

Responsible investment policy

Monitoring and taking action on financial performance, corporate governance and corporate responsibility

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1 Introduction

Monitoring and taking action on financial performance, corporate governance and corporate responsibility

1.1 Purpose and scope

The Henderson Global Investors' Responsible Investment policy sets out how we discharge our responsibility towards our clients by protecting and enhancing value in the companies in which we invest on clients' behalf through our work on corporate governance (CG) and corporate responsibility (CR). The policy applies to the Henderson Investment Management Business.

We believe that in order to achieve long-term success, companies need not only to conceive and execute appropriate business strategies, but also to maintain high standards of corporate governance and corporate responsibility. We therefore expect companies to operate according to recognised national and international standards in these areas.

This policy sets out how Henderson implements the UK Stewardship Code¹. Henderson is a founding signatory of The United Nations Principles for Responsible Investment (PRI)², and this policy sets out our approach in applying the Principles across the Investment Management Business. Further information can be found on our website³.

¹ www.frc.org.uk

² www.unpri.org

³ www.henderson.com/henderson/content/responsible-investment

2 UK Corporate Governance

2.1. Overview

The objective of our corporate governance work is to ensure that the boards of the companies in which we invest perform to expected standards and are accountable to shareholders. The composition and structure of boards, and the processes by which boards operate, need to be carefully planned and managed to this end. The objective of our voting policy is to support good corporate governance practices and the long term interests of shareholders.

Henderson expects UK companies to comply with the UK Corporate Governance Code⁴, or to provide adequate explanation of areas in which they choose not to comply. Our corporate governance work is also guided by best practice guidelines developed by industry bodies such as the Investment Association⁵ and the Pensions and Lifetime Savings Association⁶.

While we prefer that companies adhere to the principles and provisions of the Code and best practice, we recognise that a different approach may be justified in particular circumstances. Compliance with the Code does not in of itself constitute good governance, and we evaluate each deviation on its own merits. In such cases, the onus is on the company to provide us with sufficient information to enable us to take an informed view. Where adequate explanation is provided, we will support the board. However, where we judge that insufficient assurance has been given that the arrangements adopted are in the best interests of shareholders, we will not support the board.

Henderson, on behalf of our clients, holds shares in many small companies, including companies listed on the Alternative Investment Market (AIM), where the Code does not apply. We consider that the main principles of good corporate governance embodied in the Code are applicable to listed companies of all sizes and stages of development. However, we recognise that some of the more detailed provisions of the Code will not be appropriate. The onus is on smaller companies to explain their governance arrangements in relation to their size and stage of development. We support the work of the Quoted Companies Alliance (QCA)⁷ in setting out guidelines for smaller quoted companies and AIM companies.

The paragraphs below amplify and clarify certain aspects of Henderson's approach to a company's corporate governance.

2.2. Governance reporting

Governance reporting has expanded exponentially in recent years. However, the increasing quantity of reporting has in many cases not been matched by better quality, with many companies indulging in 'boiler-plate' disclosure. We attach great value to the quality of governance reporting, which forms an important part of our assessment of companies. Reporting should explain clearly how the company's particular corporate governance arrangements and structure help it to develop and execute its strategy successfully.

⁴ www.frc.org.uk

⁵ www.theinvestmentassociation.org

⁶ www.plsaco.uk

⁷ www.quotedcompaniesalliance.co.uk

2.3. Board composition and diversity

The Board should be formed of a suitable balance and quality of executive and non-executive directors to enable it to execute strategic control of the company's affairs to maximise long term shareholder value. To this end, it is important that the Board has a sufficient contingent of independent non-executive directors to maintain appropriate oversight on shareholders' behalf.

We recognise the importance of diversity to business success. This applies both to the composition of the Board and the wider workforce, and encapsulates diversity in the broadest sense.

We do not support diversity quotas or formal targets, as we believe appointments should be based on merit and objective criteria. However, we believe it is an important responsibility of the Board nomination committee and senior management to keep under review the level of diversity on the Board and in the workforce at all levels, and to take action to improve performance where diversity levels are lagging.

