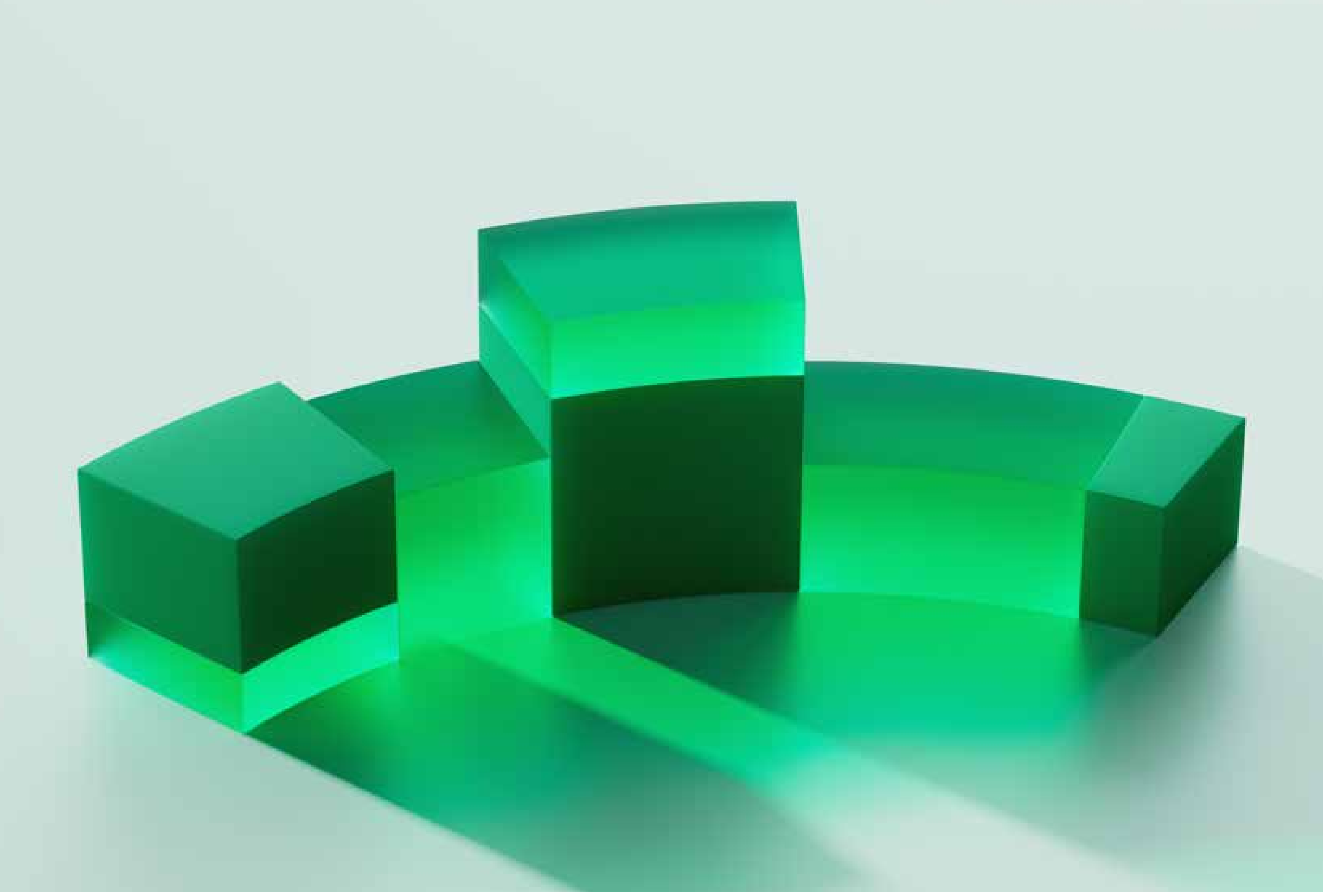

2023 Investment Stewardship Report

Investor-led, expert-driven

April 2024

This report is as of December 31, 2023 and includes information that was obtained at an earlier date during the course of engagements with companies or in the course of voting proxies. Such information has not been updated, verified or audited. The case studies and examples are provided for illustrative purposes only and may not be updated in the future. While we view engagement as an important part of understanding the risks and opportunities facing companies held in or client portfolios, such engagement may not be effective in identifying such risks and opportunities and we do not guarantee any particular results or company performance as a result of such engagement. The engagement statistics are approximations only and were derived from our internal research notes to help identify engagements related to specific engagement priorities and sub-themes. Such information has not been audited and no assurance can be made with respect to the accuracy or completeness of such information

J.P.Morgan
ASSET MANAGEMENT

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Foreword

George Gatch
Chief Executive Officer,
J.P. Morgan Asset Management

The defining events of the decade thus far – the global pandemic, conflicts in Ukraine and Israel, profound shifts in monetary policy, and a persistent increase in global temperatures have challenged long-established norms and risk-reward frameworks. The importance of investment stewardship has increased as investors navigate uncertainty, increasing risks, and emerging opportunities.

Against this backdrop, we are pleased to launch J.P. Morgan Asset Management's fourth annual Investment Stewardship Report.

As an active investment manager and a fiduciary, we have a deeply held conviction that in-depth research and rigorous analysis – by experts across functions, sectors and regions – are key to delivering long-term risk-adjusted returns for our clients. Our approach to stewardship is aligned with this vision, and we consider active engagement as an important tool to maximize shareholder returns through industry participation and proxy voting across asset classes. We leverage the power of J.P. Morgan Asset Management's access and expertise across global markets and continue to deepen our commitment to fundamental research and expand the resources supporting our overall investment stewardship programs.

We seek to deliver stronger financial outcomes, including by focusing on the most financially material environmental, social and governance (ESG) issues that we believe impact the long-term performance of companies in which we invest. Additionally, we advocate for robust corporate governance and sound business practices. We believe that understanding financially material ESG factors plays an important role in delivering long-term value creation for our clients. Our efforts are supported through one of the largest buy-side research networks of approximately 300 equity and credit analysts globally, complemented by a dedicated stewardship team.

During 2023, we engaged with hundreds of companies globally to better understand and encourage them to develop and adopt their practices to manage risk and create long-term shareholder value. Our engagement continued to be shaped by important medium- and longer-term material financial risks and opportunities faced by investee companies around our six stewardship priorities. These were climate change, natural capital and ecosystems, human capital management, social stakeholder management, governance, and strategy alignment with the long-term.

We engaged with companies in carbon-intensive industries on how they are navigating the risks and opportunities associated with the energy transition – including state-owned companies and those based in the Gulf States in light of Dubai hosting the COP28 Climate Change Conference. The stability and solvency of financial institutions was also a major issue of discussion – and questions that the banking industry faced during the 2008 global financial crisis were once again back in the spotlight. Also, the challenging issue of how companies manage human rights risks, especially in supply chains for a wide range of industries, was a topic of engagement during this period of conflict.

On behalf of J.P. Morgan Asset Management, we hope you find our report useful in understanding the important role our investment stewardship plays as part of managing risk and generating long-term returns for our clients. Thank you for your continued feedback, trust and confidence.

J.P. Morgan Asset Management

JPMorgan Chase & Co.

JPMorgan Chase & Co. (the 'Firm') is a leading financial services firm based in the United States of America ('U.S.'), with operations worldwide.

JPMorgan Chase & Co. had USD 3.9 trillion in assets and USD 328 billion in stockholders' equity as of December 31, 2023. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing and asset management. Under the JPMorgan and Chase & Co. brands, the Firm serves millions of customers in the U.S. and globally including many of the world's most prominent corporate, institutional and government clients.[1]

J.P. Morgan Asset & Wealth Management

J.P. Morgan Asset & Wealth Management is a global leader in asset and wealth management services. The Asset & Wealth Management line of business serves institutional, ultra-high net worth, high net worth and individual clients. With combined overall client assets of USD 5 trillion and assets under management of USD 3.4 trillion as of December 31, 2023, we are one of the largest asset and wealth managers in the world.

J.P. Morgan Asset Management (JPMAM) is the marketing name for the investment management businesses of JPMorgan Chase & Co. and its affiliates worldwide. Unless otherwise noted, the focus of this report throughout is on J.P. Morgan Asset Management.[2]

It is a leading investment manager of choice for institutions, financial intermediaries, and individual investors, offering a broad range of core and alternative strategies, with investment professionals operating in every major world market providing investment expertise and insights to clients. J.P. Morgan Asset Management oversees more than USD 2.9 trillion in client assets under management globally as of December 31, 2023.

For more detail, please see the section *J.P. Morgan Asset Management – Who we are*.

1 This report describes J.P. Morgan Asset Management's approach to investment stewardship. Please note that J.P. Morgan Asset Management's approaches are separate from JPMorgan Chase & Co. References to "we" or "our" in this document refer to J.P. Morgan Asset Management and not JPMorgan Chase & Co.

2 In 2023, J.P. Morgan Asset Management acquired 100% ownership of its former China joint venture, which has now been renamed as JPMorgan Asset Management (China) Company Limited ("JPMAM China"). Integration of JPMAM China into the global framework of J.P. Morgan Asset Management is currently in progress. Descriptions in this report concerning J.P. Morgan Asset Management, therefore, may not fully apply to JPMAM China at the time of publication.

Part 1

Engagement and voting in 2023

Engagement in 2023: a year in review

In 2023, there continued to be significant interest in the stewardship practices of the asset management industry from clients and stakeholders worldwide. What continued to hold firm was our conviction that engagement and proxy voting should be shaped by in-depth active research, driven by investment outcomes, and focused on the most financially material issues. This allows us to be stewards of capital in the best long-term interests of our clients.

In our entire Global Stewardship Program, we engaged 1,238 companies in 50 countries across 28 sectors. This is slightly lower than our figure from 2022 where we engaged 1,371 companies, which is reflected in our focus on depth of engagement as opposed to outright volume.

The in-depth engagements included in our Enhanced Engagement Program continued to be the focus of much of our time and effort. We engaged 454 companies in this program in 2023. This included 132 companies on our global focus list. For full details on the Enhanced Engagement Program, please refer to the section Our Approach to Engagement.

While our engagement continued to be driven by our discussions with investee companies in major markets such as North America, Europe and the UK, Japan and East Asia, we extended our efforts in the Gulf States markets especially ahead of the COP28 Climate Change Conference, which took place in the United Arab Emirates (UAE) at the end of the year. These engagements were often with state-owned energy or electric utilities companies on their plans to address climate transition risks. Many were solely bondholder engagements as the issuers did not always issue public equities.

From a thematic perspective – the top three areas of engagement by issues were human capital, climate change and governance. These remain unchanged from the previous year. This year we ramped up our work on the theme of natural capital and ecosystems, which we began in 2022. More details are provided in the following sections, which report on our engagements by each stewardship priority theme area.

We continually work to improve the transparency, quality and impact of our stewardship reporting. We integrate feedback from clients, peers and industry organizations to continue to improve our program. In the following thematic chapters, you will find three areas of focus for improvement:

1. We have expanded our case study reporting beyond individual examples to highlight wider sector, regional or structural trends. By placing case studies in this context, we demonstrate how company-specific issues interact with wider trends and how our research-driven approach allows us to encourage companies to develop best practices through engagement. Examples of this include our deep-dive on the cobalt supply chain in the Social Stakeholder chapter; our regional spotlight on Gulf State engagements in the Climate Change chapter; and our focus on industry-wide risks within the UK water utility sector in the Natural Capital chapter.
2. In 2023, we increased our engagement with sovereign issuers, and this report includes a case study highlighting engagement with the Republic of Indonesia on green sovereign debt in the Climate Change chapter.
3. We have expanded our disclosure on how we vote climate-related shareholder resolutions. We have provided a more granular breakdown of votes by type of resolution, which offers further insight into how we evaluate proposals in the Climate Change chapter.

Engagement in 2023: a year in review continued

2023 Engagement in numbers

1,238
Number of companies engaged

454
of which were in our Enhanced Engagement Program

132
of which were 2023 Focus List companies

50
Number of markets engaged

28
Number of sectors engaged

9%
Engagements with board directors (incl. Chair)

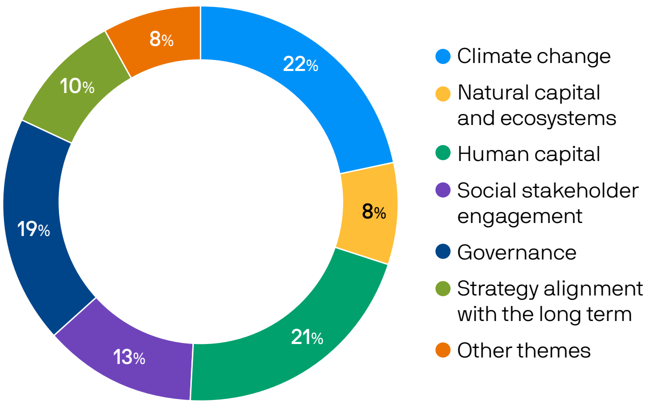
62%
Engagements with senior executives

29%
Engagements with other company representatives including operational specialists and investor relations

Engagement by ESG area

ESG area	%
Environmental	31
Social	40
Governance	29

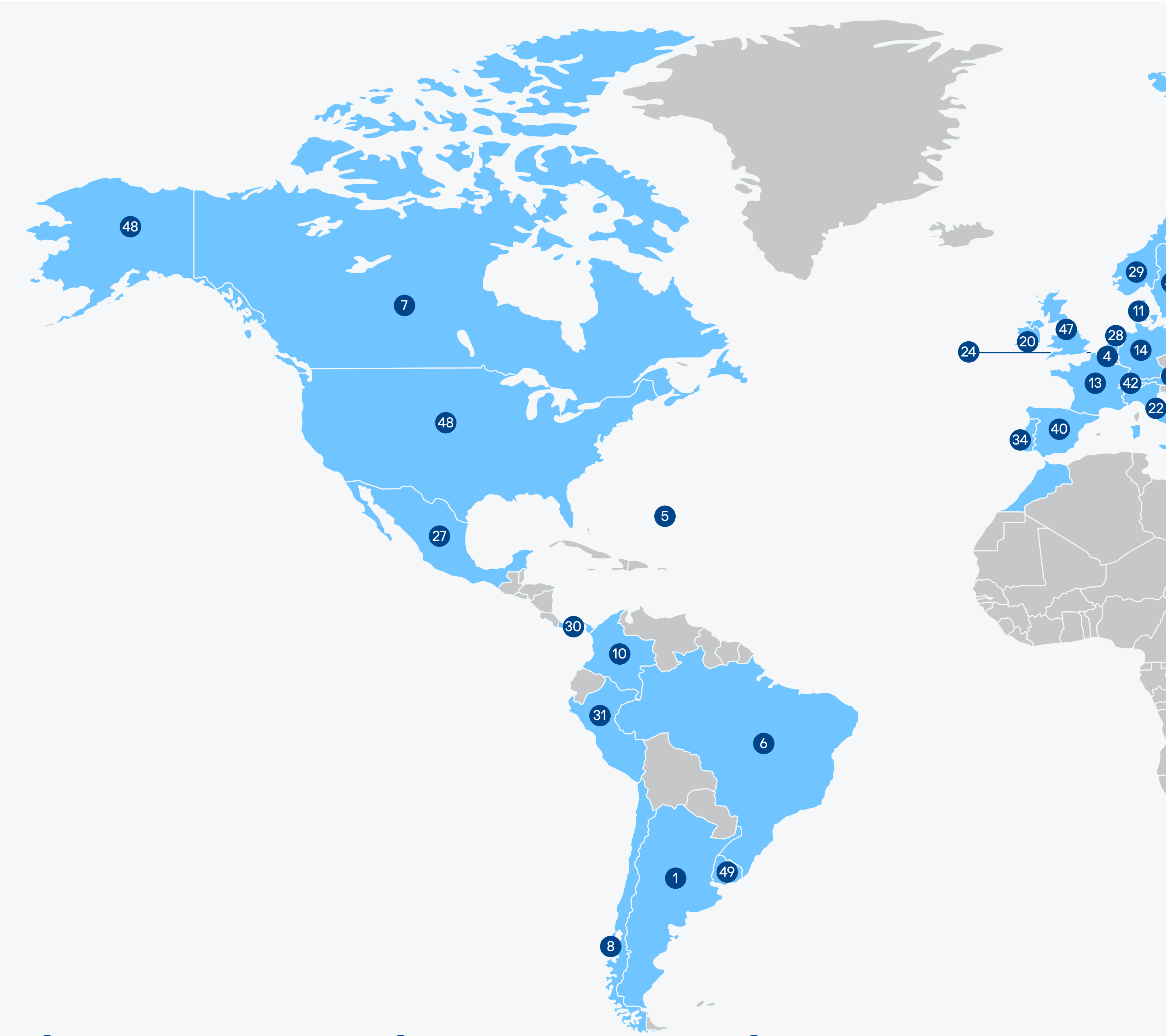
Engagement by ESG theme*



* Percentages may not add up to 100 due to rounding.

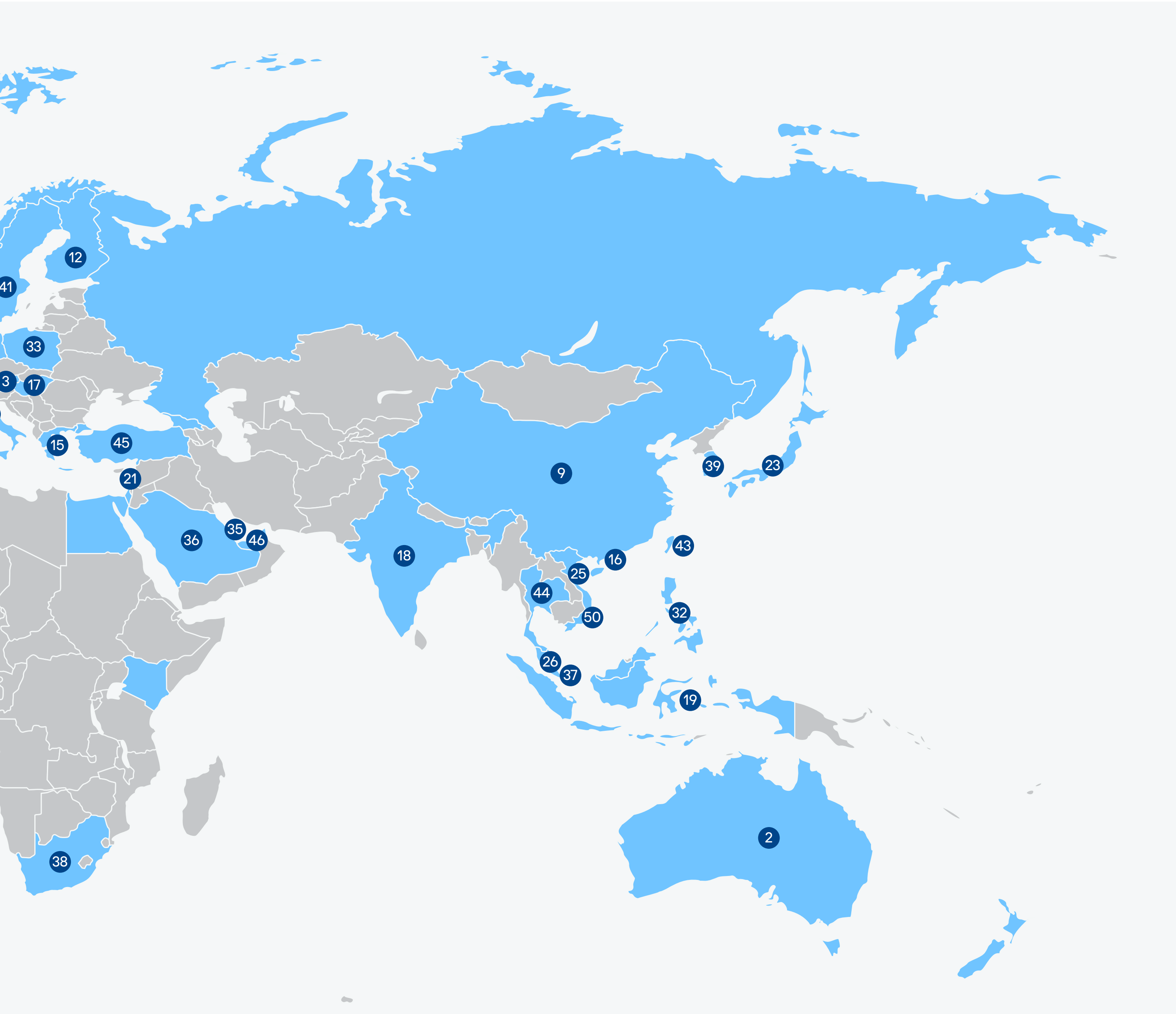
Engagement in 2023: a year in review continued

Engagement by market



1	Argentina	0.0%	10	Colombia	0.2%	19	Indonesia	0.8%
2	Australia	2.8%	11	Denmark	0.6%	20	Ireland	1.1%
3	Austria	0.2%	12	Finland	0.3%	21	Israel	0.0%
4	Belgium	0.5%	13	France	2.1%	22	Italy	1.0%
5	Bermuda	0.0%	14	Germany	2.4%	23	Japan	10.2%
6	Brazil	2.2%	15	Greece	0.1%	24	Luxembourg	0.2%
7	Canada	0.7%	16	Hong Kong	2.3%	25	Macau	0.5%
8	Chile	0.2%	17	Hungary	0.0%	26	Malaysia	0.4%
9	China	10.8%	18	India	6.6%	27	Mexico	1.4%

Engagement in 2023: a year in review continued



28	Netherlands	1.6%
29	Norway	0.7%
30	Panama	0.0%
31	Peru	0.1%
32	Philippines	0.0%
33	Poland	0.4%
34	Portugal	0.2%
35	Qatar	0.1%
36	Saudi Arabia	1.2%
37	Singapore	0.4%
38	South Africa	0.6%
39	South Korea	2.9%
40	Spain	0.8%
41	Sweden	1.0%
42	Switzerland	1.8%
43	Taiwan	2.0%
44	Thailand	0.5%
45	Turkey	0.1%
46	United Arab Emiratea	0.4%
47	United Kingdom	12.0%
48	United States	24.3%
49	Uruguay	0.3%
50	Vietnam	0.2%

Engagement in 2023: a year in review continued

Engagement by market

Sector	%
Capital Goods	11.8
Utilities	6.8
Banks	6.0
Pharmaceuticals, Biotechnology	5.1
Consumer Discretionary	3.5
Consumer Durables & Apparel	3.4
Consumer Services	3.2
Semiconductors & Semiconductor	3.0
Commercial & Professional Services	2.9
Media & Entertainment	2.6
Household & Personal Products	2.4
Equity Real Estate Investment	1.5
Real Estate Management & Development	0.8
Diversified Financials	0.1

Sector	%
Materials	9.5
Energy	6.2
Food, Beverage & Tobacco	6.0
Health Care Equipment & Services	4.1
Technology Hardware & Equipment	3.5
Financial Services	3.2
Insurance	3.0
Software & Services	3.0
Transportation	2.7
Automobiles & Components	2.4
Consumer Staples Distribution	2.3
Telecommunication Services	1.0
Other Industries	0.2
Sovereign	0.1

Our approach to engagement

J.P. Morgan Asset Management has deeply held convictions that in-depth investment research and rigorous analysis by experts are key to delivering long-term, risk-adjusted returns for our clients. Our approach to engagement is aligned with this vision and is an important part of our investment processes.

Engaging investee companies in dialogue and encouraging sound environmental, social and governance (ESG) practices is an important component of how we deliver our investment stewardship strategy. Our engagement is based on our in-depth investment research on companies, alongside our assessment of macroeconomic drivers, sector-specific factors and financially material ESG themes.

This research insight enables us to act proactively and encourage investee companies to acknowledge issues and improve practices before risks are realized and opportunities are missed. This is how we seek to drive impact in our investment stewardship activity and advocate for sound practices at our investee companies. We believe this will ultimately preserve and enhance asset value.

Our engagement is based on these four principles:

- **Intentionality**: We are determined to act in the best interests of our clients by encouraging investee companies to focus on prudent allocation of capital and long-term value creation.
- **Materiality**: We strive to understand how factors impacting sustainability are financially significant to individual companies over time, understanding that the regions, cultures, and organizations in which we invest differ greatly.
- **Additionality**: We focus on strategic issues that are most urgently in need of our involvement in order to deliver better long-term returns to our clients. We believe that as large investors, we have the ability to put our resources to work towards achieving the outcomes we seek on behalf of our clients.
- **Transparency**: We seek to be clear about the investment stewardship work we do and take steps to be transparent to our stakeholders, as we expect the same from investee companies.

It is also worth highlighting that alongside the ongoing dialogue that we have with investee companies throughout the year, proxy voting at annual general meetings is another key tool we utilize in our investment stewardship activities. Demonstrating our views through proxy voting is increasingly relevant across our Investment Stewardship Priorities.

