JUNE 2025

SUSTAINABILITY RISK POLICY

Our active approach to considering sustainability risks in investment decisions

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1 Introduction

1.1 Purpose

This policy aligns to requirements outlined in EU 2019/2088 Sustainable Finance Disclosure Regulation ('SFDR') and describes how sustainability risks are integrated into the investment decision-making process at Janus Henderson Investors (herein referred to throughout as 'Janus Henderson', 'we', or 'our'). It outlines how our investment teams assess, integrate, and manage these risks to seek the best risk adjusted returns for our clients. This includes our approach to assessing good governance practices of investee companies. Furthermore, it articulates the governance and oversight mechanisms used to monitor the approach. The objective of this policy is to provide transparency to our investors about the guidelines and principles that support the management of sustainability risks.

1.2 Scope

This Policy applies to the Janus Henderson funds domiciled in the European Union, and segregated mandates contracted with Janus Henderson Investors Europe S.A. 'JHIESA'.

1.3 Definitions

"Sustainability Factors" is defined in SFDR 2 (24) as environmental, social and employee matters, respect for human rights, anti-corruptions, and anti-bribery matters.

"Sustainability Risk" is defined in SFDR 2 (22) as an environmental, social or governance ('ESG') event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

"Sustainability Risk Integration" is defined at Janus Henderson as the process of identifying, analysing, and incorporating relevant and financially material sustainability risk factors into investment decisions as well as the ongoing monitoring of portfolios and engagement with investee companies.

2 Integration of Sustainability Risk Considerations in Investment Decisions

2.1 Description of Sustainability Risks

At Janus Henderson, we believe that robustly integrating financially material sustainability risk considerations may support our aim of seeking to maximise risk-adjusted returns for clients. It therefore forms an integral part of most investment processes, where sustainability risks are considered alongside traditional risks.

The three broad categories of sustainability risks (environment, social, governance), cover a wide range of specific risks and associated indicators. Examples of these risks may include but are not limited to:

1. **Environmental Risk:** Risks associated with environmental issues such as climate change, waste management, land and water use, pollution, and loss of biodiversity. Climate-related risks include:

    - **Climate transition risk:** Risks that arise from the global transition to a lower carbon economy. They include risks related to regulatory and legal developments, technological changes, market dynamics, and reputational considerations. Some examples of risks that fall within the respective categories include the failure to meet regulatory or legal requirements, lack of investment in technology to reduce emissions, lack of innovation to meet changing client demands, and an increased scrutiny from a variety of stakeholders, including governments and regulators.

    - **Climate physical risk**: Risks associated with the physical impacts of climate change. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (eg, cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (eg, sea level rise).

2. **Social Risk:** Risks associated with issuers' relationships with employees, suppliers, customers, and other stakeholders. This includes risks related to labour practices and human rights. Some examples of risks that fall within the respective categories include inadequate employee health and safety and the lack of a policy for the protection of human rights such as forced labour or human trafficking.

3. **Governance Risk:** Risks associated with the internal practices and policies that guide an issuer's management and oversight. Governance-related risks may include risks around Board independence, corruption and bribery, and transparency.

2.2 Process of Risk Integration

Our approach to the integration of sustainability risks is thoughtful, practical, research-driven, and forward-looking. We are committed to integrating sustainability considerations into our analytical and decision-making processes across most investment teams and asset classes. This approach is dynamic, ensuring we remain responsive to evolving landscapes and the diverse objectives of our clients.

Janus Henderson directly assesses the performance and risk exposure at the individual investment level. This process is a combination of bottom-up analysis, starting at the issuer level, and leverages portfolio-level data for an incremental lens and layer of oversight.