2.4. Roles of Chairman and Chief Executive

In order to prevent the concentration of power in the hands of one person, we do not favour the combination of the roles of Chairman and Chief Executive. However, we recognise that in some very limited circumstances, the combination of these roles may be justified. Such circumstances may include where the chief executive has resigned and the chairman temporarily holds the chief executive role until a suitable replacement is found. Where a company believes its particular circumstances warrant the combination of these roles, we expect prior disclosure and explanation of the circumstances.

We do not favour chief executives or other executive directors going on to become chairman of the same company. Exceptionally, we may support such a move based upon a company's unique circumstances. In such a situation major shareholders should be consulted in advance and adequate justification must be provided.

2.5. Definition of independence

When assessing the independence of a non-executive director, we will consider whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. These include where the director:

- Has been an employee of the company or group within the last five years;
- Has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- Has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;
- Has close family ties with any of the company's advisers, directors or senior employees;
- Holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- Represents a significant shareholder; or
- Has served on the board for more than nine years from the date of their first election.

Where a company maintains that a non-executive director is independent despite the presence of the above relationships or circumstances, the onus is on the board to provide evidence to support the claim. Henderson will exercise judgement in assessing independence in each individual case. In particular, we do not consider that board tenure of more than nine years in itself necessarily compromises independence with the resultant implications for membership of board committees.

Where appropriate, we will have regard to the non-executive director's performance on the board and committees in determining whether the director exercises independent judgement in relation to the company.

2.6. Appointment and re-election of directors

The appointment of any director to the board should be the result of a formal, rigorous and transparent procedure led by the Nomination Committee. The Nomination Committee should assure itself and the shareholders that the proposed director is able to devote sufficient time to the role. Where appropriate, we also have regard to the director's performance record at other companies.

We will support the election of directors who are able to contribute to the preservation and enhancement of shareholder value.

2.7. Non-executive directors

Our voting decision on the appointment or reappointment of non-executive directors is also affected by factors which do not apply to executive directors. This is because of the monitoring duties that non-executive directors in particular are required to perform in order to protect shareholders' interests.

When determining how to vote on the election of a non-executive director, in addition to the points stated in paragraph 2.6, we take into consideration the proportion of independent non-executive directors on the board and the suitability of the non-executive director to fulfil any committee duties.

The fact that companies are required to have separate board committees does not, in our view, detract from the responsibility of the board as a whole for decisions or duties within the remit of the board committee. Where we have over a period expressed concern to the company about the performance of a particular committee and such concerns have not been resolved to our satisfaction, we may withhold support from any member of the board, irrespective of their membership of the particular committee, as we consider appropriate.

2.8. Succession planning

We expect the board to make adequate arrangements for succession planning. This process should be led by the Nomination Committee. Details of appointment procedures for directors and succession planning arrangements should be disclosed to shareholders.

2.9. Relationship with auditors

It is of the utmost importance that auditors remain independent from the company. The company should disclose the scale of non-audit fees paid to the audit firm, the nature of the work involved, and the procedure for awarding such contracts.

When considering whether to approve the appointment of auditors and their remuneration, the significant driver is the independence of the audit process. The audit committee, consisting solely of independent non-executive directors, not the executives or chairman, should be seen to lead the relationship of the company with the auditors.

The fees generated from the provision of non-audit services should not be of such magnitude as to appear to impair the auditors' objectivity. Where non-audit fees are substantial relative to the audit fee it is up to the audit committee to justify why this expenditure is in shareholders' interests.

2.10. Remuneration

The quality of a company's remuneration policy and practices can be seen as a litmus test of good corporate governance.

Henderson believes that executives should be fairly rewarded for the contribution they make to the maximisation of long-term shareholder value. A fully independent Remuneration Committee has a critical role to play in determining a company's remuneration policy and practices. Remuneration Committees should ensure that executive remuneration packages are structured in a manner which reflects the achievement of corporate objectives and limits the possibility of 'rewards for failure'.

We also attach importance to the Code's principle on remuneration, namely that:

"The Remuneration Committee should judge where to position their company relative to other companies. But they should use such comparisons with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in performance. They should also be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases".⁸

Companies should seek to develop remuneration arrangements specific to the company and clearly aligned with business strategy and objectives, utilising the most appropriate performance measures, rather than simply adopting 'off-the-peg' policies.

