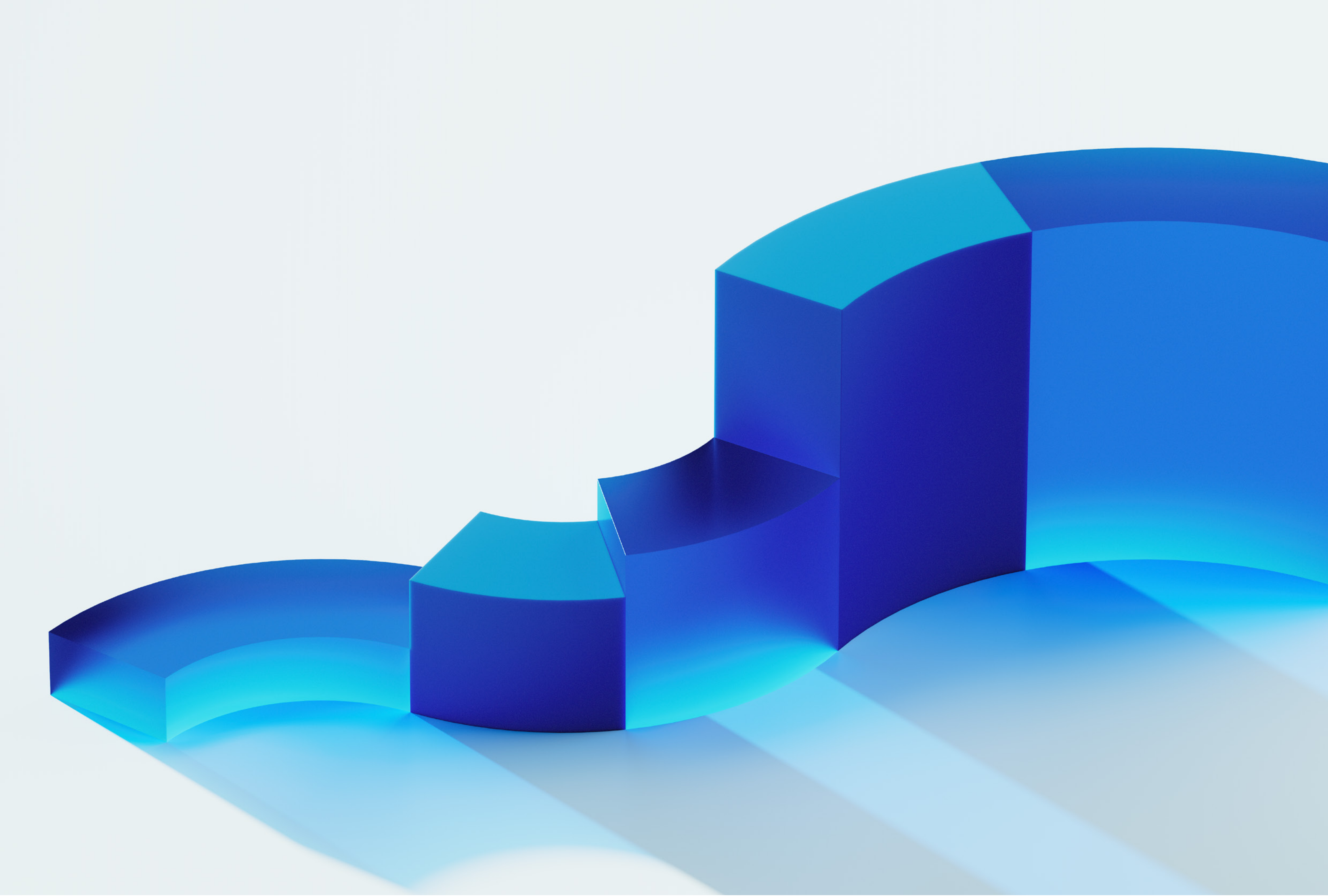

Allocating capital to drive sustainable outcomes

An investment framework for strategies that facilitate the transition to a sustainable and inclusive economy

July 2025

J.P.Morgan
ASSET MANAGEMENT

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Introduction

In light of pressing environmental and social challenges, many of our clients recognize the need for action. In turn, they are setting investment objectives that not only include financial performance goals, but also aim to actively contribute towards mitigating these systemic threats. To support the goals of these clients, J.P. Morgan Asset Management has developed capabilities to design dedicated strategies that facilitate deployment of outcome-driven capital at scale.

