

Q4 2023

GLOBAL SUSTAINABLE EQUITY STRATEGY

KNOWLEDGE SHARED

ESG Quarterly Voting and Engagement Report

Engagement activities

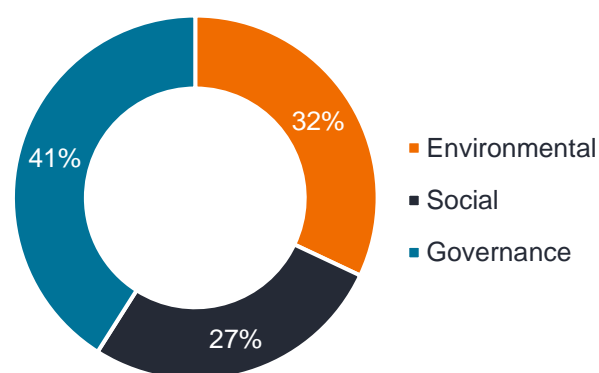
Summary of engagement

We engaged with the following companies on environmental, social and governance (ESG) matters in this quarter:

ASML	Infineon Technologies	Microsoft
Core & Main	Knorr-Bremse	Progressive
DS Smith	Mastercard	Walker & Dunlop
Humana	March & McLennan	Workday

Q3 – ESG engagements

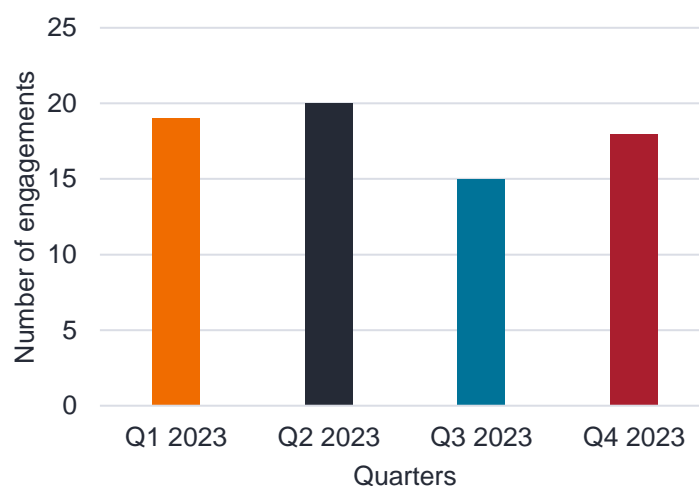
The chart below displays the distribution of engagements between environmental, social, and governance issues for the quarter.



Source: Janus Henderson as at 31 December 2023.

Engagements per quarter

This quarter's number of engagements has increased in quantity compared to the previous quarter. This is due to an increased focus on ESG reporting.



Source: Janus Henderson as at 31 December 2023.

Key quarterly engagement

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.

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

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Key quarterly engagement

ASML – ESG reporting and water management

Categories: *Environmental, Social, Governance*

ASML is a global manufacturer of semiconductor microchip-making equipment. Headquartered in the Netherlands, its mission is to invent advanced technology for the production of high-tech lithography (transferring patterns or shapes to silicon wafers), metrology (measurement) and software solutions for the semiconductor industry. We met with the company to discuss its ESG reporting and water management approach.

ESG Reporting: ASML has very impressive and comprehensive ESG reporting. As a result, we wanted to understand how the company incorporates upcoming regulatory requirements. ASML wants to report in line with the Corporate Sustainability Reporting Directive (CSRD) in 2024. It looks to be the first movers in everything regarding ESG reporting. ASML take a proactive approach by looking to report above the regulatory baseline. ASML's mindset to produce the best ESG report for its external stakeholders made all the difference. ESG is prioritised and sits at the board level with Executive Vice President & Chief Business Officer Christophe Fouquet. The uncertainty of the EU Taxonomy regulation is a pain point for ASML. The company has scored badly because the published taxonomy categories (climate change mitigation and climate change adaptation) are not suited to ASML's business. The company attends ESG conferences to speak about its ESG work. ASML acknowledged that it is on a journey regarding the reporting for some SFDR PAIs (e.g. hazardous waste).

With regards to diversity, equity and inclusion (DEI), the company cannot collect ethnicity data as this is forbidden by Dutch law which impacts its ability to report fully. ASML mentioned that the Dutch government has indicated that it will look to change this by 2025.