2.11. Service contracts

Henderson does not approve of rolling service contracts terminable on more than one year's notice. This does not preclude companies, where necessary, from offering newly-recruited directors longer-term contracts which subsequently reduce to one year rolling contracts after a specified period. However, companies should not offer longer-term contracts to new directors as a matter of course. Where a company offers a new director a contract along these lines, an explanation of its necessity should be included in the report and accounts.

We do not approve of remuneration policies that allow enhanced notice periods or compensation on a change of control of the company.

2.12. Remuneration Report and policy

Henderson assesses whether the disclosed policy and practices sufficiently link executive rewards to the preservation and enhancement of shareholder value. Henderson also assesses whether the remuneration policy and practices disclosed in the remuneration report meet best practice guidelines as prescribed in the UK Corporate Governance Code, the Investment Association Principles of Remuneration and the PLSA Corporate Governance Policy.

While it is not possible to list all the factors that may cause us not to support a company's remuneration report, the factors that would cause concern include:

- Disclosure below the requirements of the Remuneration Regulations;
- Executive director service contracts terminable on more than one year's notice;
- Compensation on termination in excess of one year's remuneration;
- Notice period or compensation in excess of one year on a change of control of the company;
- Payment of compensation to executives when their service contracts are amended to bring them into line with best practice;

⁸ The UK Corporate Governance Code, Section D.1

- Salary increases or increased maximum bonus opportunities which are not linked to productivity improvement or increased responsibilities; the inappropriate use of comparator data to justify increases is to be discouraged;
- Ex-gratia payments for past performance;
- Payment of transaction bonuses where the benefit to shareholders has not accrued or is not evident;
- The exercise of discretion by the Remuneration Committee to permit payment or awards beyond the scope of the company's disclosed remuneration policy without prior shareholder consultation. The exercise of such discretion must involve some demonstrable benefit to shareholders;
- Non-disclosure or insufficient information on the maximum individual rewards obtainable under performance-related remuneration schemes;
- Amendments to material terms of performance-related remuneration without appropriate shareholder consultation or explanation. These include increases in maximum bonus potential or variations in performance targets which increase the likelihood of awards vesting;
- Reprising or exchange of underwater stock options;
- Terms and structure of incentive schemes not in line with best practice;
- Retesting of performance conditions not in line with ABI guidelines; and dilution limits not in line with ABI guidelines; or
- Incomplete disclosure of performance metrics, including all those applying to annual bonuses.

2.13. Incentive schemes

We will support incentive schemes which genuinely incentivise executives to pursue strategies which will increase long-term shareholder value and which align the interests of executives and shareholders. We expect incentive schemes to incorporate demanding performance targets which are aligned with business strategy and objectives and provide the highest rewards only for the highest performance.

While it is the Board's responsibility, on the advice of the Remuneration Committee, to devise incentive schemes which drive a company's performance, Henderson has a preference for schemes which award conditional shares based on the attainment of performance targets. We also prefer performance targets based on a company's total shareholder return relative to an appropriate index or peer group. Where a total shareholder return performance measure is adopted, the Remuneration Committee should ensure that there has been an improvement in the company's underlying performance, by incorporating an appropriate financial measure underpin.

Henderson considers that real alignment between the interests of shareholders and executives is achieved when executives hold shares in the company. We expect companies to introduce meaningful shareholding guidelines which require executives to hold shares in the company either through share purchases or the retention of shares acquired through share incentive schemes until a stated level of shareholding is achieved.

Henderson will assess whether the structure of the incentive scheme accords with current market and best practice, having regard to the Investment Association Principles of Remuneration. While all aspects of the Investment Association Principles are important, we wish to draw attention to the following points in particular:

- Share incentive scheme proposals should as far as possible be designed to be specific to an individual company's requirements and strategic outcomes;
- Full details of incentive scheme proposals and their cost implications should be disclosed. Henderson will not be able to approve proposals whose operation or implications are unclear;
- Proposed incentive schemes should form part of a well-considered remuneration package; the level of potential benefits should not be excessive and should be scaled relative to performance;
- The maximum annual limit on individual participation should be disclosed; participation limits should be expressed as a percentage of salary and in setting this limit, remuneration committees should have regard to best practice and market norms. Awards higher than the market norm should be subject to more demanding performance conditions;

