us by our clients. Specifically, the Team uses negative screens to exclude investment in issuers directly involved in the following activities: • tobacco manufacturing, including alternative smoking products; • manufacture of controversial weapons (such as cluster munitions, landmines, biological or chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments); and • production or distribution of pornography (refer AIG for further information on monitoring through third parties including limitations and indirect investment exposure from investment in underlying funds and index derivatives).

ESG in the initial credit assessment process

Every company has risks and every company has ESG related risks. The way we think about ESG risks is that we focus on what we determine are financially material ESG risks.

The ESG assessment forms part of the initial credit assessment. We consider material ESG risks to be those with the potential to impact the credit profile of the company. After we have identified these material ESG risks, our focus turns to how are they being mitigated. Key questions asked at this stage include: What is Management's plan to mitigate these risks? Is the plan likely to succeed? Are all the issues known and addressable?

Some examples of the ESG topics we believe can lead to material risks include:

Environmental	Social	Governance
Climate change	Political/Regulatory change	Internal culture/employee satisfaction
Circular economy	Cyber/data security	Governance systems
Energy efficiency	Demographic changes	Diversity and inclusion
Sustainable transport	Modern slavery/supply chain	Corporate ethics
Plastic waste	Consumer preferences	Transparency and reporting
Biodiversity	Product safety	Board composition and oversight

The above list is not exhaustive, and we judge each company on its individual merits, taking into account their specific situation. Clearly however there are ESG risks that exist for virtually all companies, ranging from the impact of climate change on their businesses (environmental), to the risk of modern slavery and poor labour practices in their supply chain (social), and looking internally within the firm and whether the right decision- making structures and values exist (governance).

There is no set threshold to determine whether an ESG risk is material. We feel that a case-by-case approach is best, rather than creating and adhering to arbitrary rules.

If we are not satisfied that the company is mitigating its material ESG risks, or alternatively if there is a material ESG risk that we believe will impact the credit profile of the company, this will be factored into the initial credit assessment and will likely result in that company being assigned a 'not approved' status on our Approved List.

ESG effect on portfolio construction

Once a company is approved on our Approved List, if there has been a material ESG issue that has emerged or if we change our view on whether a company is mitigating its material ESG risks, this can affect the status of that company on our Approved List and ultimately our investable universe. The way we do so is by changing their classification on the Approved List under the "Material ESG risks addressed?" column (shown below).

Changing a company's status to 'No' suspends it on our Approved List and the bonds of that company are not able to be added to portfolios. Importantly, this overrides any existing 'approved' status on our Approved List.

Where the investment status becomes 'not approved' as part of our credit process, we seek to sell down holdings with the best interest of clients in mind. The timing of which may not immediately follow negative news flow. We will make an assessment on how to achieve the best exit outcome for the client.

In such a situation, we do not place specific limits on how long a company is suspended, as each case may be different. We continually assess the merits of all companies and their status on the Approved List and this includes companies that have had an Approved List change due to ESG factors. When we feel that these material ESG risks are not enough to affect the credit profile of the company or the price of its bonds, this would be cause to change their Approved List status.

Below is an illustrative example of our Approved List:

Issuer Name	Status	Material ESG risks addressed?
Company A	**Approved**	**Yes**
Company B	**Approved**	**Yes**
Company C	**Suspended**	**No**
Company D	**Approved**	**Yes**
Company E	**Not approved**	**No**
Company F	**Approved**	**Watch**

The definitions of the classifications in the Approved List are shown in the tables below:

Status	Description
Approved	Company is approved and bonds can be added to portfolios
Suspended	Company bonds are not authorised to be added to portfolios. No requirement to immediately sell holdings (if any).
Not approved	No bonds of the company can be held in the portfolios.

Material ESG risks addressed?	Description
Yes	Material ESG risks mitigated, therefore no restriction on adding company bonds to portfolio provided status is 'Approved'.
No	Company bonds are not authorised to be added to portfolios, regardless of whether status is 'approved'.
Watch	Emerging material ESG issue that may lead to change of Approved List status in the future.

The classification of 'watch' means an evolving or new material ESG risk for a company has been identified and it's too early to form a view on whether this will impact its credit profile or the price of its bonds. During this time there is no change of Approved List status, but any investment decision will take this evolving ESG risk into account.

The approach we take regarding material ESG risks and the Approved List makes ESG risk considerations a "gate" in the ongoing portfolio construction process.

Having financially material ESG risk as one of the four pillars of our bottom-up credit assessment, as well as the action we can take on our Approved List demonstrates that financially material ESG factors are integrated into both our bottom-up and top-down approach to credit portfolio management. Importantly, we believe that having an approach to ESG risk considerations that is embedded in our credit process, as well as being consistent with our philosophical approach to credit, will result in the best possible outcome for clients and portfolios.

Engagement

Our company engagement efforts are a crucial aspect of not only our initial and ongoing credit assessment process, but are also crucial to helping us better understand a company's material ESG risks and whether they are mitigating them.

The scale of our business, combined with our long-standing track record and experience in the Australian bond market means we often have the privilege of 1:1 meetings with companies. We use the time with issuers to ask targeted sustainability focused questions that address the key issues and material ESG risks the company faces and to understand the approach being taken to mitigate them

Following an engagement meeting, a full detailed report is written and filed onto our firm's global central database. The meeting is also recorded on our engagement journal, with any requirements for a follow up meeting noted.

