

Q4 2023

# US SUSTAINABLE EQUITY STRATEGY

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KNOWLEDGE SHARED

ESG Quarterly Voting and Engagement Report

# Engagement activities

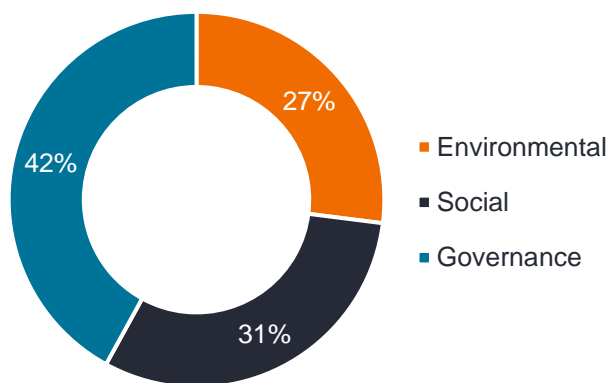
## Summary of engagement

This quarter, we engaged with the following companies on environmental, social and governance (ESG) matters.

Core & Main	Microsoft
Humana	Progressive
Mastercard	Walker & Dunlop
Marsh & McLennan	Workday

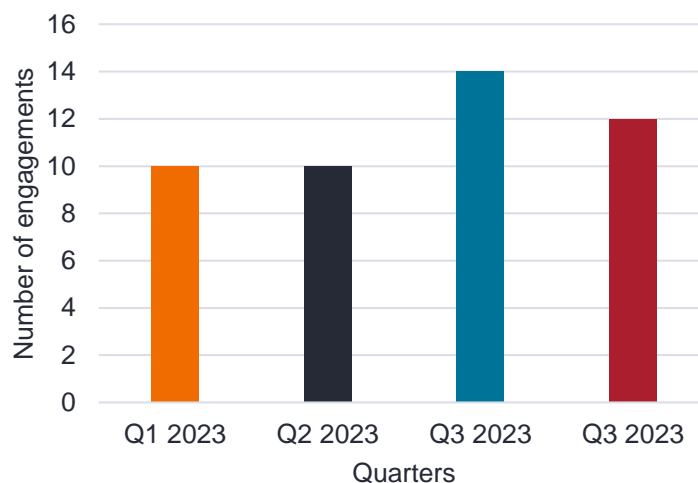
### Q4 – ESG engagements

The chart below displays the distribution of engagements between environmental, social and governance issues for the quarter.



### Engagements per quarter

The number of engagements this quarter has slightly decreased in quantity compared to the previous quarter.



Source: Janus Henderson as at 31 December 2023.

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# Key quarterly engagements

## Microsoft – Supply chain and proxy voting

### **Categories:** *Environmental, Social, Governance*

Microsoft is one of the world's leading computing providers, and its products are used in many different ways for the benefit of the environment and society. The power of computing underpins all technological innovation, and Microsoft's mission is to empower every person and every organisation on the planet to achieve more. We had two engagement meetings with the company. The first was a progress meeting on the company's work to improve supply chain conditions in the Democratic Republic of Congo (DRC). The second was to discuss the upcoming proxy vote for the company.

**DRC supply chain:** We started engaging with Microsoft on this topic in 2018 in response to an Amnesty International report that criticised the company's management of its supply chain. The report criticised the company's partnership with Pact (a charity specialising in community engagement to improve social outcomes in developing nations) as it did not feel that the charity's efforts were sufficient in the DRC. At the time, we consulted with a charity worker from the DRC who specialised in the rights of children to inform us of what 'good' looks like. Microsoft produced its first Devices Sustainability at Microsoft in response. In 2023, the company reformed responsible sourcing to create a dedicated business unit to embed supply chain considerations into every aspect of the business.

During the call, the company confirmed that it is looking to have a direct relationship with the miners in the DRC, not just for cobalt but other minerals and metals too. Microsoft is committed to resolving this issue but does not want to work outside an established coalition. It is also not able to create these coalitions in the DRC. Microsoft is reviewing its relationship with Pact to see whether the charity's impact meets the company's expectations.

Microsoft emphasised that it is not a big player in the minerals sector, so its influence is small. The company is still in the process of mapping its supply chain, and this will take time. Microsoft has focused on meeting the reporting requirements in various jurisdictions for modern slavery and conflict minerals and increasing and enhancing checks on its supply chain. It uses RBA guidance to assess its supply chain, and where breaches are found, Microsoft will look to implement remediation. The company is not afraid to terminate a supplier relationship if the infraction is significantly egregious. The DRC supply chain issues are complex, with many touch points. We will continue to engage with Microsoft on this in the future.

**Proxy Vote:** We contacted Microsoft to discuss shareholder proposals ahead of the AGM. We managed to have a detailed discussion on three shareholder proposals.

- **Report on Climate Risk in Retirement Plan Options** – We asked Microsoft about this because it is a legal requirement for large pension funds in the UK. This proposal has not changed substantially from those submitted in previous years, and it remains the case that ESG funds are available for Microsoft employees to invest in. We voted against the proposal in line with the Institutional Shareholder Services (ISS) recommendations because a management-level committee manages the company's retirement plan, and employees looking for more climate-risk-free investments are offered a self-directed option.
- **Report on Risks of Operating in Countries with Significant Human Rights Concerns** – ISS recommended that investors vote in favour of this proposal. While additional reporting would provide some further reassurance that the company has considered the potential reputational risks of operating in certain markets, the company is already a leader among peers in terms of its efforts to mitigate such risk exposures relating to human rights and has also confirmed that it modifies its service offering based on their assessment of the risks involved. Moreover, the company highlighted that a further report, as requested by the proponents, may still be limited regarding what can be communicated due to legal and political considerations. Due to this, we voted against this proposal.
- **Report on Risks Related to AI-Generated Misinformation and Disinformation** – Microsoft already reports extensively on its efforts towards mitigating the harms posed by its operations, including from generative AI. It will publish further details in a unified report in the coming months. Due to this, we voted against this proposal.
- that there needs to be investment in growing the talent pool before University, so it is partnering with schools.