Investor-led, expert-driven engagement

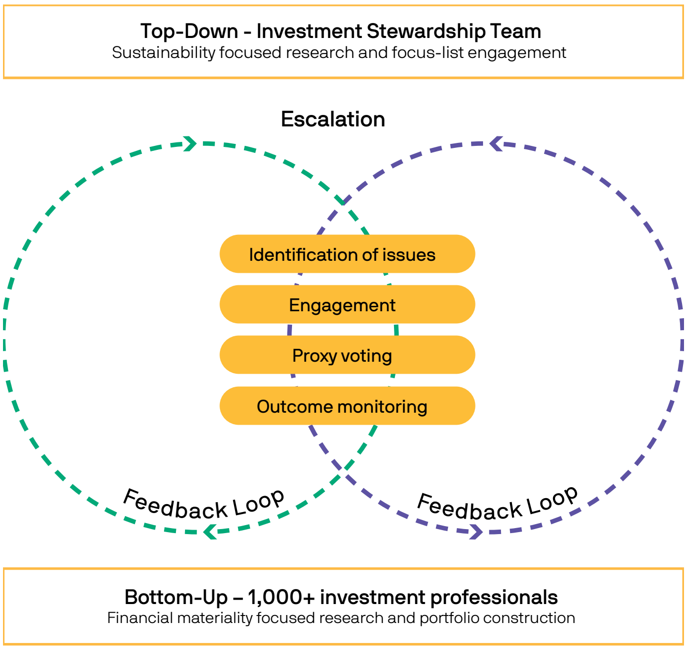
Our engagement model is built on an investor-led, expert-driven approach and leverages the knowledge of more than 1,000 investment professionals around the world, working in close collaboration with investment stewardship specialists. Our engagement process benefits from the longstanding relationships our investment teams have with local investee companies, through regular interactions with board directors and chairs, senior executives, and CEOs. We believe this collaborative, well-resourced approach enables us to recognize significant risks early and identify new opportunities, supporting our goal of generating attractive risk-adjusted returns.

Combining our ESG research capability with the experience and skill of our investment teams and the expertise of our investment stewardship specialists gives us a deep understanding of the risks and opportunities facing different sectors, industries, and geographies. By integrating this expertise into a global common platform, we seek to maintain a consistently high standard of engagement, considering the myriad of nuances a responsible investor needs to embrace. Through engagement, we seek to encourage long-term sustainable outcomes in investee companies.

Ultimately, the objective is to build stronger and more resilient portfolios for our clients.

Our approach to engagement continued

J.P. Morgan Asset Management Engagement Model



Source: J.P. Morgan Asset Management, as of December 31, 2023.

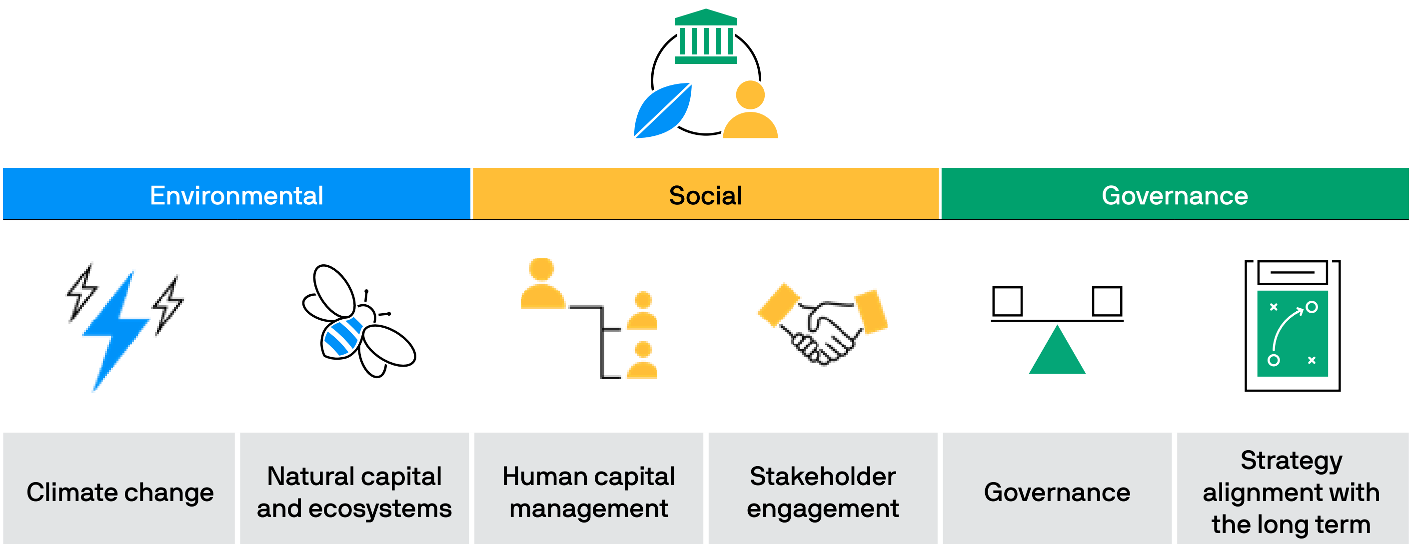
J.P. Morgan Asset Management's six Investment Stewardship Priorities

We have identified six Investment Stewardship Priorities that we believe can be broadly applied in our engagement efforts and will remain relevant through market cycles. These priorities address the ESG issues that pose the most significant long-term material financial risks to our investments, while also presenting the greatest opportunities. Engaging on these topics is therefore important to delivering value to our clients.

Having fully reviewed the priorities last year, 2023 was the first full year of working with natural capital and ecosystems, the sixth and newest priority theme. This is an extensive topic which looks at economic activity and its relationship with the natural world. Issues include the extraction of natural resources and their use in industrial production and other business activity, waste and recycling, the concept of circular economy and sustainable systems of production. Like climate risk over the past decade, we believe that natural capital and ecosystems will continue to emerge as an important investment and stewardship consideration in the coming decade because of the financial impact on the long-term value of companies.

Within each priority area, we have identified related sub-themes that we are seeking to address over a shorter timeframe (18-24 months). These sub-themes will evolve, over time, as we engage with investee companies to understand issues and promote best practices.

This combination of priorities and evolving themes provides a structured and targeted framework for engagement for our investors and Investment Stewardship team globally.



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Our approach to engagement continued

As we delve deeper into each of the six priorities in this report, we highlight specific engagement case study examples that address the key areas of material change we seek to drive at our investee companies to manage risk and improve investor value. We also provide examples of how these issues are influenced through our proxy voting activity.

It's important to note that while we believe these six priorities to be relevant across asset classes, strategies, and geographies, we acknowledge that our engagement activity will reflect material differences between industries, regions, and financial markets.

For example, in the area of human capital management, U.S. engagements have focused on labor practices at technology and consumer-facing services companies; in Asia, the focus has been on the global supply chain. The same issue can differ by industry: We may ask a clothing retailer to provide its Tier 1 supplier list due to concerns regarding supply chain risk, but we would rarely request this information from an insurance company.

Similarly, within climate change engagements with extractive industries, methane emissions figure more prominently in discussions with North American companies given the position of the U.S. and Canada as a large oil and gas producer and the existing and proposed methane regulation by environmental agencies. Discussions in emerging markets where there may be less regulation, on the other hand, may focus on providing meaningful transparency on emissions performance.

Within long-term alignment engagements, engagement in the U.S. emphasizes pay for performance alignment given the quantum, and increasing complexity, of compensation plans. In the UK, compensation discussions have focused on equity and the generous pension terms granted to executives versus regular employees. In many other markets, we still seek meaningful information on establishing basic good practices around executive pay.

Our Investment Stewardship Program

In 2023, there were thousands of meetings between our investment team members(e.g., research analysts and stewardship experts with board directors, senior management, and operational experts from investee companies). The focus and purpose of our discussions are shaped and informed by our in-depth analysis of investee companies' strategy, financial performance, and key practices on ESG issues with material financial impact (please refer to the section on *ESG Integration* for full details). Through our regular and ongoing interactions with companies, we discuss a range of issues including financially material ESG factors, and we highlight areas of good practices we believe they should aspire to. We systematically track and monitor these interactions as part of our **Core Stewardship Program**. Through this program, we focus on issues that we believe investee companies should address to protect value by minimizing risk and creating value by capitalizing on opportunities. We assess companies' response to engagement and monitor over time the progress being made, including around the transparency of sustainability practices. Alongside our dialogue with investee company representatives, proxy voting is also an important component of our approach.

However, we also recognized that there is a need for a program of in-depth engagements. These are cases where we allocate more of our time and resources to engaging a narrower group of companies which our research and analysis have identified to be of need. Our **Enhanced Engagement Program** aspires to meet the expectations of our global investment teams across asset classes, and of our clients and stakeholders around the world, to manage risk and promote long-term shareholder value at investee companies that most merit our time and attention.

The three key pillars of our Enhanced Engagement Program are:

Focus list: This is a list of companies in our portfolios held in equities and corporate credit, which includes companies that issue no public equity and are bond-only issuers, where we have meaningful investment exposure, and our research has identified an area or two of financially material ESG risks and opportunities. This list is agreed upon with the relevant JPMAM investors. We assess our ability to drive improvement through engagement with these companies, considering issues such as our previous track record, the company's acknowledgement of the issue and broader regulatory factors shaping the circumstance.

We then establish clear objectives up front and seek to encourage companies to consider changes over the course of 18-36 months, depending on the complexity of the change required. Key focus issues are largely

Our approach to engagement continued

around our six Investment Stewardship Priorities where we have in-house expertise, but we are not limited to such topics, as the issues can be quite company-specific in nature.

The focus list in 2023 consisted of 132 companies. Progress of engagement is regularly monitored to assess next steps and is a key component in the periodic review of the inclusion of the companies on the list.

Thematic projects: Alongside the focus list, we run engagement initiatives on specific themes aligned with the six Investment Stewardship Priorities, where we target a broader number of investee companies on the same set of issues. The aim is to engage around 30–40 companies through the lifetime of a particular project.

For example, in 2023, we started a thematic project with regard to human rights risks associated with critical mineral sourcing at investee companies. More details on this project are to be found in the social stakeholder engagement section.

Reactive engagements: While we endeavour to ensure that our proactive engagement can encourage our investee companies to be more resilient to ESG risks and more alert to capitalizing on opportunities, there are always corporate actions, notable events, major developments, controversies, norms breaches and matters arising from the proxy voting process that require reactive engagement. This can also include long-running issues being uncovered with regard to controversial corporate practices, products and services. For more details on this, please refer to the Reactive Engagement section of this report.

Establishing objectives and evaluating progress

The objectives for engagements are set using a variety of inputs and guidelines, ranging from proprietary analysis and guidance provided by our investment teams to our proxy voting guidelines and the expectations set in the six Investment Stewardship Priorities. For example, with collaboration from JPMAM investors, we may identify problematic features incorporated in, or absent from, a company's executive remuneration plan. We may define the objective as the removal or inclusion of such features.

Monitoring of progress on engagements is facilitated by setting engagement objectives and systematically using our documentation system to identify the status of the engagement. Further discussion on engagement tracking can be found in the Engagement Progress, Milestones and Failures section.

How we engage with companies

Engagement with investee companies can be conducted through in-person meetings, video or phone calls, speaking engagements, formal letters or emails, and field trips. This is largely done on a one-to-one basis, but we work in collaboration with other asset managers, where permitted, and we consider it to be an effective approach to progress the engagement.

Please refer to the section on *Collaborative Engagement* for more details.

We enjoy good access to companies and, as a result, many of our engagements are conducted with representatives at senior levels of the company. This includes the board of directors, senior executives, general counsel, and operational specialists from the company who have subject matter expertise, such as heads of compensation, heads of diversity, equity and inclusion or investor relations.

Increasingly, our interactions with companies in the Core Stewardship Program on ESG issues are led by investment research analysts responsible for primary coverage of the company in equity and corporate bonds. They are supported by the thematic expertise on ESG issues by the Investment Stewardship team. The team also provide engagement training to investment teams. In 2023, there were in-depth training sessions for engagement teams around the world on high-quality engagement, which were led by our Global Head of Investment Stewardship. They were done in person in Tokyo and London and an online session for global bond investment teams worldwide on fixed income engagement. The Team followed this up with specific training sessions on certain themes such as climate change and how it is material to financial risk and investment outcomes.

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Our approach to engagement continued

We consider it to be a key part of our approach to ESG integration that the investors should play an active and visible role in driving stewardship, which shapes the long-term investments they seek to have with investee companies. This is critical to our investment success, in the quality of engagements and the push for clear outcomes in a time-bound fashion. Generally, it can take several years before our engagements yield tangible results; we expect an engagement timeframe of about three years before our milestones are achieved.

Our view is that for most material ESG issues, our JPMAM equity and fixed income investors generally have the same view as to what is in the best long-term interest of the company. This is now backed up by experience where there is growing collaborations on engagement between our colleagues in Fixed Income and Equities teams. We note that there are some issues on which they may diverge, such as capital structure or magnitude of buybacks.

Engagements involving voting issues related to annual stockholder meetings, also referred to as annual general meetings (AGMs), are attended by equity investors in addition to members of the Investment Stewardship team.

Escalation

Engagements with targeted companies are documented, allowing us to monitor the stage of engagement. There will be times when, despite prolonged engagement, our concerns around managing risks and increasing and preserving the long-term value of our client accounts have not been addressed. Under such circumstances, we may undertake the following forms of escalation depending on the circumstances:

- meetings with non-executive directors, a lead independent director or chair;
- voting against management and the non-executive directors;
- communication to the chair or lead independent director disclosing our voting rationale;
- collaboration with other investors or public statements with other investors as appropriate; and
- reduction in holdings or divestment in certain cases.

It is important to note that while these engagements may be unsuccessful, securities of companies may be purchased and retained for reasons other than financially material ESG factors.

We will escalate concerns having reviewed the potential benefits of such action on our objectives, while ensuring we are always acting in the best long-term interests of our clients. Our approach to escalation considers the facts and circumstances of each specific case. However, we note that voting escalation is principally aimed at equity holdings rather than other asset classes where the opportunity to vote is far rarer. We do not generally differentiate our approach to escalation based on geography or fund type – unless there is a valid reason (e.g., our approach to proxy voting for Russian companies following the 2022 invasion of Ukraine or certain votes specific to sustainable strategies).

Our approach to engagement continued

Case study – escalation

POSCO Holdings Inc	South Korea	Equity, Bonds

Issue

POSCO's subsidiary in Turkey, POSCO ASSM TST, has faced allegations of human and labor rights violations. The company denied the allegations.

Action

We have been engaging with POSCO since 2021 regarding its practices on labor rights firm-wide, particularly in Turkey. Initially, we held one-to-one meetings with POSCO's representatives. The company stated that POSCO had been following the local rules and regulations. We emphasized the importance of following global best practices on labor and human rights management, as well as reporting and disclosure. We shared examples of other companies' handling of labor and human rights issues, including a case that happened in Turkey and had similarities with the POSCO's case.

Despite having multiple individual engagements with the company, including meetings with its board members, we have seen slow progress in resolving the labor issues in Turkey. Our concerns have not eased, and we believe this may translate into long-term investment risk as shareholders and bondholders. To escalate the issue, we chose to participate in the UN PRI Advance program.

Outcome

On a positive note, we have seen improvement in the company's public disclosure related to labor and human rights. POSCO Holdings is working with its Turkey subsidiary to find ways to resolve the issues. We will continue to engage with POSCO.

Collaborative engagement

Collaborative engagement is defined by JPMAM as when we have joint-dialogue alongside other institutional investors with investee companies on financially material issues. Such collaborative engagement can occur, for example, through direct meetings with a company, via joint written communication to a company requesting more information on a given topic or investor calls.

Most of our engagements are one-on-one dialogues with companies, but there are cases where we also consider that collaborative engagements can be an effective way to impress upon companies common concerns shared by investors and understand individual company situations with respect to their exposure to financially material risks and opportunities and how these affect investor value. We find collaborative engagement to be effective when one-to-one engagement is not resulting in meaningful response and/or progress in the engagement over time.

The focus for us on collaborative engagement is no different to one-to-one engagement; it is to utilize our investor rights and meet our fiduciary duty to deliver the best long-term outcome for our clients. It is based on understanding risks that are financially material to investee companies and stating our expectations for the robust and rigorous management of such risks, so it does not harm investor value. This includes assessing how companies are taking advantage of competitive opportunities to innovate in response to consumer demand and regulatory requirements around the world.

Collaborative engagement is supported by and encouraged by regulators, in certain markets, on certain issues. For example, in the UK, climate change industry collaboration is seen as important and expected. While adhering to all applicable rules and regulations, such as antitrust and competition laws, we believe that collaborative engagements can allow for effective communication of investor concerns to companies.

Our approach to engagement continued

With recent media attention on collaborative engagements, it is important that clients understand what "collaborative engagement" means and does not mean. For example, while collaborative engagements involve multiple investors (such as other asset managers) with common concerns around risks and opportunities facing individual companies, each investor makes its own investment and proxy voting decisions. JPMAM does not share competitively sensitive information concerning its client accounts or its investment decisions with other investors. It does not work in concert with other investors on investment matters and makes its own independent decisions concerning investee companies including how to vote proxies and whether to change its allocations, invest in or divest from an investee company. Investee companies make their own strategic decisions based on their own assessment of the balance of views from various parties.

Human capital and human rights initiatives

We believe effective management of human rights risks can mitigate reputational, regulatory and legal risks amongst others and, ultimately, is in the best interest of shareholders and our clients. Starting in December 2022, we became a participant of Advance, an investor-led initiative coordinated by the UN-supported Principles for Responsible Investment (PRI), with the objective of increasing respect for human rights and encouraging positive outcomes for people through investment stewardship. We view these objectives as important to the long-term value of companies in which we invest, considering the evolving human rights due diligence regulatory framework and their legal, reputational and financial implications. We are involved in social and human rights discussions with POSCO and Nippon Steel because of our concerns regarding specific reputational and financial risks facing such companies.

Janet Wong, social and human rights lead, speaking at PRI Stewardship Forum in Melbourne about our experience in co-leading POSCO engagement through PRI Advance in May 2023.

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Our approach to engagement continued

Governance initiatives

Governance-focused initiatives such as the UK 30% Club Investor Group, of which we have been a member since 2012, continued to be an area of focus in 2023. We are also a member of Japan 30% Club Investor Group and its Best Practice Working Group and its Best Practice Working Group and a member of 30% Club Hong Kong Investor.

We continued our engagement through our membership of the 30% Club Hong Kong Investor Group, which started in 2022. Alongside four other members, we reached out to 27 Hong Kong-listed companies with single-gender boards to better understand their board nomination process, their approach to board diversity as well as their wider diversity and inclusion strategy. As described in our Governance Engagement and Voting section, we believe there is a strong positive correlation between high governance standards and shareholder returns, which includes seeking diverse perspectives on the board. Out of the 27 companies, 10 have appointed female directors to the board in 2023. Noticeably, the Stock Exchange of Hong Kong will no longer allow single-gender boards, demonstrating the importance of our engagement in encouraging companies to prepare for regulatory change. In Hong Kong, issuers have to appoint at least one director of a different gender by December 31, 2024.

The Asian Corporate Governance Association (ACGA) is an important industry body we have been working with on corporate governance issues in Asia. We are a member of its China Working Group, Korea Working Group and Japan Working Group. Meeting with investee companies to discuss their governance issues, including their governance of material issues, are key activities of these country working groups. In 2023, we have engaged with other investors and with a number of Chinese companies. We also participated in the ACGA Exchange Meeting in April 2023 and its annual conference in November 2023.

To learn more about our governance work, please refer to the Governance Engagement and Voting section.

Climate change

- **Asia Investor Group on Climate Change** – member
- **Institutional Investors Group on Climate Change** – member
- **ICMA Green and Social Bond Principles** – member of the Climate Transition Finance Working Group
- **London Stock Exchange** – member of the Sustainable Bond Market Advisory Group
- **Net Zero Asset Managers initiative** – signatory
- **The Sustainable Markets Initiative** – member of the Asset Manager and Asset Owner Task Force

Other sustainability topics

- **UK Investment Association** - our EMEA CEO Patrick Thomson serves as the Board Chair. We also sit on various groups including the Stewardship Reporting Working Group.

Human capital management and diversity

- **Hong Kong 30% Club** – co-lead of diversity engagement with Hong Kong-listed companies with single-gender boards
- **Japan 30% Club** – member
- **Principles of Responsible Investment** – participant in its human rights initiative Advance

Governance

- **Asian Corporate Governance Association** – member of China, Japan and South Korea Investor Working Groups
- **UK Financial Conduct Authority** – member of Vote Reporting Group

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Our approach to engagement continued

More transparency is required for proxy voting

To find ways to enhance disclosure, transparency and standardization of vote reporting, the UK Financial Conduct Authority (FCA) convened a Vote Reporting Group in 2022, of which we are a member. The key objectives of the working group are to develop recommendations on minimum vote reporting requirements for asset managers. These objectives are aligned with our stewardship commitments to help standardize and enhance voting disclosure by asset managers in the market. In June 2023, the Vote Reporting Group issued a consultation and discussion paper to propose a voluntary, standardized and comprehensive vote reporting template for asset managers.

Engagement progress, milestones, and failures

We have implemented an approach to tracking engagement progress and recording milestones where objectives have been achieved. The aim is to make sure our engagements have a positive impact on risk and value at individual companies and that investee companies are responding in a constructive fashion over time.

It also allows us to identify areas where progress is slow and enables constant improvement of our engagement methodology and framework to achieve better outcomes for our clients.

In 2023, we continued to evolve and strengthen our approach to tracking engagement progress and recording milestones and engagement failures.

Our newly established ESG engagement recording system in our Spectrum™ technology platform enables systematic tracking of engagement progress.

We identify financially material ESG issues at investee companies held in our portfolios and then initiate our engagement by discussing our concerns with companies and subsequently asking them to identify actions to address issues we believe are important for our client accounts. In most cases, engagement can take time to progress. It takes time before the board or management acknowledges an issue and starts to define and implement a roadmap of action to deliver meaningful change. Sometimes, issues we raise in our engagements can lead to the investee companies determining to make structural and organizational changes that are not easy or quick to achieve, and that have impacts on business models, strategy, and investments. Generally, it can take several years before our engagements yield tangible results; we expect an engagement timeframe of about three years before our milestones are achieved.

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Our approach to engagement continued

Our approach to engagement progress and milestone tracking

In order to check our engagements are on track and progressing over time, we have established four stages in our engagement journey. The progress stages are:

1 **Issues raised to the company**

2 **Issues acknowledged by the company**

3 **The company develops a strategy to address the issues**

4 **The company implements changes and milestone are achieved**

We have also identified scenarios where we have concluded that no positive outcomes can be expected in the given timeframe:

0 **Engagement failed**

Our focus list engagement progress in 2023

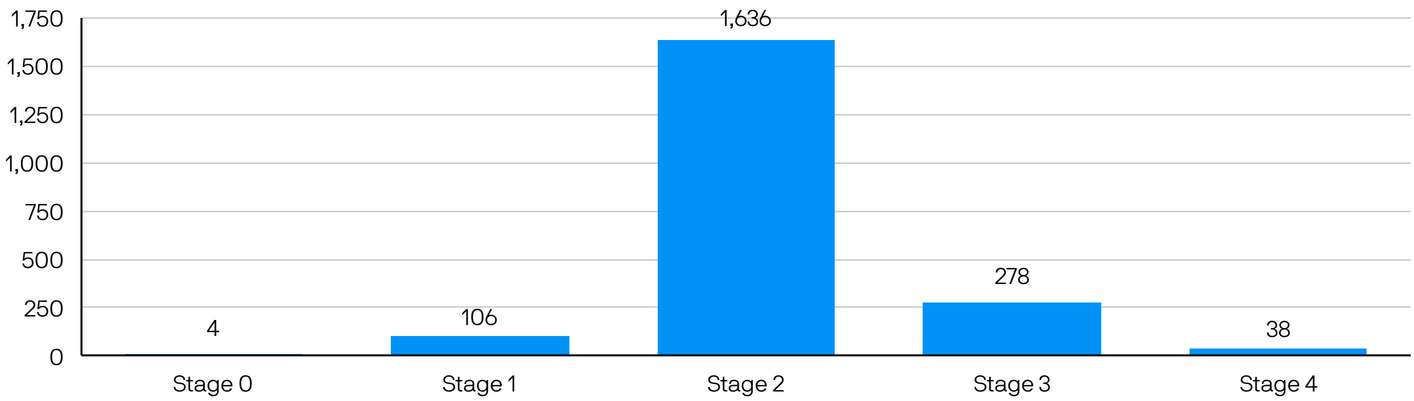
In 2023, the global Investment Stewardship team had 132 investee companies on the engagement focus list, where we tracked progress, and we had a number of reactive engagements, which we also included in scope. In addition, we have also started to track other engagements with those companies that are not on the focus list. The chart below shows the stage of different engagements at the end of 2023.

In 2023, we observed that increasingly companies on the focus list are progressing to stage 3 (as per above) and bringing the desired outcome as shown in the chart above. We noticed success cases in each area of our priority across all regions (see **Table 2**) other than the engagement priority of natural capital and ecosystems which is a new topic that was just added to our priorities in December 2022. Some successful cases are explained in more detail in the engagement case studies section.

We have observed successful engagements with investee companies taking steps to manage risks and promote long-term value tend to have concrete objectives with numerical goals, such as GHG emissions reductions, diversity in the workplace or on the board, or capital allocations. We have also found that companies are proactive in improving disclosures when asked for more transparency by publishing reports on sustainability, human capital, human rights, TCFD or remuneration policy.

We also observed cases where our engagement failed due to a reluctance on the part of the company management to address our concerns, even after we sought different types of escalations (see Softbank Group case study).

Engagement progress by stage



Source: J.P. Morgan Asset Management, as of December 31, 2023.
Note: In cases where there are several engagement themes for one company, the engagement milestone for the company is measured against the theme where there was the most progress.