- When determining the level of share incentive awards in any year, it may be appropriate for remuneration committees to take account of the company's performance (whether financial or operational) in the period preceding grant. This may be a more appropriate basis for determining award levels, within the limit approved by shareholders, rather than one based solely on peer group comparisons;
- Share incentive awards and option grants should be phased, generally on an annual basis, rather than awarded in block grants;
- We are extremely reluctant to approve share-based remuneration with no forward-looking performance conditions even where companies have substantial US operations;
- To ensure that executive rewards are based on genuine and sustained performance, it may be appropriate to set performance targets at a premium to depressed base levels. This would also avoid windfall rewards based not on genuine performance but on depressed share price or other financial results at the time of grant;
- Performance periods should be at least three years. We strongly encourage longer performance periods, in order to motivate the achievement of sustained performance;
- There should be no automatic waiver of performance conditions on a change of control. The underlying financial performance of a company that is subject to a change of control should be a key determinant of what share-based awards, if any, should vest for participants; or
- Share incentive awards should vest on a pro-rata basis, taking into account the vesting period that has elapsed at the time of the change of control.

2.14. Chairman's and non-executive directors' remuneration

The chairman and non-executive directors should be appropriately rewarded for their contribution but this should be made available in cash or in shares bought or allocated at market price.

We do not support the award of share incentives (or other incentives geared to the share price) to the chairman and non-executive directors. This is because such awards could compromise independence, encourage short-term focus and align interests with those of executives rather than shareholders.

A proposal to award share incentives should be based on exceptional circumstances with the onus on the company to explain why the proposed arrangement is appropriate. Where it is necessary to offer share incentives, our preference is for a one-off grant, with the award in conditional shares as opposed to share options, to be retained during the directors' tenure. Companies should consult with shareholders prior to the grant of such awards.

A non-executive director who is awarded share incentives would not be considered to be independent. Such directors should not be members of the Audit or Remuneration committee.

2.15. Investment trusts

Boards of investment trusts should ensure that the interests of the shareholders (who are also the customers of the investment trust) are paramount when considering all aspects of the operation of the investment trust. Henderson expects investment trust companies to comply with the AIC Code of corporate governance or to provide adequate explanation of areas in which they fail to comply. In particular, the Board should be sufficiently independent of the manager so that it is able to assess, objectively, the performance of the fund manager. Specifically:

- A majority of the board, including the chairman, should be independent of the manager. In addition, directors who serve on more than one board managed by the same manager will not be regarded as independent;
- No more than one current or recent employee of the manager should serve on a board. Such employee directors should stand for re-election annually. This provision does not apply to self-managed companies; and
- No employee of the manager or executive of a self-managed company or ex-employee within the last five years should serve as chairman.

2.16. Take-overs and mergers

Our voting decisions on proposed take-overs and mergers are based primarily on our analysts' and fund managers' view on the alignment between the proposal and shareholders' interests. If there were a corporate governance dimension to the proposal, our decision-making process would take this into account.

3 International Corporate Governance

3.1. Overview

International corporate governance systems vary a great deal according to factors such as the legal system, the extent of shareholder rights and the level of dispersed ownership. In formulating our approach to corporate governance we are conscious that a 'one size fits all' policy is not appropriate. We therefore seek to vary our voting and engagement activities according to the market, and pay close attention to local market codes of best practice.

Notwithstanding these differences, we consider that certain core principles of corporate governance apply across all markets, and the objective of our voting policy is to support these principles and the long term interests of shareholders. The paragraphs below elaborate on these core principles⁹.

3.2. Corporate objective

The overriding objective of the company should be to optimize over time the returns to its shareholders. Where other considerations affect this objective, they should be clearly stated and disclosed. To achieve this objective, the company should endeavour to ensure the long-term viability of its business, and to manage effectively its relationships with stakeholders.

3.3. Disclosure and transparency

Companies should disclose accurate, adequate and timely information, in particular meeting market guidelines where they exist, so as to allow investors to make informed decisions about the acquisition, ownership obligations and rights, and sale of shares. Clear and comprehensive information on directors, corporate governance arrangements and the company's management of corporate responsibility issues should be provided¹⁰.

Shareholders should be given sufficient and timely information about all proposals to allow them to make an informed judgment and exercise their voting rights. Each proposal should be presented separately to shareholders – multiple proposals should not be combined in the same resolution. In the absence of sufficient information provided by a company on a proposed resolution we will vote against.