Ultimately our engagement efforts result in a better understanding of the ESG issues and material ESG risks of a company. We are also demonstrating to the company that as a stakeholder we take ESG risks seriously and we are prepared to take them to task on the credibility of their decarbonisation pathway, climate targets, social inclusion and diversity amongst other things. While we would prefer to engage rather than divest, we can and will withhold capital if we deem a company to lack the required attributes. The integration of financially material ESG factors and our 'quality before price' investment philosophy means that companies that don't meet our standards will need to look elsewhere for capital. We believe that this sends a powerful message to senior management of corporate Australia.

Ongoing Monitoring

If there is an ESG related issue that has emerged, or there is more information we wish to understand from a company, we are proactive in seeking a forum with the company to directly engage with them on the issue. In addition, our credit analysts ask ESG related question in nearly every meeting they have with an issuer. This could be during new bond deals, earnings reports etc.

Our investment team keep abreast of controversies and emerging ESG risks through alerts from third party providers, media publications and industry discussions.

The domestic ESG labelled bond market

We are buyers of green, social, sustainable and sustainability-linked (GSSS) bonds across our funds and mandates. These bonds direct the bond proceeds to environmental projects/initiatives (green), socially conscious projects (social) or both (sustainable) or in the case of sustainability linked bonds (SLB's) the coupon payments are linked to pre-defined sustainability performance targets.

Forming part of our engagement process we encourage the development of these positive impact capital markets. Given the bespoke nature of bonds, and complexity in structuring, we as active managers have been engaging directly with CFOs and treasury teams, as well as debt origination desks at the banks, to ensure our clients' interests are appropriately considered while seeking to promote a viable way to grow the local positive impact investing landscape. In this way we can ultimately direct capital to those issuers that are considered *"best-in-class"* on specific environmental, social, and governance (ESG) metrics when compared to their peers.

As the market evolves, we are being presented with more opportunities to incorporate assets into our portfolios that positively impact e.g. social housing, climate change, SDG aligned, empowering women. We are mindful of 'green washing', but that aside, we see the growth in the market as a positive development. We will continue to identify investment opportunities that benefit society and the environment, where investors are also appropriately compensated and provide scope for continued alpha generation.

RIAA Certification

Over the past year we are delighted to have received RIAA certification for the following funds: Tactical Income Fund & Active ETF (CXA: TACT), Australian Fixed Interest Fund, Australian Fixed Interest Fund – Institutional, Sustainable Credit Fund & Active ETF (ASX: GOOD).

Who is RIAA?

RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. Their Certification Program is the longest running responsible investment program in the world. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

Why is certification important?

A certification from RIAA verifies that the fund's investment intentions and processes are consistent with its responsible investment claims. This provides confidence to our clients that RIAA accredited products offered by Janus Henderson are delivering on their responsible investment promise and meeting the Australian and New Zealand Standard for responsible investing.

RIAA verifies that our products have implemented an investment style and process that systematically takes into account environmental, social, governance or ethical considerations. Our accredited products meet the operational and disclosure practices of Certification Program requirements.



ESG reporting

We are committed to demonstrating our engagement efforts with companies on ESG issues and publish a quarterly ESG report to outline the key developments that have taken place. This report aims to provide insight into the specific issues, the steps these companies are taking to mitigate them and the impact these issues have on their status in our Approved List. A copy of the report can be provided upon request.

JHI BRIGHTER FUTURE FUNDS

Janus Henderson offers a heritage of active ESG-focused strategies to meet differing client needs

SUSTAINABLE HERITAGE

Our commitment to sustainability is three decades strong and still evolving, from our pioneering **sustainable product launch** in 1991, to becoming a founding **PRI signatory** in 2006, to the recent expansion of our global ESG framework and sustainable product offering.

ACTIVE INVESTING

Our ESG investment teams conduct detailed analysis to understand the impact of today's issues on the investment opportunity set and regularly interact with companies and agencies, seeking to **influence positive change** and deliver **attractive risk-adjusted returns**.

DIFFERENTIATED STRATEGIES

- **ESG Leaders**
- **Improvers**
- **Solutions and Enablers**

Our growing range of ESG-focused strategies increasingly offers portfolios with ESG objectives that **help clients meet their financial and ESG goals.**

Source: Janus Henderson Investors, as at 30 June 2024.

COMMITTED TO A BETTER FUTURE

Partnering with a team dedicated to sustainable solutions

ESG investment team



Liz Harrison
Fixed Interest Strategist – ESG
Responsible for ESG process and company engagement



Jay Sivapalan
Head of Australian Fixed Interest
Responsible for ESG and positive investments oversight



Shan Kwee
Portfolio Manager – Credit
Responsible for ESG and positive investments portfolio management



Artee Khiatani
Credit Analyst – ESG
Responsible for company engagement and sustainability analysis



Dinesh Kuhadas
Credit Analyst
Responsible for ESG and sustainability assessment



Simran Singh
Fixed Interest Analyst
Responsible for ESG and sustainability analytical support

ESG team resources

9 investment professionals within the Australian Fixed Interest Team

Supported by **27 dedicated ESG personnel** within the global firm

21 investment professionals within the Fixed Interest ESG Forum

ESG analysis resources

ISS ESG

SUSTAINALYTICS
a Morningstar company

MSCI

Use of a variety of data sources and tools for **ESG analysis**

Source: Janus Henderson Investors, as at 30 June 2024
Note: All views and opinions are those of Janus Henderson Investors and not necessarily representative of the views of ISS ESG, Sustainalytics and MSCI.

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