Lowland Investment Company PLC - ESG Approach

The core principles that are the basis of a sound approach to ESG matters have always formed an implicit part of Lowland's investment process, and we go into more detail on these three core principles below. These factors are important not only as a standalone objective (in order to allocate the capital of the Company to companies with the most responsible and sustainable practices), but it is also crucial for us as Fund Managers to identify the key opportunities and risks for any companies either held in or under consideration for the portfolio. Our approach does not extend to the exclusion of specific sectors (such as fossil fuels); we address the reasons why in more detail below. It continues to be our view that engagement is more conducive to change than exclusion.

There are three core principles of incorporating environmental, social and governance factors into the Lowland investment process:

1. **Identifying investment opportunities**. Within Lowland we seek to identify companies with underappreciated opportunities for sustainable sales and earnings growth. The drivers of this sustainable growth could include environmental or societal factors; for example the need to decarbonise the global economy is driving demand for alternative energy sources.
2. **Identifying material risks**. Identifying material ESG risks is an implicit part of the investment process. While identification of a material environmental, social or governance risk does not necessarily preclude ownership within the portfolio, it will be an important consideration when determining position size and appropriate valuation level. Companies which have material ESG risks identified should be actively seeking to address these issues and show evidence of progress; if no progress is evident we would not own the company. Progress is monitored by use of both third-party data sources (such as Sustainalytics) as well as engagement with the company management team. Engagement will be led by either the Fund Managers or the experienced Janus Henderson Governance and Responsible Investment team.
3. **Active engagement and upholding strong governance standards**. We take our responsibilities as stewards of investors' capital seriously and seek to engage with companies thoughtfully on executive remuneration, where possible always vote at AGMs, and encourage high standards of corporate governance (such as Board diversity). Janus Henderson subscribes to independent proxy voting advisers. In situations where the adviser recommends voting against, the Governance and Responsible Investment team alongside the Fund Managers will assess whether they agree with the recommendation, with the final voting decision made by the Fund Managers. In our view a company's board and senior executive remuneration policy needs to be appropriately struck relative to both its peers (on a domestic and global basis) and (increasingly) relative to its broader employee base. There needs to be a defensible logic to how corporate remuneration levels have been set.

Examples of applying each of the three core principles:

1. Identifying investment opportunities:
    - Ilika (a producer of solid state batteries) – there is a need for non-flammable, faster charging and longer charge retention battery technology. Ilika is seeking to address this by developing and manufacturing solid state batteries for use across a range of applications (such as healthcare, industry and, over the long-term, electric vehicles). Their technology remains at an early stage of commercialisation, but the need for

better battery technology driven by (in some cases) the transition away from fossil fuels means potential end markets are large.
- Ricardo (an environmental consultant) – as companies across a broad range of industries commit to achieving net zero, there is a need for a specialist consultant to help companies plan out and achieve these goals. Ricardo work across a range of industries including automobiles, the public sector, defence and utilities to help companies achieve their environmental goals. In our view the need to decarbonise the global economy will be a helpful tailwind to Ricardo's sales and earnings growth.

2. Identifying material risks:
    - Royal Dutch Shell and BP – both Royal Dutch Shell and BP continue to generate the majority of their earnings from fossil fuels. Therefore as the world gradually transitions towards lower carbon energy sources there is a question mark surrounding durability of earnings and cash generation. In our view fossil fuels will form a necessary part of the energy transition, with renewable energy sources currently lacking the scale to wholly replace fossil fuels on a short or medium term time horizon. In this transition period, there continues to be a need for fossil fuels to provide the world's energy requirements. These fossil fuel sales are providing Shell and BP with the cash generation to spend meaningful sums (in both absolute terms and as a proportion of their total capital expenditure) transitioning towards renewable energy. In our view the valuation of Royal Dutch Shell and BP (measured on metrics such as free cash flow generation), combined with their meaningful investment in renewable or lower carbon energy sources, means they merit a place in a portfolio.

3. Active engagement and upholding strong governance standards:
    - ISS (an independent proxy voting adviser to which Janus Henderson subscribes) recently recommended voting against the AstraZeneca remuneration policy and performance share plan. We compared the potential CEO remuneration under the proposed policy with global pharmaceutical peers and found the policies not to be an outlier. This, combined with the strong long-term performance of AstraZeneca relative to peers and the successful and low-cost Covid vaccine, meant that in our view the package was appropriately struck with a defensible logic. We therefore voted in favour of both the remuneration policy and performance share plan.