Our approach to engagement continued

Table of 2023 engagement success examples

Company	Country	Priority	Milestone detail
Danske Bank A/S	Denmark	Climate change	Published its Climate Action Plan, which details how the bank will transition its operations and financed emissions in line with its own published net zero targets including both interim targets (up to 2030) and long-term ambitions. We engaged the bank on this topic in earlier years and encouraged the bank to provide more granular details on its approach so that we could understand the credibility of such plans.
Deutsche Lufthansa AGAG	Germany	Climate change	The company has become the first airline in Europe to have achieved validation of its carbon reduction targets by the SBTI (Engagement Milestone). It targets a 50% reduction in emissions by 2030 and CO_2 neutrality by 2050.
Reckitt Benckiser Group PLC	United Kingdom	Social stakeholder management	Established cybersecurity process and senior-level accountability in mitigation of a future cyber-attack. The company was subject to a cyber-attack in 2017, therefore prompting further engagement to understand the measures taken by the company to mitigate any business risks.
Nokia Oyj	Finland	Human capital management	Met the company's objective to reach a minimum of 26% female hires in all global external recruits through increased marketing, communication, and talent attraction activities designed to highlight Nokia's employer brand stand out for diversity-friendly employment policies.
Nihon M&A Center Holdings Inc	Japan	Governance	The company announced a medium-term capital allocation policy targeting a payout ratio of above 60%, which will improve returns to shareholders. We have engaged the company since 2021, as we had concerns about the inefficient capital allocation policy.
Tencent Holdings Ltd	China	Governance	Appointed the second female board director in 2022. After the 2023 AGM, female board representation increased to 25%. In the ESG Report 2022, the company announced its 30% gender diversity goal on the board by 2030.
Johnson & Johnson	United States	Strategy alignment with the long term	Provided additional disclosure for investors to understand considerations given to legal and compliance costs in executive compensation. At the 2022 annual meeting, we supported a shareholder proposal requesting that the legal and compliance costs be included in compensation, as we thought there could be more information made available to the shareholders. With improved disclosures, we voted 'against' the same proposal filed at the 2023 annual meeting.

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Our approach to engagement continued

Case study – unsuccessful engagement

Softbank Group (SBG)	Japan	Equity, Bonds

Issue

We have raised concerns about governance at SoftBank Group given the complicated ownership structures, which risk conflicts of interests, as well as the poor level of disclosure at the company's investment subsidiaries. We have questioned the management about the unusual ownership structure of these subsidiaries as the joint founder, Chair and CEO has a stake disproportionate to his cash contribution. He owes significant sums to Softbank, provided at very low interest rates, on account of losses made by these investment subsidiaries.

More recently, we have been concerned by the lack of disclosure of material contractual agreements between SoftBank Group and a venture capital fund managed by an investment subsidiary in relation to the IPO of Arm Holdings. (ARM Holdings is a semiconductor and software design company, which went public in September 2023).

Action

We engaged with the company and raised our concerns that SB Northstar, an investment subsidiary of SoftBank, could be used as an indirect investment vehicle of the founder, Chair and CEO of the company. He owns one-third of the company, which has significant debt. We encouraged the company to take steps to simplify the complex capital structure and manage potential conflicts of interest involving the founder. After SoftBank announced the scaling down of investment activities of SB Northstar, we held several meetings with the management team, in one-to-one and collaborative settings, to address similar conflicts of interest and lack of transparency in the investment process and governance at SoftBank Vision Fund 2, a venture capital fund.

The company claimed that disclosure has improved and asked for more understanding of the constraints faced in disclosing the share value of unlisted investee companies. Meanwhile, we discovered that SoftBank Group had contractual obligations to purchase a stake in Arm Holdings at twice the price it was sold to a venture capital fund managed by an investment subsidiary of SoftBank. This could constitute a contingent liability that was not disclosed. We met with SoftBank's independent director, but the discussion did not adequately address our concerns regarding board oversight and governance. We have consistently voted against two directors, the founder/Chair/CEO since 2019, and CFO since 2020 to express our concerns regarding corporate governance.

Outcome and next steps

In our view, we deemed this an unsuccessful engagement, as actions taken to address our governance concerns have been limited, even after we sought diverse escalation routes. We continue to evaluate our options, including engagement alternatives.

Our approach to engagement continued

Reactive engagements

Our engagement program is largely based on proactive engagement; however, we also engage on a reactive basis in response to real-world events. These events can include corporate actions, notable events, major developments, scandals, norms breaches and matters arising from the proxy voting process. This can also include when new information becomes uncovered about long-running concerns with regard to controversial corporate practices, products, and services.

When controversies arise, we assess the severity of the issues and consider whether engagement can play a role in improving the situation for the company and investors, as well as the probability of success. When engaging reactively around particularly high-profile and controversial events, we have tended to engage multiple times and with greater intensity than we do for other engagements.

We engage with companies where corporate controversies have arisen and governance and management practices are called into question. In these types of cases, we tend to engage at the C-suite level and often with the CEOs themselves.

This year, we continued our engagement with companies whose business practices have been identified as violating international norms. In particular, we are engaging with companies that have been associated with severe social and environmental controversies to assess their board oversight, due diligence, and remediation efforts. These engagements are important to obtain a more accurate picture of ongoing developments around controversies than that which may be portrayed in the media or by third-party data providers. These engagements may inform investment decisions across all assets, but in particular some of our sustainable funds, where we exclude issuers who have been identified as violating international norms.

Finally, we engage in a number of high-profile voting-led engagements, typically where the company has lost a major voting resolution and we have carried out follow-up engagements, or cases ahead of a high-profile vote.

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Our approach to engagement continued

Case study – reactive

UBS and Credit Suisse | Switzerland | Equity, Bonds

Issue

The Swiss banking giant UBS took over Credit Suisse in an emergency rescue following concerns about risks of a collapse. Credit Suisse had suffered a series of controversies resulting in changes to management and losses. We engaged Credit Suisse concerning its business conduct, risk management and compensation practices in the years leading up to its acquisition.

Action

We met with the Chair of UBS' Board after the takeover was completed. UBS acknowledged that the Credit Suisse integration was a significant, multi-year project and discussed its proposed plans to quickly execute on its priorities. Despite these challenges, the bank indicated that the takeover presented a rare opportunity to establish itself firmly as the world's leading international wealth management business. The bank's key priorities included ensuring that Credit Suisse's wealth management clients were onboarded and migrated onto UBS' systems. The bank noted that integrating client data was a key focus area for the business and the regulatory bodies with jurisdiction over UBS. UBS also clarified its plans to significantly scale back Credit Suisse's investment banking operation which had been the source of many controversies and problems. In particular, it noted its plans to address problematic compensation and conduct-related practices – which included the departure of many staff from that division. The bank noted that the board of the merged entity will be made up of UBS directors. We also discussed its intention to consolidate sustainability practices, reporting and any targets which may differ across the two firms.

Outcome and next steps

We will monitor developments at UBS as it progresses on a highly complicated post-merger integration and review its consolidated sustainability reporting when it is published.

Our six investment stewardship priorities

Climate change engagement and voting - 2023

Climate change engagement and voting - 2023

Introduction

The global energy crisis that characterized 2022, and the need for countries to secure affordable energy supply while balancing decarbonisation needs, has continued into 2023. This has been accompanied by high inflation and elevated interest rates causing a cost-of-living crisis in many parts of the world, as well as posing challenges to national and company-level decarbonisation plans through increased costs of financing capital-intensive renewable energy projects.

Global long-term commitment to the low-carbon transition is clear, with more than 140 countries now having set net zero greenhouse gas emissions targets.[3] However, the current challenges and the fact that most countries with net zero targets have not yet established the range of policies that will enable them to reach their targets, creates the risk of a disorderly transition and volatility.[4] This disconnect between long-term targets and current policy creates uncertainty for investors and companies seeking to benefit from the opportunities or manage the risks that will arise from the shift to a low-carbon world.

Navigating this uncertainty is complicated further by risks associated with an increase in the physical impacts of climate change. NASA's scientists declared the summer of 2023 as the earth's hottest since global records began.[5] Deadly wildfires in Canada and Hawaii followed extreme rainfall and flooding in Italy and Greece. These events damage assets, disrupt supply chains and hinder the ability of companies to do business. The increasing frequency and intensity of such events could have consequential impacts on investments.

In 2023 we engaged with 517 companies on climate change. Engagement plays an important role in managing risks and opportunities in our client portfolios by understanding if companies are considering the latest climate science and likely policy shifts, building agility into their planning, and recognizing uncertainties which could impact the speed of the transition. We also express our views through our voting activity, holding boards accountable through routine votes as well as supporting resolutions that we feel will support companies toward addressing financially material risks and opportunities.

3 https://www.un.org/en/climatechange/net-zero-coalition
4 https://www.mckinsey.com/capabilities/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring
5 https://climate.nasa.gov/news/3282/nasa-announces-summer-2023-hottest-on-record/

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Climate change engagement and voting - 2023 continued

Engaging companies on climate change

517
Number of companies engaged on climate change

41
Number of markets engaged on climate change

27
Number of sectors engaged on climate change

Top markets engaged on climate change

Country	%
United States	26.4%
United Kingdom	12.7%
Japan	11.1%
China	5.7%
Germany	4.4%
India	4.4%
France	3.8%
Australia	2.7%
Switzerland	2.4%
Taiwan	2.4%

Top sectors engaged on climate change

Sectors	%
Capital Goods	15.9%
Materials	14.9%
Utilities	14.2%
Energy	13.3%
Food, Beverage & Tobacco	4.9%
Banks	4.5%
Technology Hardware & Equipment	3.3%
Semiconductors & Semiconductor	3.2%
Commercial & Professional Services	2.9%
Insurance	2.7%

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Climate change engagement and voting - 2023 continued

Our Climate Change Engagement Strategy

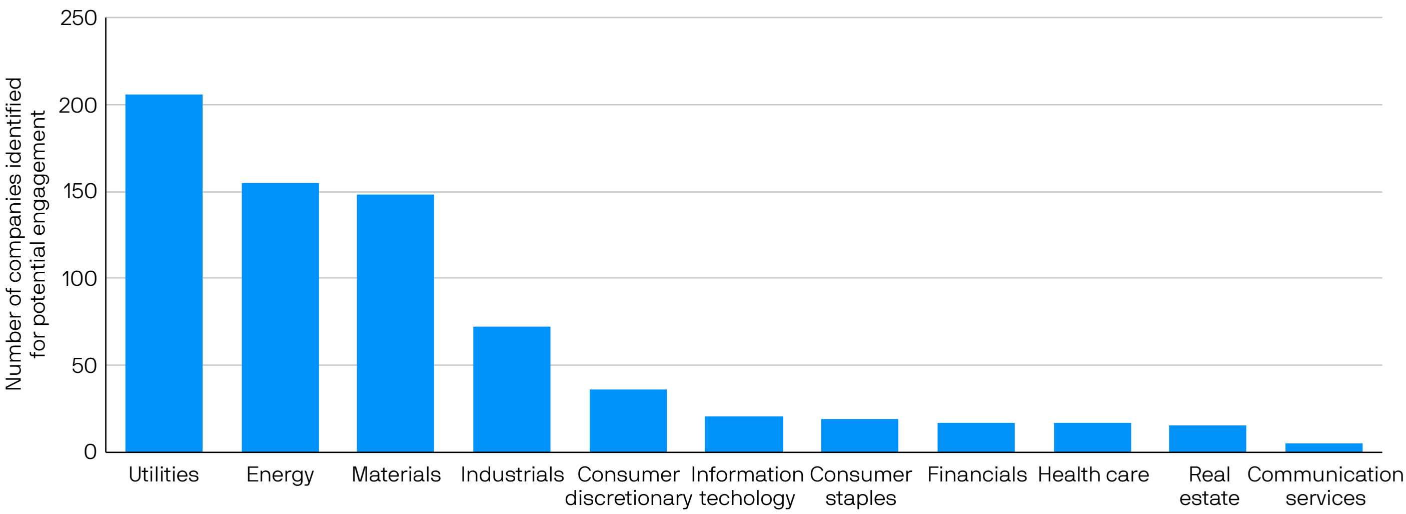
As a global asset manager, JPMAM believes climate change and the transition to a low-carbon economy present significant risks and opportunities to clients' investment portfolios and to the assets that JPMAM manages on their behalf. As part of our business's strategy to help clients manage climate risks and opportunities, JPMAM became a signatory to The Net Zero Asset Managers initiative (NZAMi) in November 2021, in support of the goal to reach net zero greenhouse gas emissions by 2050 or sooner. JPMAM has included all of its AUM in listed equities and corporate bonds, as well as certain direct investments in forestry, in scope for its targets.[6]

JPMAM will measure its progress towards its targets by the proportion of companies in which it invests that have set their own credible net zero targets. By 2030, JPMAM anticipates that the percentage of its AUM held in companies with science-based targets will increase from 20% to 55%. Investee companies that set and act on credible science-based net zero targets can help manage risk and build and sustain shareholder value over time to the benefit of client accounts.[7] For companies where we assess climate poses a material risk, JPMAM engages with investee companies on the credibility of their target setting, as well as broader aspects of their decarbonisation strategy, and climate risk reporting.

Prioritizing companies for climate engagement

In prioritizing companies for climate engagement, we consider indicators like the company's GHG emissions footprint and the size of our holding of the company's securities, to understand where our investments could be most exposed to transition risks. However, we also use sector-specific knowledge and research to inform our assessment of the materiality of these risks, how these might manifest for particular sectors and companies and where our engagement can most effectively be used to ensure drive investment outcomes.[8]

Analysis to identify companies for potential engagement



Source: J.P. Morgan Asset Management. Prioritizing companies without third-party validated medium-term emissions reduction targets, where both JPMAM 2022 holdings and Weighted-Average Carbon Intensity (WACI) are largest

6 https://www.netzeroassetmanagers.org/signatories/j-p-morgan-asset-management/

7 JPMAM's role remains, first and foremost, as a fiduciary to our clients, with a singular focus on acting in their best interests. Our ability to meet our targets is dependent on sustained and consistent government policy, accelerated technological breakthroughs and substantial adaptation in corporate business models. The ability to meet specific targets is contingent on action from a range of parties.

8 For example, the insurance sector does not have significant operational emissions, but physical climate-change impacts will have a significant impact on their property and casualty business.

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Climate change engagement and voting - 2023 continued

We believe that global emissions reductions will ultimately be driven by users of energy and the introduction of policies to limit fossil fuel demand and incentivize the use of lower-carbon alternative sources of energy. Sectors such as utilities, transport and industrials already face transition risks (and opportunities) including carbon taxes on emissions,[9] bans on internal combustion engine vehicles,[10] and mandates around the use of Sustainable Aviation Fuels (SAFs).[11] These measures are likely to ramp up and could increase the cost of emissions-intensive inputs and compress margins. This may further incentivize the electrification of vehicles and the development of scalable technologies to reduce fossil fuel use in aviation and industrial processes.

We have therefore prioritized demand-side companies (users of fossil fuels) for engagement, as we deem engagement more likely to be effective at mitigating climate-related transition risks and ensuring investment returns, focusing on sectors such as transport which currently account for 53% of oil demand[12] (see Lufthansa example below). We engage these companies guided by our Climate Change Engagement Framework, asking for (among other things):

(1) clear disclosure of climate-related risks and opportunities facing the company in line with the TCFD recommendations; and

(2) where necessary to mitigate material risks, that such companies to set their own scientifically credible emissions reductions targets and transition plans, which outline how targets will be met, the investments required and the financial implications for investors.

We acknowledge that for a number of sectors, significant hurdles exist for companies seeking to decarbonize today, ranging from a lack of proven technologies to help reduce emissions to an unhelpful policy environment. Companies should clearly disclose these challenges and the actions being taken to address them, such as partnerships with academic institutions and government entities or investments in research and development.

It is important to also engage energy sector companies around the material risks the sector faces in regard to the low-carbon transition. However, we believe engagement strategies that focus on limiting the supply of fossil fuels will only push supply to producers in other geographies with potentially lower production standards, or cause demand-supply imbalances that will increase price volatility and the need for expensive or unreliable energy imports.[13] Our approach of prioritizing engagement with the demand side is designed to help manage investment risk for those companies. As these companies decarbonize, demand for fossil fuels and global emissions will fall. The focus of our engagements with the energy sector therefore ensures that we can assess the companies most likely to deliver returns in a low-carbon future when fossil fuel demand is significantly lower than it is today. Engagement focuses on demonstrating low-cost operational excellence and emissions reduction, the use of the latest methane emissions measurement and management practices and demonstrating how future changes in demand are being incorporated into scenario risk analysis and forward planning.

[9] https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/scope-eu-emissions-trading-system_en
[10] https://www.gov.uk/government/news/government-takes-historic-step-towards-net-zero-with-end-of-sale-of-new-petrol-and-diesel-cars-by-2030
[11] https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2389
[12] https://iea.blob.core.windows.net/assets/830fe099-5530-48f2-a7c1-11f35d510983/WorldEnergyOutlook2022.pdf
[13] https://www.brookings.edu/articles/reducing-us-oil-demand-not-production-is-the-way-forward-for-the-climate/

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Climate change engagement and voting - 2023 continued

Case study

Lufthansa	Germany	Equity, Bonds

Issue

The aviation sector accounts for over 2% of global energy-related CO_2 emissions, having grown faster in recent decades than road, rail or shipping. Lufthansa is the second largest airline in Europe. In addition to holding the company's equities in our client accounts, we hold the company's bonds in certain high yield strategies. The company has set ambitious decarbonisation targets. In light of growing policy developments in Europe, we sought to gain more clarity on the company's targets its decarbonisation strategy and its ability to deliver it in a cost-effective way.

Action

We engaged the company in 2022 and encouraged having its emissions reduction targets validated by a third party to ensure credibility. The company explained that pre-2030 modernisation will account for the lion's share of the emissions reductions targeted. The company also noted that Sustainable Aviation Fuels (SAFs) will play a key role from 2025, noting that the company had announced an investment of USD 250 million in SAFs until 2024. Proposed EU legislation on SAF usage would mandate the inclusion of at least a 2% blend in airline fuel (increasing to 5% in 2030).

We met the company again in 2023, including one meeting with the board chair. The company raised concerns about the lack of SAF availability to meet the EU's blending quota, which became legally binding in September 2023, as well as the high associated costs. There will also be notable costs associated with changes to the EU Emissions Trading System (ETS) rules which will phase out allowances for the aviation sector by 2026. In response to our questions concerning its engagement with policymakers, the company explained that it had advocated for a border adjustment mechanism in the EU to ensure a level playing field on a global basis. We encouraged the company to be transparent about its advocacy on these issues and that of the trade associations it belongs to.

For us to better understand the materiality of the transition risks the company faces, we also encouraged the company to enhance its climate change risk TCFD reporting which remains relatively high level and does not incorporate some of these more recent financial elements discussed.

Outcome and next steps

Since starting our engagement with the company, it has achieved validation of its decarbonisation targets by the Science Based Target initiative (SBTi), making it the first aviation company in Europe to do so.
We welcome this and will monitor the evolving transition risks the company faces and its ability to mitigate such risks.

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Climate change engagement and voting - 2023 continued

Regional Spotlight: Engaging emerging market debt issuers in the Gulf States

We note that climate risks can increase for companies in certain jurisdictions as governments and societal expectations of companies change over time. Ahead of the COP28 Climate Change Conference taking place in UAE in November 2023, we engaged with a number of companies in the region around their plans to meet new or more ambitious national targets set in countries like Saudi Arabia and the UAE in recent years, after a number of years of inaction on climate. We seek to understand how companies are navigating this evolving context and preparing for measures likely to be cascaded down from the national government.

We have encouraged companies to demonstrate how their plans, at a minimum, align with national targets in order to mitigate any potential transition risks. We also ask companies to provide investors with transparent TCFD-aligned reporting and clearer information concerning their capital allocation plans to support the delivery of the targets they have set so that investors can assess the financial implications.

Case study

Saudi Electricity Company (SECO)	Saudi Arabia	Bonds, Equity

Issue

Saudi Electricity Company (SECO) is the biggest producer of electricity in the Kingdom of Saudi Arabia (KSA) and has a monopoly on the transmission and distribution of electric power in the country. The KSA has pledged to reach net zero emissions by 2060, to have 50% of its electricity generated from renewable energy by 2030 and to completely displace liquid fuel for gas. We engaged with SECO to assess its positioning in order to understand how the company would mitigate transition risks associated with the national transition plans.

Action

We sent a letter to the company in early 2023 and followed up with a meeting. The company explained that it is on track to meet its target to reduce its Scope 1 and 2 GHG emissions by 25% by 2025 (vs. a 2016 baseline). We noted the longer-term KSA national targets and recommended the company also consider setting credible medium- and longer-term emissions reductions. The company acknowledged our feedback and its intention to enable the KSA's national targets.

The company has a directly owned generation capacity of 58 GW, centred on diesel- and gas-powered plants. The company intends to transition towards a cleaner energy mix by fully replacing liquid fuel with gas by 2030. We encouraged the company to set its own renewable energy capacity targets to align with the national vision. SECO is the sole transmission and distribution player in the country, and any new renewables projects must be integrated into the grid through it. The company plans to invest USD 3 billion by 2026 for 25 renewable interconnection projects growing the grid's renewable energy capacity to approximately 19 GW by 2025.

The company explained that it is working on the next issuance of its Sustainability Report. We recommended that the report be aligned with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) to provide investors with the necessary information to assess the climate-related risks the company faces.

Outcome and next steps

The company's 2022 ESG report, published later in 2023, included an early attempt at TCFD-aligned reporting, which we welcomed. In order to continue to understand the transition risks facing the company, we will monitor the company's progress with regard to its own target setting and alignment of plans to support the country's decarbonisation ambition.

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Climate change engagement and voting - 2023 continued

Case study

Abu Dhabi National Energy Company (TAQAUH) | UAE | Bonds

Issue

Ahead of the COP28 Climate Change Conference, the United Arab Emirates (UAE) increased the ambition of its Nationally Determined Contributions (NDCs) as well as its National Energy Strategy, committing to triple renewable power-generation capacity and increasing the share of clean energy in the energy mix to 60%.

In order to understand how Abu Dhabi's energy and utility company TAQAUH would mitigate any potential resulting transition risks, we engaged the company. We sought to understand how the company plans to support the delivery of the UAE's new emissions reduction goals and renewable energy targets including whether it intended to have its own targets validated by the Science Based Target Initiative (SBTI).

Action

We met with the company and questioned whether its stated emissions reduction targets (25% absolute reduction in Scope 1 and 2 emissions by 2030) were sufficient to meet the UAE's more ambitious goals. While the company indicated it was confident it would be able to meet UAE's goals, it was not able to currently commit to having its targets validated by the SBTI. This was due to the company's own assessment that its small amount of coal exposure in Morocco, and its estimation that it would need to achieve a ~40% emissions reduction by 2030, would make it difficult for it to have its targets validated by SBTI.

In terms of its decarbonisation strategy, the company described its plans to first decommission its legacy gas plants, indicating this will largely happen by 2028. The company targets 30% of gross generation capacity coming from renewables by 2030. However, the acquisition of renewable energy developer Masdar meant it had already met the target at the time of engagement. In line with UAE targets anticipated to be applicable to the company, we encouraged the company to update its renewables capacity growth target, noting the national renewable energy ambitions.

The company indicated it plans to invest approximately USD 10 billion by 2030 in transmission and distribution networks to cater for growth in electrification. They also identified a list of high-level climate-related risks and opportunities in the 2022 Sustainability Report. We encouraged the company to provide more information including TCFD aligned scenario analysis to provide investors with a clearer sense of the materiality of the issues.

Outcome

In September 2023, TAQAUH revised its growth targets, aiming for 150 GW of gross power generation by 2030, with around 65% of its generation capacity coming from renewable power sources. The announcements included plans to invest approx. USD 20 billion until 2030, towards power and water capacity expansion and transmission and distribution networks.

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Climate change engagement and voting - 2023 continued

Engaging with companies around their climate change policy engagement

Almost half of the world's 2000 largest companies[14] have set some form of net zero emissions reduction targets. Strategies and efforts to meet these targets often come with increasing marginal cost of abatement. Many companies assess these costs as important investments in ensuring their longer-term strategic positioning for the low-carbon transition, i.e. reducing the impact of future policies and regulations aimed at internalizing carbon costs. However, in order for companies to improve the shorter- to medium-term profitability of their low-carbon investments, it is important that companies engage with governments in the regions where they operate, to ensure that the regulatory environment is supportive of their strategy and the investments they will be required to make to meet their goals and, often, national climate targets.

However, in certain industries, we have identified potential material risks where certain companies undertake lobbying activities, either directly or through trade associations, that significantly depart from the company's stated goals. Where companies lobby adversely to their stated positions, they expose themselves to increased risks, such as brand and reputation, and external scrutiny and fines by regulators. For example, the California Public Utilities Commission imposed a fine on a utility company for using customer money (included in their utility rates) to fund lobbying designed to block clean energy legislation.[15] In light of this, we engage with companies to ensure the transparent disclosure of climate-related lobbying activities and companies' policy positions. We acknowledge that companies are members of trade associations for a variety of reasons and believe it is important that companies are transparent about how and where their own policy positions are different to those of the trade associations to which they belong, noting that these will not always be the same.

Examples of engagements and voting on climate change lobbying

Company	Nature of lobbying related risks and actions taken
Coterra Energy	We engaged with the U.S. oil and gas producer ahead of the AGM, where it faced a climate-related shareholder proposal asking it to disclose a report on how its lobbying activities, and those of the trade associations they belong to, align with the goal of the Paris Agreement. The company noted that it already disclosed lobbying and political activities, as well as its trade associations and the amounts those trade associations spend on lobbying. Coterra does not disclose a discussion of alignment between themselves and its trade associations on lobbying. We encourage such transparency, especially where we conclude that climate change is a material financial factor, as is the case for Coterra Energy. The lack of such disclosure could expose the company to reputational and legal risks. The company noted that it is willing to disagree with its trade positions and advocate for different positions and cited examples. We supported the shareholder resolution which received 37% support.
Paccar	The vehicle manufacturer has committed to science-based targets to limit global warming to well below 2°C. The company faced a climate-related shareholder proposal at its 2023 AGM, asking it to disclose a report on how its lobbying aligns with the company's stated targets, as well as being transparent about potential differences between company targets and those of the trade associations it belongs to. Our analysis found that the company disclosed in its CDP (formerly the Carbon Disclosure Project) report that its major trade associations are aligned with its current policy positions. The report also stated that, currently, the company's engagement activities are not in line with the Paris Agreement, but in the next two years it will make a commitment to do so. Meanwhile, the Truck and Engine Manufacturers Association (EMA) has been in the news for opposing the Advanced Clean Truck (ACT) rule and other emissions-related regulations and its commitment to the Paris Agreement is not clear. Noting the likelihood of misalignment with the company's own stated policy positions, we supported the proposal which received 47% support.