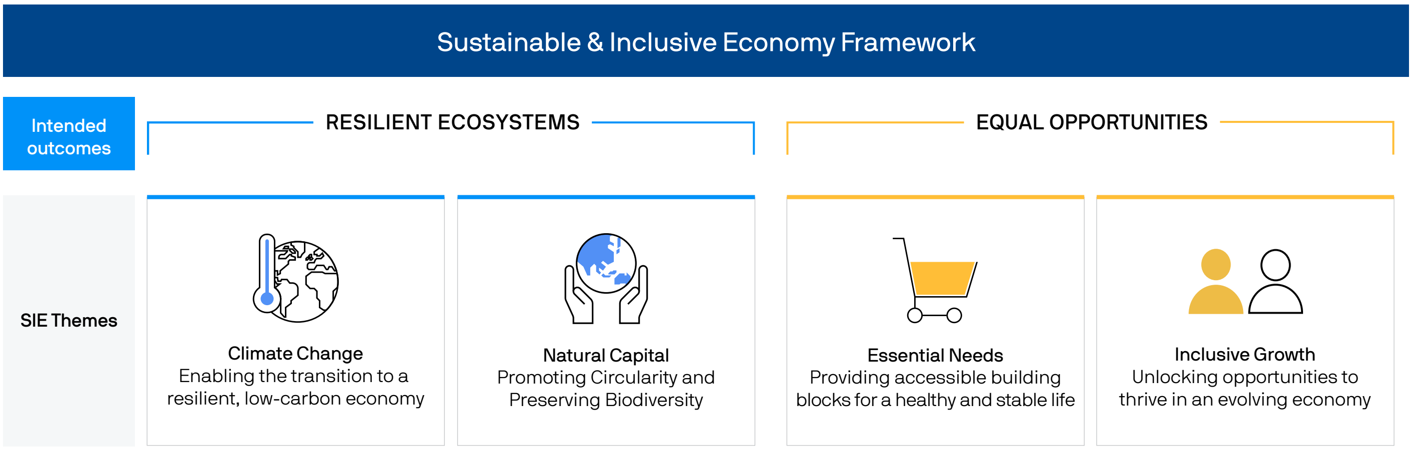
There exist many solutions at our disposal today to address secular environmental and social issues. For example, long-term shifts – such as technological advancements, sustainable urbanization, healthcare innovation and continuous learning & skill development – continue to disrupt industries around the world, providing tailwinds that position companies leading the adoption of sustainable business activities for growth.

For investors, this may present a strategic window to invest in financially attractive opportunities that are driving the transition to a sustainable and inclusive economy. Effective asset allocation remains critical to achieving targeted environmental and social outcomes, while also maximizing investment returns.

Through this document, we identify and explore the different avenues that can be considered for deploying outcome-driven capital within investment solutions. Highlighting the case for sustainable investing,[1] we address how investors can facilitate sustainable outcomes through the efficient deployment of outcome-driven capital.

We provide a detailed overview of the Sustainable and Inclusive Economy (SIE) Framework, developed by J.P. Morgan Asset Management's Sustainable Investing team, to help pave the way for intentional deployment of outcome-driven capital at scale (see **Exhibit 1**).

Exhibit 1: J.P. Morgan Asset Management Sustainable and Inclusive Economy Framework



Source: J.P. Morgan Asset Management. For illustrative purposes only. This framework may evolve over time.

[1] J.P. Morgan Asset Management takes a global approach to sustainable investing, and the solutions offered through our sustainable investing platform meet our internally defined criteria for a sustainable investment. The evolving nature of sustainable finance regulations and the development of jurisdiction-specific legislation setting out the regulatory criteria for a "sustainable investment" or "ESG" investment mean that there is likely to be a degree of divergence as to the regulatory meaning of such terms. This is already the case in the European Union where, for example, under the Sustainable Finance Disclosure Regulation (EU) (2019/2088) certain criteria must be satisfied in order for a product to be classified as a "sustainable investment." Any references to "sustainable investing," "SI" or "ESG" in this document are intended as references to our internally defined criteria only and not to any jurisdiction-specific regulatory definition.

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The case for sustainable investing

Several secular trends are transforming the way in which the global economy works: from the way in which people communicate with each other to the way in which continuous innovation in technology redefines, supports and improves our lives.