Note: 'Key quarterly engagements' refers to a sample of this quarter's engagements.

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# Key quarterly engagements

## Walker & Dunlop – DEI, SFDR, and ESG reporting

### **Categories:** *Environmental, Social, Governance*

Walker & Dunlop is a full service commercial real estate financing company in the United States, originating loans, servicing mortgages and providing asset management services.

**DEI efforts:** The company hired a Diversity, Equity and Inclusion (DEI) head to improve its diversity efforts. They have made some progress, such as working with Historically Black Colleges and Universities to bring in diverse talent, working with charities to expose high school and college students to real estate, and engaging with managers to encourage hiring diverse talent. The head of DEI has also set up a mentoring programme focused on diversity. There is also flexible working in place for most roles to make it easier for employees to balance work and life. As one board member is about to step down, there is a push internally to bring more gender and ethnic diversity to the board. The company has had a tough couple of years and is still not doing much recruitment. We asked the company to publish its voluntary turnover numbers by gender and ethnicity, which it has committed to look into.

**Sustainable Finance Disclosure Regulation (SFDR) Principal Adverse Indicators (PAIs):** The company was unfamiliar with the SFDR PAIs; however, once we explained the required data, Walker & Dunlop committed to including as much data as possible in the next sustainability report. After the meeting, we sent the team a copy of Annex 1. We offered to continue dialogue with the company on meeting the requirements. Some of the PAIs do not apply to the company, so we explained that explaining this in its reporting is helpful in those cases.

**Reporting:** We asked the company to consider reporting to the Carbon Disclosure Project (CDP). We explained that CDP data helps us go back to ESG data providers when the data in the platforms is incorrect. The company said it would look into doing this once the head of sustainability is appointed. The company has also agreed to discuss becoming a United Nations Global Compact (UNGC) signatory. Overall, the company was grateful to be made aware of these reporting requirements before the end of the year, as it gives it time to implement them into the 2024 reporting.

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# Key quarterly engagements

## Humana – Board diversity

### **Categories:** *Environmental, Social, Governance*

Humana is a health insurance company with a primary focus on providing Medicare Advantage plans (a type of health plan) to senior citizens in the US. It is a pioneer in integrated care, aiming to lower costs for its members through better prevention of health problems and programmes to encourage healthier lifestyles.

**Gender diversity of the board:** The company has been through significant refreshments and is open to increasing board diversity.

**Anti-competitive practices controversy:** In June 2022, the US Federal Trade Commission (FTC) announced that it would launch an investigation into six pharmacy benefit managers (PBM), including Humana, to examine PBMs' role in the pharmaceutical system, as well as their business practices related to the access and affordability of prescription drugs. According to Humana, its PBMs operate differently from the rest of the market because 99% is internal and is all Medicare Advantage. The FTC is scrutinising the use of spread pricing and rebates, and these are things that Humana does not do.

**Data breaches controversy:** Humana has experienced some direct and indirect breaches. On September 21 2022, Humana confirmed that the company experienced a data breach after Choice Health, one of the companies Humana uses to help sell its products, experienced a cyberattack. In July 2021, cybercriminals posted protected health information from Humana customers on a hacker forum. In March 2021, Humana disclosed that an employee of subcontractor Cotiviti improperly disclosed the protected health information of 65,000 members to a third party for training purposes. Humana has not experienced any data breaches since. The company has publicly disclosed its data breaches and the actions that have been taken. The last data breach was not material to Humana's members. To reduce the likelihood of future data breaches, Humana carries out phishing exercises with employees, cyber security training, and systems testing. Humana cannot give specifics, but an entire team is dedicated to data security.

**Setting a science-based target:** Humana has just received validation of its science-based target, which will be communicated in December 2023 on the SBTi's website. Humana has committed to a 54.6% reduction in scope 1 and 2 and a 30% reduction in scope 3 by 2032. The biggest pain point for the company is setting science-based targets for financed emissions (emissions associated with its investments). Setting a science-based target for financed emissions is challenging, and the guidance on this is still being developed. We will discuss this again in Q3 2024.

**Climate Risk:** Humana has been putting heat-resistant servers in data centres. The company has made efforts to make its buildings more resilient to extreme heat, giving examples such as changing the building's flooring to reduce overheating.

**Control of substances hazardous to human health:** The company operates pharmacies and clinics where this could have an impact. The company feels that this impact would be quite low.

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# Voting

Janus Henderson's [ESG Investment Policy](#) sets out our approach to ESG issues, including our proxy voting policy.

We believe that to achieve long-term success, companies need to conceive and execute appropriate business strategies and exhibit good standards of corporate governance and corporate responsibility concerning all stakeholders.

The Global Sustainable Equity Team have voted in 100% of the meetings available. For all meetings we voted with management.

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## Important information

In accordance with the Sustainable Finance Disclosure Regulation, Portfolios within this strategy are classified as Article 9 and have sustainability as their objective.

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