[14] https://zerotracker.net/insights/net-zero-targets-among-worlds-largest-companies-double-but-credibility-gaps-undermine-progress

[15] For example, see the recent fine related to climate lobbying faced by SoCalGas, a subsidiary of Sempra: https://www.latimes.com/business/story/2022-02-04/socalgas-faces-10-million-fine-for-fighting-climate-action

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Climate change engagement and voting - 2023 continued

Engaging with sovereign issuers about climate risk

As investors in sovereign debt, we believe that integrating climate change risk indicators (as well as other ESG factors) helps promote better investment outcomes. Sovereigns with better ESG performance generally trade at lower spreads in developed and emerging markets.[16] Sovereign disclosure of climate change risk data has improved in recent years, and we continue to engage with issuers to advocate for better disclosure. We are also increasingly engaging with issuers of 'green' sovereign debt about both the monitoring and verification of underlying performance metrics and the wider national decarbonisation plans to ensure issuances are part of a credible strategy (see Indonesia case study).

Case study

The Republic of Indonesia | Indonesia | Sovereign Bonds

Issue

Many sovereign economies have set Nationally Determined Contributions (NDCs) which, in order to achieve them, will require significant financing for green infrastructure. A new and increasing trend in sovereign emerging markets is the restructuring of debt, where proceeds are used to fulfil climate commitments, such as via sustainability-linked bonds (SLB). Indonesia was the first country to issue a sovereign green sukuk, Islamic certificates (similar to bonds) that are used for financing environmental-related projects and designed to comply with Islamic law.

Action

We met with the representatives from the Ministry of Finance and the Ministry of Environment and Forestry from Indonesia. The purpose of the engagement was to understand Indonesia's climate-related plans and its intentions for financing them. We explained the need for JPMAM, as investors, to assess sovereign issuers' climate risk mitigation performance as part of assessing more broadly the integrity of sustainability-linked instruments, and we referenced an environmental assessment of countries conducted by Yale University. The representatives from the ministries highlighted that the assessment did not capture Indonesia's enhanced Nationally Determined Contributions (NDC) targets announced in September 2022. The representatives also expected that the planned pollution tax, and the new energy-efficient infrastructure projects, will improve Indonesia's air quality going forward.

We also sought an update on Indonesia's plan in the Just Energy Transition Partnership (JETP), a climate financing program for developing countries backed by the G7 advanced nations. Noticeably, Indonesia has recently released the final draft of its Comprehensive Investment and Policy Plan (CIPP) to support the USD 20 billion climate financing pledge made by the G7 in November 2022. We welcomed Indonesia's medium-term targets of 44% renewable energy generation by 2030, total on-grid power sector emissions peak by 2030 and the 2050 net zero emission for the power sector. That said, only the on-grid power sector is in the scope of these targets, which do not cover the off-grid captive coal-fired power plants built by industrial users. We also asked about the long-term financing plan to meet the total estimated investment cost of USD 97 billion, which is higher than the USD 20 billion initial commitment of the CIPP.

Outcome and next steps

We appreciate the dialogue with the Indonesian government's representatives with respect to its green bond financing programs, an important step for us to understand the sovereign sukuk and its use of proceeds. To gain further insight into how such investments are used to forward the country's medium-term targets, we will monitor the situation and engage, as appropriate, with the sovereign in 2024.

[16] https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/portfolio-insights/fixed%20income-sovereigns-and-esg-full-whitepaper.pdf

Climate change engagement and voting - 2023 continued

Engaging around Climate Opportunities

The transition to a low-carbon economy presents an unprecedented opportunity for companies that are responding to the challenges of climate change, investing in innovative solutions and benefiting from shifts in market and consumer preferences. Energy storage, grid resilience, low-carbon transportation and energy efficiency enhancements that enable the transition to create additional investment opportunities. Companies that develop best-in-class solutions in these areas will be well positioned for growth due to the increasing urgency around mitigating climate change; growing policy and regulatory support; and competitive advantages due to increasing customer preferences for energy efficiency and low-carbon solutions. Given the scale of the opportunity for companies within this space, it is important for us to understand whether a company's proposed solutions are likely to effectively deliver their promised outcomes. As disclosure standards are lacking for many of these emerging technologies and are uneven across jurisdictions, we seek to understand how products and services deliver their promised climate outcomes and understand if companies are evidencing their claims.

Avoided emissions

Avoided emissions refer to the emissions avoided through the introduction of a solution (e.g. products, services, technology, projects).[17] This metric seeks to measure the decarbonizing impact of the products and services sold by a company, and so quantifies the emission reductions for the customer purchasing the products/service. While GHG accounting across Scopes 1, 2 and 3 measures a company's historical emissions, avoided emissions instead measure the hypothetical future emission reduction in society due to the introduction of a solution, compared to a reference scenario. Avoided emissions are complementary, but separate, from traditional GHG accounting.

There has been growing interest in the concept of avoided emissions as a way to measure product impact and identify companies which are enabling the low-carbon transition. Companies in a range of sectors have started to report their avoided emissions. If a company is claiming that a core part of its product/service offers a meaningful solution to climate change, we encourage the substantiation of this claim; depending on the facts and circumstances, avoided emissions may be an appropriate way of doing so. Evidencing these claims may allow companies to gain a competitive advantage with customers seeking emission reductions, as well as help avoid accusations of greenwashing if avoided emissions are calculated in a robust and transparent manner. In 2023, the World Business Council for Sustainable Development (WBCSD) published a 'Guidance on Avoided Emissions', which provides a set of requirements for companies to consider when assessing avoided emissions, but the industry has not yet coalesced around a single methodology. While standards for measuring avoided emissions are still at a nascent stage, we are engaging with companies that are reporting this metric to encourage transparency of methodologies, including disclosure of reference scenarios and separate reporting of avoided emissions from GHG footprints.

[17] Guidance on avoided emissions, WBCSD. https://www.wbcsd.org/Imperatives/Climate-Action/Resources/Guidance-on-Avoided-Emissions

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Climate change engagement and voting - 2023 continued

Case study

Infineon | Germany | Equities, Bonds

Issue

Semiconductors are used in green applications across renewable energy technologies and electric vehicles. Advancements in semiconductors are also driving improved energy efficiency across many applications. Some semiconductor companies are beginning to seek ways to measure this positive impact but there is a lack of industry standardisation. Meanwhile, semiconductor manufacturing and product use remain emissions-intensive and are set to rise as production increases globally.

Infineon, a German semiconductor company, offers solutions across green energy, clean mobility and the Internet of Things. The company advertises 'CO_2 savings' of 100m tons CO_2e from products to demonstrate positive product impact and presents this as a 1:33 ratio to the company's CO_2 footprint. Infineon has not set science-based targets covering its own material emissions.

Action

We met with the Global Head of Sustainability to encourage Infineon to increase transparency on the calculation of the company's avoided emissions and decarbonisation strategy.

Infineon reports on CO_2 saved through product use and breaks this down by end use (industrial drives, automotive electronics, wind and photovoltaics), advertising the emissions savings enabled by Infineon solutions. We appreciate that Infineon is measuring emission reductions and provides explanatory notes. We encouraged further transparency on the assumptions underpinning these calculations and consideration of the WBCSD guidance on calculating avoided emissions. We believe such transparency would help evidence Infineon's claims against greenwashing risk, allow investors to better understand this calculation, and potentially move towards greater industry comparability.

We also discussed Infineon's decarbonisation strategy and encouraged the company to establish its own science-based targets verified by a third party. We believe science-based targets will continue to gain importance to customers seeking to decarbonize their own supply chains and is also important to demonstrate the credibility of Infineon's claims to investors.

Outcome

In December 2023, Infineon committed to set third-party verified science-based targets covering material emissions, which strengthens its proposition to customers seeking sustainable solutions and to investors evaluating the financial risks and opportunities of investing in the company. Infineon provided more detail on how CO_2 savings are attributed, accounting for market share and the value of the semiconductor in the equipment.

Climate change engagement and voting - 2023 continued

Climate Change Voting

Considering climate change in routine votes

Our voting policies are designed to promote the best long-term interests of our client accounts. As such, we may consider climate risk when voting in director elections, executive compensation or other management resolutions, where we are not satisfied with the steps taken by the company to address the material risks it faces because of climate change, the quality of the engagement discussion or its progress.

Effective April 1, 2024, we added a new section to our Global Proxy-Voting Guidelines, addressing our voting policies related to the management of financially material climate risks. This reflects our conviction that climate change could pose a material risk to our clients' accounts, as well as our experience evaluating climate risk as part of voting proxies in recent years. The additions make clear that we encourage disclosures of minimum climate-related indicators by companies in sectors particularly exposed to financially material climate risks. JPMAM may vote against the directors of relevant committees of companies where these are not available or meaningful.

These criteria include:

- We encourage disclosures aligned with the reporting framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) addressing all the four pillars of the TCFD – (i) governance, (ii) strategy, (iii) risk management and (iv) metrics and targets related to any performance indicators used to manage such risks.
- For industries where we believe climate change risks pose material financial risks, we encourage comprehensive TCFD reporting (or equivalent) including scenario analysis to help us understand the resilience of a company's strategy.
- We encourage disclosures of Scope 1 and 2 GHG emission targets, where decarbonization of a company's operations and purchased energy has been identified by the company as a key part of the company's strategy to manage climate change risks.
- We note many companies have chosen to set long-term net zero targets. In order for us to evaluate the long-term credibility of transition plans, where such long-term targets are set, we encourage the company to disclose the scope of emissions included in such targets. We recognize the many challenges associated with reporting Scope 3 emissions. While we understand the limitations associated with reporting Scope 3 emissions, we would expect companies that have included such emissions in their net zero targets to disclose their Scope 3 emissions. We also expect disclosures of interim emission reduction targets where the company has set long-term net zero targets.
- We encourage disclosure on past performance against emission reduction goals, and forward-looking strategy to achieve emission reduction goals, including use of offsets and corporate transactions.

We believe that providing meaningful disclosure is important to help investors evaluate whether companies are managing material climate risks that could impact returns over time. For more information see our Global Proxy Voting Guidelines here.

Climate change engagement and voting - 2023 continued

Case study – Routine Climate Votes

Kinder Morgan | U.S. | Equities

Issue

Kinder Morgan (KMI), a U.S. oil and gas company, is unusual among its peers in its lack of Scope 1 and 2 emissions reduction targets. Targets to reduce Scope 1 and 2 emissions, which partially concern energy use, would demonstrate the company is seeking to lower long-term energy costs and mitigate transition risks. The concern that KMI was therefore not appropriately managing climate transition risks led to us voting against the re-election of the Chair of the Board's Environmental, Health, and Safety Committee. We wanted to understand how the company is managing financially material climate risks, and what opportunities it sees to reduce those emissions.

Action

We engaged with KMI in August and October, which followed the publication of the company's updated sustainability report in July and conveyed our rationale for the vote against the director. The engagement helped us to understand that the company was more actively pursuing emissions reductions than it first appeared. While KMI has not officially set a target, the company expects to reduce its Scopes 1 and 2 emissions intensity by 30%.

KMI explained the process of completing the Scope 1 and 2 emissions inventory; now that it has the data, it indicated that its focus was on economic ways to reduce emissions. Over 70% of KMI's Scope 1 emissions are from compressor stations. There is no good technology that they can add to existing compressor stations to reduce or capture those emissions; currently, it would have to replace a gas-fired engine with an electric/hybrid engine. If they did that for its entire compressor station base, the total replacement cost would be USD 20 billion. In addition to significant costs, the company explained that the emission reductions are not guaranteed. Using an electrified engine would lower Scope 1 emissions but increase Scope 2 emissions significantly, as the company operates in areas where the local grid relies on emission-intensive coal generation.

For methane, it is investing in improved monitoring to increase the frequency of leak detection from annually to quarterly. The company indicated that the improved monitoring would go a long way to reducing methane emissions, but it will take until 2028 before more frequent monitoring is fully implemented.

Outcome

We will continue to encourage the company to provide more transparency concerning its emissions reduction efforts and any targets it establishes.

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Climate change engagement and voting - 2023 continued

Climate-related shareholder resolutions

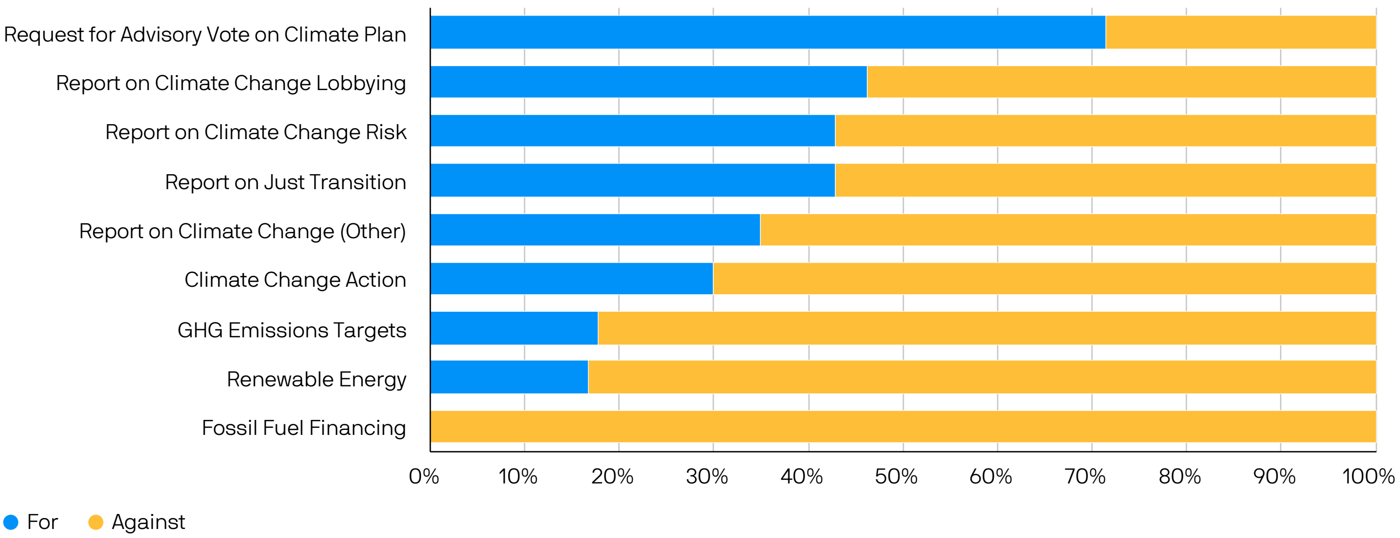
Voting on climate change shareholder proposals is another important way of expressing our views, where we think management could better manage climate-related financial risk. In 2023, we saw an increase in the overall number of resolutions being filed and an increase in overly prescriptive shareholder proposals, dictating specific actions by the company and creating the potential for unintended consequences for long-term shareholders. We noted that shareholder proposals in previous years focused on enhanced reporting, such as TCFD reporting, that we tended to support as we believed such reporting provided meaningful information to shareholders to evaluate risks and opportunities at a particular company. As a result, in 2023, we voted in favour of 39 climate-related shareholder resolutions, reflecting a decrease in overall % support for these resolutions.

Our starting consideration is whether the resolution is focused on an issue that is material to the best economic interest of our clients. In many cases, successfully managing climate change is important for the future success of the company and resolutions around it merit our in-depth attention. We consider most helpful, resolutions which are worded in a way that gives the company the ability to select the strategy it considers will most effectively achieve the resolution's intended outcome. Increasingly, we see climate-related resolutions which are overly prescriptive, and/or not tailored to the company's specific risks.

For example, we continue to see similar resolutions asking energy companies to set absolute Scope 3 emissions targets or to voluntarily cease oil and gas production, which would lead to unintended consequences. As outlined in our engagement prioritisation strategy earlier in this chapter, certain of these resolutions do not reflect a complete understanding of the energy system. As a result, JPMAM supported more climate-related shareholder proposals at companies that are users of fossil fuels (11% higher) than for those at energy sector companies.

We tend to support shareholder resolutions on climate-risk disclosure, requests for reporting on climate lobbying as well as on the potential social impacts of the transition (often categorized as 'Just Transition') if we believe reporting is important for investors to evaluate reputational and other financial risks to the company (see UPS example). Where we believe that climate change poses financially material implications to the business, we support shareholder resolutions which call for greater details from companies that have set their own long term aspirational goals.

JPMAM voting on climate-related proposals in 2023



Source: J.P. Morgan Asset Management.

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Climate change engagement and voting - 2023 continued

Case study – Climate-related Shareholder Resolution

UPS	U.S.	Equities

Issue

American package and document delivery company UPS received a shareholder resolution asking for it to prepare a report addressing the impact of its climate change strategy on relevant stakeholders, including but not limited to its employees, workers in its supply chain, and communities in which it operates, consistent with the 'Just Transition' guidelines of the International Labor Organization and indicators of the World Benchmarking Association.

Action

UPS has set its own targets to be carbon neutral across Scopes 1, 2, and 3 by 2050. Noting that the company's decarbonisation targets will lead to substantial changes in the business and supply chain, we assessed it to be important for the company to consider where there could be risks of disruptions to the unionized workforce and how these would be addressed in order to avoid reputational risks from distressed employees, and potential falls in productivity. We voted 'for' the proposal.

Outcome

The proposal received 24% support.

Our six investment stewardship priorities

Natural capital and ecosystems engagement – 2023

Natural capital and ecosystems engagement – 2023

Natural capital refers to nature-based assets, including soil, air, water and living things. With over half of global GDP dependent on nature, and the decline of nearly 40% of the value of natural capital per head since the early 1990s, engaging with our investee companies on natural capital and ecosystems is a critical element of our investment due diligence.[18]

Many businesses depend on these natural capital and nature-based assets. Yet, physical risks, such as the degradation of nature or loss of biodiversity, are not effectively priced into company valuations.[19] We view nature-related risks caused by the overconsumption of natural resources, environmental degradation and pollution, as a systemic risk for business and the financial outlook of companies in the long term. We urge companies to assess their material exposure to nature, to identify actions for risk mitigation and to explore business opportunities.

Momentum is building on the recognition of the financial risk of nature loss in all corners. The United Nations Biodiversity Conference (COP15) held in December 2022, has widely been referred to as the 'Paris moment for nature', and the adoption of the Kunming-Montreal Global Biodiversity Framework (GBF) includes progressive and comprehensive targets for governments, companies and financial institutions alike. In September 2023, the finalized version of the Taskforce on Nature-related Financial Disclosures (TNFD) was released. The objective of the TNFD is to help financial institutions, and other companies, assess and report their nature-related issues in a standardized approach. The tool can be of use by investors for their engagement with investee companies on the topic of natural capital, which is both complex and wide-ranging.

In our first full year of engagement, having formalized our approach to this pillar at the end of 2022, we sought to deepen internal research and engagement on two nature-related sub-themes: water scarcity for water utilities and commercial users of water, and in the latter part of this year, and a core focus for 2024, plastic waste abatement.

18 "Biodiversity, Natural Capital and the Economy: A Policy Guide for Finance, Economic and Environment Ministers", OECD Environment Policy Papers, No. 26, OECD Publishing, Paris (2021). See here: https://doi.org/10.1787/1a1ae114-en

19 OECD, Watered down? Investigating the financial materiality of water-related risks in the financial system, September 2023.

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Natural capital and ecosystems engagement – 2023 continued

Engaging with companies on natural capital

231
Number of companies engaged on natural capital

36
Number of markets engaged on natural capital

27
Number of sectors engaged on natural capital

Top markets engaged on natural capital

Country	%
United States	27.8%
United Kingdom	14.6%
Japan	8.7%
China	6.6%
India	4.2%
France	3.8%
Australia	3.1%
Hong Kong	2.4%
Netherlands	2.4%
Germany	2.1%

Top sectors engaged on natural capital

Sector	%
Materials	20.1%
Food, Beverage & Tobacco	13.5%
Utilities	11.1%
Capital Goods	10.8%
Energy	6.6%
Consumer Discretionary	4.2%
Consumer Durables & Apparel	4.2%
Technology Hardware & Equipment	4.2%
Commercial & Professional Services	3.5%
Semiconductors & Semiconductor	2.8%

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Natural capital and ecosystems engagement – 2023 continued

Water stewardship and risks

In recent years, we have seen more stories about physical water shortages hurting the profitability of companies and economies of countries. For example, low water levels in the Rhine have weighed on transportation and distribution networks for goods and services, impacting economic growth in Germany by up to half a percentage point. In Taiwan, government policy to restrict water supply amid diminishing rainfall and typhoons has led to worldwide chip shortages.[20] These physical water risks could be reduced or avoided through preventative investment.

The cost of inaction outstrips the upfront investment required by companies to address water risks by five times. Or, according to the CDP, equivalent to a combined loss of USD 301 billion for all reporting companies, compared with a total cost of addressing these risks of USD 55 billion.[21] Companies which have assessed their production and supply chain risks and are putting in place strategies to mitigate these risks benefit from improved water efficiency, reduced operational risk, as well as potentially a lower cost of capital and exposure to water price fluctuations. In the long term, we encourage companies to seek opportunities to replenish more water than they consume, for instance through nature-based solutions, or to design products and services which have a lower water footprint. According to the latest data, at least half of the world's population currently live under high water-stressed conditions for at least one month a year.[22] It is important for companies, and their investors, to understand their underlying water risks.

This year, we focused our efforts to engage with supply-side water utilities and demand-side companies in sectors ranging from food and beverage and apparel. We assessed that these were sectors where the issue was most financially material. Many companies have been reporting on water consumption and have efficiency targets. Our engagement focuses on understanding companies' assessments of their long-term risks from water scarcity. We encourage transparent disclosure of the methodology and scope of activities to address their water risks. We provide a case study from the UK water utility sector, which highlights the acute challenge of balancing water scarcity and increasing demand, alongside financing and affordability risks. In 2024, we aim to extend our engagement with companies on the demand side of water.

Plastic waste abatement

Another theme, which is increasingly becoming an investment risk for portfolio companies, is the unabated use and waste of single-use plastic. Not only is the disposal of plastic in a take-make-waste economy leading to a loss of 95% of the value of finite resources – worth up to USD 120 billion – but increasing regulatory and reputational scrutiny have significant financial risks for the largest producers of single-use plastic.[23] Studies suggest that in a business-as-usual scenario, companies could face a global cost of up to USD 100 billion if regulations pass through the full cost of plastic waste management to industry through extended producer responsibility schemes by 2040.[24] This legislation has already been implemented across nearly 60 countries.[25] The UN is also set to begin negotiations for a global plastics treaty, following the endorsement of a historic plastics pollution resolution from members in March 2022. Navigating the cost, supply and regulatory impact of single-use plastic has profound implications for market access for these companies.

In the latter part of 2023, and with the bulk of engagements to take place in 2024, we are engaging with consumer goods companies on their exposure to plastic, to evaluate the investment risks, and encourage such company's risk mitigation actions. Many companies already report their plastic footprint and have set measurable reduction, re-use and recycling targets. Some of these target settings refer to the Ellen MacArthur Foundation's New Plastics Economy Global Commitment, launched jointly with the UN Environment Program in 2018. We seek to evaluate the credibility of existing company targets and identify those companies which are most exposed to plastic risks, and those which are better positioned to take advantage of the transition from single-use to reusable models – worth approximately USD 10 billion.[26]

20 https://earth.org/the-taiwan-water-shortage-dilemma/
21 CDP, https://www.cdp.net/en/articles/media/cost-of-water-risks-to-business-five-times-higher-than-cost-of-taking-action
22 WRI: 25 Countries, Housing One-quarter of the Population, Face Extremely High Water Stress, 16 Aug 2023
23 World Economic Forum, Ellen MacArthur Foundation and McKinsey & Company, The New Plastics Economy: Rethinking the future of plastics (2016).
24 https://www.pewtrusts.org/en/research-and-analysis/articles/2020/07/23/breaking-the-plastic-wave-top-findings
25 PRI, The Plastics Landscape: Regulations, Policies and Influencers, https://www.unpri.org/download?ac=9630&secureweb=WINWORD
26 World Economic Forum, Ellen MacArthur Foundation and McKinsey & Company, The New Plastics Economy: Rethinking the future of plastics (2016).

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Natural capital and ecosystems engagement – 2023 continued

Case study – UK water utilities sector

Pollution, water scarcity and financial resilience | Equities, Bonds

Issue

Water utility companies in the UK provide around 14 billion litres of water a day for public water supply. However, with droughts, flooding and the impacts of climate change and population demographics putting pressure on long-term water security, it is estimated there will be a shortfall of around 4 billion litres of water per day if no action is taken between 2025 and 2050.[27] These risks are further compounded by poor management execution, as the sector has struggled to meet performance targets and license conditions resulting in unabated pollution and increasing fines. From 2021 to 2022, UK water utilities were required to return nearly GBP 120 million to customers by the UK water services regulatory authority regulator Ofwat, due to missed operational targets (although we note this is only around 1% of total sector revenue).[28]

Economic slowdown and inflation are further complicating the situation. In 2023, the UK's largest water utility company, Thames Water, revealed it was struggling to service its nearly GBP 14 billion of debt. As investors, this raised concerns about the long-term business and financial outlook of UK water utility companies. With financing needs expected to increase substantially over the next 25 years to meet growing supply/demand challenges, we remain concerned that companies continue to retain their social license to operate through sustainable, responsible and long-term performance.

