

# **Investment principles**

## **Janus Henderson Global Sustainable Equity Fund**

2018

**Important information: For promotional purposes. Please read all scheme documents before investing. Before entering into an investment agreement in respect of an investment referred to in this document, you should consult your own professional and/or investment adviser.**

## Investment principles – Janus Henderson Global Sustainable Equity Fund

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### Positive impact through sustainable investment

The Janus Henderson Global Sustainable Equity Fund seeks to invest in businesses that are strategically aligned with the powerful environmental and social trends changing the shape of the global economy. We believe these businesses should exhibit capital growth by virtue of having products or services that enable positive environmental or social change, and thereby have an impact on the development of a sustainable global economy.

### Environmental & social megatrends

The global economy is under enormous pressure from four powerful environmental and social megatrends: climate change, resource constraints, population growth, and an ageing population. As a result of climate change, the future development of the global economy will be shaped by the urgent need to transition to a low carbon energy infrastructure. At the same time, it is vital that global productivity is maintained in order to support a growing and ageing global population.

Over the coming decades we expect a fundamental shift in global capital flows (money used for investment, trade, or business) such that entire industries stand to be disrupted. We believe we will create value for our investors by investing in those businesses that are aligned with global megatrends, and avoiding those which are not consistent with a sustainable economy.

*Please note: 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. Potential investors must read the fund's prospectus, and where relevant, the key investor information document before investing.*

### A fully integrated approach

The fund employs an integrated approach to sustainable and responsible investment (SRI), combining positive and negative investment (avoidance) criteria, and considering both the products of a business (what it does) and the operations (how it does it). We believe that this approach can add value over the long term.

### Positive selection criteria

Our positive criteria lead us to invest in businesses that have a positive impact on society and the environment by virtue of the products or services they sell, and by the way in which they manage their operations, thereby supporting the Sustainable Development Goals<sup>1</sup> adopted by the United Nations (UN) in 2015. These comprise 17 goals to “end poverty, protect the planet, and ensure prosperity for all” as part of a new sustainable development agenda.

We use a thematic framework to identify those businesses that are strategically aligned with the four megatrends described above and, through this, offer the potential for capital growth. Derived from the four megatrends, the fund has ten sustainability themes of which five are environmental and five are social. For every investment, we must be able to identify at least one theme operating as a value driver to the business. For a more detailed explanation of our themes please refer to *Ten themes for sustainable investing*, which is available to view on our website<sup>2</sup>.

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<sup>1</sup> UN Sustainable Development Goals: 1) No Poverty, 2) Zero Hunger, 3) Good Health & Well-Being, 4) Quality Education, 5) Gender Equality, 6) Clean Water & Sanitation, 7) Affordable and Clean Energy, 8) Decent Work and Economic Growth, 9) Industry, Innovation and Infrastructure, 10) Reduced Inequalities, 11) Sustainable Cities and Communities, 12) Responsible Consumption and Production, 13) Climate Action, 14) Life Below Water, 15) Life On Land, 16) Peace, Justice and Strong Institutions, 17) Partnerships for the Goals. For full descriptions of what each goal means, please visit: <https://sustainabledevelopment.un.org/sdgs>. All information correct as at 20 August 2018.

<sup>2</sup> <https://www.janushenderson.com/ukpi/post/12176/ten-themes-for-sustainable-investing>

- **Five environmental themes:**  
Cleaner Energy, Sustainable Transport, Water Management, Environmental Services, Efficiency
- **Five social themes:**  
Health, Sustainable Property & Finance, Knowledge & Technology, Safety, Quality of Life

### **The integration of ESG issues**

Analysing environmental, social and governance (ESG) issues forms a key part of our process when considering investment in any company. We believe companies with sound governance practices and strong stakeholder relations, and that manage relevant environmental and social risks responsibly have a greater chance of creating sustainable value for shareholders.

We examine issues such as a company's supply chain, reputation, brand value, the use of management incentives, and the sustainability of industry returns; all of these can potentially be impacted by ESG factors. Key ESG issues considered as part of the investment process include corporate governance, human capital and diversity, carbon footprint, controversies, transparency, and business ethics.

In addition to looking at ESG issues as a key part of our investment process, we also have access to specialist external ESG data, which links directly into the systems we use to monitor portfolios.

### **Company engagement**

Company engagement forms an important part of the investment process. Our meetings with companies incorporate a wide range of topics, including environmental and social issues. We take an active approach to communicating our views to companies and seeking improvements in performance, including appropriate standards of corporate responsibility.

### **Avoidance criteria (negative criteria)**

The negative impact on global prosperity from the cost of economic externalities<sup>3</sup> is becoming increasingly recognised. We seek to avoid those businesses involved in activities contrary to the development of a sustainable economy. We believe these types of business are at higher risk from government regulation or disruption. All holdings in the fund are compliant with the UN Global Compact, whose Ten Principles cover human rights, the International Labour Organisation's declaration on workers' rights, corruption and environmental pollution<sup>4</sup>.

The fund seeks to avoid businesses that have products or operations directly associated with a number of key areas, as outlined in Table 1 (on page 3) and explained in the notes below it.

