Janus Henderson INVESTORS

ESG AND ENGAGEMENT – Q2 2021

Henderon European Focus Trust

ESG RATING

Overall ESG risk (Low score = more compliant, higher score = less compliant)	**Trust**	**FTSE Europe EX UK Index**
ESG[1]	19.6	20.0
Controversies[2]	2.3	2.1
Governance[3]	3.3	3.8
Carbon Footprint[4]	208,473	72,584

1. ESG. Source: Sustainalytics. Measures a company's unmanaged ESG risks that are considered financially material. This includes unmanageable risk (sub-industry specific), as well as risks that could be mitigated by company management ('the management gap'). The scoring system is 0-10 (negligible risk); 10-20 (low risk); 20-30 (medium risk); 30-40 (high risk); 40+ (severe risk) as defined by Sustainalytics. Fund and index score is a weighted average.
2. Controversies. Source: Sustainalytics. Reflects a company's level of involvement in issues with negative ESG implications. The score is driven by stakeholder impact, reputational risk and management response. The categories are rated for severity 1 (low) –5 (high) based on the risk and impact of the incident(s).
3. Governance Risk. Source: ISS. Rating based on an assessment of the quality of corporate governance practices relative to a company's domestic market. The 1-10 (low to high risk) score indicates a company's governance risk, relative to its index and region.
4. Portfolio Carbon Footprint. Source: ISS. The sum Total Apport. t CO_2e for the portfolio compared to an equivalent AUM invested in the Index. The apportioned tonnes of CO_2 or equivalent greenhouse gas emissions, accounting for scope 1 & 2, for a company equity investment per year.

ESG rating

The fund scores solidly on ESG metrics with the weighted average rating of 20 locating the fund between the low and medium risk categories.

The fund has no holding categorised as severe risk and only ArcelorMittal with a high ESG risk rating (Please see the Trust's Q1 report for a full case study on the stock)

Our autos (Dieselgate) and steel exposure predominantly explains our weaker controversy scores, we believe strong auto demand, low inventory levels, large scale management restructuring and a much improved EV offering currently offset the poor governance history in terms of risk/reward.

The carbon footprint data is covered in more detail on the following page.

Source: Janus Henderson Investors, as at 30 June 2021
Note: Reference to individual companies or any securities is purely for the purpose of information only and should not be construed as a recommendation to buy or sell the same. The above are the Team's views and should not be construed as advice and may not reflect other opinions in the organisation.
ESG - Environmental, social and governance are three key criteria used to evaluate a company's ethical impact and sustainable practices.

CARBON FOOTPRINT

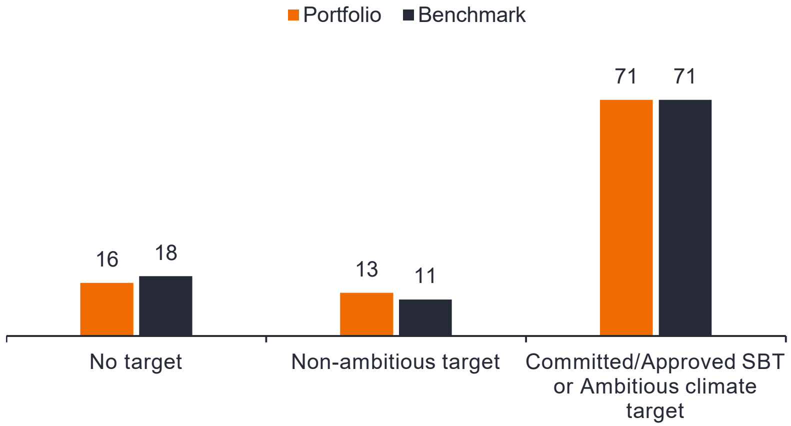
The carbon footprint of the portfolio is high versus its benchmark index.

The largest contributor by a significant margin is Holcim with existing cement processes being very carbon intensive. The company has put forward a very credible plan to decarbonise its cement business (a leader in its peer group) and this is increasingly recognised by external agencies. The company recently achieved the highest rating of A1+ which represents a Top 2% ranking worldwide with the Best Energy Transition score within the industry. As rated by Vigeo Eiris.

