INVESTMENT PROCESS

Janus Henderson Global Equity Income Strategy

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Key differentiators

- **Unconstrained investment universe:** Flexible global approach exploits value and income opportunities from different markets as conditions shift.
- **Income heritage:** Highly-experienced 15-strong Global Equity Income team with an income heritage spanning more than 20 years and having managed global equity income strategies since 2006.
- **Contrarian approach:** Dividend seeking, valuation-driven process that seeks Undervalued, Unloved companies with Underappreciated earnings.
- **Effective risk management:** Managed with a clear focus on downside risk. Diversification maintained across regions and sectors, with the team refusing to chase yield or put capital at undue risk.

Overview

The strategy is designed to generate a growing income stream and attractive capital returns over the long term. It is actively managed and aims to outperform through the cycle based on a dividend-seeking, valuation-driven approach. The team employs a proven bottom-up stock picking process and the strategy has historically held between 50-80 stocks*.

*Source: Janus Henderson Investors 31 March 2018, month end data, for illustrative purposes only. The range may vary over time.

Team

Andrew Jones and Ben Lofthouse, lead portfolio managers with 23 and 20 years' industry experience respectively, manage the strategy as part of the Janus Henderson Global Equity Income team. Ben heads up the team, which is made up of 15 investment professionals with an average industry experience of 20 years. Overall, the team manages £12.6bn and feeds into the investment process implemented by Andrew and Ben with ideas shared, debated and challenged from a variety of perspectives and based on extensive experience. The portfolio managers also interact with Janus Henderson's other investment teams and analysts ensuring a depth of expertise across regions and asset classes.

*Source: Janus Henderson Investors at 31 March 2018.

Investment philosophy

The team strongly believes that, over the long term, dividend-paying stocks delivering consistent dividend growth will significantly outperform the broader market. There are four key reasons why the team believes dividends are important.

- **Cashflow –** companies cannot sustain dividends without sufficient cashflow. Cashflow is harder to manipulate than earnings and provides a better indication of a company's underlying strength.
- **Contrarian investing –** higher yielding stocks tend to be unfashionable as either they have disappointed the market, resulting in a falling share price/rising yield, or they are mature, low growth businesses. Consequently, investors often either underestimate the company's ability to produce decent returns or assign a too low valuation to these returns.
- **Company management discipline –** an emphasis on dividend yields helps company management to focus on the use of capital and the returns generated.
- **Investor discipline –** a focus on dividend yields provides a clear valuation discipline for portfolio managers. Stocks with high yields prompt the managers to ask the question "is the valuation justified?" Conversely, when the dividend yield of a stock moves to a discount to the market, it forces the portfolio managers to re-evaluate the investment.

The team structure their approach to target three key elements:

Income Growth	Strong and growing levels of free cash flow
Capital Growth	Unloved, undervalued, underappreciated earnings
Income Sustainability	Diversification by geography and sector

Past performance is not a guide to future performance.
The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

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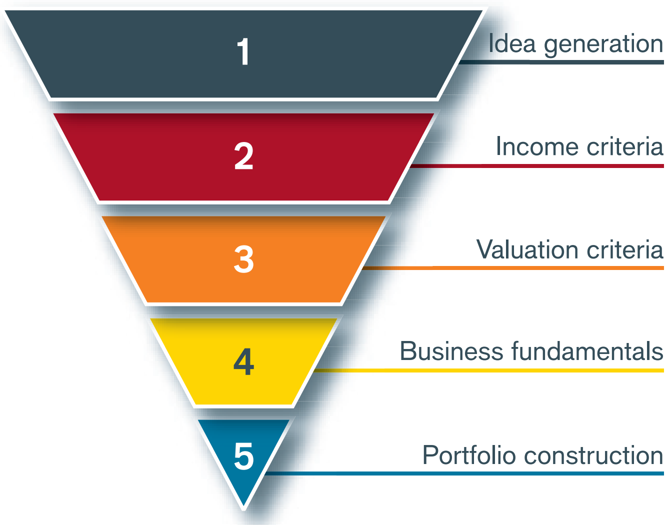
Investment process

The team's investment process is driven by bottom-up stock selection based on fundamental, qualitative analysis and a strong valuation discipline. The team's process seeks to identify the most compelling opportunities based on income, value and growth potential; company engagement and fundamental analysis is then used to identify the best ideas for inclusion in the portfolio.

