

# INVESTMENT PROCESS

## Janus Henderson Global Sustainable Equity Fund

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### Key differentiators

**Long-term thematic approach:** Ten sustainability themes guide idea generation. These themes, derived from four mega trends, reflect a balance between environmental and social sustainability.

**Disciplined fundamental analysis:** Comprehensive stock analysis incorporates both financial modelling and environmental, social, and governance research (ESG).

**Strict avoidance criteria:** The fund avoids investing in companies that the manager

considers to potentially have a negative impact on the development of a sustainable global economy.

**Diversified, active portfolio:** A highly differentiated portfolio versus the benchmark. Active share of approximately 95%<sup>1</sup> (as at 31 March 2017) while seeking balanced overall risk characteristics.

<sup>1</sup> Active share is for illustrative purposes only and may vary over time

### Overview

Janus Henderson's Global Sustainable Equity Fund targets companies that are growing sustainably. It aims to achieve above median long-term performance versus unrestricted global equity peers. The strategy utilises both positive and negative (exclusion) selection criteria.

Sustainability runs throughout the investment process. In researching a stock and building an investment case, the Global SRI Equities management team looks for evidence of sustainability in every aspect of a company's

business, not just in the types of products and services offered, but also in its growth prospects, strategy, capital allocation, cash flows and corporate governance.

### Management team

Hamish Chamberlayne is the lead portfolio manager, and together with his team, oversees global SRI<sup>2</sup> assets under management (Strategy AUM) of over £1bn<sup>3</sup>. Hamish has managed the strategy since December 2011.

<sup>2</sup> Sustainable and responsible investment.

### Investment philosophy

Janus Henderson has been involved in managing SRI portfolios for over 30 years and the Global Sustainable Equity Fund was launched in July 1991. At the heart of the approach is the belief that the best investment returns will be generated by companies which are providing solutions to environmental and social challenges. These companies should have attractive financial attributes such as persistent revenue growth and durable cash flows. The management team aims to outperform the market over the long-term through creating a differentiated global equity portfolio of the best sustainability ideas. The team's investment approach is explicitly low carbon and by incorporating environmental, social and governance factors into their analysis they aim to construct a portfolio with a favourable risk profile.

The philosophy is centred around three key tenets:

#### Sustainability

The management team believe that companies that have products or services connected to the long-term themes are more likely to achieve sustainable revenue growth.

#### Long-term investment

The management team believes that investing for the long-term will lead to outperformance. The thematic approach results in a portfolio with low turnover.

#### Change

Powerful environmental and social trends are going to transform the global economy over coming decades. The management team seek companies that are strategically positioned to benefit from this change.

Source: Janus Henderson Investors as at 30 September 2017.

**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.**

# Janus Henderson Global Sustainable Equity Fund

## Investment process

### 1. Idea generation

#### Thematic framework

The positive selection criteria lead the management team to invest in businesses that have a positive impact on society and the environment. This is 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 adopted by the United Nations in 2015.

Ten sustainability themes provide a framework for idea generation. These are derived from the four mega trends of climate change, resource constraints, population growth, and ageing populations. The management team believes that the defining investment issue of our time will be transitioning to a low-carbon and sustainable economy, while maintaining the levels of productivity necessary to deliver the goods and services that an ageing and growing population requires. Productivity is the common thread to all the themes.

The management team maintains a large database of companies which is continuously refreshed using a variety of research and company engagement.

Environmental themes	
Efficiency	Efficiency improvements are vital to achieving economic growth while keeping carbon emissions within recommended levels.
Cleaner Energy	If the world economy is to limit the increase in global average temperatures to 2°C over pre-industrial levels then investment in renewable energies and storage solutions is necessary.
Water Management	Water is under growing pressure on both the supply and the demand sides. Significant investment is required to bridge the gap.
Environmental Services	As the global population continues to grow and urbanise, cities are facing a sharp rise in the volume and costs of their waste.
Sustainable Transport	Initiatives to decarbonise transport should benefit companies providing new vehicle technologies, public transport infrastructure and other fossil fuel-free modes of transport.