Action

Through meetings, including investor meetings through the UK Investor Forum, we had the opportunity to meet with the three publicly listed water utilities, Severn Trent, United Utilities and Pennon Group, as well as the largest privately owned utility, Thames Water, which is a major issuer of corporate bonds. One of the most widely reported issues has been the leakage of raw sewage into the environment through storm overflows. We noted the apology issued by Water UK, the sector's trade association, earlier this year, but urged companies to prioritize concrete actions to improve operational performance. We discussed with the listed companies the speed at which monitors have been rolled out to assess the operation of storm overflow valves but acknowledged that data calibration will take time to improve accuracy. We encourage companies to be prudent in deploying technology that is effective and accurate and report transparently on progress to customers and investors.

We also discussed the companies' long-term resilience to climate change. Some water utilities have already experienced these risks first-hand. For example, Pennon, owner of South-West Water, Bournemouth and Bristol Water, has boosted reservoir storage by 37% in response to drought in its region.[29] In line with recent government legislation, water companies are committing to ambitious long-term targets, such as halving leakage, exploring new water supply options like reservoir storage or desalination, as well as managing household water consumption. For instance, the strong operational performance of Severn Trent, operating in Central England, has accelerated a GBP 95 million investment to open what has been reported as the world's first carbon neutral wastewater treatment plant.[30]

27 Policy paper, Plan for Water: our integrated plan for delivering clean and plentiful water, April 2023, DEFRA. Link here: https://www.gov.uk/government/publications/plan-for-water-our-integrated-plan-for-delivering-clean-and-plentiful-water

28 PN 39/22 Worst performing water and wastewater companies called out in latest Ofwat assessments, Ofwat December 2022. Link: https://www.ofwat.gov.uk/pn-39-22-worst-performing-water-and-wastewater-companies-called-out-in-latest-ofwat-assessments/#:~:text=Northumbrian%20Water%2C%20Southern%20Water%2C%20South,to%20customers%20in%20November%202022

29 Pennon Group, Annual Report 2023. https://annualreport.pennon-group.co.uk/index.html

30 Severn Trent, May 2023. See here: https://www.stwater.co.uk/news/news-releases/world-first--net-zero-hub--to-be-created-in-staffordshire--/

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Natural capital and ecosystems engagement – 2023 continued

Action continued

These targets provide greater visibility to investors on company levers to address long-term systemic water risk. Companies also shared positive examples of deploying nature-based solutions, such as low-cost and low-carbon alternatives to grey infrastructure. Solutions, such as working with local farmers to reduce agricultural run-off and sustainable drainage, offer effective ways to strengthen business resiliency. We encourage consistent reporting from companies using nature-based solutions and are supportive of the publication from United Utilities seeking to standardize the framework for deploying, measuring and monitoring nature-based solutions.[31]

Yet with financing needs over the next 25 years predicted to grow materially, the balance between investment and affordability will be a key risk. According to the latest business plan information for the UK water companies, it is estimated the additional enhancement investment needed in the period 2025-2050 will be around GBP 272 billion – equivalent to nearly three times the industry's regulatory capital value of GBP 94 billion.[32] This is a step change likely to be even greater than the spending required since the privatisation of the industry in the 1990s. We expect this much greater level of investment will require quite significant customer bill increases of a potentially similar magnitude or pace. We recommend a strong and coordinated response from the sector, working together with the government and the regulator on these increases. We believe clear and consistent messaging on the need for investment, together with a clear plan for customer affordability and consideration for a more progressive pricing tariff, will avoid leaving a vacuum for the media, which may leave executives potentially exposed. We also caution that increasing bills should not replace critical levers for responsible, well-run and efficient companies, including robust capital discipline.

Outcome

As long-term investors in this sector, we recognize there remain structural headwinds for UK water companies, which may be hard to resolve for a single company alone. The role of the regulator to ensure a consistent, predictable, and effective regulatory regime within a stable policy environment has a significant impact on attracting the capital investment required. We have closely followed the work of the UK Investor Forum, which has escalated investor concerns to UK policymakers to improve visibility on the long-term risks and assurance of the opportunities in the sector. We strongly recommend improved connectivity between the regulator, companies and government, which we believe is pivotal to attract the level of capital required to meet future investment, secure companies' social license to operate and improve long-term company profitability.

[31] https://www.unitedutilities.com/globalassets/documents/pdf/pr24---unlocking-nature-based-solutions-to-deliver-greater-value.pdf

[32] Based on the updated business plan information, Moody's estimates water companies in England and Wales will spend around GBP 272 billion (in financial year average 2022/23 prices, the price base assumed in companies' plans) in the period 2025-50, to enhance their services. This is equivalent to almost three times the industry's RCV of GBP 94 billion at March 2023. See here: Regulated Water Utilities – UK: Enhancement expenditure set to rise materially over the next 25 years, Moody's Investor Services.

Our six investment stewardship priorities

Human capital management engagement and voting – 2023

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Human capital management engagement and voting – 2023

Effective management of human capital is critical to an engaged and productive workforce and, ultimately, failure to manage human capital risks and opportunities can affect a company's relationship with its workforce and other stakeholders which may, in turn, impact shareholder value. Many companies have openly discussed how their businesses have been impacted by the loss of key personnel to competitors, and by labor unionization, among other issues. The competitive war for talent and the need to address employees' concerns, shines a spotlight on the need to prioritize this area.

To effectively manage the workforce and attract and retain employees, companies need to clearly demonstrate their commitment to their workforce.

This begins with compensation and benefits but also includes the company's approach to diversity, equity and inclusion, labor practices and decent work.

Human capital management issues are particularly pertinent in certain sectors and geographies and this section demonstrates how we have targeted engagements in key sectors to address these issues where they are particularly material. In 2023, we engaged with 511 companies on human capital-related topics.

Engaging with companies on human capital management

511
Number of companies engaged on human capital management

40
Number of markets engaged on human capital management

26
Number of sectors engaged on human capital management

Top markets engaged on Human capital management

Country	%
United States	20.9%
United Kingdom	12.7%
China	11.5%
Japan	11.1%
India	5.4%
South Korea	4.7%
Hong Kong	3.5%
Germany	3.3%
Australia	2.6%
Netherlands	2.5%

Top sectors engaged on Human capital management

Sector	%
Capital Goods	14.1%
Materials	9.8%
Food, Beverage & Tobacco	6.8%
Technology Hardware & Equipment	6.0%
Consumer Durables & Apparel	5.8%
Consumer Discretionary	5.5%
Semiconductors & Semiconductor	4.6%
Banks	4.3%
Utilities	4.3%
Consumer Services	4.0%

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Human capital management engagement and voting – 2023 continued

Diversity, equity and inclusion

At JPMAM, we believe an engaged and diverse workforce base is integral to a company's success, enabling them to innovate, and more effectively respond to a broad array of customer interests and needs across diverse communities in which the company operates, thus delivering stronger shareholder returns.

In our 2022 report, we introduced our diversity engagement framework to assist us in engaging with companies on topics related to human capital management, specifically diversity, equity and inclusion. In 2023, we have seen positive engagement progress, which we believe is important to long-term shareholder value (see Ryohin Keikaku case study). We conducted diversity-related engagements with approximately 238 companies globally to understand their approach to diversity, equity, and inclusion, across the general workforce, senior management, and the board.

Case study

Ryohin Keikaku | Japan | Equities

Issue

The Japanese major consumer discretionary company, which owns Muji branded stores, appointed the first female director to the board in 2021. Although the company has a gender-diverse customer base, female representation at executive and senior management levels remained disproportionately low compared with the number of female workers who form the majority of the wider workforce. The Chair has struggled to drive inventory management and to build an inclusive culture during his long-standing presidency. As a result, the company has experienced difficulty in recruiting and retaining mid-career employees including merchandising and IT professionals who are needed to drive the company's supply chain reforms, and ultimately the company's ability to deliver long-term value.

Action

Since 2020, we have conveyed our concerns to the company with regard to the need for board refreshment and have continued to vote against the election of the Chair at the annual general meetings (AGMs). Together with the new president's management reforms in accelerating board effectiveness and enhancing the talent pipeline, we encouraged the company to appoint a majority of outside directors to ensure greater independence and to create more opportunities for underrepresented groups by fostering an inclusive culture for employees. The company acknowledged that the rapid increase in mid-career hiring has led to culture challenges and conflicts, which has lowered productivity. The company has since initiated multiple efforts on diversity, equity and inclusion (DEI) through firmwide round-table discussions and workshops under the leadership of the newly established Diversity Equity & Inclusion Committee. This year, our engagement continued to focus on the disclosure of enhanced employee-related data, including the gender pay gap, toprovide greater transparency and annual progress reporting.

Outcome

At the 2022 AGM, three female outside directors were appointed, which increased female representation on the board from 11% to 37.5%. We also noted one of the three directors led successful DEI initiatives at an insurance company, including providing advice on driving workplace inclusion and a culture of openness.

The company introduced the numerical goal for workforce diversity for 2030, with a 50% ratio of female managers at the store manager level for the first time, and it also plans to disclose its age, gender, and race ratios by 2030 in the next integrated report. We will continue to encourage improvements to the company's disclosures on DEI and further engage to achieve the inclusion of ESG metrics covering DEI within the company's executive compensation plan, as part of aligning the plan with material outcomes that are designed to increase long-term shareholder value.

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Human capital management engagement and voting – 2023 continued

Equity reflects the promotion of fairness, while inclusion is making sure individuals feel welcome and included and can help retain employees over the long term. We believe the failure to address these issues creates legal and reputational risks to companies and ultimately, their long-term value.

Key points of engagement include establishing a process to achieve pay equity on a regular basis with public disclosure. Collecting and reporting on granular pay gap data is an example of best practice to evaluate pay equity; it allows companies to assess the level of gender or racial inequality, which may be driven by several root causes, including a lack of minority representation in senior roles.

Case study

Charter Communications | U.S. | Equities, Bonds

Issue

Charter Communications is a US telecommunications and mass media company. Charter acknowledges that the ability to deliver products and services to customers is dependent upon a highly skilled workforce. The company outlines how it supports its workforce including ensuring 1) training and investing in employees; 2) enabling a diverse and inclusive culture; and 3) focusing on a safe and healthy workplace.

With the understanding that effective human capital management is important to achieve its goals, we noted that the company did not publicly disclose key diversity, equity and inclusion disclosures, such as would be included in the company's EEO-1 report. Note, that an EEO-1 report breaks down employees by demographic criteria such as race, ethnicity, gender and job sector.

Action

In April 2021, the company received two shareholder proposals pertaining to the release of a report assessing diversity, equity and inclusion; we voted for both proposals. Following the annual shareholder's meeting, the company released its inaugural DEI report, and we found the report to be lacking in quantitative data, particularly in comparison to its peers.

In December 2021, we engaged with the company, where we outlined our concerns and encouraged it to also release EEO-1 data. In 2022, the company again received proposals pertaining to a report on DEI and EEO-1 disclosure; we supported both.

In advance of the 2023 annual shareholder meeting, we re-engaged the company to discuss the status of the proposals from the 2022 proxy season, with the EEO-1 and DEI proposals receiving 44% and 43%, respectively and an upcoming lobbying proposal. We continued to encourage the company to disclose EEO-1 data.

Outcome

CHTR acknowledged that DEI is becoming a greater focus for the board; for example, it noted that previously the Chief Diversity Officer used to report to the Compensation Committee but began reporting to the entire board.

Additionally, the board started to receive a report on procurement focused on the company's supplier diversity program.

Following our 2023 engagement, CHTR shared that it determined to release EEO-1 data and to disclose two human capital management metrics including retention, hiring and promotion data. The disclosure is to occur in 2024. They indicated they would apply Sarbanes Oxley (internal reporting control) standards to its disclosure.

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Human capital management engagement and voting – 2023 continued

Labor practices and decent work

In addition to the importance of a diverse and inclusive culture, as part of creating an effective and talented workforce, employee and labor engagement is also operationally important. While good labor engagement may improve employee's health and well-being, lower absenteeism and turnover rate and improve operational efficiency, mismanagement can result in a poor health and safety record, low employee satisfaction and material reputational and legal risks. This year, we have developed a framework to engage with companies where labor issues are financially material (see our engagement on Mundys SPA's health and safety for details).

Our labor engagement framework encourages companies to:

1. **Strategy and governance**: Establish board and/or senior executive-level oversight of monitoring labor practices. Establish the companies' own labor and social suppliers' standards, which may be guided by globally accepted standards.
2. **Materiality assessment**: Identify risks and exposure to the company's value chain through human rights due diligence and/or impact assessment and track the robustness of the processes.
3. **Risk remediation**: Facilitate options to avoid, prevent or mitigate the actual or potential human and labor rights impacts. Provide a formal mechanism to supplier workers and relevant stakeholders to report grievances and disclose annual grievance findings. Describe actions to remediate breaches of any international norms that have been adopted by the company.
4. **Transparency and reporting**: Provide evidence to demonstrate the company's respect for core labor rights. Participate in multi-stakeholder or other external partnerships to address systemic labor and human rights issues along the supply chain and provide reports of its activities within these initiatives.

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Human capital management engagement and voting – 2023 continued

Case study

Mundys SPA | Italy | Bonds

Issue

Mundys Spa is an Italian infrastructure company that operates motorway and airport assets, among others.

As the company is responsible for the maintenance of infrastructure, its long-term value is highly reliant on human capital and employee health and safety is highly material. The company's incident rate for its workforce continued to deteriorate during 2020-2021, including seven fatalities in 2021. Employee health and safety is also a stewardship priority for us, as we believe employers that invest in workplace safety and take action to reduce employee injury and illness will benefit long term, including in terms of fewer legal liabilities and insurance investigations. We hold Mundys in certain high yield strategies.

Action

We initiated engagement with the company in late 2022. Our objective was to better understand the measures the company is putting in place to prevent these incidents and ensure employee safety going forward, including both full-time employees and contractors. We asked for the company's comment on the number of fatalities and the measures to prevent this from occurring. We also asked about the targets in place regarding health and safety metrics.

In 2023, we discussed occupational health and safety with the chief sustainability and innovation officer who was appointed in 2021. We enquired about the changes made by the company since the past controversies related to a bridge collapse in 2018 and its understanding of the root cause for the recent employee fatalities in South American countries. We also asked about its supplier engagement strategy on this issue.

Outcome

The board recognized occupational health and safety as a key business risk after the bridge collapse in 2018. The fatality rate is reported to the board and investigated to see how it could have been avoided. The company also disclosed in its latest integrated annual report that the most significant factor for the fatal accidents in 2022 was encroachment by non-company drivers on demarcated work sites in Italy, Mexico and Brazil. The company also continues to encourage safer practices by offering best-practice training regarding onsite safety for workers. We will continue to monitor the progress and scope of its health and safety initiatives.

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Human capital management engagement and voting – 2023 continued

Voting on human capital management

JPMAM directly engages with companies on human capital management and expresses its views by voting proxies in the best interests of our clients. This year we supported four shareholder proposals related to human capital.

Case study

Dollar General	U.S.	Equities, Bonds

Issue

Dollar General is a retailer that operates discount stores in the US. The company faced stock underperformance and we believe some of that was driven by delayed labor investments and store conditions. We also noted that the Occupational Safety and Health Administrator (OSHA), a U.S. federal agency, had flagged Dollar General as a 'severe violator'. These identified issues resulted in fines from OSHA alongside negative media attention.

Action

The company received a shareholder proposal asking them to conduct a workplace health and safety audit. We engaged with the company to discuss the issue and they acknowledged having challenges regarding health and safety practices. Issues such as locked backdoors and excess inventory, which contributed to unclear fire exit pathways, helped drive some of the violations. During our engagement, the company also shared that while OSHA visits were down slightly compared to last year on a year-to-date basis, fines were tracking at only 10% of last year. And most of the issues were from the first quarter of the year before the company had renewed its focus. None of the fines were for severe violations. The company understands that to be removed from OSHA's 'severe violator' list, it will need to sustain its focus on operational improvements.

Outcome

We voted for the shareholder proposal which received 68% support. While acknowledging Dollar General's renewed focus on the issue, in light of being categorized as a 'severe violator' and controversies, we thought the company would benefit from an independent assessment to help understand if there are any unmitigated health and safety risks and to assuage stakeholders' concerns that the company is not taking the issue seriously.

Our six investment stewardship priorities

Social stakeholder engagement and voting – 2023

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Social stakeholder engagement and voting – 2023

Generating long-term returns requires managing the interests of stakeholders. To be sustainable over the long term, a company's leadership needs to take into account the broader network of relationships in which it operates. This includes shareholders, suppliers, customers, and surrounding communities. For example, the failure of a mining company to manage its impact on local communities could result in unrest and impact its license to operate. Similarly, a consumer electronic company's failure to exercise responsible sourcing could result in reputational risk and boycotts from customers.

Engaging with companies on their stakeholder engagement

301
Number of companies engaged on stakeholder engagement

32
Number of markets engaged on stakeholder engagement

26
Number of sectors engaged on stakeholder engagement

Top markets engaged on social stakeholder engagement

Country	%
United States	23.3%
China	15.0%
United Kingdom	14.3%
South Korea	6.5%
Japan	6.2%
Australia	5.3%
India	5.3%
Hong Kong	4.2%
Taiwan	2.1%
Brazil	1.8%
Germany	1.8%
Mexico	1.8%
Netherlands	1.8%
Switzerland	1.8%

Top sectors engaged on social stakeholder engagement

Sector	%
Food, Beverage & Tobacco	9.9%
Pharmaceuticals, Biotechnology	9.9%
Materials	7.4%
Capital Goods	6.0%
Banks	5.8%
Consumer Discretionary	5.3%
Insurance	5.3%
Utilities	5.3%
Healthcare Equipment & Services	4.8%
Automobiles & Components	3.7%
Consumer Durables & Apparel	3.7%
Financial Services	3.7%

We take an active ownership approach to our investee companies' management of stakeholders' interests and human rights in general. This year, we continued our company engagements on material human rights issues faced by our investee companies, and we prioritized our engagement on social and human rights risks along the value chain that arise from key long-term trends. With the ongoing momentum on climate transition and digitalisation, responsible minerals sourcing and responsible use of technology are two key themes in focus.

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Social stakeholder engagement and voting – 2023 continued

Engagement on human rights and supply chain

Themes in focus: Responsible minerals sourcing - cobalt

The central role of battery technology in the carbon transition presents compelling long-term opportunities for investors as electrification transforms the global economy. However, the rising demand for batteries also raises difficult questions, given the well-documented human rights issues that surround the mining of the crucial minerals needed to make them. With regulatory pressures increasing, companies across a wide range of sectors could face significant reputational and financial penalties if they fail to carry out sufficient due diligence on mineral sourcing.

Cobalt is a mineral that is vitally important to the carbon transition, but where potential human rights abuses in supply chains—including the worst forms of child labor—could carry particularly acute risks to companies and investors. The problem is that more than 70% of global cobalt supplies come from the Democratic Republic of the Congo (DRC), where serious human rights and child labor issues in the mining industry have been identified, including the worst forms of child labor.[33,34] Amnesty International's report 'This Is What We Die For' sent shockwaves through the market in 2016, showing how artisanal cobalt from unauthorized mining areas in the DRC, including ore mined by children, can enter the global supply chain.[35] The report also identified gaps in corporate disclosures and regulations relating to human rights abuses in the cobalt supply chain. Investors have since increased their engagement with companies regarding cobalt sourcing and the human rights due diligence measures that they have in place.

There are two types of mines in the DRC – industrial large-scale mines (LSMs), and artisanal and small-scale mines (ASMs). ASMs, which contribute up to 30% of the DRC's cobalt supply, are more labor-intensive than LSMs, with individual miners – men, women and/or children – working in family groups or in teams to mine cobalt using basic tools, typically without the use of machines.[36] The lack of basic employment standards in many ASMs, means human rights risks are elevated, including child labor.

Given the material financial risks related to human rights abuses and child labor in the cobalt supply chain, J.P. Morgan Asset Management has enhanced its research since 2022 and deepened its corporate engagement on these complex issues. Our research efforts are focused on identifying the key questions that we feel companies should be able to address related to cobalt sourcing. As part of our research, we engage with various external stakeholders, including policymakers, standard setters and non-profit organizations involved in remediation action in the DRC. We have also attended the Organization for Economic Co-operation and Development (OECD) annual responsible mineral supply chain forum in 2022 and 2023 to hear the diverse opinions of different cobalt value chain players.

Based on the issues identified by our research, our engagement in the assessment of human rights risks in cobalt supply chains focuses on the use of the OECD due diligence framework;[37] supply chain management; disclosure of human rights risks; engagement with rights-holders; traceability of cobalt supply chains; and the use of external assessments.

Our engagement findings (**Table 1**) show that improvement is needed in most of these six areas (shaded orange in the table). The areas shaded green are deemed to be satisfactory.

33 Baumann-Pauly, D., "Making Mining Safe and Fair: Artisanal Cobalt Extraction in the Democratic Republic of the Congo", World Economic Forum (Geneva, Switzerland; September 2020).

34 Gaffar, C., Kaempfer, I., "Opportunities for Businesses to Promote Child Rights in Cobalt Artisanal and Small-Scale Mining: A Study by Save the Children and the Centre for Child Rights and Business', Thinius, A., Nakschbandi, D., Schliebitz, E. (eds.), Save the Children (Berlin, 2021).

35 "This is what we die for: Human Rights Abuses in the Democratic Republic of the Congo Power the Global Trade in Cobalt", Amnesty International (London, 2016).

36 "Making Mining Safe and Fair", World Economic Forum (Geneva, Switzerland; September 2020).

37 Organization for Economic Co-operation and Development, "Monitoring Corporate Disclosure: Assessing Company Reporting on Mineral Supply Chain Due Diligence".

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Social stakeholder engagement and voting – 2023 continued

Table 1: Management of human rights risks

Engagement focus	Rationale	Findings
Referencing of the OECD due diligence framework.	The OECD guidance is referenced in a range of international declarations, regulations and initiatives.	Almost all (93%) of the companies we engaged with reference the OECD framework.
Discussion of supply chain management systems.	Step 1 of the OECD guidance expects companies to establish strong systems to manage the responsible sourcing of minerals.	Most companies that we engaged with (93%) said they have a supply chain management system to assess human rights risks covering cobalt. They usually ask their cobalt suppliers to fill out a Cobalt Reporting Template/ Extended Minerals Reporting Template.
Disclosure of salient human rights risks related to the sourcing of critical minerals, including cobalt.	A key indicator in step 2 of the OECD guidance that the OECD reports as a gap in corporate disclosure policies.	Only 14% of companies engaged disclose identified salient human rights risks by materials, including cobalt, and their respective findings along their supply chain.
Demonstration of meaningful engagement with relevant rights-holders to identify and manage human rights risks.	A key indicator referenced by the OECD and UN Guiding Principles, that the OECD reports as a weakness in company disclosure policies.	Only 29% of companies that we engaged with were able to demonstrate that they had attempted to engage with relevant rights-holders, in this case, the child miner. Usually, this engagement was indirectly, through working with non-profit organizations that are providing support to child miners in the DRC. We concluded that child labor and small-scale mining in the DRC represent salient human rights risks for companies.
Traceability of the cobalt supply chains.	Step 4 of the OECD guidance expects downstream companies to identify the smelters and refiners in their supply chain and review the due diligence practices of their suppliers. As it has been reported that cobalt from ASMs is blended with LSM cobalt, it's important to understand traceability efforts up to and including mine sites.	79% of companies that we engage with use a Cobalt Reporting Template/ Extended Minerals Reporting Template to conduct due diligence of their cobalt suppliers all the way up to the cobalt smelters/refiners. However, just 36% of companies showed evidence that they were attempting to trace cobalt right back to the mine site itself. Some tracing is achieved through industry partnerships such as the Global Battery Alliance (GBA), or the Responsible Minerals Initiative (RMI), which uses blockchain technology to trace cobalt from mines to smelters. How companies manage to trace the source of all cobalt, including cobalt that is co-mingled with responsibly mined cobalt from LSMs, remains unclear.

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Social stakeholder engagement and voting – 2023 continued

Engagement focus	Rationale	Findings
Discussion of external assessments of cobalt sourcing.	Step 4 of the OECD guidance expects downstream companies to audit smelters and refiners in their supply chain, and often through external assessments.	79% of companies engaged use external assessments of mineral sourcing, such as the Responsible Minerals Initiative (RMI) Responsible Minerals Assurance Process (RMAP), and the Initiative for Responsible Mining Assurance (IRMA). Both assessments are based on international standards, including the OECD due diligence guidance, and use appointed auditors. RMI's RMAP focuses more on the extent to which mineral smelters/refiners conform with the RMAP standards. IRMA, on the other hand, applies to all mined materials and assesses the performance of individual mines on business integrity, environmental standards and human rights, including human rights issues in ASMs. However, only 29% of companies were able to clearly articulate the audit methodology used. For the RMI/RMAP, only one company could describe the on-site audit process. For those companies using IRMA, a more detailed discussion is required. In our view, companies should be able to demonstrate a good understanding of external assessment methodologies and audit processes.

Source: J.P. Morgan Asset Management.

Social stakeholder engagement and voting – 2023 continued

What actions are companies taking to help prevent or mitigate cobalt human rights risks?

Active participation in the remediation of adverse human rights impacts is a key requirement of Principle 22 of the United Nations Guiding Principles on Business and Human Rights. As such, our engagement discussions included understanding the different methods that companies are using to prevent human rights abuses in the DRC.

The findings of our engagement reveal that companies use four main mitigation or remediation methods. First, they can seek to avoid cobalt altogether. Second, they can seek to source cobalt directly from industrial mines. Third, they can seek to ban the use of artisanal cobalt. And fourth, they can seek to address human rights concerns through multi-stakeholder initiatives.