Risk Integration Framework

The sustainability risk integration framework consists of three key principles:

- **Risk Identification-** identifying financially material sustainability risks for each investment
- **Risk Assessment-** assessing the financial materiality of a risk to the value of an investment
- **Risk Management-** the avoidance, mitigation, and monitoring and oversight of sustainability risks

Risk Identification

At Janus Henderson, we have identified indicators that can be used to measure and monitor exposure to each category of sustainability risks. Investment teams have access to a range of third-party and proprietary data which includes ESG ratings, risks and controversies, business-involvement, UN Sustainable Development Goal-alignment, and other climate and ESG related data sets that can be used at indicators. This data can be leveraged to identify potential financially material sustainability risks and opportunities. They may consider and utilise third-party financial materiality frameworks in conjunction with their own knowledge, to focus on the issues likely to be most material. In addition to this, Janus Henderson's firmwide proprietary ESG data and analysis tool, ESG Explore ('ESGX') includes portfolio and issuer-level data, with modules on ESG ratings, climate metrics, business involvement, regulatory datapoints, and engagement. This tool enables investment teams to quickly identify any material climate or ESG risks at the portfolio level, then drill down to issuer to better understand the source of those risks. It also helps in uncovering underappreciated risks and opportunities for the companies in which we invest, including by alerting us to changes and drawing attention to leaders and laggards across regions, sectors, and issuers.

Risk Assessment

Sustainability risk assessments consider the financial materiality of the risk, the clients' interests, and the alignment with the relevant investment strategy. As part of the research process, investment teams consider risks at both issuer and portfolio level; they assess the impact on relevant financial metrics at the issuer level, which could include cash flows, valuation, cost of capital, or credit ratings. They then analyse how particular issuers or sector exposures contribute to aggregated risks and opportunities at the portfolio level. Should a material unmanaged risk be identified and quantified, our investment teams evaluate the impact of that risk on a security's price and risk-adjusted return. Should our investment teams believe the risk is not fully priced in, the portfolio impact could include escalation through different means.

This is also applicable to our assessment of good governance practices of investee companies associated with Article 8 and 9 products. At Janus Henderson we have developed a proprietary framework that assesses all four key aspects of good governance as outlined in the EU SFDR: 'sound management structures, employee relations, remuneration of staff, and tax compliance'.

This framework evidences our consideration of governance-related risks and allows us to assess issuers governance practices and identify areas where issuers may fall short of governance standards.

Scores above the good governance threshold will be referred for further review by the ESG Oversight Committee ('ESGOC'), with 3 potential outcomes:

1) Score is incorrect or backward looking; our research demonstrates better governance practices: Investible and given an override; or
2) Company is engageable and improvement is possible; investible with an outcome-oriented two-year engagement overseen by the ESGOC; or
3) Governance practices are poor and there is no potential for engagement or improvement: Exclusion / divest.

Increasingly, we are marrying portfolio-level analysis with the bottom-up process to identify, analyse, and manage financially material climate and ESG risks through our internal proprietary data analysis tool ESGX. This tool enables our investment teams to conduct thorough analysis to assess the financial materiality of sustainability risks in a way that aligns with their current research process and in a similar way to how they access non-ESG issuer and portfolio data.

Risk Management

Sustainability risks are managed through our exclusion and engagement policies, as well as through regular monitoring and oversight by relevant risk management teams.

Our approach to risk management is outlined by three key pillars:

- **Avoidance:** Excluding certain investments based on sustainability risk assessments. For certain products that promote environmental/social characteristics or have sustainable investments as their objective, Janus Henderson may consider implementing an exclusion framework which varies by product. Exclusions may be based on business involvement activities, international norms and standards, or performance on ESG metrics (ie, emissions intensity within the investible universe). These exclusions are typically applied to manage exposure to areas of high ESG risk. In addition, Janus Henderson also implements some firmwide exclusions. (For further details on our Firmwide exclusions, see our Responsible Investment Policy).
- **Mitigation:** Engaging with investees to improve their management of ESG risks and opportunities. In general, Janus Henderson prefers an engagement-focused approach to a firm-level exclusion or divestment policy, in sectors where we have identified financially material sustainability risks. We believe this approach is best to seek to maximise risk-adjusted returns for our clients and for driving positive change at our portfolio companies. (For further details on our Engagement Policy, see Responsible Investment Policy).