The investment process follows five stages:

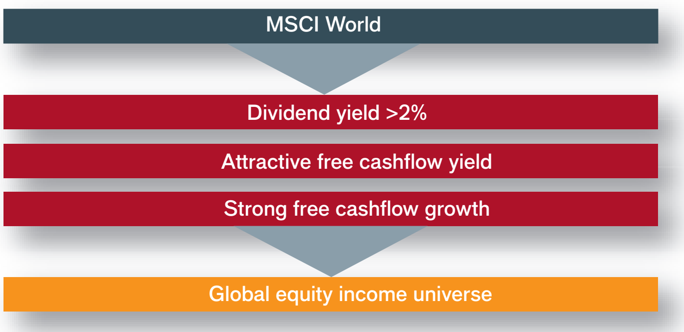


1. Idea generation

Ideas are drawn from many sources, with the most significant being the accumulated knowledge of the Global Equity Income team. The team has a common approach of being dividend-seeking, valuation-focussed investors; an approach applied to different regions and markets around the world.

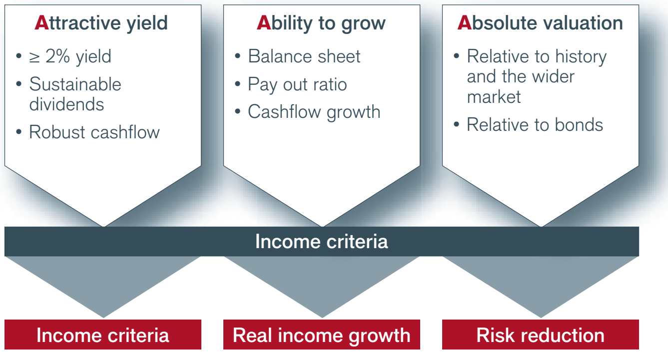
The team uses various screens to generate ideas. As well as screening for dividend yield, other factors are also looked at, including dividend growth, growth in cash flow, balance sheet strength as well as profitability-based metrics, such as earnings growth, with the aim of identifying stocks with the potential for income growth in addition to capital returns.

Greater understanding from meetings with company management is also important in arriving at stock views. When investing in a company, the portfolio managers must believe that the management is capable of maximising the business' full potential through the successful delivery of the business strategy. Having established the arguments for investing in a company, the portfolio managers are seeking evidence from these meetings that either supports or refutes their views.



2. Income criteria

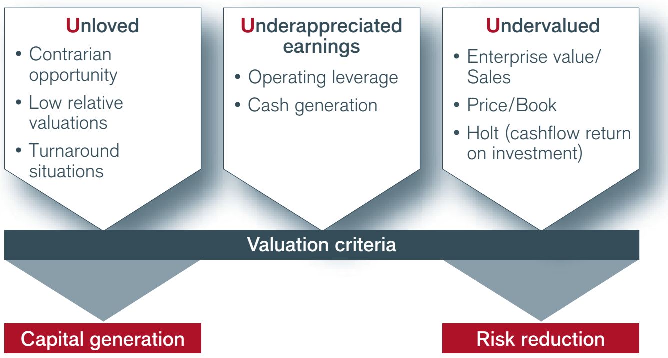
The strategy's investment process focuses on dividend paying companies generally yielding 2% or more, and seeks to diversify the yield of the portfolio by ensuring no reliance on any one sector or stock. There is a focus on the three 'A's when considering the income return from a potential stock position:



By focusing on these factors the portfolio managers seek to achieve an attractive yield for the portfolio in aggregate and also generate good growth in income.

3. Valuation criteria

The team applies valuation metrics that it considers relevant to specific companies and the industries or sectors in which they operate. There are three common/central attributes that are emphasised in the process, which the team considers to be the three 'U's:



The team applies these valuation criteria to seek to ensure that there is potential for capital as well as income growth.

4. Business fundamentals

The team's analysis of business fundamentals runs throughout the investment process, from idea generation to on-going monitoring of the portfolio. The objective is to seek to gain a full understanding of every stock in the portfolio, placing emphasis on examining what a company does, its market position, the dynamics of that market and an examination of the returns that the company can earn. The team assesses:

- **Barriers to entry** – does the company have brands, intellectual property, asset backing?
- **Competitive position** – are the market places the company operates in changing, can returns be sustained, what are the market positions of the company?
- **Investment requirements** – is the company well invested, does there have to be a step-up increase in capital expenditure, research & development to just maintain the company's position?
- **Management behaviour** – is management aligned with shareholders, is the dividend a key focus?
- **Strategy evaluation** – what is the future of the industry, how is capital being allocated?
- **Financial returns analysis** – what are the likely margin trends, the return on equity, the return on capital employed?

5. Portfolio construction

All stocks are held as active positions and are selected on their own merits rather than as a result of their presence in the strategy's benchmark. To ensure adequate diversification, the managers use the following informal guide (see portfolio characteristics) to assist with portfolio construction. Stock weights range from 1-5%, while sector weights are currently less than 20% of the portfolio's value as at 31 March 2018. These parameters are indicative rather than absolute, this may vary over time and should be used for illustrative purposes only.