Please see our Q1 report for a case study on Arcelor Mittal for further details

In addition, using ISS data, 71% of portfolio companies have either committed/approved Science Based Targets (SBT) or ambitious climate targets. Showing a clear commitment to decarbonisation.

Company Climate Targets (%)



Top 10 Contributors to Portfolio Emissions (%)

Holcim	62
ArcelorMittal	25
UPM	5
TotalEnergies	2
Saint-Gobain	2
Linde	1
Ahold Delhaize	1
Lundin Energy	<1
Stellantis	<1
Autoliv	<1
Total	**98.4**

Source: Janus Henderson Investors, as at 30 June 2021
ISS, as at March 2021

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CASE STUDY – UPM

Last quarter we discussed the leading role that Arcelor Mittal is taking in reducing the carbon intensity of the steel industry and the merits of transition investing. This quarter, we feature the pulp and paper industry and Finnish-based UPM-Kymmene, where we also see an underappreciated ESG profile.

The Industry

The ESG credentials of the paper and packaging industry have been a matter of debate for some time. Admittedly, the thought of cutting down trees so your Aunty Beryl can send her Easter/Christmas/Birthday cards which soon find their way into the bin along with your junk mail hardly screams 'positive environmental impact'. Furthermore, we have been told multiple times a day for the best part of a decade that using paper is bad – ' Please consider the environment before printing this email' – and undoubtedly you should (not only for the environment but who knows who you will get stuck talking to at the printer). But what this image omits is the positive ESG attributes of the industry.

First, paper products are made from a fully renewable raw material – trees, which also offer the ability to capture CO_2.

Recycling rates differ by region and by paper type but they are typically high; the US Environmental Protection Agency (EPA) quotes 68% for cardboard while in Europe, the Confederation of European Paper Industries (CEPI) quotes 72% for paper and the European Paper Recycling Council states that 84% of paper and board was recycled in 2018.

The large forest assets owned by the industry are fantastic for large scale carbon capture. Trees capture carbon dioxide from the atmosphere and transform it into biomass through photosynthesis. However, trees only capture CO_2 when growing. For this reason, and although somewhat counter intuitively, managed forests are better for CO_2 capture and O_2 creation than natural forests. According to CEPI, the European forests and the forest-based sector has a positive climate effect estimated at 806 million tons of carbon dioxide equivalents annually. This corresponds to around 20% of all fossil emissions in the European Union.

Second, the industry offers a sustainable solution to food packaging. Single use plastics have moved up the agenda for both regulators and consumers, owing to the affect they are having on our wildlife and ecosystems, which, in turn, is driving the use of aluminium and paper-based cartons. Major fast-moving consumer goods companies such as L'Oreal, Unilever and Proctor & Gamble are introducing paper-based packaging for detergents, water and even shampoo.

UPM-Kymmene

As well as being a leader in, and benefiting from, the structural tailwinds described above, UPM offers a further sustainability driver – biofuels and biochemicals. That is, replacing non-renewable chemicals with recyclable wood-based alternatives.

Biochemicals
The company has invested large amounts into a biorefinery plant to be built in Leuna, Germany which will produce a range of wood-based biochemicals that can replace fossil raw materials. The plant will produce bio-monoethylene glycol (bMEG) and bio-monopropylene glycol (bMPG), each of which has broad application potential including composites for pharma, cosmetics, detergents as well as textiles, packaging, car tyres, car interiors, hoses in cars, laptop covers, headphones and deicing fluids. The most exciting area however is in the potential to replace polyethylene

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CASE STUDY – UPM (CONTINUED)

terephthalate (PET) plastic bottles. UPM PET bottles from wood result in the same molecular structure as an oil-based PET, which means they can be recycled via existing recycling systems. The company has been working with major soft drink providers, which are eager to improve their own environmental impact. UPM guides that its bio-based products will be cost competitive against similar fossil-based products and that demand for the products is already high despite the refinery being scheduled to start operations only at the end of 2022.

Biofuels

UPM has also invested €179m in the world's first biorefinery producing wood-based renewable diesel. The company has largely focused on road transport so far, but, with technological upgrades, is looking at further treatments that could potentially address jet fuel. This will likely be required in the long term as passenger vehicles go fully electric. Heavy duty trucks, marine and aviation will likely take a lot longer to transition to electrification, meaning that bio-diesel could be a useful transition fuel.