3.4. Boards of directors

Henderson recognises the plurality of corporate governance models across different markets and does not advocate any one form of board structure. However, for any corporate board there are certain key functions which apply:

- Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures;
- Monitoring the effectiveness of the company's governance practices and making changes as needed;
- Selecting, compensating, monitoring and, where necessary, replacing key executives and overseeing succession planning;

⁹ These Principles are based on the Organisation for Economic Development (OECD) Corporate Governance Principles and those of the International Corporate Governance Network (ICGN).

¹⁰ For further discussion of corporate responsibility see section 4.

- Aligning key executive and board remuneration with the longer term interests of the company and its shareholders;
- Ensuring a formal and transparent board nomination and election process;
- Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions;
- Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards; and
- Overseeing the process of disclosure and communications.

The board of directors, or supervisory board, as an entity, and each of its members, as an individual, is a fiduciary for all shareholders, and should be accountable to the shareholder body as a whole. Each member should stand for election on a regular basis.

Boards should include a sufficient number of independent non-executive members with appropriate skills, experience and knowledge. Responsibilities should include monitoring and contributing effectively to the strategy and performance of management, staffing key committees of the board and influencing the conduct of the board as a whole.

Audit, remuneration and nomination/succession committees should be established. These should be composed wholly or predominantly of independent non-executives. Companies should disclose the terms of reference of these committees and give an account to shareholders in the annual report of how their responsibilities have been discharged. The chairmen and members of these committees should be appointed by the board as a whole according to a transparent procedure.

When determining how to vote on the election of a non-executive director, we will give close consideration to their independence and to the proportion of independent directors on the Board as a whole.

3.5. Shareholder rights

All shareholders should be treated equitably. Companies' ordinary shares should provide one vote for each share, and companies should act to ensure the owners' rights to vote.

Major strategic modifications to the core business(es) of a company should not be made without prior shareholder approval. Equally, major corporate changes, which in substance or effect, materially dilute the equity or erode the economic interests or share ownership rights of existing shareholders should not be made without prior shareholder approval of the proposed change. Such changes include modifications to articles or bylaws, the implementation of shareholder rights plans or so called 'poison pills', and the equity component of compensation schemes.

We will not support proposals that have the potential to reduce shareholder rights such as significant open-ended authorities to issue shares without pre-emption rights or anti-takeover proposals, unless companies provide a compelling rationale for why they are in shareholder interests.

3.6. Audit and internal control

Company boards should maintain robust structures and processes to ensure sound internal controls and to oversee all aspects of relationships with external auditors. The Audit Committee should ensure that the company gives a balanced and clear presentation of its financial position and prospects, and clearly explains its accounting principles and policies. Audit Committee members should have appropriate levels of financial expertise, in accordance with prevailing legislation or best practice.

The Audit Committee should ensure that the independence of the external auditors is not compromised by conflicts of interest (arising, for example, from the award of non-audit consultancy assignments).

Where we have serious concerns over auditor independence we will vote against the re-election of the auditor.

3.7. Remuneration

Remuneration of executive directors and key executives should be aligned with the interests of shareholders. Performance criteria attached to share-based remuneration should be demanding and should not reward performance that is not clearly superior to that of a group of comparable companies appropriately selected in sector, geographical and index terms. Requirements on directors and senior executives to acquire and retain shareholdings in the company that are meaningful in the context of their cash remuneration are also appropriate.

The design of senior executives' contracts should not commit companies to 'payment for failure'. Boards should pay attention to minimising this risk when drawing up contracts and to resist pressure to concede excessively generous severance conditions.

Companies should disclose in each annual report or proxy statement the board's policies on remuneration (and preferably the remuneration of individual board members and top executives), as well as the composition of that remuneration so that investors can judge whether corporate pay policies and practices are appropriately designed.

Broad-based employee share ownership plans or other profit-sharing programmes are effective market mechanisms that promote employee participation.

When reviewing whether to support proposed new share schemes we place particular importance on the following factors:

- The overall potential cost of the scheme, including the level of dilution;
- The issue price of share options relative to the market price;
- The use of performance conditions aligning the interests of participants with shareholders;
- The holding period, ie, the length of time from the award date to the earliest date of exercise; and
- The level of disclosure.