Some of these developments are positive shifts that are revolutionizing the way we think about the world – for example, medical enhancements that are extending and improving the quality of life for individuals diagnosed with conditions that were once considered fatal, or digital connectivity that is allowing colleagues across Hong Kong, London and San Francisco to transcend geographical borders, fostering effective collaboration and real-time innovation.

However, not all change is positive. The proliferation of cheaply produced single-use plastic goods, as one example, has created unprecedented quantities of waste that is polluting our natural environment and slowly seeping into the food we eat. As the global economy continues to grow and develop, many investors seek strategies to support preserving the natural environment, while also improving access to health care and education, reducing inequality and tackling climate change.

In 2015, the United Nations' Sustainable Development Goals (SDGs) provided a blueprint for countries around the world to end poverty, protect the planet and ensure that people enjoy peace and prosperity. The SDGs can also be a useful guide for investors seeking to actively contribute towards driving the transition to a Sustainable and Inclusive Economy.

The role of the investor and outcome-driven capital

As active investors, we seek to efficiently deploy capital towards the most compelling, long-term opportunities while appropriately managing risks in our clients' portfolios.

Outcome-driven investment strategies that target environmental and social issues are informed by the concepts of Impact and Financial Materiality (see **Exhibit 2**). The primary consideration remains Impact Materiality, which refers to the impact on people and the planet. Investments are channelized towards companies that contribute to positive environmental and social outcomes through their products and services. Additionally, financially material Environmental, Social, and Governance (ESG) issues that impact the long-term performance of these companies are also considered. Outcome-driven investing, therefore, can create an opportunity for investors to gain exposure to financial returns over the long term, while also addressing fundamental sustainability-related considerations.

The deployment of capital towards sustainable outcomes has the potential for investors, who wish to invest in such strategies, to seek financial returns while also indirectly or directly contributing to positive environmental and social outcomes.

Exhibit 2: Impact and Financial Materiality

Source: Adapted from **EFRAG**. For illustrative purposes only.

The Sustainable and Inclusive Economy Themes

The SIE Framework aims to identify key sustainability challenges and investible solutions that we believe will drive the transition to a more sustainable future. To achieve this, we have designed our centralized and top-down SIE Themes for Sustainable Themed strategies.

Identifying current environmental and social challenges

The SIE Themes aim to identify the key risks and challenges to the creation of a global economy that supports Resilient Ecosystems and Equal Opportunities.

We seek to identify and evaluate key global environmental and social challenges by consulting research across a diverse range of leading sources, including the United Nations, the World Health Organization and the World Economic Forum, among others.

As an example, tracking the long-term global risks surveyed by the World Economic Forum[2] helps pinpoint the main categories of risks that are crucial to address in the present to create a more sustainable future. Notably, while short-term risks reflect a variety of categories, environmental, technological and societal risk categories are expected to dominate over the long term (see **Exhibit 3**).

Exhibit 3: World Economic Forum global risks ranked by severity over the short and long term

Risk categories		Short-Term 2 years		Long-Term 10 years
Economic	1st	Misinformation and disinformation	1st	Extreme weather events
Environmental	2nd	Extreme weather events	2nd	Biodiversity loss and ecosystem collapse
Geopolitical	3rd	State-based armed conflict	3rd	Critical change to Earth systems
Societal	4th	Societal Polarization	4th	Natural resource shortages
Technological	5th	Cyber espionage and warfare	5th	Misinformation and disinformation
	6th	Pollution	6th	Adverse outcomes of AI technologies
	7th	Inequality	7th	Inequality
	8th	Involuntary migration or displacement	8th	Societal polarization
	9th	Geoeconomic confrontation	9th	Cyber espionage and warfare
	10th	Errosion of human rights and/or civic freedoms	10th	Pollution

Source: Adapted from World Economic Forum Global Risks Perception Survey 2024-2025.

2 The World Economic Forum (WEF) annual Global Risk Report sources original risk data from its Global Risks Perception Survey. Survey responses are collected annually from the WEF's multistakeholder communities, professional networks of its advisory boards and members of the Institute of Risk Management. The responses of these results are aggregated to show the degree to which key issues are perceived to pose global risks in terms of likelihood of occurring, and global risks in terms of perceived potential impact if they are realized.

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The Sustainable and Inclusive Economy Themes continued

Our four SIE Themes identify the environmental and social challenges that we consider most critical for achieving the sustainability outcomes we believe our clients seek: Climate Change; Natural Capital; Essential Needs; and Inclusive Growth (see **Exhibit 4**).