Nevertheless, when it comes to the assessment of these complex issues, there are several important areas where our engagement suggests downstream companies are falling short of emerging industry practice. The main issues include gaps in the disclosure of human rights risks, the failure to consult meaningfully with rights-holders as part of their due diligence process, the failure to understand the process used by external auditors to assess their mineral sourcing, and the inability to show clearly how their support for industry initiatives is contributing to progress on these issues (**Table 2**). The claim by some companies to be able to address human rights risks by tracing the source of cobalt to specific mines also requires further investigation.

Table 2: Industry practice where improvement is needed

Good industry practice	% companies achieving this (2023)
The company discloses salient human rights risks related to the sourcing of critical minerals, including cobalt.	14%
The company can demonstrate meaningful engagement with relevant rights-holders to identify and manage human rights risks.	29%
The company assesses the robustness of its human rights due diligence, such as understanding the audit process of any external responsible production programs, and disclosure of the audit progress.	29%
The company can articulate its contribution to any external industry initiatives that address systemic child labor and human rights issues in the cobalt artisanal mining sector.	29%

Source: J.P. Morgan Asset Management.

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Social stakeholder engagement and voting – 2023 continued

Case study

LG Chem Ltd/ LG Energy Solution Ltd | South Korea | Equities, Bonds

Issue

LG Energy Solution (which is now a subsidiary of LG Chem after its spin-off in 2020) is one of the world's leading electric vehicle and energy storage system battery manufacturers. Over the past years, the battery manufacturer joined different cobalt-related multi-stakeholder initiatives such as the Responsible Cobalt Initiative, Responsible Minerals Initiative, Global Battery Alliance and Fair Cobalt Alliance. However, its public disclosure about its overall responsible minerals sourcing strategy and its particular involvement in these initiatives remains unclear.

Action

We had five engagements with the company on responsible cobalt sourcing this year. In April, we first reached out to LG Chem, the battery-making company's parent company, to discuss responsible minerals sourcing, and subsequently had a more detailed discussion with LG Energy Solution the battery manufacturer itself on the topic.

We clarified its current audit practice on its cobalt suppliers, its understanding of and position on different external responsible production schemes, its human rights budget and how it incorporates its human rights assessment results into its business strategy and remediation plan. We also specifically asked about its view on artisanal cobalt, as there have been OECD reports[38] about the potential co-mingling of artisanal cobalt with cobalt from industrial mines. We asked how its traceability projects help ensure there will not be any co-mingling of artisanal cobalt. We valued the candid discussion including the company's acknowledgement of the report findings on this difficult, industry-wide issue. The company emphasized the importance of a multi-stakeholder approach to manage artisanal and small-scale mining cobalt sector and its involvement in different multi-stakeholder initiatives to help address the artisanal cobalt issues.

Based on the company's responses and its current public disclosure, we followed up with the company concerning industry practices along the cobalt value chain. In particular, we encouraged the company to include disclosure of salient human rights risks of the critical minerals it uses including cobalt, demonstration of meaningful consultation with stakeholders in its human rights risk assessment and articulate its contribution in the external industry initiatives to address the systemic child labor and human rights issues in the cobalt artisanal mining sector.

Outcome

The company acknowledged our suggestions on responsible cobalt sourcing and indicated its intention to address concerns regarding its sustainability planning and reporting. We will continue to engage with the company, not only on responsible cobalt sourcing but also on other critical battery minerals.

[38] https://mneguidelines.oecd.org/Interconnected-supply-chains-a-comprehensive-look-at-due-diligence-challenges-and-opportunities-sourcing-cobalt-and-copper-from-the-DRC.pdf

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Social stakeholder engagement and voting – 2023 continued

Engagement on digital rights and cybersecurity

Theme in focus – trusted Artificial Intelligence (AI) and cybersecurity

Digitalisation and technological advancement play a key role in enhancing standards of living and generating positive business impacts. Innovations of the 'Fourth Industrial Revolution', such as the Internet of Things (IoT), 5G and artificial intelligence (AI), may improve operational efficiency and productivity, increase access to information and enable more efficient decision-making. However, companies must deploy and use technology with prudence and care to gain the trust of end-users and regulators. Controversies related to the handling of sensitive personal data, content algorithms and content moderation have already drawn increased scrutiny from regulators globally. This is particularly topical in 2023 due to the development of generative AI and the respective discussions around regulations of AI applications.

We take both proactive (see Lenovo case study) and reactive (Medibank Private case study) approaches on this topic.

Case study

Lenovo Group Ltd	China	Equities, Bonds

Issue

We engaged with the multinational technology company Lenovo on trusted AI. This is a key engagement topic for the company due to its continued investment and the growing portfolio of AI technologies, even as the handling of sensitive personal data, content algorithms and content moderation is drawing increased scrutiny from regulators globally. Financial impacts from non-compliance with the evolving regulations can include significant fines and losses in market capitalisation.

Action

We first raised this issue with the company in March 2022, to understand its public commitment to accountable and gender-fair AI practices through its joining the 'Women and AI' Charter from Cercle InterElles, a French-based network across scientific and technological industries. In February 2023, we met with its senior AI data scientist and senior manager of global AI business. We asked about its AI governance principles, the oversight structure and the current practice Lenovo is using to mitigate risks arising from these emerging technologies. We asked for specific examples of whether Lenovo rejected any AI solutions because it deviated from its responsible AI principles and asked the company to disclose its AI governance practices.

Outcome

In November, Lenovo discussed its approach to responsible AI on its website, indicating that it has established a responsible AI committee to develop and oversee AI principles, comprized of a group of 20 people with diverse backgrounds. Lenovo further indicated that it has created six pillars for its responsible AI practice, which include diversity and inclusion, privacy and security, accountability and reliability, explainability, transparency and environmental and social impact. We welcome the company's acknowledgement of the importance of trusted AI in driving business value for customers and are encouraged by the progress Lenovo has made on this emerging issue.

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Social stakeholder engagement and voting – 2023 continued

Case study

Medibank Private Ltd	Australia	Equity

Issue

In October 2022, Australia's biggest health insurer suffered a cyberattack. A group of hackers stole the personal information of 9.7 million current and former clients and released the data on the dark web. This prompted a short-term double-digit tumbling in the company's share price, an investigation by the Office of the Australian Information Commissioner into the company's personal information handling practices, and, in June 2023, an AUD 250 million capital charge imposed by the Australian Prudential Regulation Authority.

Action

In 2022 and 2023, we met with the company multiple times, including the CEO, the chief financial officer, its sustainability lead and the Chair of the supervisory board, to better understand the incident's financial implications and the company's cyber management. In May 2023, we travelled to the company's headquarters in Australia to meet with the independent board chair and risk committee chair to discuss the oversight of cyber and other ESG topics. At the meeting, the company indicated that we were one of the first investors to raise the issue directly with both of the independent directors.

On cybersecurity oversight, we asked about the company's experience in handling the crisis last year, the role of the recently retired chief technology officer in crisis management, its view on cyber insurance, and how unpredictable third-party risks may impact the company's outsourcing/insourcing strategy. We noted that employee accountability is key to managing cyber risks and sought to understand how cybersecurity forms part of the company's annual review of its employees.

Outcome

The Company indicated that Deloitte has completed an external review of its cyber practices. While the company did not release Deloitte's report to the public, as it contains sensitive information, the company shared bullet points as part of its half-year results, which included a high-level summary of the following topics from the report: stolen login credentials, firewall misconfiguration, third-party risk and system resilience. We encouraged more disclosure on how the company will address these issues and hold its employees and third parties accountable for cyber management in the future.

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Social stakeholder engagement and voting – 2023 continued

Voting on human rights

This year we supported 15 human rights-related shareholder proposals, which range from child labor and other human rights issues along the supply chain to human rights due diligence or impact assessments. See our Ford Motor Company voting case study for details.

Case study

Ford Motor Company | U.S. | Equities

Issue

Ford Motor Company is an American multinational automobile manufacturer. Ford received a shareholder proposal asking for a report assessing how its business plans, with respect to electric vehicles, would depend on child labor outside of the US. The cobalt supply chain has high exposure to child labor and other human rights violations.

Action

We have shared the proponent's concerns about the industry's reliance on the DRC for cobalt supply. It was unclear whether Ford's audit and certification process was able to identify cobalt produced by the 'artisanal mines' known for child labor and prevent cobalt from artisanal mines being mixed with cobalt from more reputable mines. Ford's rebuttal to the proposal included a statement that it continues to enhance due diligence requirements and that the company is investigating supply chain mapping to further increase the transparency of its cobalt supply. That statement suggested that the human rights assurance process is a work in progress.

Outcome

Ultimately, our concerns led to supporting the proposal. We believe that doing the work to report on the issue will help Ford develop a more transparent cobalt supply chain and begin to reduce the reliance on child labor.

The proposal received 7% support overall. The low support level can be partly explained by the 40% voting power held by the Ford family through the Class B shares. Nevertheless, we expect the investor community to increase its focus on this issue in the coming years.

We also added Ford to our focus list of companies for engagement.

Our six investment stewardship priorities

Governance engagement and voting – 2023

Governance engagement and voting – 2023

We believe that there is a strong positive correlation between high governance standards and superior shareholder returns. Governance is about ensuring the quality of the decision-making process, which can determine the success and failure of the company. Effective corporate governance features transparency, accountability, oversight and respect for shareholders.

We evaluate governance starting with the board composition, structure and performance, looking for independence, relevant skillsets and board dynamics. Companies should make an effort to effectively refresh the board through a transparent and independent recruitment process based on a fair evaluation against the selection criteria and by identifying the competencies, backgrounds and experiences required at each company to drive long-term value. A company's CEO succession strategy is critical to a company's ongoing success, requiring careful planning and engagement to enable a smooth transition. Companies should conduct board evaluations to assess the performance of the board and individual directors to identify action items and improve its functioning.

Importantly, it is the mandate of the board to oversee whether the corporate strategy is aligned with the purpose and value of the company. The board oversees management's execution against the company's capital, liquidity, strategic and financial operating plans in achieving its set objectives. Capital allocation issues are judged in terms of alignment with long-term strategy and value creation at the applicable company. Boards are also responsible for overseeing the management of financially material environmental and social matters, which could affect the sustainability of the company.

In 2023, J.P. Morgan Asset Management carried out 481 engagements globally with regard to governance. We developed our governance engagement framework, which is used to guide companies in our discussions on board effectiveness and capital allocation. This section demonstrates how we are advancing engagement with investee companies on these topics.

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Governance engagement and voting – 2023

Engaging with companies on governance

481
Number of companies engaged on governance

41
Number of markets engaged on governance

25
Number of sectors engaged on governance

Top markets engaged on governance

Country	%
United States	24.6%
Japan	16.7%
China	9.8%
Britain	8.4%
India	7.2%
South Korea	4.4%
Brazil	3.3%
Hong Kong	3.1%
Mexico	2.7%
Germany	2.2%

Top sectors engaged on governance

Sector	%
Capital Goods	11.9%
Materials	8.0%
Banks	7.6%
Utilities	6.4%
Energy	6.1%
Food, Beverage & Tobacco	5.6%
Pharmaceuticals, Biotechnology	4.5%
Financial Services	4.1%
Consumer Durables & Apparel	3.9%
Media & Entertainment	3.7%
Semiconductors & Semiconductor	3.7%
Technology Hardware & Equipment	3.7%

Governance engagement and voting – 2023

Engaging companies on board effectiveness

We believe the composition of the board is important for board effectiveness. An appropriate mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives helps generate constructive discussions and supports decision-making that aligns with the company's mission, purpose and long-term strategy and goals. In an effort to create effective boards, we believe companies should strive to include diversity to enhance perspectives with respect to gender, race, ethnicity and nationality, and provide appropriate training beyond the prerequisite qualifications.

When we engage with companies focusing on board evaluation, we encourage companies to conduct internal board evaluations annually and external evaluations, by independent professional bodies, on occasion to assess how the board, the board committees and the individual directors performed against its expectations. This case shows how the board evaluation was used to identify whether board members have the necessary and relevant knowledge for the board committees as part of enhancing the quality of the board. (see Compagnie Financiere Richemont SA case study)

Case study

Compagnie Financiere Richemont SA | Switzerland | Equities

Issue

We have engaged with Compagnie Financiere Richemont SA, a Switzerland-based luxury goods holding company, over several years on board effectiveness and director refreshment. The board has historically been comprized of a number of non-independent directors. We met with the company ahead of its AGM to discuss the composition of the board and its key committees and to understand actions being taken to address non-compliance with Swiss market practice.

Action

The company explained that the Board, and each of its key committees, conduct an annual self-assessment of their role and effectiveness. This provides members of the Board the opportunity to reflect on individual and collective performance. The respective Committee's conclusions are communicated to the Board. As part of these evaluations, the Board identified a need for refreshment of its members but noted the importance of refreshment over time to ensure continuity and a smooth transition of the responsibilities of the Board and its committees. As a result, the company is undertaking a multi-year program of long-tenured directors stepping down and new directors being appointed. The company noted that there have been no significant disruptions or loss of institutional knowledge as a result of the gradual process, as reflected in its findings from subsequent board evaluations.

Outcome

The company has made progress and board independence has increased from 30% at the 2019 annual meeting to 56% at the 2023 annual meeting. We are pleased with the progress made by the company as it continues to execute the succession plan for long-serving non-executive directors while ensuring effective transmission of knowledge. This also highlights the importance of robust board effectiveness and board evaluation programs in identifying areas which require action.

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Governance engagement and voting – 2023

Engaging on CEO succession

CEO succession is a pivotal moment in a company's history with exceptionally high stakes for shareholders, employees, and stakeholders. The consequences of a failed succession at a company can erode its competitive advantages, destroy shareholder value and induce talent turnover and invite unwanted short-term activism. With so much at risk, it is perhaps one of the most critical functions of the board. The challenge can be especially difficult at well-performing companies when boards fail to find the right successor to carry on the legacy or make the transition at the wrong time.

There is no perfect recipe that will guarantee a successful transition, but there are things that can reduce the transition risk. In our view, complete candour between the Board and management is a necessary criterion for a successful transition. It may even help to have a carefully managed overlapping period between an outgoing CEO, who continues to serve on the board, and the new CEO. Psychological and emotional factors can come into play between Board and CEO, or the CEO and potential successors, and there can be external factors that can disrupt even well-executed transition plans.

JPMAM's Investment Stewardship team held several engagements with companies that faced transition in 2023. Below we provide an example of our engagement with one such company (see The Walt Disney Company case study).

Case study

The Walt Disney Company	U.S.	Equities

Issue

The Walt Disney Company is an American multinational mass media and entertainment conglomerate. We have had concerns regarding the effectiveness of the board following the failed succession plan. Bob Chapek, who succeeded ex-CEO Bob Iger, lasted 32 months in the role. Business journals ran numerous stories about his conflicts with Mr. Iger, who continued to serve on the board, and other senior managers and board members who desired Mr. Iger's return. Mr. Iger was CEO for 15 years and he generated enormous shareholder value over this period. As a result, his contract was repeatedly renewed even as the board failed to find a successor. He stayed on as Executive Chair through the end of 2021 (22 months), and soon after relinquishing that title to Non-Executive Director Susan Arnold, returned as the CEO in November 2022. That came only six months after the board had decided to renew Mr. Chapek's contract.

Action

JPMAM engaged with the company and expressed surprise that it took the board 32 months to decide that Mr. Chapek was not the right choice, especially given the fact that he was not an outside hire. Responding to the long evaluation period, management indicated that the company went into lockdown with COVID-19 soon after Mr. Chapek became CEO. However, we believe that the board did not respond promptly even as management issues became clear. For example, the proxy's compensation, discussion and analysis continued to paint a fairly positive picture of how the company was performing under his leadership.

Outcome

We voted against all the long-term non-executive directors at Disney to express our dissatisfaction with the failed succession, numerous controversies and what appeared to be inconsistent actions by the board. All directors, however, received more than 93% support overall.

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Governance engagement and voting – 2023

Collaborating to achieve board-level diversity goals

At the Asian Corporate Governance Association (ACGA) Japan meeting in September 2023, we had follow-up discussions with Japan Financial Services Agency (JFSA) and Japan Exchange Group (JPX) on the ACGA open letter sent to them last year, requesting enhancement of gender diversity on boards of Japanese listed companies through Japan's Corporate Governance Code and Listing Rules. We appreciate the quick response from them, with the Tokyo Stock Exchange announcing its intention to introduce guidelines for executive-level female representation for companies listed on the Prime Market, including revisions to the Listing Rules in Relation to the Intensive Policy for Gender Equality and the Empowerment of Women 2023.[39]

The delegation meeting was concluded by a roundtable to discuss practical ways for implementing deeper gender diversity in the management and boards of Japanese companies and achieving the 30% target set by the Japanese government for 2030. Speakers included the Director General of the Gender Equality Bureau at the Cabinet Office of Japan, the female CFO of Visional Inc., a provider of career networking and cloud-based human capital management platform, and our Japan Head of Stewardship, each representing policymaker, corporate and investor points of views respectively. We noted our efforts to promote diversity through engagement and voting as part of enhancing long-term value for our clients. We also noted the recent changes to our proxy voting guidelines for Japan including voting against the election of representative directors if there is only one or no female directors in 2024 and less than 30% by 2030.

How we voted on board diversity and independence

Board diversity and independence are some of our core governance topics for engagement with Asian companies including companies located in Taiwan. In late 2021, the Taiwan Stock Exchange amended the Corporate Governance Best Practice Principles, setting a gender diversity expectation of at least one-third. Still, female representation on Taiwan companies' boards averaged 14-15% in 2022. Within J.P. Morgan Asset Management, we advocate for at least majority board independence as well as an ambition of at least 25% gender-diverse board before 2025, and at least 30% before 2030. As with all of our stewardship activities, these goals are viewed through the lens of maximizing shareholder value. We still see room for improvement for many corporates in Taiwan, and we have been engaging with our investee companies on this subject, alongside wider corporate governance topics.

This year, we decided to exercise our shareholder rights and attend three AGMs in Taiwan to reiterate our governance concerns directly to the board of directors and senior management (see Chailease Holding Company Limited, Advantech Co., Ltd. and Silergy Corp. case studies). We believe that in-person meetings are important for engagement impact and relationship-building purposes; they are effective platforms for investors to engage with all board members at the same time and to share our views with them directly.

[39] https://www.jpx.co.jp/english/rules-participants/public-comment/detail/d01/p6b22i00000032f2-att/uorii50000003ib4.pdf

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Governance engagement and voting – 2023

Case study

In-person AGMs in Taiwan

Chailease Holding

We have been engaging with Chailease Holding, the family-controlled leasing company on board diversity and independence since 2022. The company has a medium- and long-term goal for at least one-third of the company to be made up of female directors and supervisors, but there is no timeline.

At the AGM this year, we asked if there is any specific timeline for the company's voluntary one-third female directors/supervisors goal, whether the company has any plans to further increase board independence to at least majority independence, and what considerations it has for board refreshments. The chief strategy officer acknowledged the importance of further increasing board independence and diversity and agreed on majority independence as its intended direction. The board chair also noted our expected timeline of at least 30% female board directors before 2030.

Silergy

Silergy, a semiconductor manufacturer, recently started its ESG journey and published its inaugural ESG summary report last year. We welcomed the progress and reiterated the importance of management and disclosure of financially material ESG factors, including board oversight of material ESG topics to the board chair at its AGM.

At the AGM, we communicated our corporate governance principles of majority board independence, as well as a 30% gender-diverse board before 2030, to the board chair. We encouraged the company to consider other board candidates who have relevant cyber/ESG oversight experience. The board chair promised to consider our suggestions. We also communicated our gender diversity goals to one of the board directors, who is also the director of Women on Boards Association in Taiwan.

Advantech

We engaged with Advantech, a manufacturer of industrial computers, Succession planning is a key engagement topic especially for family-controlled companies in Asia. Industrial computer manufacturer Advantech is currently 27-28% held by the Liu Family. At the AGM, the company proposed appointing another son of the founder to the board. A long-standing independent director will continue to serve on the board and will be classified as a non-independent director, as he has already served the board for more than nine years/three terms. These changes resulted in a decrease in board independence from 43% to 33%. While we supported management this year, as we see it as a temporary transitional change, we asked about the founder's succession planning and the company's plan on board composition.

As part of its three-year succession plan, the company is going to establish a 'management committee' consisting of three co-presidents and four- to six vice presidents. The board chair expects board independence to increase in the next director election cycle. We will continue to monitor the company's transition from a family-driven enterprise to oversight by a professional and independent management and board in the coming years.

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Governance engagement and voting – 2023

Engaging on board ethnic diversity

In Asia, gender diversity is just beginning to emerge as a board agenda topic. In other regions, the focus on diversity is more expansive as investors look for gender diversity as well as racial/ethnic diversity on boards. We believe that a diverse board contributes to the effectiveness of boards and the further development of sound governance and risk oversight. As part of enhancing long-term shareholder value, we encourage companies to consider the importance of racial/ethnic diversity as part of the board nomination process (see Regenxbio Inc. case study).

Case study

REGENXBIO	U.S.	Equities

Issue

Regenxbio is a U.S. biotechnology company. We support a diverse skillset for directors as an important part of contributing to long-term shareholder value. Under our North America Proxy Voting Guidelines, we will generally vote against the chair of the nominating committee when a company lacks any gender diversity or any racial/ethnic diversity unless there are certain mitigating factors. We noted that Regenxbio was lacking racial/ethnic diversity on the board, however, also noted the company has 3 female directors out of 9. We engaged with the Board to encourage them to include ethnic/racial diversity as part of their nomination process as part of promoting the long-term effectiveness of their board.

Action

As part of our engagement, we learned that the Board previously included a self-identified Middle Eastern/North African director. The company further noted that, after the director departed, it determined to add Jennifer Zachary, as the third female director. They noted Ms Zachary's qualifications include her experience at the FDA and her understanding of the relevant legal, policy and regulatory regimes for the ethical conduct of clinical trials. The company further highlighted that this experience added valuable and relevant skills to the board.

Outcome

Understanding the company's objectives and approach, we, nevertheless, encouraged the company to think about how it was identifying potential candidates, continuing to expand the pool beyond traditional candidates and clearly articulating its desire to add racial/ethnic diversity in its recruitment process. We will monitor its progress at next year's annual meeting.

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Governance engagement and voting – 2023

Engaging companies on capital allocation

We seek to invest in companies that are allocating capital efficiently, generating reasonable long-term returns for shareholders and making timely interest and principal payments to bondholders. We believe companies should demonstrate financial discipline around investor returns relative to the cost of capital and long-term value creation.

Capital allocation decisions can be affected by traditional factors, such as interest rates, but also regulatory requirements, climate change, nature risks, social movements and other financially material ESG issues. We encourage companies to think ahead and implement capital allocation strategies that incorporate material risks and opportunities into their business models. Boards should disclose a clear policy on the company's approach to its capital structure, which could address the demands of different stakeholders.

Where the costs and return of capital are not adequately considered by corporate management, corporate value may stagnate or be destroyed. In some markets, such as Japan and Korea, companies hold shares in other companies to strengthen business relationships. These types of arrangements, known as 'cross-shareholdings', have been used to protect corporate management by creating a loyal shareholder base and diluting minority shareholder rights leading to potential conflicts of interest among company and shareholders. We are concerned about poor corporate governance and lack of financial discipline at companies where their capital is allocated to equities, with returns far below their costs of capital.

In such cases, we engage to encourage the company to develop capital allocation policies and encourage them to optimize capital by resolving cross-shareholding ownership to return to shareholders, or to invest for growth and to protect minority shareholder rights (see Toyota case study).

Focus on: Action by regulator to improve capital efficiency in Japan

In Japan, there are long-standing issues at corporates. Large amounts of capital continue to be trapped within balance sheets, and almost half of the Prime Market listed companies, and approximately 60% of the Standard Market listed companies, trade below book value. In March 2023, the Tokyo Stock Exchange (TSE), in its effort to push corporate governance reform, requested all listed companies to assess the state of capital efficiency against the cost of capital, plan for improvement and engage with global investors through disclosure. [40]

To follow up, JPX announced it will publish a list of companies that have adhered to the request starting from January 2024, and to compile and publish feedback from investors. As of the end of 2023, 49% of the Prime listed companies have disclosed the plan of action the companies will take, such as investing for growth and sustainability, strengthening of shareholder returns and reduction of cross-shareholdings.[41]

Initiatives at policymakers are providing strong backing for stewardship activities and serving as a tailwind to the Japanese stock market.

[40] https://www.jpx.co.jp/english/news/1020/dreu250000004n19-att/dreu250000004n8s.pdf
[41] https://www.jpx.co.jp/english/news/1020/e20230414-01.html

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Governance engagement and voting – 2023

Engaging on capital allocation and unwinding of cross-shareholdings

Case study

Toyota Motor Corporation	Japan	Equity, Bonds

Issue

Toyota Motor is the world's top carmaker and the largest company in Japan in terms of market capitalisation. The company has strengthened its business foundation through robust partnerships with its suppliers through cross-shareholdings, with its listed subsidiaries, affiliates, and business partners. We had concerns over cross-shareholdings due to the potential conflict of interests and diminishing of minority shareholders' rights and capital inefficiency.

Action

We engaged with the General Manager in charge of Capital Strategy & Affiliated Companies Finance in 2021, focusing on cross-shareholdings to discuss our concerns. The company explained its intention to reduce by half the legacy cross-shareholdings that do not have strategic importance any longer in the medium term. The company noted its plans to enter and maintain cross-held relationships with companies where it intends to have a strategic partnership in certain technologies/products/regions. The company noted that, in such cases, relationship building is prioritized over return and cost of capital. We questioned whether cross-sharing is indispensable for strategic partnerships and suggested the company consider whether a joint venture would be a more transparent corporate structure.