4. Corporate Responsibility

4.1 Definition

Henderson believes that good management of a range of responsibilities towards different stakeholders contributes to business success and long-term shareholder value. This embraces:

- Economic responsibilities to shareholders and creditors, and fair and legal behaviour towards consumers, suppliers and competitors;
- Responsibilities to minimise and manage environmental impacts;
- Responsibilities towards employees; and
- Responsibilities to the wider community.

4.2 Corporate responsibility standards

There are currently no standards for the broad range of CR issues that are universally recognised by companies and investors analogous to the UK Corporate Governance Code or its statutory or market-based equivalents in other countries. Nonetheless, there is a body of international agreements amongst governments that provide a clear framework from which more specific expectations of business behaviour can be derived. Some of these, such as the Universal Declaration of Human Rights and International Labour Organisation conventions, have the force of international law. Others are voluntary but have substantial moral force. The OECD Guidelines for Multinational Enterprises, for example, have been agreed by governments, trades unions and civil society representatives.

Henderson expects all companies in which it invests to adopt standards, policies and management processes covering the corporate responsibility issues affecting them. These should be based wherever possible on internationally recognised instruments such as the UN Global Compact,¹¹ the UN Universal Declaration of Human Rights and the related covenants and conventions¹²; International Labour Organisation conventions on labour standards¹³; and the OECD Guidelines for Multinational Enterprises¹⁴. The UN Guiding Principles on Business & Human Rights¹⁵, also provide a useful framework.

4.3 Disclosure on corporate responsibility

Henderson wishes to gain as full an understanding as possible of the material social, environmental and ethical issues facing a company; its approach to dealing with those issues; its historical performance in implementing its policies; its strategy and targets for the coming period and its capabilities in relation to the issues.

It is important that information should wherever possible be comparable with that disclosed by other companies, particularly peers in a sector, in order to be of greatest value. While many jurisdictions lack legally binding ESG disclosure standards or indeed universally accepted voluntary standards, nonetheless, the voluntary standards produced by a number of bodies command considerable legitimacy.

¹¹ www.unglobalcompact.org

¹² www.un.org/en/rights/index.shtml

¹³ www.ilo.org/public/english/standards/norm/index.htm

¹⁴ www.oecd.org

¹⁵ www.ohchr.org

Henderson believes the Global Reporting Initiative (GRI) is the leading global standard for voluntary CR reporting.¹⁶ It has the support of a wide range of companies, non-governmental organisations, international agencies and national governments. The GRI approach is similar to that of the UK Governance Code in that it sets out a range of issues and reporting indicators and asks companies to 'comply or explain', making their own judgements as to the relevance of individual issues. Companies can thus adapt the approach to their own particular circumstances. Nonetheless, we recognise that full GRI reporting is complex and that companies will need to develop their reporting capacity over time. Companies will also need to ensure consistency between any legal requirements for CR reporting and disclosure based on GRI.

Henderson commends the Global Reporting Initiative guidelines and encourages companies to work towards reporting in full accordance with them.

We also encourage companies to take part in sector and issue-specific disclosure initiatives, such as the Access to Medicines Index and the CDP¹⁷.

¹⁶ www.globalreporting.org

¹⁷ www.cdproject.net

5. Policy implementation

5.1. Responsible Investment Oversight

Henderson has a Global Responsible Investment Committee which oversees and reviews the implementation of the Responsible Investment Policy and any other related corporate governance and responsible investment matters within Henderson that may arise. The Committee is composed of representatives of our equities, fixed income and multi-asset teams, members of our Governance and Responsible Investment Team and our distribution team. The Committee is responsible for evaluating the effectiveness of our corporate governance and corporate responsibility work in influencing companies and generating analysis of value to our investment decision-making.

We also have equities and fixed income responsible investment committees that comprise representatives from the relevant investment teams. These committees focus on asset class specific issues and provide a forum to share best practice and develop initiatives to further improve the implementation of our Responsible Investment Policy.

5.2 Company monitoring

Fund managers and analysts spend a considerable amount of their time monitoring the performance of investee companies. A wide variety of sources of information are utilised including company meetings, company reporting, broker research, industry reports and in-house research. In addition, fund managers have access to specialist research covering governance and corporate responsibility issues, as well as the in-house Governance and Responsible Investment team.