Solving for global challenges: Sustainable business activities

Over the last two centuries, the world's economic systems have evolved to identify the most efficient means of distributing resources, goods, services and information across multiple channels. Although complex, these economic structures – both current and under development – facilitate the business activities that can help build a more sustainable future.

To help allocate capital efficiently and meet our clients' targeted sustainability goals, J.P. Morgan Asset Management identifies sub-themes that encompass pertinent, actionable business activities which we believe can help address global challenges identified in our SIE Themes. These sub-themes serve as the building blocks for addressing our SIE Themes.

For example, investments in energy efficient, electrified Heating, Ventilation and Air Conditioning (HVAC) systems, including innovative technologies like heat pumps, that produce lower Greenhouse Gas (GHG) emissions than traditional gas boilers whilst being a key climate adaptation mechanism, can help manage risks posed by Climate Change by facilitating Energy Efficiency & Carbon Reduction. Investments in microlending and Small and Medium Enterprise (SME) financing activities that democratize access to finance and offer underserved communities an equal opportunity to grow can help foster Inclusive Growth by facilitating Financial Inclusion. Investments in effective Resource Management through efficient waste management activities alongside investing in innovative, Sustainable Materials that adopt circular economy practices can help protect Natural Capital through responsible production and consumption across the value chain.

In short, the SIE Themes seek to help us allocate capital efficiently through dedicated sustainable strategies for our clients by looking across the economic landscape for sustainable business activities that support targeted sustainability goals – while also highlighting sustainable innovations that are being developed.

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The Sustainable and Inclusive Economy Themes continued

Exhibit 4: The building blocks of a sustainable and inclusive economy

Intended outcomes	SIE Themes	Sub-Themes		Indicative SDG Alignment
RESILIENT ECOSYSTEMS	**Climate Change** Enabling the transition to a resilient, low-carbon economy	Renewables & Electrification	Companies providing clean energy solutions across the full production chain or enabling electrification and de-carbonization.	7 Affordable and clean energy; 11 Sustainable cities and communities; 13 Climate action
		Energy Efficiency & Carbon Reduction	Companies advancing energy-efficiency inducing technologies to reduce energy consumption or offering nature-based or technology-based carbon removal solutions.	
		Green & Resilient Infrastructure	Companies enabling sustainable infrastructure solutions, including clean transportation, building infrastructure and climate resilience systems.	
	Natural Capital Promoting Circularity and Preserving Biodiversity	Sustainable Materials	Companies innovating in material science to commercialize alternatives to traditional materials, reducing reliance on finite resources.	12 Responsible consumption and production; 14 Life below water; 15 Life on land
		Resource Management	Companies advancing solutions that minimize emissions and pollutants across industries to promote cleaner air, land and water.	
		Sustainable Food & Agriculture	Companies enabling less carbon-intensive and more resource-efficient agricultural and sustainable food solutions.	
EQUAL OPPORTUNITIES	**Essential Needs** Providing accessible building blocks for a healthy and stable life	Health & Well-being	Companies investing in essential medical infrastructure or bringing affordable or innovative solutions to increase access to essential healthcare services and products.	2 Zero hunger; 3 Good health and wellbeing; 6 Clean water and sanitation; 9 Industry, innovation and infrastructure; 16 Peace, justice and strong institutions
		Life Basics	Companies enhancing access to essential resources and services that enhance public well-being.	
		Community Solutions	Companies facilitating development of essential infrastructure that enhances community-wide quality of life.	
	Inclusive Growth Unlocking opportunities to thrive in an evolving economy	Financial Inclusion	Companies enhancing access to financial services for communities globally.	1 No poverty; 4 Quality education; 5 Gender equality; 8 Decent work and economic growth; 10 Reduced inequalities
		Digital Development	Companies advancing digital infrastructure and security solutions to bridge the digital divide and protect digital assets.	
		Education, Empowerment & Talent Development	Companies enhancing access to education and equal talent development opportunities.	

Source: For illustrative purposes only. The sub-themes detailed here are intended as references only and may not align with any jurisdiction-specific regulatory definition. Additionally, SDG alignments are indicative, with each SDG potentially aligning with multiple SIE themes – to prevent duplication, these are represented by their primary alignment. This framework may change over time.