We believe that UPM will play a key role in decarbonising these hard-to-substitute transport and product segments and that by doing so, will help drive a carbon-neutral circular economy.

Carbon footprint

In terms of their own footprint, we are encouraged by the fact that UPM has committed to science-based targets and the 1.5^{o}C degree UN scenario. The company operates an extensive network of hydro power plants and generates 70% of its energy from renewable sources. It is seeking to reduce its own carbon gross emissions by 65% by 2030 (compared to 2015) in part through climate-positive forestry with new growth to exceed harvest volumes in their own and third-party forests.

Source: Janus Henderson Investors as at 30 June 2021. UPM website.
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COMPANY ENGAGEMENT

Security	E	S	G
ABB	○	○	○
Aker Carbon Capture	●	●	○
Alfa laval	●	○	○
ALM. Brand	○	○	○
Arkema	●	●	○
Ashtead Group	○	●	○
Atlantic Sapphire	●	○	●
Barry Calleb	○	●	●
Beiersdorf	○	○	●
Biontech	○	○	○
Biontech	○	○	○
Brockhaus Capital	○	○	○
Brockhaus Capital	○	○	○
Cargotec	●	○	●
Carl Zeiss	○	○	○
Compass	○	●	○
Compugroup	○	○	○
Daimler	●	○	○
Daimler	○	○	●
Danone	○	○	○
DCC	○	○	○
Delivery Hero	○	○	○
Deutsche Lufthansa	○	○	●
Dr. Martens	○	○	○
DSM	○	○	○
EDP	●	○	○
Engie	●	○	●
Finecobank	○	○	○
Fluidr	○	○	○
GEA	○	○	○
Geberit	○	○	○
Gerresheimer	○	○	○
Hellofresh	○	○	○
Infineon	●	○	○
Infineon	○	○	●
JD Sports	○	○	○
JDE Peet's	○	○	○
Johnson Matthey	●	○	○
Jungheinrich	●	○	●
KBC	○		○
Kingfisher	●	○	●
Kion	○	○	○
Kion	●	○	○
Knorr-Bremse	○	○	●
Kone	○	○	○
Konecranes	●	○	●
Ahold	○	○	○
Ahold	○	○	○
Korian	○	○	○
Lanxess	○	○	○
Lanxess	○	○	○
M&G	○	●	○
Melrose	○	○	○
Melrose	○	○	○
Metso Outotec	○	○	○
Metso Outotec	○	○	○
Metso Outotec	○	○	○
Mowi	●	○	○
Nexi	○	○	○
Nexi	○		○

Note: Listed above are those companies that were met by either the Pan European All Cap Equity Team or by Janus Henderson's Responsible Investment Team during the quarter. The data shows our engagement with each company on ESG issues. Duplicates represent multiple interactions.
References made to individual commodities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase, and neither should be assumed profitable. For illustrative purposes only.

COMPANY ENGAGEMENT (CONTINUED)

Security	E	S	G
Nibe	○	○	○
Nokian Renkaat	●	○	○
Nordea	○	○	○
Nordex	●	○	●
Nordex	●	○	○
Novo Nordisk	○	○	○
Pandora	●	●	●
Prosus	○	○	●
Prosus	○	○	●
Prudential	○	○	○
Randstad	○	●	○
Recordati	○	○	○
Roche	○	○	○
Shell	●	●	●
Shell	●	●	●
RWE	●	○	●
S4 Capital	○	○	○
Saint Gobain	●	○	○
Salmar	○	○	○
SGS	○	○	○

Security	E	S	G
Signify	●	○	○
Smurfit Kappa	●	○	○
Software AG	○	○	○
Software AG	○	●	○
Software AG	○	●	○
Solaria Energia	●	●	●
SPIE	○	○	●
SSE	●	●	○
Abrdn	●	●	●
Stellantis	●	○	○
Stillfront	○	○	○
STMicroelectronics	○	○	○
STMicroelectronics	○	○	○
Straumann	○	○	○
Subsea 7	●	○	○
Tesco	●	●	●
Topdanmark	○	○	○
Ubisoft Entertainment	○	●	○
Ubisoft Entertainment	○	○	●
UBS	●	●	●