Following 2021, we had several follow-up engagements to understand the company's progress in accelerating the unwinding of cross-shareholdings and consideration of alternatives to such arrangements. With misconduct incidents reported at its major subsidiaries, we engaged in 2023 to express our concerns over its group governance. We were informed that Chair Akio Toyoda is committed to the reduction of cross-shareholdings and the capital strategy department is responsible for engagement with cross-shareholders to accelerate the unwinding process. The company indicated that not only legacy shares, but also strategic shares, have been put under review against cost of capital in an aim to improve capital efficiency and to reallocate to areas where investments are needed. It was mentioned that those holdings that have not yielded sufficient returns and traded below book value would be the first target for reductions. The company admitted that cross-shareholdings have led to a weakening of governance at its group companies and that even those symbolic holdings will not be exempt from unwinding.

Outcome

Toyota has reduced the number of listed cross-shareholdings companies to 49 as of March 2023 from 65 in March 2020. In July 2023, it announced that it planned to partly reduce its strategic holdings in the company KDDI from 14.68% to 11.71% by tendering shares in the tender offer for treasury shares. We noted that Toyota group companies such as Denso, Aisin and JTECT are taking the lead in accelerating the unwinding. In November, Denso announced a public offering of the shares (sellers: Toyota Motor, Toyota Ind., Aisin) and buyback. The move by Toyota and its group companies is consistent with its commitment to reduce cross-shareholdings within the group companies to improve governance.

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Governance engagement and voting - 2023

As investors, we want to ensure that companies deploy their capital in a way that can optimize shareholder returns without compromising the health of their balance sheet and the interests of bondholders. The South Korean market experienced an increase in shareholder activism in 2023, as the rise of retail and other minority investors raised concerns about chronic governance issues related to the entrenchment of controlling shareholders.

We believe that company boards should articulate their approach to shareholder returns. In cases where companies have not provided a clear overview of their approach to shareholder returns, we may escalate our view to management before annual shareholder meetings. Our engagement with KB Financial Group is an example.

Proxy voting – capital allocation and board diversity

Case study

KB Financial Group | Korean | Equity

Issue

KB Financial Group, a Korean financial holding company, was the target of a shareholder activist campaign which proposed a capital allocation framework and for the company to commit to a higher mid-term shareholder return ratio. We shared some of the same concerns and sought to separately engage with the board to express our views directly. Given the potential impact on long-term value to investors, we were particularly concerned about the inadequate shareholder return policy, and at the same wanted to raise concerns about board diversity before the company's annual general meeting in March.

Action

We sent a letter stating our stewardship priorities and governance recommendations to the chairperson and CEO requesting their responses in three areas. We believe that the shareholder's return policy should support a total shareholder return ratio, including dividends and buybacks, of at least 50% from 2022 earnings, and potentially far higher in future years. Also, investment for growth should only be pursued where value is created, and we expressed our doubts that M&A transactions and overseas expansion could ever meet these criteria. And we encouraged the board to improve female representation to achieve a minimum of 25% representation by 2025 and 30% by 2030.

Outcome

The board acknowledged our concerns and said they intended to provide a 33% total shareholder return at a minimum and provide more visibility and predictability going forward to shareholders. The board has reached 28.6% gender diversity in the board and has indicated its plans to enhance diversity. We supported the election of all directors at the subsequent annual general meeting.

Our six investment stewardship priorities

Strategy alignment with the long term engagement and voting – 2023

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Strategy alignment with the long term engagement and voting – 2023

Long-term thinking leads to enduring business models. We believe executive compensation plans should be structured to create long-term alignment between shareholders and the management of the companies in which we are invested. As long-term investors, we see the importance of incentive awards, designed to encourage management to perform at the highest levels. These programs need to align with appropriate performance criteria that are both challenging and reflective of the company's strategy and objectives over the long term. They should reward executives for long-term value creation rather than short-term gains.

Meeting these goals is easier in theory than in practice. Given the rising pace of innovation, disruption, and uncertainty, compensation committees face several challenges in designing plans that are in long-term alignment with shareholders. We are, therefore, not prescriptive in our evaluations and recognize boards need flexibility when formulating a compensation plan. We also acknowledge some discretion is needed when evaluating management performance towards realising long-term outcomes. In addition to challenges of business uncertainty, there are other challenges in designing plans; see the box below.

Challenges in Designing Compensation Plans

- **Choosing metrics well correlated with long-term share performance**. In recent years, we have seen a proliferation of performance share units (PSUs) in long-term equity plans that are driven by operational and financial metrics in lieu of shareholder returns over the performance period. Picking one or two PSU metrics that would correlate well with long-term share performance can be a daunting task. Most boards make a good faith attempt to use metrics and targets, which if obtained should result in a similarity of outcomes between management and shareholders. Issues arise when a metric is chosen that does not correlate well with long-term shareholder returns. For example, we have seen companies use absolute long-term sales growth as a metric on which to determine management compensation. Such a metric may be flawed, however, when targets are achieved as a result of expensive acquisitions or pricing at the expense of operating margins.
- **Choosing targets that are well correlated with long-term share performance**. In other cases, a Board may choose the right metrics but an inappropriate target. For example, a cyclical company may use earnings per share (EPS) growth rate targets relative to EPS at the bottom of a cycle, allowing management to achieve targets simply because the cycle rebounds even if the company's shares underperform.
- **Determining time periods over which to measure and compensate executives**. Most grants of performance shares are evaluated over a three-year performance period, which is considerably shorter than the investment horizon of most long-term investors. Consider a company that performs very well in the first three years of a CEO's tenure only to give back the gains in the next three-year period of his/her tenure. While long-term shareholders may not make any returns over this period of the CEO's tenure, it is easy to see how such a tenured executive who receives annual equity grants driven by three-year PSU performance ends up with target compensation.
- **Inclusion of ESG metrics**. There has been a marked uptick in the inclusion of ESG metrics within compensation plans. The challenge remains to explain how the chosen ESG metrics, targets, and weighting fit into the company's long-term strategy and how they are tied to material outcomes that enhance long-term shareholder value. We expect targets for ESG metrics to be financially material, challenging, and not merely increase management compensation and insulate executives from volatility in stock price performance and operational performance.

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Strategy alignment with the long term engagement and voting – 2023 continued

While we acknowledge the challenges in creating a compensation plan that aligns executive compensation with shareholder experience, we frequently come across practices we find problematic. The specifics can change from year to year – for example, adjustments to plans following the onset of COVID-19 took centre stage in 2020 and 2021 – but the general themes stay consistent.

In this chapter, we discuss some of those problematic practices that we encountered in 2023, along with some notable compensation programs that we did support. In some cases, we also elaborate on the role engagement played in assessing compensation and seeking to bring about changes in plans we found were not in alignment with the interests of long-term shareholders.

Engaging companies on their strategic alignment with the long term

351
Number of companies engaged on strategic alignment with the long term

33
Number of countries engaged on on strategic alignment with the long term

26
Number of sectors engaged on on strategic alignment with the long term

Top markets engaged on Strategy alignment with the long term

Country	%
United States	37.9%
Britain	17.1%
Japan	12.5%
Germany	3.4%
India	3.4%
Australia	2.6%
Brazil	2.6%
China	2.6%
Switzerland	2.3%
South Korea	2.0%

Top sectors engaged on Strategy alignment with the long term

Sector	%
Capital Goods	10.0%
Banks	8.5%
Materials	6.3%
Utilities	6.0%
Energy	5.7%
Pharmaceuticals, Biotechnology	5.7%
Consumer Discretionary	4.8%
Software & Services	4.6%
Consumer Durables & Apparel	4.0%
Financial Services	4.0%

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Strategy alignment with the long term engagement and voting – 2023 continued

When time-based awards work

A long-term trend in executive compensation has been the adoption of performance-based metrics in equity grants. In the S&P 500, for example, the percentage of companies that include PSUs in their compensation program has grown from 50% in 2009 to 93% in 2021.[42] The major proxy advisors have also been advocates for majority performance-based equity awards in executive compensation.

Additionally, many, including some proxy advisors, consider options to be time-based awards, thus discouraging companies from using them in compensation design. As we highlighted in last year's report, we disagree with that view. We acknowledge that the use of options as a compensation vehicle in some industries subject to significant exogenous risk and volatility could lead to pay benefits for management even if underlying performance is not supportive of such benefits. Also, there are concerns around the valuation of long-dated options, but these can be addressed. Nonetheless, as we show later in the report, options can be used very effectively. We also find the pairing of options with long-term financial and operational milestones a very effective tool for driving pay-for-performance alignment.

In that context, we took note of a 2019 research paper which found that companies which do not use performance shares outperformed their sector peers that do.[43] While we would not advocate for companies to drop all use of PSUs, we strongly urge compensation committees to review their PSU plans and examine their payouts in context of long-term stock performance.

Limitations of PSUs: Why PSU payouts may not align with the shareholder experience

1. **Company performance versus stock performance**: Shareholders evaluate company performance on long-term expectations while PSU evaluation is limited to the 2–3-year performance period.
2. **Performance criteria**: It is often difficult to select one or two key metrics that will determine company performance over the performance period. This leads to a proliferation of metrics.
3. **Multiple pay opportunities**: Proliferation of metrics and/or annual measurements provides executives multiple pathways to get compensated.
4. **Poor governance by compensation committees**: Setting very low targets or 'adjusting' out accounting items without considerations of accountability.

[42] https://corpgov.law.harvard.edu/2023/03/07/sp-500-ceo-compensation-increase-trends-5/

[43] https://millstein.law.columbia.edu/sites/default/files/content/docs/Journal%20of%20Applied%20Corporate%20Finance%20Writeup%20-%20JACF%2031.3%20%288%29%20%281%29%20%283%29.pdf

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Strategy alignment with the long term engagement and voting – 2023 continued

We believe one of the most important drivers of alignment between management and shareholders is a large ownership stake and the retention of a significant portion of vested shares over the executives' tenure. Research shows that companies with large executive ownership stakes outperform those with low ownership.[44]

That ownership stake can be achieved through time-based awards; management is naturally aligned to maximize their value over their tenure while managing risks, rather than aim to maximize certain metrics over relatively short periods of time, such as the typical three years in the US.

We have found that the following companies have successfully used time-based equity awards including options in their compensation program. In such cases, we have supported compensation plans.

Amazon: We agreed with the approach taken by the board of the U.S. retailer and technology company around creating a compensation scheme that would promote long-term alignment as they transitioned from CEO/Founder Jeff Bezos to Andy Jassy, a management executive who was promoted internally as CEO. Large time vesting shares are atypical but may be warranted in transitions where the board wants to protect the culture of ownership.

The USD 225 million time-based share grant, made to the new CEO in 2021, will vest over ten years, with 80% of the granted shares vesting from years five through ten and is expected to be his only equity compensation during that time. Given the annualized value of the grants relative to their peers, and the back-end loaded nature of the grants, we supported executive compensation in 2022, as well as in 2023 after similar multi-year time-based grants were made to other members of the executive team, but not the CEO

Autozone (AZO): The vast majority of executive compensation at the U.S. retailer comes in the form of annual option grants. In an engagement we had with the company, the board communicated its belief that this compensation structure is a causal factor in the company's success and strong shareholder returns over time.

The compensation plan drives a virtuous cycle: a good incentive plan leads to good capital allocation, which drives strong performance, which drives value creation for employees, which drives retention, which drives employees becoming better at their jobs, which in turn drives further strong performance.

AZO believes the option plan contributes to good long-term corporate financial planning that is better tailored to long-term strategy alignment than performance shares for this company. Performance shares, driven by one or two specific metrics, can incentivize management teams in the retail sector to meet their objectives with sub optimal capital allocation, such as by opening too many stores or buying too much inventory to hit earnings or sales numbers despite poor returns. AZO views too many stores as a chronic problem for mature retailers. Meanwhile, some incentives could lead retailers to underinvest in operating expenses like labor and maintenance, which can boost performance measured against PSU metrics like earnings per share or return on capital for a short period (long enough to generate PSU payouts) but could later result in loss of long-term competitiveness and shareholder value.

Copart: The U.S. online car auction company grants its executives upfront options packages that are meant to cover four years of equity pay. They had given such grants in 2013 and 2020, before again granting one in 2022 to new co-CEO Jeff Liaw. The grant, which consisted of USD 6 million of time-based stock and USD 23 million of options, was meant to cover his equity compensation for the next four years.

Since the initial implementation of this structure with the December 2013 options grant, the stock has compounded at 27% per year, as of the end of the most recent fiscal year in July. We believe the compensation philosophy contributes to that performance, as it leads to a long-term focus on value creation, and accordingly, we voted in favor of the plan at the annual meeting last December.

In an engagement this year, we noted our support for executive compensation and encouraged the company to keep the same structure of periodic upfront options grants.

Conversely, when we believe executives are not sufficiently aligned with shareholders through ownership, we will seek to remedy that through engagement.

[44] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1343179

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Strategy alignment with the long term engagement and voting – 2023 continued

Alignment of executives with shareholders

Case study

Aker BP ASA	Norway	Equity

Issue

Following positive engagements with the company on climate risk, we engaged with Aker BP, a Norwegian oil producer, around executive share ownership guidelines. The company has previously operated a cash-based annual bonus and long-term incentive plan and as a result, the share ownership among senior leaders remains low. We expect that executive directors should build up a significant level of personal shareholding to ensure alignment of interest with shareholders.

Action

We explained that we expect company remuneration policies to include robust shareholding guidelines, which management teams are required to meet to demonstrate alignment of interest with shareholders. We noted that low or no shareholdings by senior management, could be viewed negatively and that executives are encouraged to purchase company shares using their own resources. We encouraged the company to introduce guidelines as part of any remuneration policy going forward and to ensure future long-term incentive plans are share-based. We also explained that the company could explore some element of share-based deferral for annual bonuses until shareholding guidelines were met. We further noted that some European markets had introduced post-employment shareholding requirements, requiring executives to retain a portion of their holdings for a time after they have left employment with the company.

Outcome

The company explained that while previous iterations of its long-term incentive plans had been cash-based, it had recently introduced a share-based long-term plan, but it would take some time for executives to build up their ownership of shares. The company noted that it will relay our views on shareholding guidelines to the board ahead of the next remuneration policy review. While we will continue to monitor any proposed changes by the company, low executive share ownership expectations appear to be a market-wide issue across Norwegian companies, and we will seek to address our concerns with wider market participants throughout 2024.

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Strategy alignment with the long term engagement and voting – 2023 continued

PSU metric disclosure

As performance shares have become the dominant feature of executive compensation programs, understanding both the metrics used and how they are calculated has become critical for investors. To that end, our recently published 2024 Proxy Voting Guidelines include guidance about how we may vote against either the say-on-pay proposal or compensation committee members if the company does not disclose metrics, targets, and payout percentages for closing-cycle PSU awards. We may also vote against management if the proxy does not provide a reconciliation between GAAP metrics and any non-GAAP metrics used as part of the compensation plan.

Case study

Cencora	U.S.	Equity

Issue

We have had concerns about how non-GAAP metrics have affected payouts at the U.S. drug distributor Cencora. The company has had significant charges related to opioid litigation over the years, with the largest charge coming in 2020. It was not clear how those charges impacted the ROIC calculation used for PSUs. While the company would reasonably not want to over-penalize current management for a legacy problem, the charges also had the effect of making GAAP balance sheet equity negative for several years, which could artificially inflate an ROIC calculation.

To that point, PSUs had in general paid out close to the maximum over the 2018-2020, 2019-2021 and 2020-2022 cycles.

Action

We raised these concerns about the impact of the non-GAAP metrics on payouts in multiple engagements with the company. While acknowledging the validity of the concerns, they assured us that the charges did not drive higher payouts, explaining that they use an asset-based calculation instead of book value of equity and debt. They noted that there are several components underlying their ROIC calculations, and pointed out that the disclosures by other companies are also fairly limited in most instances.

In response, JPMAM shared with them ROIC disclosures presented by another company that gives more qualitative and quantitative disclosure. Also, the fact that there can be several factors impacting ROIC calculations necessitates some disclosure on changes in ROIC, especially when the changes are large and the payouts have been close to the maximum of 200%. Finally, it also raises questions about the appropriateness of the target level given that the company has been consistently above target.

Outcome

In its proxy statement filed in January 2024, Cencora included a footnote disclosing that invested capital was calculated as the 12-month average of accounts receivable, inventories, accounts payable, net property and equipment, goodwill, intangible assets, and right-of-use assets. This is the first time they have provided such a disclosure. The disclosure confirms that the charges from opioid litigation did not result in higher payouts from the ROIC metric, as the charges impacted the liability side of the balance sheet.

We were pleased with the additional disclosure.

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Strategy alignment with the long term engagement and voting – 2023 continued

Timing of equity grants

We have noted increasing scrutiny around the timing of equity grants, particularly as it relates to material non-public information (MNPI). Amendments to the SEC's Regulation S-K will now require companies to disclose information on options granted before the disclosure of MNPI. These rules are meant to prevent 'spring-loaded' option grants, by which options are granted with stock prices that do not reflect the positive MNPI, only for the stock price to immediately jump following the disclosure.

We are generally pleased to see this amendment; while 10b5-1 rules have long been intended to stop the purchase or sale of securities by insiders who possessed MNPI, new grants have not been explicitly addressed by that rule. We are sensitive to cases where companies time grants without accompanying disclosure to allow investors to assess the governance around the timing of grants and MNPI.

Case study

U.S. retailer	U.S.	Equity

Issue

We noted that equity awards, a mix of time-based and performance-based restricted stock, were approved by the board of a U.S. retailer on the same day that the board decided to publicly disclose that it was pursuing strategic alternatives. The stock would appreciate by 20% in the next two business days following the announcement.

While we generally name companies in our public reporting, we decided in this case to anonymize.

Action

We engaged with the company ahead of its annual meeting and laid out our concerns. We believed it was unusual that the grants had occurred on the last day of the fiscal year when most companies grant annual equity awards during the first quarter of the fiscal year. The company itself had done the latter in the prior year.

The company believed the timing was an unfortunate coincidence, explaining that six months ahead of that grant it had already decided to move fiscal grants up to the very beginning of the fiscal year as its new standard practice.

We noted that is an unusual practice as most companies typically need time to finalize the full-year financial statements and certify achievement of closing-cycle incentive awards. The company then disclosed that the grants for the following year occurred three weeks after the end of the fiscal year, reverting to a more commonly practised cadence.

Outcome

We voted against compensation due to our concerns. Whether the timing was intentional or not, we believed executives inappropriately benefitted simply from the timing of disclosures.

The say-on-pay proposal received 98% support overall, suggesting our concerns went unnoticed by other investors or were not shared by the broader market.

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Strategy alignment with the long term engagement and voting – 2023 continued

Annual Incentive metrics and weights

We generally prefer that more compensation be tied towards long-term value creation than short-term results. We want management teams to make decisions to protect and grow the long-term value of the company, rather than to maximize short-term financial performance. And depending on the industry, earnings can swing wildly from year to year based on cyclical factors outside of the company's control. Thus, compensation plans that are predominantly driven by short-term measures, especially metrics like earnings or EBITDA are more akin to profit-sharing-plans than value-creation plans

We have therefore had concerns about the compensation structures of several U.S. homebuilders, where executive pay had been tilted heavily to annual metrics like pre-tax income. The following case study illustrates our engagement in this area.

Case study

Lennar	U.S.	Equity

Issue

We have had concerns about both the magnitude of executive pay at the U.S. homebuilder Lennar, as well as the structure of the compensation program, which we felt overly emphasized short-term performance and had the potential to be misaligned with shareholder returns. The company paid three different executives (the Chair and co-CEOs) over USD 30 million each in 2022. In addition, when we first engaged with them in 2021, short-term cash compensation (annual incentive plan) was a much greater percentage of pay than at most companies and was based on a percentage of pre-tax profits, which ran the risk of management making decisions that overly emphasized short-term results.

Action

We have engaged three times over the past three years with the company's CFO and the prior chair of the Compensation Committee. We shared our concerns about both the quantum of pay and how it was determined. We also engaged with other homebuilders, including Lennar's closest peer D.R. Horton, who have had the same issue to varying degrees.

Outcome

Lennar has capped short-term cash compensation at USD 6 million to USD 7 million, about half of prior levels. They increased the amount of equity granted but increased the percentage of performance shares. Lennar also increased the hurdle required to hit targets on key performance indicators to the 60th percentile of peer group, up from peer group median. We felt they should target better than peer group median given they (and D.R. Horton) have much more scale than the rest of the peer group.

We were pleased by some changes, such as the increase in performance for target payout to the 60th percentile. However, we were concerned by the significant increase in equity grant size that would more than offset the lower annual incentive. We believe that this will effectively lock in a high level of compensation, and as a result, we voted against compensation at the annual meeting.

That concern did not appear to be shared by the broader market, as say-on-pay support rebounded from 63% in 2022 to 86% in 2023. Later, one of the CEOs retired, reducing the number of extremely highly paid executives from three to two, which we view as a positive step.

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Strategy alignment with the long term engagement and voting – 2023 continued

Case study

Dexus	Australia	Equity

Issue

Dexus is a major Australasian Real Estate Investment Trust. The company put forward 'the Adoption of the Remuneration Report' for shareholders to vote in the AGM held in October 2023. We engaged with the company to express our concerns about the design of the compensation for the senior executives, particularly for the CEO.

Action

The clarity of the 'Role-specific' assessment for the CEO's performance, which is one of the KPIs in determining the executive's Short-term Incentive (STI), is a key subject we discussed in the meeting. According to the CEO scorecard disclosed in the 2023 Remuneration Report, this 'Role-specific' element carried 20% weighting in design of the assessment for the STI. The only thing mentioned under this element is the successful integration of AMP Capital's real estate and infrastructure equity business platform (AMPC), which Dexus acquired in March 2023. The company representatives mentioned the importance of getting the key people and the assets through the acquisition and emphasized that the acquisition is value accretive.

We also discussed the fact that the maximum STI payout of other executives was reduced to 100%, from 125% for the prior year, but the maximum payout of the CEO stayed at 125%. We suggested the company consider increasing the portion of LTI in the composition of the total remuneration.

Outcome

In our view, the successful integration of AMPC requires the contribution and leadership of more than one senior executive. If Dexus wants to include the assessment of the success of integration in the calculation of the STI, the assessment should appear on the scorecards of the relevant senior executives, not only on the scorecard of the CEO. We also have reservations about the quantum of the weighting. The company's responses to other issues have not eased our concerns about the design of the executive compensation. As a result, we voted 'against' the 'Adoption of the Remuneration Report' resolution.

Notably, the resolution was not passed, as close to 30% of the votes were cast against the resolution. This compared to 8% of 'against' votes for the prior year.

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Strategy alignment with the long term engagement and voting – 2023 continued

Voting on strategic long-term alignment

This chapter has demonstrated how we utilize our engagement and voting power to bring about change, where we believe executive compensation plans have not been structured in a way to create long-term alignment between shareholders and company management. In 2023, we voted against management on compensation 1,850 occasions (17% of the time). An additional case study follows up on our Howmet Aerospace case study, which appeared in last year's report.

Case study

Howmet Aerospace (HWM)	U.S.	Equity

Issue

We wrote last year about our concerns with the U.S. aerospace company's repeated use of 'one-time' awards. These awards resulted in outsized compensation levels for a mid-cap company, and we therefore voted against the plan. In engagements with the company, it explained that these awards were necessitated by a lack of succession candidates while committing to the adoption of a normal annual compensation program for any future CEO compensation.

Action

We engaged with HWM again ahead of the 2023 annual meeting and were pleased to see the company formalize its move to regular compensation planning. CEO John Plant did not receive any equity awards in 2023 but will be eligible for participation in the company's normal program beginning in 2024. His equity target value will be ~USD 14 million. That would put him towards the higher end of the peer group, but within range, and is justified by the strong performance of the company during his tenure.

Meanwhile, the company is building its succession plan, which involves both internal and external candidates.

Outcome

As a result of the changes the company made, we voted in favour of compensation at the annual meeting. The say-on-pay proposal received 98% support up from 53% last year.

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Engaging for Sustainable Outcomes

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 all peoples enjoy peace and prosperity. The rise of sustainable investing has coincided with the increasing adoption of the SDGs as a way of framing societal impact. As long-term investors, we understand the global challenges identified by the SDGs are likely to influence society for years to come and represent unmet societal needs that some companies are well-placed to address through innovative solutions. As part of identifying opportunities for our client accounts and, for clients with sustainable objectives, understanding how companies are measuring positive outcomes, our engagement identifies companies that tackle these global challenges as they facilitate a more sustainable future. By meeting these unmet societal needs, companies can create competitive advantages and access new markets. This can create the opportunity for attractive financial returns over the long term while contributing solutions to sustainability challenges.

Engagement with these companies aims to maximize the sustainable outcomes driven by investee companies, as those companies that successfully address these key societal needs efficiently are likely to benefit long-term, and those that successfully demonstrate the value of products for customers and stakeholders may gain a competitive advantage. Therefore, we identify companies which have identified growth drivers linked to addressing these societal needs and encourage them to better evidence positive outcomes for end users and allocate expenditures for research and development on these sustainable solutions.

We will seek to work with companies further as they develop outcome-oriented metrics and standardization within the industry increases. Engagement for sustainable outcomes may vary in approach depending on the sector and the outcome being sought, as data availability and ease of measurement differ greatly across possible social and environmental indicators. Nonetheless, our focus will remain on encouraging companies to address the most material societal challenges, with the goal of creating long-term value for the company and, with respect to our sustainable strategies, for society.

Engaging for Sustainable Outcomes continued

Case study

CNH Industrial | U.S. | Equities, Bonds

Issue

Precision agriculture offers the opportunity to reduce inputs such as water, pesticides and fertilizer through optimized, more efficient applications. Reducing these inputs lowers costs for farmers and lowers negative environmental impacts through water conservation and minimizing the application of chemicals.

CNH Industrial provides precision agriculture equipment. However, we do not believe the company evidences the positive environmental impacts and cost savings of its products as effectively as its peers. We believe precision agriculture is an opportunity for growth for CNH given cost savings and increasing desire for sustainability among customers.