- **Monitoring and oversight:** Regular monitoring of sustainability risks is carried out to ensure we seek the best risk-adjusted returns for our clients. ESG data is incorporated into our risk reporting tools, covering issues such as exposure to companies with low ESG ratings, controversies, weak corporate governance, and climate risk. In addition, we have established independent oversight mechanisms from relevant committees, Compliance, Front Office Controls, and Financial Risk to ensure we are adequately and appropriately researching and incorporating material sustainability risk considerations. Further details can be found under *Section 4: Internal Sustainability Risk Governance and Oversight.*

The integration of sustainability risks is at the discretion and judgement of our investment teams, who apply their differentiated perspectives, insight, and experience to identify business practices that can generate long-term value for investors. Commitments and accountability for the execution of the integration of sustainability risk factors therefore rests with the relevant investment teams. Each team is responsible for articulating their specific objectives, which means that the implementation of sustainability risks is usually carried out at the strategy level. The investment teams are supported by subject-matter experts within our centralised Responsibility Team. This partnership leads to enhanced research and decision-making—marrying the sector and industry expertise of the investment teams with the skills and experience of the Responsibility Team.

For funds with sustainable investments (as referred to in article 2 (17) SFDR), indicators for adverse impact will be used for the purpose that the investments 'do not significantly harm' any environmental or social objective. For further details on Principle Adverse Impacts ('PAI'), please refer to the Janus Henderson Investors Europe S.A. PAI Statement.

3 Sustainable Risk Integration Strategies Across Different Asset Classes

At Janus Henderson, we recognise that different asset classes and investment strategies may require different approaches to the integration of sustainability risks in investment decision-making. The precise approach to ESG integration is at the discretion and judgement of our investment teams, who apply their differentiated perspectives, insight, and experience to identify business practices that can generate long-term value for investors. Below, we have set out some specificities to particular asset classes.

Equity

As an active manager of public companies, we believe that the integration of sustainability risks enhances fundamental analysis, and we aim to consider financially material ESG issues at each appropriate stage of the investment management process. Sustainability risk considerations form part of our ability to assess the long-term value proposition of equity issuers and contributes to our ultimate objective of delivering positive financial returns for our clients.

In our actively managed equity strategies, our bottom-up approach allows investment desks to consider the financially material ESG issues as they relate to specific sectors and asset classes. Sustainability analysis can contribute at all stages of the investment process including pre-trade research, asset allocation and engagement.

As investment desks apply integration according to their specific strategy, some teams may leverage ESG scoring or set thresholds based on proprietary research or third-party data. The impact of sustainability risks will vary by strategy and may not be the sole determinant in investment decisions. However, the integration of sustainability risk in the investment process will contribute an essential component in understanding the full risk profile of issuers for the purposes of portfolio construction and security selection.

Fixed Income

I. Corporate Credit

We believe that the integration of sustainability risk enhances fundamental analysis within our corporate credit strategies. To support our assessment of credit worthiness we apply a sequential top-down approach to evaluate sector-level ESG risk. Followed by a bottom-up assessment of company-specific risk factors which leverages both third-party data and proprietary insights to assign issuers a proprietary rating that feeds into our portfolio construction process. This proprietary methodology is designed to minimise the impact of third-party data coverage gaps in our fixed income investible universe while leveraging our credit analysts' expertise for a robust assessment of forward-looking ESG risk management.

II. Sovereign

Following a similar scoring structure as corporate credit, Janus Henderson assesses sovereign sustainability risks via our proprietary model which draws on data from publicly available indices. Our Sovereign ESG Working Group oversees the model output and applies a qualitative overlay to company scores and trends based on deep country expertise. This systematic review of sustainability risks enhances government bond analysis as environmental and social factors are increasingly tied to economic factors.

