SECOND HALF 2020

GLOBAL PROPERTY EQUITIES

KNOWLEDGE SHARED

VOTING AND ENGAGEMENT REPORT

Engagement activities

- The Janus Henderson Global Property Equity Strategy voted on 17 out of 17 ballots (100%) and registered 2 votes against company management.
- The Janus Henderson European Property Equity Strategy voted on 11 out of 11 ballots (100%) and did not register any votes against company management.
- The Janus Henderson Asia Pacific Property Equity Strategy voted on 22 out of 22 ballots (100%) and registered 6 votes against company management.

ESG engagement by company

Company	Environmental	Social	Governance
Invitation Homes			
UDR			
MGM Growth Properties			
LEG			
Urban Logistics REIT			
Warehouse REIT			
Workspace			
Vonovia			
GLP JREIT			
CapitaLand			

Voting activity

JH Global Property Equity Strategy

Total number of meetings where it was possible to vote	16
Number of meetings voted	16
% of meetings voted	100%

Total number of proposals where it was possible to vote	99
Number of items voted	99
% of items voted	100%
Number of votes with policy	98
Number of votes against policy	1
Number of votes with management	97
Number of votes against management	2

JH European Property Equity Strategy

Total number of meetings where it was possible to vote	10
Number of meetings voted	10
% of meetings voted	100%

Total number of proposals where it was possible to vote	150
Number of items voted	150
% of items voted	100%
Number of votes with policy	150
Number of votes against policy	0
Number of votes with management	150
Number of votes against management	0

Voting activity

JH Asia Pacific Property Equity Strategy

Total number of meetings where it was possible to vote	
Number of meetings voted	22
% of meetings voted	100%

Total number of proposals where it was possible to vote	
Number of items voted	104
% of items voted	100%
Number of votes with policy	104
Number of votes against policy	0
Number of votes with management	98
Number of votes against management	6

Key company engagement

Company engagement summary

As part of our active ownership approach the Global Property Equities Team conducted a materiality mapping exercise to identify our priorities for company engagements going forward. As part of this process, within our holdings we identified a pipeline of engagement priorities by region, based on considerations across each facet of E, S and G. We also maintained our active engagement in the wider listed property sector, regardless of whether we are a shareholder or not in a company.

Specific to environmental considerations, reporting and disclosure remain a priority for the team. We continue to push for increased disclosure on carbon emissions, including Scope 1, 2 and 3 emissions, as well as energy intensity data. We also continue to track progress towards a reduction in carbon intensity and encourage all companies to adopt science-based targets to reduce the impact of their operations on the planet.

NORTH AMERICA:

Invitation Homes

Given that Invitation Homes (INVH) and the single-family rental has come under scrutiny from reputable media outlets (ie, The New York Times) in recent years, we have encouraged management to adopt a robust and visible ESG platform that provides transparency regarding the firm's value creation for constituents. As part of this discussion, we encouraged participation in the GRESB survey, which the company completed for the first time in 2020. In our discussion, management emphasised that from a social perspective, the company is seeking to engage its employees as much as possible through monthly surveys. Prior to the pandemic, management introduced more flexible work opportunities as well as more generous parental leave programmes. We commended the company for maintaining its staffing levels through 2020 as the firm had no pandemic-related furloughs. Furthermore, we applaud the company's hardship-relief programmes created during the pandemic to restructure leases where possible, thereby providing relief for tenants most severely impacted by COVID. On the environmental front, the company has installed 50,000 smart home utility meters, which should engender more efficient utility consumption from its resident base over time. From a governance perspective, we are pleased to see that INVH completed its inaugural GRESB survey. Lastly, we are encouraged by INVH retaining an ESG-related consultancy to help guide its ESG framework in 2021.

UDR

We spoke to management in November 2020 about the firm's diversity and inclusion efforts. Management has sought to create a healthy corporate culture, yet CEO Tom Toomey concedes that the firm and its executive leadership team could be more inclusive. Women represent 3/10 board members and the executive leadership team illustrates no diversity (either gender or ethnicity). Encouragingly, UDR has narrowed gender pay gaps by neutralising wage discrepancies within seniority ranks. However, we believe that management's efforts to further its corporate culture will be enhanced by female and/or diversity inclusion on the firm's executive leadership team. To that end, CEO Toomey suggested that the company is planning to be more targeted with recruiting efforts – potentially targeting historically black colleges for graduate hires. We pushed management to also enhance recruiting efforts for women and people of colour at senior level roles. Toomey has been charged with creating a more inclusive executive leadership team by the board but it seems as though this is a five-to-ten year task – we will continue to push for more urgency on diversity and inclusion initiatives at all levels of the company.

