

ESG KPIs report – Janus Henderson Global Sustainable Equity Fund

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Environmental, social, and governance (ESG) factors can have a material impact on financial returns. As investors in companies, we believe we are among those best placed to assess the relevance of ESG issues on financial performance. Our view is that well-managed businesses, where management teams behave like owners, are more likely to create value for shareholders over the long term. A business's approach to environmental and social stewardship can be a revealing indicator of how sustainable the foundations of its continuing success are.

Our assessment of corporate ESG issues involves both qualitative and quantitative inputs. There are a myriad of ESG factors, which can

vary in importance depending on a company's operational sector/industry. There are also subjective elements to assessing a company's performance while the level of disclosure on both financial and non-financial factors can vary significantly. This report highlights some of the most material and quantifiable ESG and human rights key performance indicators (KPIs) for the fund. Each of these KPIs is either an attribute targeted through our research process, or forms the subject of company engagement.

The table and charts below provide at-a-glance information about our chosen KPIs, and are followed by a more detailed explanation of each KPI and our research methodology and sources.

KPIs at a glance

KPI	Category	Portfolio	Portfolio coverage %	Benchmark	Benchmark coverage %	Data provider	Definition
Carbon Footprint	Environment	57.7	91	170.7	98	Trucost	Average tCO ₂ e emitted per \$1m (Scope 1, Scope 2, and First Tier)*
CDP Disclosure	Environment	63.3	N/A	64.9	N/A	CDP	% of those responding to the CDP within the last three years
Female Executives	Social	13.4	90	12.2	95	Bloomberg	% of female executives on the management team
Five-Year Employee Growth	Social	6.1	78	3.9	82	Bloomberg	% geometric growth rate over five years in number of employees
CEO Tenure	Governance	7.6	93	6.3	95	Bloomberg	Average length of CEO tenure in years
Global Compact Signatory	Human Rights	44.7	63	38.4	67	Bloomberg	% of companies that are signatories to the UN Global Compact
Controversies MSCI	ESG	5.0	98	33.0	97	MSCI	% of companies exposed to severe controversies as determined by MSCI
Controversies RepRisk Peak	ESG	22.1	100	26.3	97	RepRisk	The average peak RepRisk Score over the last 24 months (0 best – 100 worst)
Controversies RepRisk Current	ESG	10.2	100	13.1	97	RepRisk	The average current RepRisk Score (0 best – 100 worst)

Source: Janus Henderson Investors, latest available data as at 30 June 2017. Coverage = % of companies within the portfolio or benchmark for which there is data available to be assessed. tCO₂e = tonnes of carbon dioxide equivalent. Scope 1 = direct CO₂ emissions from company. Scope 2 = CO₂ generated by purchased electricity. *First tier = the first tier of the supply chain (their direct emissions). Please consult the explanations and methodology detailed below for further information.

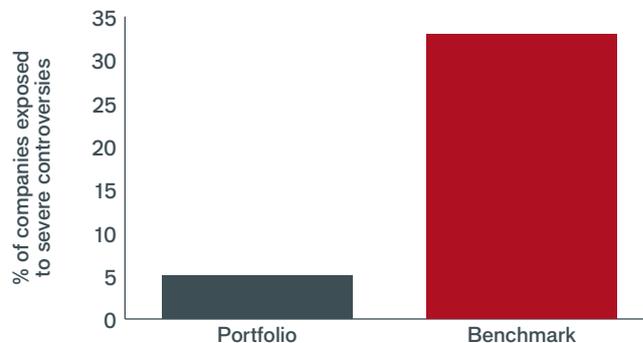
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Summary charts

Carbon footprint



Controversies MSCI



Source: Janus Henderson Investors, Trucost, MSCI, latest available data as at 30 June 2017. Please consult the explanations and methodology detailed below for further information.

Our chosen KPIs

Carbon Footprint

A carbon footprint is measured in tonnes of carbon dioxide equivalent (tCO₂e). The carbon dioxide equivalent (CO₂e) allows the different greenhouse gases to be compared on a like-for-like basis relative to one unit of CO₂. According to Trucost data, the fund is considerably less carbon intensive than its benchmark when looking at Scope 1 (direct CO₂e) emissions, Scope 2 emissions (from purchased electricity) and a portion of Scope 3 emissions (direct emissions from the supply chain).