Security	E	S	G
UPM Kymmene	●	○	○
Vestas Wind Systems	●	○	○
Volvo	●	○	●
Volvo	●	○	○
Wolters Kluwer	○	○	○
Worldline	○	○	○
Worldline	○	○	○
Total 107	36	18	26

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COMPANY ENGAGEMENT

This quarter’s engagement highlights

Environmental

Aker Carbon Capture

We met with Aker Carbon Capture for the second time to discuss its technological progress, business model/strategy and regulatory tailwinds. We discussed the economics around some of its most advanced projects, including the blue hydrogen and cement plants projects, both of which are large, bespoke projects with high associated costs. The company recognise this hurdle and is trying to optimise and offer a modular solution. We intend to monitor this development, given that the technological solution that Aker Carbon Capture may offer could benefit some emissions-heavy industries in Cement, Steel and Utilities.

We were also a little frustrated to hear that the company has been coming under some shareholder pressure due to the fact its client list is full of high carbon emitting entities. In our opinion, this pressure is a clear example of the danger in box-ticking and blunt ‘ESG by avoidance’. A company developing a potentially transformative technology for decarbonising heavy industry can receive this kind of illogical criticism and we believe it only serves to highlight the current disfunction and potential for unintended consequences in the rush to be ESG-friendly.

Environmental

Mowi

We engaged with Mowi as Salmon farming continues to suffer from ‘bad optics’ and in a good number of cases, a ‘bad reality’. The company is keen to highlight its compliance with all existing rules and regulations and is committed to full transparency disclosure. Mowi reiterated that salmon is the most environmentally friendly source of animal protein and that it are intent on ensuring that the business is fully EU Taxonomy aligned.

MOWI is now embracing post-smolt in a meaningful way, hence the NOK 4bn investment programme by 2024. Investment is into large freshwater tanks and they can see the clear benefits (from keeping the fish out of the open water for longer) in southern Norway (warmer waters) in terms of survival rates, welfare and harvest yields. There are clear biological obstacles to growing the smolt to adulthood in onshore tanks, not least the fact the fish, at some stage, need salt water to thrive, and the water exchange in the open water is significantly better (which has implications for gas environment, welfare etc). In short, water quality is essential. The other obstacle is cost: compare the cost of concrete tanks/infrastructure to nets in the sea. Longer term, land-based farming is likely to grow and succeed and siting the facilities near the consumer is a factor (less freight). Nevertheless, management does not believe it will be a major source/feature in the industry in the next five years.

Overall we left the meeting with a strong sense management had a good understanding of the environmental challenges and opportunities for the company and industry.

Environmental

Shell

We met with the CEO of Shell, and the conversation largely focussed on how to manage an oil company that is being compelled – most recently by a Dutch judge – to stop being an oil company. The CEO put forward clear arguments for why it is not sensible for Shell to add more to its already established investment plans for renewable electricity generation and other less mature clean energy technologies. He pointed out that he could easily cut scope 3 emissions (i.e. the emissions of your customers using your product) by stopping sales in places like Pakistan, as demanded by the court ruling, with limited impact on group cash flow, but rightly pointed out that it would be unlikely to accelerate Pakistan’s energy transition. There are many potential unintended consequences that risk a disorderly energy transition. On the energy transition itself the company believes it has the most progressive strategy. Shell claim to be leading on hydrogen – though tiny market at present – with the largest electrolyser in the world. The company also pointed to its leading position in biojet, jet fuel.

Environmental

RWE

We continue to push for a fast rundown in the coal assets together with a strong pivot towards renewable energy generation within RWE’s business. We also continue to express our view that a spinoff of the legacy coal assets would be positive for minority shareholders.