Social themes	
Sustainable Property & Finance	Financial institutions can be a force for good, lending to the real economy and allocating capital to where it is most productive.
Safety	Key aspects to this theme include workplace safety, road safety, consumer safety and safety from cyber-attacks and financial crime.
Quality of Life	The management team invest in well-governed companies that act as responsible employers, promote social well-being and consider their supply chains.
Knowledge & Technology	Technological innovation and widespread dissemination of knowledge are key enablers of the transformation to a sustainable global economy.
Health	Ageing populations are beginning to put systemic pressures on health provision and social care services in many developed economies – a likely trend for developing economies too.

### 2. Avoidance criteria

#### Strict criteria

The negative impact on global prosperity from the cost of economic externalities is becoming increasingly recognised. The management team seeks to avoid those businesses involved in activities contrary to the development of a sustainable economy. The manager believes these types of business are at a higher risk from government regulation or disruption.

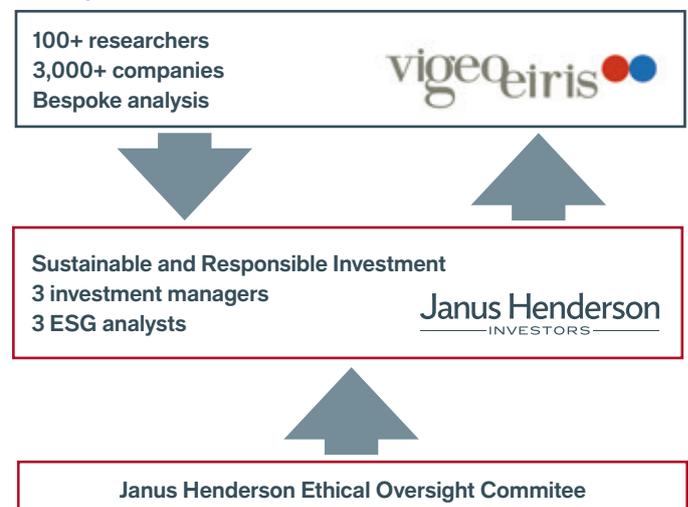
Principle areas avoided	
People	Armaments, gambling, oppressive regimes and tobacco
Environment	Greenhouse gases, mining, nuclear power and water pollution
Animals	Animal testing, fur and genetic engineering

All holdings in the fund are compliant with the UN Global Compact, whose Ten Principles cover human rights, the International Labor Organization's declaration on workers' rights, corruption and environmental pollution.

For a full list of avoidance criteria please visit the Janus Henderson website.

Janus Henderson has appointed a specialist company, Vigeo EIRIS, to provide the negative screening of potential investments. With over 100 research analysts, Vigeo EIRIS is one of the largest responsible investment research companies globally. Its research team covers over 3,000 companies and provides detailed reports into a company's activities.

An additional level of oversight is provided by Janus Henderson's Ethical Oversight Committee. This is an independent committee comprising senior figures from across Henderson, responsible for ensuring the fund's adherence to its exclusion criteria.



Source: Janus Henderson, at 30 September 2017.

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## 3. Fundamental research & ESG analysis

### Integrated approach

Once an investment idea is generated and has passed through the negative screening process, the management team carries out fundamental research on the company.

For every new investment both a research note and a financial model are created. The research note includes a review of a company's operations, finances, and valuation, as well as an assessment of the material ESG factors in the investment case. All companies assessed for inclusion must demonstrate clear management of long-term strategic risks and opportunities, including compliance with the UN Global Compact.

The management team uses a variety of resources to conduct the ESG analysis. These include research from MSCI, RepRisk, IVIS, CDP, Trucost, HOLT, and ISS. The team also works closely with the Governance and Responsible Investment (GRI) Team. This team provides advice and analysis on a range of ESG issues affecting existing and potential investments for all of Janus Henderson's investment teams.

The GRI team and the management team are able to examine data that flags controversies in five areas – Environment, Governance, Human Rights, Labour Rights, and Customers. The GRI Team also assists with actively engaging company management on ESG issues and reports on voting actions at corporate meetings.