Although limited by the lack of complete data on Scope 3 emissions (ie, the remaining portion of supply chain emissions outside the first tier of suppliers) and Scope 4 (emissions avoided through use of a product¹), due to the fund's strategic focus on sustainability, estimations suggest performance would likely be significantly better were it possible to assess the remaining footprint.

CDP Disclosure

Each year we engage with a selection of organisations on the issue of climate change; this forms part of our efforts to address the climate impact of our investee companies. Over recent years, the Carbon Disclosure Project (CDP) organisation has become the gold standard for reporting globally on carbon emissions, climate change risks, and opportunities. Where these issues are material to the nature of a company's business, we suggest the company participates in the disclosure project or at least explains why resources are better spent on other initiatives.

Although CDP participation among our companies is roughly in line with the benchmark, what is not reflected is the fact that some businesses within the portfolio are not within carbon intensive sectors and resources have been better deployed on other initiatives. At this point, carbon emissions are addressed comprehensively across the portfolio on an ongoing basis: CDP participation levels are only partially reflective of this.

¹ emission reductions that occur outside of a product's life cycle or value chain, but as a result of the use of that product. An example would be loft insulation.

Female Executives

The percentage of female executives within companies is not something that we can directly target. However, through the fund's investment process, organisations are assessed against human capital and corporate culture standards. We believe that diversity of thought and background is essential here, and the number of female executives on the management team is one indication of that diversity. It has taken considerable time for women to rise up through the ranks of some major organisations; the process has started but is not complete. We expect the percentage of female executives to improve steadily over the long term as the fund's investment philosophy continues to be applied.

Five-Year Employee Growth

We chose a five-year growth rate of employees as a KPI because a five-year figure dampens the effects of merger and acquisition activity or large scale lay-offs. Quality job creation is a key issue that many world economies face. The fund specifically targets growth companies that are actively creating jobs and are committed to regularly engaging with us on the topic of their human capital management and employee initiatives. It is essential that the jobs these companies are providing and creating are of good quality, with opportunities for employees to grow and develop their skills. This is particularly pertinent at this point in the 21st Century, considering the competition in the skilled labour market in many industries such as the technology sector. Unless companies address this topic with sincerity, they will struggle to attract or retain top talent.

CEO Tenure

The fund has a long-term time horizon and consequently seeks management teams whose views and commitments are equally long-term in nature. Although a change of management may sometimes help if a business is struggling, the ability to implement a long-term strategy often benefits from chief executive officers who will remain in place to deliver it. The investment team for the fund believes that companies with a long-serving CEO are likely to be less volatile performers, and tend to be more focused on sustainability issues. In this respect, such companies become more resilient, with positive knock-on effects from job security and market stability.

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Global Compact Signatory

The UN Global Compact is a set of ten principles that organisations sign up to voluntarily². They focus on four areas, Human Rights, Labour, Environment and Anti-Corruption. For industries that have high social and environmental impacts, the commitment to these principles helps to focus management on their organisation's footprint. Though the fund aims to avoid stocks exposed to significant human rights, environmental and social risks, supply chains inevitably mean that certain industries will face these issues. We support the Global Compact and would recommend organisations commit to the principles whenever it is material to their operations.

Company Controversies – MSCI and RepRisk

We use MSCI and RepRisk to help us identify where organisations have been allegedly involved in controversies related to their business or ESG practices. From the outset, the investment process naturally excludes investing in companies where there are recent severe controversies³ that have not been addressed and remediated. Where issues are historic, engagement is regularly used to ensure that the drivers of a particular issue are resolved. When controversies occur after a trade, engagement is used to determine materiality with respect to the investment and ethical criteria. Throughout this process, the fund should generally be less exposed to controversies compared with its benchmark and those controversies remaining will always be addressed by research and engagement.

² To read more about the UN Global Compact, please visit www.unglobalcompact.org/

³ where companies breach internationally accepted standards of responsible, ethical corporate behaviour.

Appendix: KPI methodology

Carbon Footprint

Many companies have adopted the standards put forth by the Greenhouse Gas Protocol (GHG)⁴, which divides emissions into 'Scopes'. Trucost takes this emissions data, where self-reported or disclosed to the CDP, and uses algorithms to estimate figures when unavailable. For the calculation for each company, three levels of emissions data are added together.