III. Securitised Credit

Janus Henderson's fixed income capabilities extend to securitised credit including collateralised loan obligations ('CLO'), asset-backed securities ('ABS'), mortgage-backed securities ('MBS'), and commercial mortgage-backed securities ('CMBS'). We believe that the integration of sustainability risks enhances fundamental analysis within our securitised credit strategies. We apply a sequential top-down approach to evaluate sector-level ESG risk, followed by a bottom-up assessment of issuer-specific risk factors which leverages both third-party data and proprietary insights. This proprietary methodology is designed to minimise the impact of third-party data coverage gaps in our fixed income investible universe while leveraging our credit analysts' expertise for a robust assessment of forward-looking ESG risk management.

Multi-asset

Sustainability risk factors can be integrated across all stages of the investment process for multi-asset strategies, including capital market assumptions and strategic asset allocation. Sustainability risks contribute to our understanding of broad market factors as well as security-level changes; however, sustainability risks may not be the sole determinant in investment decisions.

Diversified Alternatives

ESG factors are important drivers of both a company's potential performance and the associated risk, and the investment team expects this analysis to be reflected in the valuation of a company's securities or their component within a derivative structure. For any enhanced ESG research and engagement the investment team work closely with the Responsible Investment and Governance team with their program of engagements and voting (where appropriate).

4 Internal Sustainability Risk Governance and Oversight

The Investment teams are at the core of our governance process and bear the primary responsibility for identifying, analysing, and integrating financially material sustainability risks in the way best suited to their asset class and investment objective. In addition, we have established independent oversight mechanisms to ensure we are adequately and appropriately researching and incorporating material sustainability risk considerations.

Governance

- **ESGOC:** Our ESGOC reports to Janus Henderson's Executive Committee and provides direct oversight of ESG investment matters. This committee, chaired by the Chief Responsibility Officer, provides oversight over ESG investment processes including ESG credibility and feasibility in portfolio design, portfolio management, various ESG data & toolsets, as well as non-investments oversight over ESG processes including regulatory and client reporting standards, and ESG disclosure. The committee is responsible for ensuring our framework to manage ESG-related risks is adequate and effective. The ESGOC includes representation from teams such as Financial Risk, Front Office Controls, Responsibility, Product, Legal and Compliance.

Oversight

Janus Henderson's organisational structures support and promote effective decision making around the integration of sustainability risks. Each respective team described below provides committee reporting on ESG related matters and are members of the ESGOC:

- **Front Office Controls:** The Front Office Controls & Governance ('FOCG') provide ongoing assurance that investment products are managed in line with documented sustainability commitments, where automated controls and/or third-party data are not available.
- **Financial Risk:** Sustainability risk monitoring forms part of the ongoing risk monitoring carried out by the Financial Risk team. The Financial Risk team reviews and challenges sustainability risk —alongside traditional market risk metrics and embeds sustainability risk into the risk profiles of our funds, as appropriate.
- **Compliance:** Provides a second line of defence on ESG Investment matters. The compliance team implements automated investment restriction controls within Janus Henderson's order management system for ESG-related screening and supplements this approach with further controls for qualitative commitments. Additionally, the Compliance Monitoring team reviews regulatory adherence via the execution of a risk-based monitoring plan.

Further Information

For more details / examples on how Sustainability Risks are managed, please refer to Janus Henderson's Responsible Investing Policy and other Janus Henderson reports such as the Responsibility Report, UK Stewardship Code Report and Task Force on Climate–related Financial Disclosures ('TCFD') Report. These can be found in the 'ESG Resource Library' published on the Janus Henderson website.

FOR MORE INFORMATION, PLEASE VISIT JANUSHENDERSON.COM

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INVESTORS

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W-0325-1145003-06-30-2026 400-30-1145003 05-25