Source: Janus Henderson Investors, as at 30 June 2021

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COMPANY ENGAGEMENT

This quarter's engagement highlights (Continued)

Governance

AIB
We met the CEO of AIB and various members of the senior management team involved in AIB's sustainability initiatives. We came away confident that AIB is taking its ESG agenda seriously and we do not consider the company to be a source of worry with regards to ESG risk in the portfolio. On the environmental side, the company has committed to being Net Zero by 2030 and also seek to make green products 70% of all new lending by 2030. They launched a green bond in 2020 and disclosure according to the Taskforce for Climate-related Financial Disclosures and UN Environmental Programme Finance Initiatives Principles for Responsible Banking (UN FI PRB). On the social side they have launched a €300m social housing fund as well as a financial literacy education for customers. The board is gender balanced, as is the executive committee, and the company is a Signatory for UN Global Compact & Enhanced policies.

Governance

Prosus
We arranged a call with Prosus to discuss the recent exchange offer with Naspers. The intended outcome of this exchange offer was to narrow the discount to NAV that both Naspers and Prosus trade on. We expressed our belief that the company hasn't gone far enough and encouraged them to consider share buybacks, asset disposals and potential IPOs of some of their unlisted businesses.

Governance

Beiersdorf
We believe that the family who control Beiersdorf are not acting in the best interests of minority shareholders. We expressed our view that the dividend payout should be increased and the cash on the balance sheet should be more efficiently used

Governance

Saint Gobain
The new CEO of Saint Gobain asked to meet with us to outline his priorities for the company. The discussions covered market dynamics amid green stimulus as well as the new incentive structures he has put in place at the regional management level. We took the opportunity to ask for improved disclosure; the company is working on how to quantify/present carbon benefits of its products .

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Net asset value (NAV) - The total value of a fund's assets less its liabilities.
IPO - Initial public offering; when shares in a private company are offered to the public for the first time.

VOTING

Voting Process

Our priority is to ensure our rights as shareholders are appropriately safeguarded, and incentives for shareholders and management are well aligned with strategy

- ISS provides custom voting policy recommendations based on Janus Henderson policy
- Recommendations are scrutinised by the Governance & Responsible Investment Team
- Additional inputs include company engagement, broker research, newswires and IVIS
- Final voting decisions are made in close consultation with fund manager
- Voting positions and outcomes are used as an input for future engagement work

Total Voting Opportunities during the quarter:	646
Proposals Voted	510
FOR Votes	476
AGAINST Votes	34
Votes WITH Management	487
Votes AGAINST Management	23

Source: Janus Henderson Investors, as at 30 June 2021.
ISS, as at 30 June 2021

VOTING

Votes against management

ENGIE– CEO compensation - The bonus paid under FY20 was not subject to performance conditions under the same FY, The achievement of the performance conditions for the LTIP that vested lacks transparency.

Dometic – Remuneration report – inflight changes were made to LTIPs and the company has deviated from the policy.

LVMH – Auditors' special report on related party transactions – the company transacts with non-executive directors and major shareholders with limited disclosure. Against the (re)elections of certain non independent nominees given the lack of independence at the board level. Against remuneration report. More detail available upon request.

Stellantis – Remuneration report – company does not disclose sufficient information on the STI performance metrics.

L'Oréal – Remuneration policy – proposed remuneration is deemed high and exceeds market practice.

Schneider – Against the election of Jacquet, Csikos and Kvist Kristensen as only one candidate can be elected.

Interpump – Remuneration policy – the company does not provide sufficient ex ante disclosure on performance criteria attached to the short term variable remuneration.

Enel – Possible legal action against directors – against due to the lack of disclosure regarding the proposed deliberation.

STMicro – Remuneration report – two thirds of equity grants is vesting before the third anniversary, in deviation of best market practices and the Dutch Corporate Governance Code; The 'LTI' continues to be measured on the basis of one year performance periods only.

Saint Gobain – Compensation of Pierre Andre de Chalendar, Chairman and CEO – was granted a full LTIP despite the end of his CEO mandate on June 31, 2021.

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ISS, as at 30 June 2021

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Financial Year (FY) - A period of twelve months, used by government, business, and other organizations in order to calculate their budgets, profits, and losses.
Long-term Incentive[Plan] (LTI[P]) - A company policy that rewards employees for reaching specific goals that lead to increased shareholder value
Short-term Incentive (STI) – Compensation for achieving the company's short-term business strategy based on the achievement of goals

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Janus Henderson INVESTORS

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