Key company engagement

MGM Growth Properties

Our November conversation at the NAREIT (National Association of Real Estate Investment Trusts) conference underscored our continued encouragement of governance improvements, primarily through the reduction in MGM Resort International's influence over MGM Growth Properties (MGP) and the collapse of its dual-class share structure. Given MGP's share structure, MGM continues to exert control over the board with as little as 30% of ownership. We were encouraged by MGM's disposition (disposal) of $700M in equity in May 2020 and expect further dispositions to transpire over the next year, so long as MGP's share price reflects fair value (management believes a share price exceeding $30 will be a floor on further dispositions). We also expressed our view that the elimination of the dual-class structure over time would be supportive of value-creation and an improved cost of capital as MGP would have a higher likelihood of index inclusion. Subsequent to our conversation in December, MGP redeemed $700M of MGM's OP (operating partnership) units, reflecting a further sell-down of MGP's equity ownership. This is a transaction we support as it reduces MGM's overhang and furthers MGP's commitment to improved governance and alignment with common equity holders. MGP nevertheless still retains a 53% ownership stake – down from 57% prior to the redemption.

EUROPE:

LEG

We engaged with the chairman of LEG regarding changes to the company's variable compensation structure which, in our view, ran the risk of creating incentives that are not fully aligned with shareholders' interests. This particularly applies to an acquisition bonus for senior management, linked to the number of units acquired, but with no direct link to a leveraged neutral earnings per share metric, which we see as preferable. Wider-reaching changes to the compensation scheme were positive, such as the >1x base salary stock ownership requirement for senior management, which to some extent mitigates our concerns around the acquisition bonus. The chairman acknowledged our concerns and reinforced that the board and management team recognise the need to be well aligned with shareholder interests. We also discussed LEG's increased focus on a carbon balance sheet to address their environmental impact. The chairman highlighted that ESG factors are to be included in compensation (20%) with factors still to be decided but likely to be greenhouse gases (GHG) consumption-driven. We support the move to align compensation to measurable targets and will continue to monitor any external growth and balance sheet implications.

Urban Logistics REIT

We engaged with Urban Logistics REIT due to the lower-than-average ESG score in our investment framework. Management recognised our concerns around current disclosure and reassured that they are taking steps to improve this. Overall, we were comforted with the progress the company is making on its ESG credentials with the below measures:

- GRESB participation in H1 next year
- Inserting green clauses into leases to enhance data collection and monitoring capabilities and all future developments
- BREEAM ratings – all new developments to have an excellent or better rating
- Target of 100% A-C in Energy Performance Certificate (EPC) ratings by 2023 – currently 73% and on track to deliver two years earlier than government legislation. This is ahead of Segro and slightly behind Tritax
- Electric charging points and low energy lightings going in. Solar panels going in on Braintree/Chelmsford sites

We will track the GRESB score to monitor progress going forward as well as monitoring the reduction in the company's carbon footprint as their disclosure improves.

Key company engagement

Warehouse REIT

ESG is an area where we feel Warehouse's management needs to develop and the team expressed the need for better reporting. Management acknowledged that they are lagging peers and are now actively working with real estate consultant JLL to remedy this. Regarding reporting and disclosure, EPRA BPR (Best Practices Recommendations) guidelines are Warehouse's first target and their plan is then to build from there. We outlined our preference for GRESB but appreciate that EPRA BPR is less resource intensive and is a reasonable first step. We were interested in their EPC exposure given new legislation in the UK. They have a handful of F and G-rated assets left that are below current criteria, which are currently leased out. While the company can encourage improvements from tenants they cannot force implementation until the asset becomes vacant.