The company sets ESG targets for itself and makes people accountable for those targets. The manufacture of Extreme Ultraviolet (EUV) equipment is pushing up energy consumption. This is a hit that the company takes to try and save energy for the customer. The company has kept its plans to achieve net zero by 2050; however, it wants to contribute to its customers' ambitions for net zero and has detailed this its roadmap to net zero.

We have also offered a follow-up meeting with the ESG team to share information on biodiversity reporting.

Water Management: Water consumption at ASML is only a fraction of the water consumption of most companies in the semiconductor industry. Nevertheless, ASML promotes responsible water use throughout the company and reports water metrics. EUV reduces the number of non-lithography processing steps for some critical layers. The fab also benefits from reduced energy and water usage, resulting from fewer depositions, etching and cleaning steps. Ultrapure water usage is within a closed water system – a "closed-loop" – so water usage/waste is minimal. The only exception is the immersion systems in Deep Ultraviolet (DUV) lithography, where ultrapure water is not reused. While ASML does not consider water to be a material risk to the business due to the high number of requests from investors, the company is forming a programme to reduce its water usage over time. Despite this, the water recycling rate for ASML is low as it is a measure of operations (building, employee water usage) as well as for immersion processes where water is not currently reused.

Regarding the water consumption of the semiconductor manufacturing process in the future, the practice of multi-patterning will likely repeat over time – it could go to double patterning or even triple patterning. The increasing productivity of EUV systems allows more advanced and energy-efficient microchips to be created faster. Energy and water consumption of the total patterning process per wafer will thus be lower using EUV lithography, compared with the complex multi-patterning strategies required for DUV-only patterning. Next-generation high-NA EUV systems will enable further shrink and partly eliminate double exposure schemes and the immediate need for multi-patterning EUVs, effectively limiting the total water consumption of the patterning process per wafer.

Key quarterly engagement

DS Smith – Executive succession, reporting, net-zero targets, and client relations

Categories: *Environmental, Social, Governance*

DS Smith is a leading manufacturer and recycler of corrugated packaging products in Europe. Its recycling and packaging operations are closely integrated, to the extent that it takes as little as 14 days for a cardboard box to be made, used, collected, recycled, pulped, pressed and made back into a cardboard box again. We met with the CFO, who had been in his current position for a couple of months, and investor relations.

CFO succession: The new CFO has settled in well, having benefitted from the previous CFO's mentorship. This includes travelling across DS Smith's sites to understand the business better. There have been no nasty surprises for him due to his glass and waste management background.

The focus has been on making DS Smith resilient despite tough conditions. There has been a decline in volumes. However, the company is confident there will be an upswing in 2024. The company has spent more to upgrade its facilities to be more efficient and to expand the European business to be around the same size as Smurfit Kappa. The focus is consolidating the acquisitions and expansions to make the business more efficient. There is also a focus on increasing renewable energy provisions to reduce future operating expenditure. The aim is to be more efficient and sustainable, focusing on doing good M&A and operating well. Share buybacks are not on the horizon but are not completely ruled out in the future.

CEO Succession: The CEO, Miles Roberts, recently announced his retirement after 13 years of being in the role. Miles has a reputation for being difficult but extremely capable. There will be a two-year period before he leaves the company for good to allow for an orderly transition. Miles has no plans to have a board position once he retires. The search for a new CEO will start in the new year. Despite the announcement, the CFO's and DS Smith's plans remain unchanged.

Diversity reporting: The company recognises that it is more advanced in gender diversity than other forms of diversity. It is working on improving this for the next sustainability report.

Segment reporting: The company does not report the revenues associated with its different business segments. The rationale for this is that the segments are interconnected and do not work independently of each other. However, the introduction of the EU Taxonomy, SDR and other reporting frameworks have placed a greater amount of scrutiny on demonstrating the green revenues of a business and the specific environmental and social benefits of those revenues. After explaining this, the CFO has committed to look into the possibility of doing segmented reporting.

Setting a Net zero science-based target: DS Smith has an approved science-based target but does not include a net zero target. The paper business is the biggest issue as the company needs to determine how best to reach net zero. The company is spending on electrification, hydrogen, and simplifying logistics to move closer towards its target.

Client relations: DS Smith has maintained pricing stability and resiliency despite its poor-performing customer base. DS Smith strives to deliver on promises, create trust, and train its staff extensively. The example of Mondelez signing its 3rd 5-year contract with no change in base pricing was given during the meeting. It is very rare for Mondelez to do this.

Voting

Janus Henderson's ESG Investment Principles outlines 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.

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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