The primary route for company engagement on stewardship-related issues is the regular meetings fund managers have with the companies in which they invest. Henderson's fund managers hold over 4,000 company meetings each year. Meetings incorporate a wide range of topics including strategy, capital allocation, company performance, risk, management succession, board composition, and also environmental and social issues where relevant. Analysts specialising in corporate governance and corporate responsibility issues work alongside portfolio managers to identify relevant issues, which are fed into our investment process, and may also form the basis for company engagement. Meetings are recorded on the Henderson Research Hub.

Analysis is shared on our internal Research Hub and frequent discussion takes place between our Governance and Responsible Investment Team, analysts and fund managers. We keep electronic records of our engagement, voting and other corporate governance and corporate responsibility activities, including the rationale for voting decisions.

ESG issues are integrated into our company research, risk reporting and fund review processes. ESG information is available directly to analysts and fund managers via bespoke Bloomberg screens. Additionally, fund managers receive ESG investment risk reports detailing portfolio exposure to companies rated highest risk for ESG issues, as well as overall portfolio performance and any changes to company ratings. These ESG risk reports are discussed at regular fund risk review meetings.

5.3 Fixed income & responsible investment

The Henderson fixed income team invests across a broad range of asset classes, including government bonds, investment grade and high yield corporate bonds. Whilst environmental, social & governance (ESG) issues are of relevance to all of these asset classes, they are of most direct relevance when investing in corporate bonds.

ESG issues can impact on the long term performance of corporate bonds in much the same way as they impact on equities. However, due to the nature of fixed income investing, there is a particular focus on the downside risk of poor management of ESG issues undermining credit quality. In addition, as creditors rather than owners, the relationship of bondholders with corporate management is fundamentally different, which impacts on the nature of corporate engagement. Our in-house credit analysts seek to take into account company performance on ESG issues as part of their overall investment research process. Their focus is on the extent to which ESG issues pose a significant risk to credit worthiness. Analysts have access to third party research covering ESG issues as well as in-house specialists working in our Corporate Governance & Responsible Investment team. Credit analysts meet frequently with companies, often alongside fund managers and analysts from equities. Engagement with companies on ESG issues is most focused on the transparency of potential ESG risks, and the quality of corporate governance.

5.4 Engagement

We take an active approach to communicating our views to companies and seeking improvements where we believe there are shortcomings in performance, or a company has failed to apply appropriate standards, or to provide adequate disclosure. We will continue our dialogue with the company over an extended period if necessary. Common issues on which we have intervened in the past include concerns over executive or non-executive leadership, mergers & acquisitions, corporate governance standards, disclosures and remuneration practices. Any decision to intervene is made on a case by case basis.

Escalation of our engagement activities will depend upon the company's individual circumstances and the nature of our shareholding. In most instances engagement would begin with the executive management team. Where we are unable to resolve issues to our satisfaction the likely next step in escalation would be to address concerns directly to the Chairman or Senior Independent Director. Where direct company engagement proves unsatisfactory or impractical, we may pursue other actions such as communication through the company's brokers, joint intervention with other shareholders or voting against board proposals.

5.5 Collaborative Engagement

We recognise that in many instances joint action by shareholders has the potential to be more effective than acting alone. This is especially so where shareholders have a clear common interest, such as in times of corporate distress. Henderson pro-actively collaborates with other investors on governance and wider environmental and social engagement issues, directly and through industry bodies.

We review all proposals for collective engagement initiatives on a case by case basis. Alongside our usual criteria based on the size of our shareholding, the materiality of the issues and our ability to influence, the core criteria for collective engagement are the alignment of interests of participants and the potential for collaborative action to be more effective than acting alone.

Henderson is an active participant in a range of organisations that facilitate collaborative engagement, including the Pensions and Lifetime Savings Association (PLSA), the Investment Association, the Investor Forum and the UNPRI Clearinghouse.

In considering participation in collaborative engagement initiatives we take into account potential conflicts of interest, concert party rules and our policy on insider information.

5.6 Voting

Henderson exercises the voting rights on behalf of clients at meetings of all companies in which we have a holding. The only exception to this is meetings where share blocking or other restrictions on voting are in place. Where we have taken a decision not to support a management proposal we will, where practicable, seek to raise the issues with the company prior to voting.