Sustainable Investment Inclusion Criteria

The SIE Themes are a centralized resource for all of our Sustainable Themed investment solutions globally, across asset classes. The SIE Themes themselves, however, are product and security agnostic. To identify individual investment opportunities, we apply our Sustainable Investment Inclusion Criteria. This process allows us to identify the investable universe of equity securities, debt securities, private company prospective deals, loan prospects and real assets in a systematic manner with the intention to efficiently deploy capital to sustainable activities aligned to the SIE Themes.

The Sustainable Investment Inclusion Criteria identification process is comprised of two central evaluations: a top-down analysis of intentionality at the portfolio level and a comprehensive bottom-up credibility evaluation of an individual security's product and service sustainability. Alongside these evaluations, robust analysis is conducted on how business activities can contribute as solution providers to address sustainability challenges. Applying this process helps evaluate whether an individual company's contribution to product-specific sustainability outcomes can be measured and reported, providing transparency and accountability (see **Exhibit 5**).

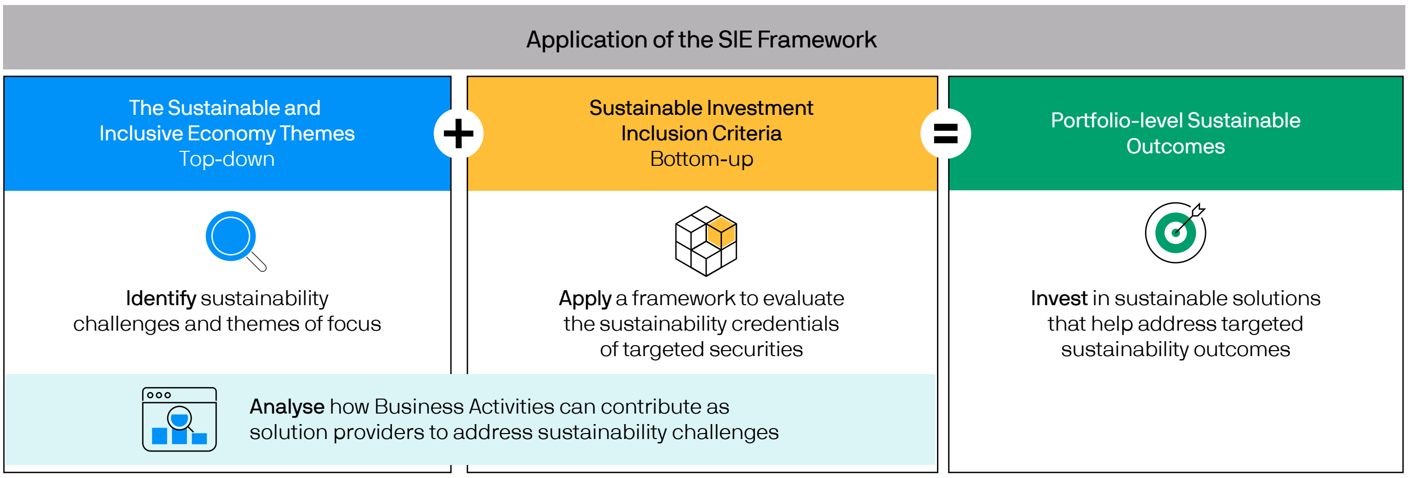
Top-down intentionality evaluation

"Intentionality" indicates that our outcome-driven investment solutions specify the sustainability outcomes they aim to contribute to at the onset of the investment process. When analyzing potential investment opportunities, we aim to determine how closely a company's business activities align with the challenges and solutions outlined in the SIE Themes and sub-themes. Ultimately, we assess the extent to which each investment supports our clients' objectives for promoting outcomes of Resilient Ecosystems and Equal Opportunities.

For example, when evaluating vehicle manufacturers, we look at the extent to which they are transitioning to the production of electric vehicles, with the understanding that electric vehicles (the sustainable activity) are critical for reducing greenhouse gas emissions in the transportation sector. Ultimately, this activity helps to mitigate Climate Change (one of our four SIE Themes) by enabling Green & Resilient infrastructure (one of three sub-themes within the climate change SIE Theme), and also contributes to more Resilient Ecosystems (one of our two intended outcomes).

Similarly, when it comes to forestry, investing in sustainable forestry practices (the sustainable activity) helps preserve Natural Capital (the SIE Theme) by improving Resource Management (the SIE sub-theme), and promoting more Resilient Ecosystems (the intended outcome).