Workspace

Workspace ranks among the leaders in our ESG scorecard with a high GRESB score (GRESB provides a company's overall measure of ESG performance out of 100) of 88. Management is however, comparatively quieter about their credentials and successes with regards to ESG, particularly compared to other London office names. We see a lot of value in their business model from an embodied carbon perspective, eg. repurposing existing buildings and increasing asset quality rather than developing new space. We outlined this view and the need to emphasise ESG as part of their agenda. We feel their focus on small and medium enterprises (SMEs) and support given to tenants during the pandemic shows strong social aspects. We were also pleased to hear that science-based net zero targets are currently in discussion (since announced).

Vonovia

We engaged with Vonovia following their withdrawal from GRESB's ESG assessment and to discuss their priorities going forward. Management emphasised they would rejoin once GRESB recalibrates to accommodate residential landlords in their methodology. This is a theme we have heard from others, such as Grainger, and is a valid argument in our view. We are pleased that GRESB has responded and is looking to improve the framework for submissions from residential landlords.

In the meantime, management is focused on becoming CO2 neutral by 2050, which includes a step up in modernisation rate from 1% to 3% and a focus on developing on-site energy production alongside higher efficiency of buildings. Green district heating via pellet heating systems as well as hydrogen technology are being pushed, but also increasing efficiencies via serial refurbishments. We appreciate the level of disclosure. Specific ESG targets related to CO2 intensity will be added to senior management's compensation scheme in 2021.

Key company engagement

ASIA-PACIFIC:

GLP JREIT

We had a call with the management of GLP JREIT to get more detail on their recent issuance of sustainability bonds (first in the market), which unlike green bonds (which have been a new source of financing for many JREITs) – where the underlying asset requires green certification – have an added social element. In this case, the underlying asset has a tie up with local government to be used as a restoration support centre and evacuation site in case of natural disasters. This was an initiative the REIT started in 2019 as it looked to enhance the social aspect of ESG efforts. Increased demand from investors has driven down the pricing of these bonds versus conventional bonds. The sustainability bond, issued for a tenure of 10 years and priced at 50 basis points (one of the lowest in the market) raised ¥5bn. Management was encouraged by the success and highlighted the ability to raise more in future as they have another 14 properties with similar arrangements to be used during emergencies.

CapitaLand

CapitaLand held a call with investors to discuss its latest 2030 sustainability plan highlighting the strategic direction, targets and measurability of their plan for the next decade. The plan was one of the most comprehensive we have seen from a property company in Asia. The high-level strategic direction the group has set aims to build portfolio resilience and resource efficiency focusing on carbon transition, water conservation and waste management. This would enable thriving and future adaptive communities through focus on their people, customers and supply chain management as well as to accelerate sustainability innovation and collaboration, leveraging on technology and sustainable financing.

CapitaLand has been tracking and collating environmental data for 12 years. The company has set targets to reduce carbon intensity and water consumption, increase electricity consumption from renewable sources, as well as improve recycling rates and waste diversion from landfills. Other areas where management has set hard targets include sustainable financing and female board representation. They are still working on attempting to quantify their efforts using a Return on Sustainability matrix over six capital streams. Environmental, manufactured and financial factors are more easily measurable while human, social and organisational still requires some work and thought. They are also in the process of working these into management's KPI and compensation. The group is a leader in ESG within the Singapore peer group and is important given its large representation (together with its listed REITs it is >40% of the Singapore weight in the index) of the listed real estate sector. CapitaLand and its listed REITs all score high within our ESG scoring system.

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Footnotes

GRESB: GRESB Assessments are guided by what investors and the industry consider to be material issues in the sustainability performance of real asset investments, and are aligned with international reporting frameworks, GRESB Rating is an overall measure of how well ESG issues are integrated into the management and practices of companies and funds.

BREEAM: BREEAM rating benchmarks enable a client and all other stakeholders to compare the performance of a building with other BREEAM-rated buildings of the same type, and the typical sustainability performance of a stock of buildings. BREEAM does this through third party certification of the assessment of an asset's environmental, social and economic sustainability performance, using standards developed by BRE.

EPRA BPR: The European Public Real Estate Association (EPRA) Best Practice Recommendations (BPR) set out additional performance measures and supplementary information to be presented in the annual reports of public real estate companies, with the aim of making the financial statements of these companies clearer, more transparent and comparable across Europe.