To assist us in assessing the corporate governance of investee companies we subscribe to ISS (an independent proxy voting adviser). ISS provides voting recommendations based upon Henderson's corporate governance policy. Corporate governance specialists in Henderson scrutinise the ISS custom policy research, and supplement this with in-house research and engagement.

While we prefer that companies adhere to the principles and provisions of the UK Corporate Governance Code or other relevant national code of best practice, we recognise that a different approach may be justified in certain circumstances. We evaluate each deviation on its own merits. In such cases, the onus is on the company to provide us with sufficient information to enable us to take an informed view. As an active manager our preference is to engage with management and boards to resolve issues of concern rather than to vote against shareholder meeting proposals. In our experience this approach is more likely to be effective in influencing company behaviour. We therefore actively seek to engage with companies throughout the year and in the build up to the annual shareholder meeting to discuss any potentially controversial agenda items. However, where we believe proposals are not in shareholder interests or where engagement proves unsuccessful we will vote against.

Day-to-day responsibility for overseeing voting decisions lies with the Governance and Responsible Investment Team. Voting decisions are made in close consultation with fund managers and analysts. This helps to ensure that voting decisions are made with regards to both corporate governance considerations as well as financial considerations. Ultimate voting authority rests with individual portfolio managers, who are responsible for ensuring that votes are exercised in the best interests of fund beneficiaries. Our voting decisions are implemented electronically via the ISS ProxyExchange voting platform.

We disclose our global voting record in full on our website.

5.7 Stock lending

Stock lending makes an important contribution to market liquidity and provides additional investment returns for our clients. However, stock lending also has important implications for corporate governance policy as voting rights are transferred with any stock that is lent. We maintain the right to recall lent stock for voting purposes.

5.8 Share blocking and other restrictions on voting

In a number of markets in which Henderson invests, shares must be suspended from trading ('blocked') for a specified period before general meetings if voting rights are to be exercised. Such restrictions may place constraints on portfolio managers that mean exercising proxy votes is not in a client's interest. In other markets, casting proxy votes may involve costs that are disproportionate to any benefit gained. In markets where share blocking applies or additional costs are incurred that outweigh the potential benefits of voting, Henderson will vote only in exceptional circumstances.

5.9 Conflicts of interest

Henderson acknowledges that conflicts of interest may arise in the context of our corporate governance and corporate responsibility work. For example, we may have serious concerns about a company whose pension scheme is a client.

Where a conflict of interest arises, the matter will be referred to the Henderson Proxy Committee, consisting of the Head of Equities, the Head of Governance and Responsible Investment and the Global Head of Compliance (or their respective designees). The Proxy Committee will make our final engagement and voting decisions, ensuring that they best serve the interests of our clients as a whole. These decisions and the rationale for reaching them will be documented and will be available to clients.

5.10 Conflicts of interest in relation to Henderson Group

When evaluating corporate governance and voting issues in relation to Henderson Group, our parent company, the overriding principle is the fiduciary duty we owe to our clients. In order to ensure protection of our clients' interests, our policy will apply in the same way to Henderson Group as to all other companies.

5.11 Reporting

We publish information on our stewardship related activities, including our global voting record, on our website at www.henderson.com/henderson/content/responsible-investment. This includes our annual responsible investment report, which provides an overview of work undertaken to implement the Henderson Responsible Investment Policy.

We make more detailed information available to our clients according to their requirements.

For further information on Henderson's responsible investment work, please contact Antony Marsden, Head of Governance and Responsible Investment, antony.marsden@henderson.com.

Responsible investment policy

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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. Tax assumptions and reliefs depend upon an investor's particular circumstances and may change if those circumstances or the law change.

If you invest through a third party provider you are advised to consult them directly as charges, performance and terms and conditions may differ materially.

Nothing in this document is intended to or should be construed as advice. This document is not a recommendation to sell or purchase any investment. It does not form part of any contract for the sale or purchase of any investment.

Any investment application will be made solely on the basis of the information contained in the Prospectus (including all relevant covering documents), which will contain investment restrictions. This document is intended as a summary only and potential investors must read the prospectus, and where relevant, the key investor information document before investing.

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