Based on the research and analysis stage of the process, the management team decides whether the stock should be included in the portfolio. The fund looks to hold a range of 50-70 stocks (as at 30 September 2017\*), and is managed to target effective diversification across regions.

\*For illustrative purposes only. The range may vary over time.

“ We believe that a sustainable and responsible investment approach should not compromise the potential for long-term performance. Our analysis identifies quality companies that are supportive of a sustainable global economy.”

Hamish Chamberlayne

Fund manager Global Sustainable Equity Fund

## 4. Portfolio construction and risk control

### Diverse active portfolio

Every stock selected for the portfolio must fit a theme but, for the purposes of portfolio construction, there is no forced distribution of themes. Portfolio construction is driven by stock selection, with each stock being assessed within the disciplined analytical framework.

Portfolio construction is a continual process. The management team considers position size, the market capitalisation breakdown, and sector and theme weightings, seeking appropriate diversification of risks. In constructing the portfolio, the team can draw on the resources of the Investment Risk Team to assess the likely impact of portfolio reorganisations in terms of risk and return.

To ensure adequate diversification the management team use the following informal guidelines to assist with portfolio construction. These are indicative and may vary over time, and are used here for illustrative purposes only.

Parameter	Portfolio characteristics as at 30 Sept 2017
Active share*	>90% active
Position size	0.5-2% initially (3% maximum imposed by the managers)
No of holdings	50-70
Indicative tracking error range	3-5% per annum
Turnover	20-30%
Regional allocation	+/-3% of benchmark**
Sector positions	Unconstrained
Cash	1-3%

\*Active share = the measure of the percentage of stock holdings in a portfolio that differs from the benchmark index.

\*\*Benchmark = MSCI World Total Return Index.

Portfolio characteristics may vary over time. They are used here for illustrative purposes and correct as at the date specified.

### Sell discipline

Sales will be executed when, the long-term investment thesis is impaired, or when corporate responsibility issues emerge and there is no possible resolution from engagement with the company. Additionally, a position will be sold if new information identifies a breach of the fund's avoidance criteria.

# Janus Henderson Global Sustainable Equity Fund

## Risk management

### Team specific

Portfolio risk is assessed using FactSet attribution, Bloomberg and in-house risk reports produced by the independent Investment Risk team. Given the highly active nature of the strategy the largest contributor to portfolio risk is stock specific risk. The investment team's quantitative and qualitative analysis provides a deep and detailed understanding of this intended risk.

### 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 dashboard are used for day to day monitoring of the portfolio's exposures and risks and regular oversight meetings are held with the fund 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 issue and provide senior management with an independent view of the portfolio.

## Fund Manager



### Hamish Chamberlayne, CFA Head of SRI, Investment manager

Hamish Chamberlayne is a Fund Manager for the Global Sustainable Equity Strategy at Janus Henderson Investors. Hamish joined Henderson in 2011 moving together with the global equity team from Gartmore. Prior to joining Gartmore in 2007, he worked as a

senior auditor at PricewaterhouseCoopers from 2004 until 2007, where he covered a variety of sectors including energy, technology and communications. He began his career at Burlington Consultants in 2003 where he performed commercial due diligence on businesses identified as acquisition targets by private equity houses.

Hamish graduated from New College, Oxford University with a master's degree in chemistry. He holds the Chartered Financial Analyst designation and has 13 years of financial industry experience.

## Portfolio Management and Research

### Global integrated team of investors and ESG analysts

#### Global SRI Equities Team

- Aaron Scully – Assistant Portfolio Manager – US based
- George Crowdy – Investment Manager

#### Governance and Responsible Investment Team

- Antony Marsden – Head of GRI
- Michaela Zhironova – Analyst, GRI
- George Birch – Analyst, GRI

**34 Global Research Analysts with an average of 16 years of financial industry experience – US based**



### Glossary

Please see [HGI.co/glossary](https://www.janus-henderson.com/glossary) for a glossary of financial terms used in this document.

### Contact us

General enquiries: **0207 818 2839**  
Email: [sales.support@janushenderson.com](mailto:sales.support@janushenderson.com)  
Website: [janushenderson.com](http://janushenderson.com)

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