Exhibit 5: Application of the SIE Framework: from challenges to outcomes



Source: J.P. Morgan Asset Management. For illustrative purposes only.

Sustainable Investment Inclusion Criteria continued

In health care, investing in telehealth platforms that offer remote consultations and diagnostics (the sustainable activity) helps address Essential Needs (the SIE Theme), and can lead to enhanced Health and Well-being (the SIE sub-theme). This can ultimately help foster more Equal Opportunities for those facing barriers to traditional healthcare access (the intended outcome).

Business Activity evaluation

To further expand the array of investment opportunities that can help achieve sustainable outcomes through our four SIE themes and 12 SIE sub-themes, we conduct proprietary sector-level research. This helps articulate insights around how different industries, including those that are often considered non-traditional, can also contribute to positive environmental and social outcomes. For a comprehensive perspective, in addition to clarifying the key sustainable outcomes that investing in a particular industry can create, we also establish conclusive inclusion criteria, and highlight the key risks and considerations of an investment in the proposed industry to enable a balanced assessment of the overall opportunity.

For instance, we consider the opportunity to invest in the HVAC industry to help mitigate and adapt to the effects of climate change (our SIE Theme). HVAC systems today account for 10%[3] of total global electricity consumption and 15%[4] of global annual GHG emissions, actively contributing to climate change despite being a climate adaptation solution which helps adapt to increasing physical risks created by climate change. This makes HVAC one of the most important industries to decarbonize to mitigate its negative impacts. Therefore, within HVAC, we seek the environmental outcomes of higher energy efficiency and electrification to pave the way for industrial decarbonsiation.

Financial metrics linked to the production of electified HVAC technologies like air & ground-source heat pumps become the conclusive sustainable inclusion criteria we seek. This is because Electric heat pumps (air-source and ground-source) are known to be 3-5 times more energy efficient and produce 20-80%[5] less overall GHG emissions than natural gas boilers (depending on cleanness of electricity), and thus provide a solution to climate change mitigation.

Additionally, we consider risks: HVAC refrigerant leaks are very common. These can account for 2-5%[6] of HVAC emissions during operation and can reach up to 100% as a result of poor installation or accidental releases. Therefore, HVAC producers' use of refrigerants that have a high Global Warming Potential (GWP) but also ozone depleting potential can be very environmentally harmful. With this outlook, we acknowledge companies transitioning to low-GWP regrigerants and implementing active leak-detection protocols in technologies. End-of-life recycling and reuse of HVAC materials is another consideration that can help better understand risks related to waste generation at the end-of-life stages of HVAC systems.

Bottom-up credibility evaluation

Once we have identified the targeted sustainability themes and corresponding sustainable business activities, we seek to gain a forensic understanding of the degree to which an individual investment's products and/or services contribute to a targeted sustainability outcome – with a focus on "why this company" in particular over its peers and competitors (see **Exhibit 6**).

[3] IEA. 'The Future of Cooling', https://www.iea.org/reports/the-future-of-cooling

[4] World Economic Forum. 'How to heat up - and cool down - climate innovation', Dave Regnery, https://www.weforum.org/stories/2022/02/heating-up-and-cooling-down-climate-innovation/

[5] IEA. 'The Future of Heat Pumps', https://www.iea.org/reports/the-future-of-heat-pumps/executive-summary

[6] IPCC, Safeguarding the Ozone Layer and the Global Climate System, Chapter 5: Residential and Commercial Air Conditioning and Heating, https://www.ipcc.ch/site/assets/uploads/2018/03/sroc05-1.pdf

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Sustainable Investment Inclusion Criteria continued

Exhibit 6: Multi-dimensional asset level analysis

Company Outputs	What	What products and services are provided, and why are they sustainable?
	Who	Who is benefiting from these products and services?
	Reach/ scope	At what scale are these products and services delivered?
Risks		Are there controversies or other business activities that would negate the positive environmental or social benefits created?
Outcomes		What is the resulting environmental or social outcome?
Additionality		Would this outcome have occurred without these products or services?
Impact strategies only		

Source: J.P. Morgan Asset Management. For illustrative purposes only.

Our multi-dimensional asset level analysis leverages industry-leading frameworks, such as the Impact Management Project, the International Finance Corporation's Operating Principles for Impact Management and the Global Impact Investing Network's Iris+ metrics, among others. The aim is to provide a holistic understanding of a company's products and services.