### **Important information: *de minimis* limits**

Where possible we will seek to achieve zero exposure in respect of the avoidance criteria. However, there may be instances when we will apply a *de minimis* limit. A *de minimis* limit is a threshold above which investment will not be made, and relates to the scope of a company's business activity; the limit may be quantitative (eg, expressed as a percentage of a company's revenues), or it may involve a more qualitative assessment. *De minimis* limits exist because sometimes avoiding an industry entirely may not be feasible given the complex nature of business operations.

In such instances we will invest in a company only if we are satisfied that the 'avoided' activity forms a small part of the company's business, and when our research shows that the company manages the activity in line with best practice.

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<sup>3</sup> Externalities = the consequences of economic activity experienced by society as a whole. Examples of negative externalities include environmental pollution, industrial waste, and climate change caused by human activity.

<sup>4</sup> The UN Global Compact's Ten Principles are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. For further information please visit <https://www.unglobalcompact.org/what-is-gc/mission/principles>. All information correct as at 20 August 2018.

When the activity relates to a company's revenues we use a 5% threshold, unless otherwise stated. When the activity relates to a company's operations, we will seek to gain comfort that the company is taking action to improve its performance, or is managing it in an exemplary fashion. Any company with a persistent record of misconduct will be excluded unless there is clear evidence of significant progress.

**Table 1: activities avoided**

People	Environment	Animals
Alcohol	Fossil fuel extraction & refining	Animal testing
Armaments	Fossil fuel power generation	Fur
Gambling	Chemicals of concern	Genetic engineering
Pornography	Contentious industries	Intensive farming
Tobacco	Nuclear power	Meat & dairy production

Source: Janus Henderson Investors, as at 14 August 2018.

**Alcohol:** We avoid companies involved in the production of alcoholic drinks or which generate more than 10% of their turnover (value of total sales) from its sale.

**Animal testing:** We avoid companies that manufacture pharmaceuticals, medicines, vitamins, cosmetics, soaps, or toiletries unless they make it clear that their products and ingredients are not animal tested.

**Armaments:** We avoid companies involved in the direct production or sale of weapons. We will not invest in companies involved in the direct production of land mines, cluster munitions, biological/chemical weapons, and nuclear weapons.

**Chemicals of concern:** We avoid companies which manufacture or sell chemicals, or products containing chemicals, subject to bans or severe restrictions in major markets around the world. This includes ozone depleting chemicals, micro beads, persistent organic pollutants, and the manufacture of any other substances banned or restricted under international conventions.

**Contentious industries:** We avoid companies that generate high carbon emissions or exploit non-renewable resources, either directly or in their supply chain, unless the company can demonstrate an outstandingly positive response towards environmental and social concerns. Our definition of contentious industries includes cement, mining, palm oil, and timber.

**Fossil fuel extraction & refining:** We avoid companies engaged in the extraction and refining of coal, oil, and gas.

**Fossil fuel power generation:** We avoid companies engaged in fossil fuel power generation. Investment in companies generating power from natural gas may be allowed in cases where the company's strategy involves a transition to renewable energy power generation.

**Fur:** We avoid companies involved in the sale or manufacture of animal fur products.

**Gambling:** We avoid companies with activity related to gambling.

**Genetic engineering:** We avoid companies involved in the deliberate release of genetically modified organisms (eg, animals or plants). Investment in companies where genetic technologies are used for medical or industrial applications may be acceptable providing high environmental and social standards can be demonstrated. Companies that use or sell products that make use of such technologies may be acceptable provided genetically modified organism (GMO) ingredients are clearly labelled.

**Intensive farming:** We avoid companies involved in intensive farming operations, unless the company can demonstrate an outstandingly positive response towards environmental and social concerns.

**Meat & dairy production:** We avoid any companies involved in the production or processing of meat/poultry or dairy products or eggs, or whose primary activity involves their sale.

**Nuclear power:** We avoid companies that are involved in the uranium fuel cycle, treat radioactive waste, or supply specialist nuclear related equipment or services for constructing or running nuclear plants or facilities.

**Pornography:** We avoid companies that publish, print or distribute newspapers or magazines or distribute films or videos classed as pornographic material.

**Tobacco:** We avoid companies that engage in activities related to the production of tobacco products or generate more than 10% of turnover from tobacco sales.

### **Ethical Oversight Committee**

Janus Henderson's Ethical Oversight Committee oversees the development, management and implementation of the avoidance criteria. Its responsibilities are to:

- Approve the appointment of an external research provider to advise the investment managers on compliance with the avoidance criteria for the fund
- Review any holding within the fund that does not comply with the advice on the exclusion criteria offered by the external research provider
- Approve any changes to the avoidance criteria and the *de minimis* thresholds.

The committee advises that, given the complexity of some of the issues, and what might be imperfect information, adherence can be only on a 'best endeavours' basis; together with the committee we try to ensure wherever possible that investments are made in accordance with the investment principles contained within this document.

These investment principles are intended to offer transparency on the way we invest, but do not form part of any legal contract. The way the principles are applied may change. Information is correct as at time of publication on 20 August 2018.

### **Important information**

Please read all scheme documents before investing. Before entering into an investment agreement in respect of an investment referred to in this document, you should consult your own professional and/or investment adviser.

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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