The weighting given to each stock and sector position reflects:

- The relative attraction of each stock
- The team's level of conviction
- Any liquidity considerations relating to specific stocks

Buy and sell discipline

The responsibility for the decision to purchase or sell stocks rests entirely with the portfolio managers; they do not adhere to a core list or house view.

Objective and timely buy and sell decisions are a crucial element in the investment process. The team's investment process monitors the progress of existing holdings and applies, objective criteria to assess whether a stock should continue to feature in the portfolio.

Clear valuation parameters are put in place when a stock is bought, and stocks are reviewed on an ongoing basis. The portfolio managers usually scale into and out of positions through phased dealing.

Portfolio characteristics as at 31 March 2018

Number of holdings	50-80
Stock weighting	1% to 5% of portfolio value
Sector exposure	up to 20% of portfolio value
Cash and near cash	≤10%
Anticipated turnover	30% - 40%

Please note that the ranges may vary over time and should be used for illustrative purposes only.

Derivatives

Derivatives and forward foreign exchange contracts may be used for the purposes of efficient portfolio management only.

Currency hedging

The strategy has the capacity to hedge against currency movements, but it is not expected that the managers will hedge as a matter of course, so currency movements may contribute to gains or losses on the underlying holdings. Currency movements may also affect the level of income from overseas holdings.

Risk management

Team-specific

The portfolio managers monitor income and capital risk throughout the investment process.

Income risk – the risk of a cut in the fund pay-out is managed by:

- Focusing on companies with strong balance sheets and good cashflow
- Emphasising companies with good dividend growth potential
- Constructing a portfolio which is diversified geographically and by sector, where no single holding should contribute more than 5% of the portfolio's income stream

Capital risk – the risk of large, permanent drawdowns is managed by:

- Company engagement to understand the risks associated with their businesses and industries
- Global diversification reduces single country macro risk and enables sector diversification
- A focus on absolute/real valuation metrics provides downside support

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Independent risk monitoring

Janus Henderson has an independent Investment Risk Team (reporting into the Chief Risk Officer), which is ultimately responsible for the oversight and challenge of market risk. The day-to-day market risk activities are carried out by the Portfolio Risk & Analytics Team reporting into the Chief Investment Officer (CIO). This ensures that the resourcing of market risk is appropriate and in line with the investment strategies followed under the CIO, while providing an independent check of the suitability and effectiveness of the market risk function.

The Janus Henderson Market Risk Function, comprising the Portfolio Risk & Analytics Team and the Investment Risk Team, work closely with senior management and portfolio managers as part of the overall investment risk management and oversight process.

Portfolio managers and senior management have access to a variety of third party and internally built risk management tools in order to qualify and quantify the various types of market risks. Daily reports and dashboards are used for day to day monitoring of the portfolio's exposures and risks and regular oversight meetings are held with the portfolio managers to discuss any relevant risk in the portfolio. A monthly investment performance and risk meeting is held with senior management, allowing the teams to escalate any potential remaining issues and provide senior management with an independent view of the portfolio.

Portfolio managers

Andrew Jones

Director, Global Equity Income | Portfolio Manager

Andrew Jones is a Director of Global Equity Income and Portfolio Manager at Janus Henderson Investors, responsible for a range of equity income mandates. Prior to joining Henderson in 2005 as a portfolio manager on the UK Equities Team, Andrew worked as a fund manager at Invesco Perpetual, where he started his career in 1995.

Andrew graduated from Queens' College, Cambridge University with a BA (Hons) in economics and holds the Securities Institute Diploma. He has 23 years of financial industry experience.

Ben Lofthouse, CFA

Head of Global Equity Income | Portfolio Manager

Ben Lofthouse is Head of Global Equity Income at Janus Henderson Investors, a position he has held since 2018. Prior to this, he was a director, global equity income and has been part of the Global Equity Income Team since joining the company in 2004. Additionally, he is a Portfolio Manager for the Global Equity Income and Global Dividend & Income strategies and has managed a range of equity income mandates since 2008. Prior to Henderson, Ben worked as an accountant at PricewaterhouseCoopers where he started his career in 1998.

Ben graduated with BA (Hons) in business economics from Exeter University. He is an associate of the Institute of Chartered Accountants in England and Wales (CA) and holds the Chartered Financial Analyst designation. He has 20 years of financial industry experience.

Contact us
General enquiries: **+44 (0)207 818 2839**
Email: **sales.support@janushenderson.com**
Website: **janushenderson.com**

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