We focus on the following factors: what products and services are provided, and why are they sustainable; who is impacted by the company's products; the reach/scope of the products offered and the benefits realized; how controversies and other business activities they are exposed to may create negative externalities; and any resulting environmental and/or social benefits. For dedicated impact strategies, a further analytical step considers whether this outcome would have happened without these products and/or services.

To identify relevant and appropriate sustainability indicators that inform inclusion of securities, we analyze internal and external data sources for individual indicators that can be used to help demonstrate that a security's given business activity contributes to a targeted environmental or social outcome. In addition to conducting security-specific fundamental sustainability research, we also leverage internal artificial intelligence tools that use natural language processing to help identify companies that are engaged in sustainable business activities.

When the information needed to qualify an individual company's contribution to a given sustainability outcome is not readily ascertainable, we may also speak with the company directly to better understand its involvement – current and planned – in specific sustainable business activities.

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Sustainable Investment Inclusion Criteria continued

Classifying Sustainable business activities

Many different types of companies are helping to drive the transition towards a Sustainable and Inclusive Economy.

To refine the opportunity set, our Sustainable Investment Inclusion Criteria framework is geared towards two types of companies that we believe can have a significant impact on sustainability outcomes: core solution providers and enablers.

Core Solution Providers	Providers of products and services that directly generate positive environmental and/or social outcomes
Enablers	Providers of products and services that form the "essential" building blocks to enable the underlying infrastructure of products and services that directly generate positive environmental or social outcomes

Core solution providers are directly responsible for generation of positive environmental and/or social outcomes. These companies have direct links to the global challenges identified within our four SIE Themes, and may present current opportunities for clients in select strategies.

Enablers form the "essential" building blocks to enable the underlying infrastructure of products and services that directly generate positive environmental or social outcomes. Companies and business activities do not exist in a vacuum. In fact, in an increasingly interconnected world, one could argue that sustainable business activities rely on inputs from several companies.

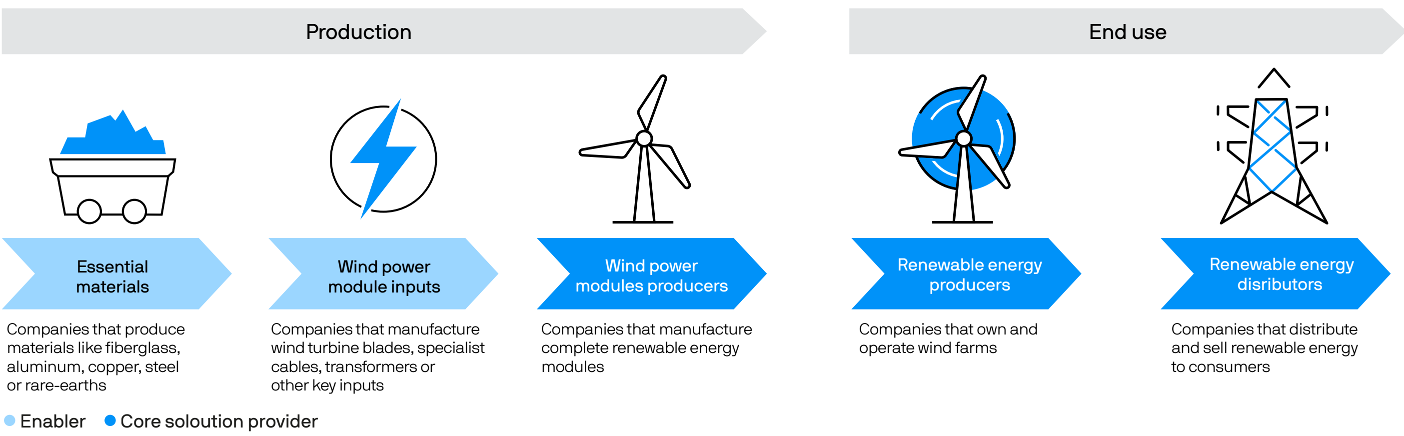
Our Sustainable Investment Inclusion Criteria identification process acknowledges the contributions of the manufacturing chain and the stakeholders involved in a particular business activity. As such, companies that serve as enablers are recognized for the role they play in facilitating the transition to a sustainable and inclusive economy.

The distinctions between core solution providers and enablers are clarified with an example of the wind energy value chain when the targeted SIE Theme is mitigating Climate Change through Renewables & Electrification activities (see **Exhibit 7**).