They comprise:

- Direct CO₂e emissions from the company (Scope 1 emissions)
- CO₂e generated by purchased electricity (Scope 2 emissions)
- Direct CO₂e emissions from the supply chain (which is a portion of Scope 3 emissions)

The remaining portion of Scope 3, which is the CO₂e generated by purchased electricity in the supply chain and all remaining direct emissions, is left out of the calculation as the data quality is not yet at a sufficiently accurate level.

Once this footprint has been calculated for a company, the portfolio is allocated a carbon emissions figure based on the level of equity it owns. For example, if the portfolio owns 1% of the shares in company X, it will be allocated 1% of the company's summed emissions.

This same process is used to calculate emissions for each stock in the portfolio, and these are added together to gain a figure for the total emissions 'owned'. The same process is applied to the benchmark index, using an assets under management figure (AUM) that is the equivalent to the fund's total AUM.

The final calculation then 'scales' this figure down, to estimate how many tons of CO₂e a US\$1m dollar investment into the fund would buy compared with a \$1m dollar investment in the benchmark.

⁴ The GHG Protocol supplies the world's most widely used greenhouse gas accounting standards. The Carbon Trust has some helpful information about Scope emissions: <https://www.carbontrust.com/resources/faqs/services/scope-3-indirect-carbon-emissions/>

Controversies MSCI

The KPI uses data from third-party research provider MSCI. MSCI's impact monitor product assesses whether companies have been involved in substantiated controversies across the 'three pillars' of ESG (ie, social, environmental, governance).

MSCI ESG Research reviews major global news publications daily for significant controversies that concern companies in the MSCI coverage universe. In addition, on a weekly basis MSCI ESG Research reviews important regional news publications. Finally, on a monthly basis, the MSCI ESG Research team reviews an additional set of important local and other general news publications, business news sources, industry and trade periodicals, and other publications that have been identified as important sources of ESG performance information. Updates to company reports are prioritised by company size and the assessment level of existing controversies.

For our KPI, we compare the percentage of companies in the portfolio with the benchmark that are exposed to 'severe' or 'very severe' controversies as assessed by analysts at MSCI.

Controversies RepRisk

RepRisk screens, on a daily basis, over 80,000 media, stakeholder, and third-party sources. These include print and online media (including local, national, regional, and international media), non-governmental organisations (NGOs), government bodies, regulators, think-tanks, newsletters, social media including Twitter and blogs, and other online sources.

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The goal of the screening process is to identify risk information related to at least one of the 28 ESG Issues that form RepRisk's core research scope.

The results of the screening process are delivered to a 1st-level RepRisk Analyst, who is responsible for reviewing the results to identify and filter the relevant risk information.

Once an item has been identified and filtered, it is transferred to a 2nd-level RepRisk Analyst, who is responsible for analysing it according to RepRisk's proprietary rules-based system.

Each risk incident is analysed according to the following three parameters:

- Severity (harshness) of the risk incident or criticism.
- Reach (influence) of the information source, according to RepRisk's own rating of sources.
- Novelty (newness) of the issues addressed for the criticised company.

The final step in the process, the quantification of the risk, is achieved via the RepRisk Index (RRI), a proprietary algorithm developed by RepRisk that captures and quantifies reputational risk exposure related to ESG issues.

The score received is between 0-100 with 0 representing no controversial news stories and 100 representing the worst possible score (ie, widespread coverage, severest risk). As a reference point, Volkswagen⁵ had an RRI score that peaked at 77 in November 2015, when the company admitted to "irregularities" in tests measuring carbon dioxide emissions levels from its vehicles.

The key difference between the RepRisk product and the MSCI controversy product is that RepRisk is an assessment of news sentiment whereas MSCI involves an assessment of substantiated controversies.

For our two RepRisk KPIs, we have chosen portfolio versus benchmark comparisons for i) the average current RepRisk score of companies, and ii) the peak RepRisk score, the highest score the company has received over the last 24 months.

⁵ Company example is for illustrative purposes only, and does not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase its stock. Past performance is not a guide to future performance.

Please note: All data is based on company disclosures and publicly available data as at 30 June 2017. Janus Henderson is not responsible for the accuracy of these companies' disclosures.

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H033088/1217