Wind power module producers, renewable energy producers (companies that own and operate wind farms), and distributors (that distribute and sell renewable energy to consumers) are considered core solution providers. These activities are fundamental to renewable energy operations that directly reduce carbon emissions by replacing fossil fuel-based operations.

Manufacturers of core wind power module components (wind turbine blades, specialist cables, transformers, etc.) and providers of essential materials (fiberglass, aluminum, copper, steel or rare-earths) are examples of enablers rather than core solution providers. Instead of directly facilitating carbon emissions reductions by producing the underlying technology or generating and delivering renewable energy, these activities crucially support wind power systems as they supply the foundational inputs needed to enhance their efficiency, deployment and integration.

Exhibit 7: Wind Energy Value Chain



Source: J.P. Morgan Asset Management. For illustrative purposes only.

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Bringing it all together: Targeted sustainability outcomes

By connecting key environmental and social challenges with the business activities that can help solve them, our SIE Themes and Sustainable Investment Inclusion Criteria form the process through which we undertake security selection and make investments across dedicated sustainable outcome-driven strategies (see **Exhibit 8**).

Exhibit 8: Worked Example of the application of J.P. Morgan Asset Management's SIE Framework

Application of the SIE Framework

The Sustainable and Inclusive Economy Themes
Top-down

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Identify sustainability challenges and themes of focus

Intended outcome

RESILIENT ECOSYSTEMS

SIE theme

Climate Change
Enabling the transition to a resilient, low-carbon economy

Sub-theme

Energy Efficiency & Carbon Reduction
Companies advancing energy-efficiency inducing technologies to reduce energy consumption or offering nature-based or technology-based carbon removal solutions

Sustainable Investment Inclusion Criteria
Bottom-up

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Apply a framework to evaluate the sustainability credentials of targeted securities

HVAC Co.*

Sector:	Industrials
Sub-sector:	Building Products
Industry:	Heating, Ventilation, and Air Conditioning (HVAC)

Alignment summary

72% of revenue from energy efficient electric heat pumps, electrified HVAC units that replace diesel-powered units and smart HVAC automation systems.

Sustainable business activity classification

Core Solution Provider

Multi-dimensional asset level analysis

Company Outputs	What	Manufactures commercial and residential HVAC systems, including energy-efficient, low-carbon heat pumps and electrified HVAC units.
Company Outputs	Who	Supports Commercial, Industrial, Residential Real Estate and Data Center clients
Company Outputs	Reach/ scope	Operations in 26 countries across the Americas, EMEA and Asia. 500,000 Heat Pumps and Electrified HVAC Units sold
Risks		Moderate risk exposure due to transition risks if innovation and demand lag, despite significant R&D investments in cleaner technologies.
Outcomes		In 2024, HVAC Co. facilitated 18 million tons of Avoided Emissions through use of products sold

Portfolio-level Sustainable Outcomes

Invest in sustainable solutions that help address targeted sustainability outcomes

Analyse how Business Activities can contribute as solution providers to address sustainability challenges

Representative analysis of how HVAC can contribute as a solution provider to help address Climate Change explained in "business activity evaluation" section

*The worked example and company above are fictional and shown for illustrative purposes only.

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Bringing it all together: Targeted sustainability outcomes continued

Measuring sustainable outcomes

Our Sustainable and Inclusive Economy Framework provides a clear pathway for how capital can be efficiently allocated towards activities that we believe may contribute to positive environmental and social outcomes. In this regard, conducting activity-specific, asset-level analysis enables us to be precise in identifying and assessing outcomes. However, aggregating environmental and social outcomes poses challenges, particularly due to comparability issues at the portfolio level. While standardized metrics are desirable as they enhance consistency and comparability, these are not yet readily available.

Active bottom-up research informed by top-down insight

As active investors, our Sustainable and Inclusive Economy Framework is founded on bottom-up analysis of companies and investments in which we have the opportunity to invest. Throughout the entire framework, we maintain our top-down goal to direct investments towards companies that we believe are adopting sustainable business activities and are delivering solutions that facilitate the transition to a more sustainable future, in a manner that we believe is both measurable and aligned to sustainability goals.

The framework forms the foundation for investment appraisals across our outcome-driven investment solutions, globally and across asset classes. The aim is to facilitate and enhance the deployment of capital into financially attractive investment solutions that drive the transition to a more sustainable future for clients who have these goals.

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