Action

We met with CNH Industrial to discuss the market for precision agriculture, quantification of environmental benefits and solutions that lower emissions for farmers using CNH equipment.

CNH Industrial confirmed that all large equipment sales integrate some components of precision agriculture and that they categorize 900 million of sales as related to precision agriculture components, expecting this to be more than USD 1 billion in 2023. The company indicated that its acquisition of Raven, a precision agriculture company, in 2021 has added significantly to efforts in this market by making software faster and easier to integrate. We discussed examples of how these products and services can reduce the use of inputs, and therefore costs, for customers.

We also discussed solutions the company is exploring to lower emissions on farms. There are significant barriers to the electrification of farm equipment due to the time in field and size of machinery, making the weight of batteries unfeasible. However, CNH is investigating innovative methane-powered engines and possible novel service models offering methane collection services to farms, which may lead to additional new market opportunities.

Outcome

CNH provided quantified examples of how its products can reduce use of herbicides and water, to help demonstrate that CNH is providing solutions to address the challenges identified by SDG2 Zero Hunger. However, we noted that CNH could better evidence and quantify the environmental benefits, as well as cost savings, of its equipment through reporting. We will continue to encourage the company to disclose this information more transparently.

Stewardship in Alternative Markets

JPMAM's Global Alternatives team includes investment solutions in private equity, private debt, real assets (such as infrastructure and transport), and hedge funds. The level of influence over our investments in alternatives differs, based on our ownership structure, enabling differing levers for our stewardship of these assets. Stewardship in these examples may take a different form to our listed equity and debt strategies. Nevertheless, one principle remains the same across JPMAM, which is our commitment to the responsible allocation, management, and oversight of capital to maximize the value of our investments for our clients and beneficiaries.

Within private markets, our assets may be directly owned by our portfolios, and they may exercise significant influence. In our commercial forestry investments where we directly control assets, stewardship involves driving higher sustainability standards as part of responsible forestry management and afforestation practices. Similarly, where we tend to hold majority stakes in infrastructure assets, we will hold a board seat and exercise responsible ownership by holding the board accountable for sustainability performance and encouraging the adoption of higher standards to address financial risks and opportunities. In those assets where we hold a minority stake and may not manage the company day-to-day, we still exercise our influence by engaging with investee companies to ensure positive outcomes for our clients. For instance, we may partner with property managers in our real estate properties to ensure buildings meet the high-efficiency standards for resource use including energy, water and waste.

While maintaining the highest integrity and confidentiality between our public and private assets, the head of the global alternatives business is a member of JPMAM's Sustainable Investing Oversight Committee (SIOC). This helps promote the consistent understanding, assessment and application of sustainable investing and stewardship across JPMAM. Nevertheless, stewardship for global alternatives is managed directly by the portfolio management teams in light of the sensitivity of material, non-public information. As a result, the approach to stewardship across the alternatives business is unique to the underlying circumstances of the portfolio assets, as determined by the aims of the individual portfolio management teams. The Sustainable Investing team may offer support on the approach to alternative sustainable investing solutions and products, ESG integration and stewardship, but this will never include asset-specific information.

Standards of transparency and reporting within alternative investments are low, especially when compared to public markets. This is widely recognized across the industry, and much of our engagement within alternatives is geared towards procuring uniform ESG data from our investments. When we exert more influence due to majority ownership structures, data availability is higher, and our challenge involves standardizing and driving the highest standards possible through assurance. Where we do not have access to this data, our engagement relies on working in partnership to increase transparency on metrics we deem financially material. Tracking these KPIs over time will allow us to better manage risks within our investments.

Campbell Global

In 2021, JPMAM acquired Campbell Global, LLC, a timberland investment and management company, as part of providing investment opportunities related to climate, conservation, and biodiversity for clients who are looking for such opportunities. Within Campbell Global, we provide investment advisory services to longstanding commercial forestry businesses in the U.S. and globally. Campbell Global aims to have harvested trees replanted, open managed forests for recreational purposes, and report on our activities with precision and transparency. Campbell Global also tracks and discloses key performance indicators across many facets including GHG (greenhouse gas) accounting metrics and nature-based KPIs. This helps to monitor and manage ESG considerations over the active management phase of the investment horizon and is critical to help ensure the long-term sustainability of our clients' and beneficiaries' assets. To further demonstrate the commitment to responsible investing, Campbell Global ensures that 100% of our managed investments are certified by a third-party forest certification provider.

Stewardship in Alternative Markets continued

Case study

Campbell Global	U.S.	Alternatives

Issue

As an advisor to clients who own commercial forestry businesses, the foundation of our clients' capital value depends upon the sustainable management of forests, carbon, biodiversity, soil, species, and clean water. Given the critical role that nature plays in our clients' financial success, Campbell Global consistently works to enhance our ability to measure and monitor the environmental impact on our managed forests with the long-term goal of enhancing our clients' natural capital resources.

While measurement techniques for biodiversity are still at a nascent stage, we believe understanding the composition and abundance of species within our managed forests allows us to better evaluate the resilience of our clients' assets, as many indicators of biodiversity reflect the health of our clients' forest assets. Furthermore, local, federal, and/or international regulations and third-party certifications often have sustainable forest management standards that must be achieved to access local markets and, inherently, maximizing long-term returns for our clients.

Action

In 2023, to improve how we address biodiversity across our global portfolio of managed properties, Campbell Global examined both potential and current managed assets to identify and benchmark attributes necessary to establish a baseline. We also started rolling out biodiversity enhancement plans which identify areas of high conservation value; cultural/social conservation sites; rare, threatened, or endangered (RTE) species; along with opportunities for projects to promote conservation and/or biodiversity enhancement. Campbell Global is also developing species profiles for RTEs to specify how third-party forestry management activities (such as harvesting, road maintenance, etc.) should be conducted near migratory corridors, foraging habitats, and/or nests.

These plans will enable Campbell Global to track and measure baselines, benchmarks, and the impact of the projects that we identify during the rollout.

Outcome

We will continue to develop plans to enable us to identify and track vital indicators of healthy, sustainable forests. This systematic approach will allow us to create long-term value for our clients while improving our clients' natural resources.

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Proxy voting – How we utilized our voting rights in 2023

2023 highlighted the continued importance of using voting as an important lever of dispensing our stewardship responsibilities. High-profile topics including climate transition plans, board effectiveness, succession planning processes, and appropriate compensation programs continued to remain at the forefront of investor minds.

These topics, along with others including sustainability of supply chains, appropriate capital allocation, and stronger board and management diversity, saw overall dissent, globally, at company general meetings marginally higher than in 2022. In 2023, we also saw an uptick in the number of resolutions requiring companies to stop undertaking particular actions or policies with respect to environmental, social, or governance issues. While these types of resolutions are not new, the nature of the themes is changing and increasingly encompasses company climate action plans, diversity programs, and other environmental and social topics.

These topics, among others, have shaped a large part of the governance and related proxy voting work carried out by our investment and stewardship teams in 2023. We believe that the need to effectively use voting rights is important to encourage corporate practices that deliver long-term sustainable returns to shareholders.

An increase was seen again in 2023, from previous years, in the number of resolutions globally on environmental and social issues. We take seriously our responsibility to review these issues and carry out voting in a considered manner, using insights from our research and engagement with companies. Over 2023, we reviewed these environmental and social-related resolutions and supported those that aligned with our Investment Stewardship Priorities, where we believed voting in favour of such resolutions was in the best interests of our clients. However, where we found that the prescriptive nature of the resolution, particularly on some environmental issues, sought to micromanage companies and was not in our clients' best interests, we refrained from supporting these.

A phenomenon we observed in 2023 was an increase in the number of shareholder proposals received by some large companies. This has raised concerns about not just the ability of shareholders to engage meaningfully with management on all the proposals ahead of the shareholder meeting, but also the ability of management to focus their attention and resources to address the issues. In such situations, shareholders have responded by prioritizing the issues to engage with management, ahead of the shareholder meeting. Another development we saw was a single shareholder proposal requesting multiple asks of a company. Some of these may include one or two points which are financially material and valuable for investors to see the company address. However, we do not always support these resolutions if they are being bundled with other asks, which are either financially immaterial or not adding value to the company's success.

Our primary concern at all times is striving for the best economic interests of our clients and, as such, we vote in a manner that is intended to be beneficial to delivering the long-term value of the companies in which we invest. To facilitate this, we have established proxy voting guidelines covering global markets that are overseen by a network of regional proxy committees.

We strive to vote proxies at every meeting, except in markets or companies that impose restrictions on shareholders wanting to vote at general meetings, such as share-blocking. There also could be occasions where we are unable to cast a vote, due to a conflict of interest occurring or securities being out on loan as part of a client's securities lending program.

2023 voting[45]

In 2023, J.P. Morgan Asset Management voted on 94,684 proposals across 9,568 meetings and opposed management (either voting against or abstaining) approximately 9.3% of the time.

J.P. Morgan Asset Management voted with management on 85,883 proposals and voted against management on 8,801 proposals. An analysis of our voting activity shows the most common reasons for voting against management include directors not meeting our independence criteria, executive compensation plans

[45] Split votes are reflected in the statistics once based on the instruction for which the majority of votable shares was applied. There were 1,776 proposals with split votes globally, broken down as 49 in EMEA, 1,572 in Americas, 21 in Japan and 134 in Asia-Pacific ex-Japan. That includes 288 split votes on shareholder proposals, broken down as 2 in EMEA, 286 in Americas, 0 in Japan and 0 in Asia-Pacific ex-Japan.
Management and shareholder proposal tables are broken down based on ISS classifications, with some aggregations. Proposals for contested proxies are reflected once based on which proxy card was voted.
Meetings are assigned to regions based on the country location of the issuer.
This section includes a summary of voting data taken from our proxy adviser. Such information has not been audited.

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Proxy voting – How we utilized our voting rights in 2023 continued

that are either poorly aligned or inadequately disclosed and capital issuances that are either overly dilutive or not justified to shareholders. We also supported 1,222 shareholder proposals, including those related to social and environmental issues, such as climate risk, gender pay gaps and human rights. We abstained or withheld votes on 1,590 proposals.

J.P. Morgan Asset Management voting globally in 2023

Number of Votable Meetings	9,771
Number of Meetings Voted	9,568
Number of Proposals Voted	94,684
Number of Shareholder Proposals voted ‘for’	1,222
Votes with Management	85,883
Votes ‘against’ Management	8,801
Abstains	708
Withholds	882

Some key voting trends from the year include:

- Investors continue to press companies on the implementation of their climate transition plans, and 2023 was no different. However, investors are increasingly using voting on other AGM-related resolutions to highlight discontent on this issue beyond the company ‘say on climate’ resolutions or climate-related shareholder resolutions. We have seen investors target the election/re-election of board directors including the Chair, require climate and/or other ESG-related metrics be included in compensation programs, and also target capital-related resolutions over company capex concerns.
- A return to some core governance issues including board effectiveness, diversity, and succession planning. As diversity topics continue to occupy boardroom agendas, investors continued to use voting as a tool to address concerns on key diversity metrics across management teams and board directors. However, 2023 also saw a renewed emphasis on key topics including board effectiveness and succession planning. As businesses continue to face challenges including climate transition, a prolonged heightened inflationary environment, and the rise of AI, investors are keen to know that companies are not only appropriately resourced with the right skills and expertise to address these risks but also to take advantage of the opportunities that arise from the changing landscape.
- Shareholder proposals regarding environmental, social, and governance issues continued to rise in 2023, requesting companies implement certain policies, take a particular action or provide particular disclosures. However, 2023 also saw an increase in the number of resolutions requiring companies to stop undertaking particular actions or policies with respect to environmental, social, or governance issues. As noted earlier, while these types of resolutions are not new, the nature of the themes is changing and increasingly encompasses company climate action plans, diversity programs, and other environmental and social topics. While support for these resolutions remained low in 2023, we expect to see similar resolutions tabled throughout the 2024 voting season.
- Companies were keen to highlight to investors the increasingly global market from which they draw talent and the need for their remuneration programs to be competitive to recruit and retain executive management. However, investors highlighted the need for companies to be responsive to shareholder concerns, such as aligning compensation with long-term performance or wider employee workforce pay and conditions. Where this balance was not met, investors used their voting to highlight their dissent.

All of the trends mentioned link to our six Investment Stewardship Priorities: Climate change, natural capital and ecosystems, human capital management, social stakeholder engagement, governance, and strategy alignment with the long term.

Please see the relevant sections for further engagement and specific voting examples.

As we look to 2024, we will continue to monitor how companies continue to address key themes, including climate change risks and opportunities, executive pay and wider financially material ESG considerations, effective board oversight, robust succession planning, and assurance of material ESG practices.

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Proxy voting – How we utilized our voting rights in 2023 continued

2023 voting in detail

	Global	%	EMEA	%	Americas	%	Japan	%	Asia ex-Japan	%
Number of votable meetings	9,771		2,064		4,031		529		3,147	
Number of meetings voted	9,568	98%	1,873	91%	4,023	100%	529	100%	3,143	100%
Number of votable proposals	96,666		31,366		36,491		6,146		22,663	
Number of proposals voted	94,684	98%	29,591	94%	36,307	100%	6,146	100%	22,640	100%
Number of shareholder proposals voted ‘for’	1,222		136		228		33		825	
Votes with management	85,883	91%	27,521	93%	33,652	93%	5,393	88%	19,317	85%
Votes ‘against’ management	8,801	9%	2,070	7%	2,655	7%	753	12%	3,323	15%
Abstains	708	1%	295	1%	360	1%	-	0%	53	0%
Withholds	882	1%	-	0%	867	2%	-	0%	15	0%
Abstain and withholds aggregated	1,590	2%	295	1%	1,227	3%	-	0%	68	0%

Management proposals

		Global	EMEA	Americas	Japan	Asia ex Japan
Director Elections	Support	37,515	7,255	21,907	4,194	4,159
	Not Support	3,051	613	1,300	577	561
	Abstain	525	273	231	-	21
Director-related	Support	5,318	3,214	571	517	1,016
	Not Support	889	193	280	67	349
	Abstain	138	2	112	-	24
Compensation	Support	8,731	3,592	3,292	158	1,689
	Not Support	1,850	648	661	5	536
	Abstain	1	-	-	-	1
Capitalization	Support	7,158	3,888	462	2	2,806
	Not Support	796	179	58	-	559
	Abstain	-	-	-	-	-
Mergers & Transactions	Support	3,947	1,147	584	9	2,207
	Not Support	732	80	24	6	622
	Abstain	4	-	-	-	4
Company Articles	Support	2,059	797	261	107	894
	Not Support	353	77	34	13	229
	Abstain	4	-	1	-	3

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Proxy voting – How we utilized our voting rights in 2023 continued

		Global	EMEA	Americas	Japan	Asia ex Japan
Routine Business/ Miscellaneous	Support	16,357	6,458	3,974	290	5,635
	Not Support	701	250	49	52	350
	Abstain	6	4	2	-	-
Environmental & Social	Support	353	329	4	-	20
	Not Support	33	25	-	-	8
	Abstain	-	-	-	-	-
Other	Support	236	158	60	-	18
	Not Support	62	53	9	-	-
	Abstain	19	13	6	-	-

Shareholder proposals

		Global	EMEA	Americas	Japan	APAC ex Japan
Environmental	Support	39	3	26	9	1
	Not Support	157	20	91	40	6
	Abstain	-	-	-	-	-
Social	Support	45	1	43	1	-
	Not Support	196	5	191	-	-
	Abstain	-	-	-	-	-
Director Elections	Support	621	58	56	4	503
	Not Support	131	59	21	12	39
	Abstain	9	3	6	-	-
Director-related	Support	74	46	16	3	9
	Not Support	105	11	86	6	2
	Abstain	-	-	-	-	-
Governance excluding Directors	Support	63	2	38	4	19
	Not Support	156	15	120	7	14
	Abstain	-	-	-	-	-
Other Proposals	Support	380	26	49	12	293
	Not Support	256	93	69	51	43
	Abstain	2	-	2	-	-

Management and shareholder proposal tables are broken down based on ISS classifications, with some aggregations. Proposals for contested proxies are reflected one time based on which proxy card was voted.

Meetings are assigned to regions based on country location of the issuer. This methodology is different from last year's report, which used location of the account holding the security. Regional totals are therefore not comparable vs last year's report.

Proxy voting – How we utilized our voting rights in 2023 continued

Proxy voting process in detail

We vote shares held in our clients' portfolios based on our reasonable judgment of what will best serve the long-term interests of our clients, in accordance with the legal standards applicable to the particular client account.

Globally, we have the ability to flag certain shareholder meetings in our proxy voting system to allow extra scrutiny in certain cases. These include material investment positions where there are contentious resolutions, where engagement is ongoing following a controversy or where corporate actions are being decided, such as mergers and acquisitions or major disposals. We also consider additional analysis voting resolutions at companies where our in-house research has identified material ESG-related issues. We also assess companies where engagement has not progressed sufficiently and voting action is used to escalate the engagement (please see the section on *Our Approach to Engagement*).

As part of the review process, and to ensure we are voting the fullest position we can do so, we reconcile our internal record of holdings with voting rights available to us for company general meetings. Where we vote against management, we may write to the companies after the vote, or engage before voting, to inform them of the reasons behind our actions. We feel this is an effective engagement approach to share our views with the board on key issues where we have concerns. This helps encourage further dialogue with directors on important corporate governance matters.

In 2023, J.P. Morgan Asset Management voted at 9,568 meetings, representing 97.9% of meetings where we had a legal right to do so. Unvoted meetings related primarily to markets that have share-blocking requirements in place or where other onerous administrative requirements make it difficult for J.P. Morgan Asset Management to exercise its votes.

Many of the resolutions at general meetings relate to routine business. At companies where we have not identified any material corporate governance concerns, we have identified certain votes that we deem significant. We define significant votes as those where we are a major shareholder in our portfolios, where the vote is likely to be close or contentious or where there may be potential material consequences for our clients. We would also include certain categories of shareholder proposals and votes in relation to companies or issues identified on our focus list for engagement as potentially significant votes. Some examples of these votes are presented in each of the six Investment Stewardship Priorities sections of this report.

J.P. Morgan Asset Management publicly discloses its voting for certain accounts. In 2023, we continued to provide transparency of our voting through a third-party vote disclosure service, which is updated on a quarterly basis and contains the voting record, at company level, for all meetings voted for global companies held in our European fund range in the preceding quarter. The voting reports are available here. The proxy voting record for J.P. Morgan U.S. mutual funds and ETFs is filed publicly on Form N-PX and is available here.

Proxy voting rules and oversight

We have comprehensive proxy voting guidelines in each region, covering 1) North America; 2) Europe, the Middle East, Africa, Central America and South America; 3) Asia ex-Japan; and 4) Japan. These take into account good practice recommendations from the International Corporate Governance Network and the OECD, along with local market best practice guidelines, among others.

Overall responsibility for the formulation of proxy voting guidelines rests with the regional Proxy Committees, whose role is to review J.P. Morgan Asset Management's proxy voting guidelines with respect to investee companies and to provide an escalation point for voting and corporate governance issues. The committees are composed of senior research analysts, portfolio managers, the global head of stewardship (who sits on each regional committee) and members of the Investment Stewardship team, as well as legal, compliance, operations and risk specialists. The committees escalate to the J.P. Morgan Asset Management Sustainable Investing Oversight Committee (SIOC).

Our Global Proxy Voting Guidelines document can be found here.

We have developed North American Sustainable Strategy Proxy Voting Guidelines that are designed to align proxy voting decisions within scope of sustainable strategy accounts' objectives and strategies. As part of our continued efforts to accommodate varying client voting preferences, as of the end of 2023, we are in the process of evaluating whether to refine voting guidelines in other regions.

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Proxy voting – How we utilized our voting rights in 2023 continued

Sustainability-Related Shareholder Proposals

There has been an increase in shareholder proposals related to environmental and social issues. These proposals vary in quality and nature, and we outline our approach below, using climate change as an example.

We generally support climate-related shareholder resolutions on:

- Strategy and governance: companies having senior-level oversight of climate risks and opportunities; establishing a stated position on climate change; or being transparent on relevant capital allocation and corporate expenditures.
- Climate risk disclosure: companies reporting regularly on climate risks, such as following recommendations from the Task Force for Climate-related Financial Disclosures.
- Lobbying: we expect companies to lobby in a manner that is consistent with their publicly stated position, given the potential reputation risk.

Apart from shareholder proposals, we also have proxy voting guidelines related to how we vote with respect to director elections when we do not believe there has been adequate oversight or disclosure related to material climate risk (effective April 1, 2024).

Many economies are responding to climate change with regulations as well as policies to drive decarbonization. In our view, climate change has become a material risk to the strategy and financial performance of many companies.

JPMAM may vote 'against' directors serving on relevant committees of companies that, in our opinion, face material climate-related transition or asset risks, where such disclosures are not available or where we believe such disclosures are not meaningful. JPMAM may also vote 'for' shareholder resolutions requesting such information where the company has not provided such disclosure.

To provide shareholders with meaningful disclosures on how the company is addressing risks related to climate change:

- We encourage disclosures aligned with the reporting framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) addressing all the four pillars of the TCFD – (i) governance, (ii) strategy, (iii) risk management and (iv) metrics and targets related to any performance indicators used to manage such risks.
- For industries where we believe climate change risks pose material financial risks, we encourage comprehensive TCFD reporting (or equivalent) including scenario analysis to help us understand the resilience of a company's strategy.
- We encourage disclosures of Scope 1 and 2 GHG emission targets, where decarbonization of a company's operations and purchased energy has been identified by the company as a key part of the company's strategy to manage climate change risks.
- We note many companies have chosen to set long-term net zero targets. In order for us to evaluate the long-term credibility of transition plans, where such long-term targets are set, we encourage the company to disclose the scope of emissions included in such targets. We recognize the many challenges associated with reporting Scope 3 emissions. While we understand the limitations associated with reporting Scope 3 emissions, we would expect companies that have included such emissions in their net zero targets to disclose their Scope 3 emissions. We also expect disclosures of interim emission reduction targets where the company has set long-term net zero targets.
- We encourage disclosure on past performance against emission reduction goals, and forward-looking strategies to achieve emission reduction goals, including use of offsets and corporate transactions.

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Proxy voting – How we utilized our voting rights in 2023 continued

The board of directors is critical in formulating and executing company strategy. While we do not support the use of shareholder proposals to diminish the authority of the board, if the board recommends a vote against a climate-related shareholder proposal, we expect boards to clearly articulate the rationale supporting their recommendation. The board's response should clearly explain why the implementation of disclosures or actions requested by the shareholder proposal would be detrimental to shareholder value.

For shareholder proposals that require companies to stop undertaking certain actions, we evaluate proposals case-by-case. We do not believe that supporting all climate resolutions as a matter of policy will benefit the portfolio and may lead to poorer outcomes for clients and potentially further damage the environment. In order for a policy-based approach to these resolutions to be positive for a client portfolio, all public companies in a sector would need to receive similar shareholder proposals and respond similarly, and private companies, state-owned enterprises or private companies would not fill any output gaps created by publicly owned companies.[46] We believe that these conditions are unlikely to hold true. Therefore, a policy-based approach may lead to a transfer of value from our clients' portfolios to other parties, and the beneficiaries of such policies would be companies that are not subject to the same high operating standards, leading to worse environmental outcomes.

Next steps on climate action are becoming increasingly complex, as reflected by increasingly complex and stringent shareholder proposals. Therefore, a rules-based approach is not sophisticated enough for these resolutions. However, JPMAM has standard principles that it utilizes to evaluate such proposals, and our recently updated Voting Guidelines, effective from April 1, 2024, have a section dedicated to voting related to climate risks. Our case-by-case decisions on shareholder resolutions are research-driven and informed by long-term, in-depth knowledge of the companies and their business environment.

Split voting and administrative support for client voting

J.P. Morgan Asset Management's voting policy and guidelines are developed and enhanced based on the principles of good corporate governance and the deliberations of senior research analysts, portfolio managers and the Investment Stewardship team, as well as legal, compliance and risk specialists as members of the Proxy Committees. As part of these deliberations, portfolio manager views, including considerations of what is in the best interest of our clients, will form a significant part of the review process in determining how we continue to evolve our policy and how we vote at company general meetings. We typically vote in a consistent manner given that, what is in the best interests of our clients, does not differ based on differences in investment strategies. However, we recognize that there are occasions where it may not be in the best interest of our clients to vote our entire holdings, across all strategies, in a consistent manner. We have built into our proxy process the ability of each portfolio management team to vote the proxies of shares held in their clients' accounts in the manner they deem consistent with their proprietary views of what is in the best interest of their client accounts. Each portfolio management team is permitted to vote in a manner that is contrary to the decisions of other portfolio management teams. An example of this in 2023 can be found in the CRH case study below.

Over the year we have seen increased requests from a small number of institutional clients to be provided with enhanced voting choices and administrative support to clients for them to vote their proxies. For such clients who have retained proxy voting decision making authority, this optionality may allow them to align their voting with their own governance policies and positions. As a result of these requests, we have established a process for institutional segregated clients in separately managed accounts to be able to implement their own choice of voting policy through the existing JPMAM proxy voting infrastructure and operational platform. However, as the client votes and makes the voting decision according to their own policies or the policies of a third party and we do not have proxy voting discretion, such proxy voting decisions will not be informed by the active insights of our investors and stewardship teams.

46 https://www.brookings.edu/articles/reducing-us-oil-demand-not-production-is-the-way-forward-for-the-climate/

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Proxy voting – How we utilized our voting rights in 2023 continued

Case study

CRH Plc	UK	Equity

Issue

As part of the announcement of its final results earlier last year, CRH, a London-listed building materials company, informed shareholders that they intended to seek a primary listing in the US. The company believed that a U.S. listing would mean enhanced commercial, operational, and acquisition opportunities; and deliver higher levels of profitability, returns, and cash. However, the loss of a primary listing on the UK market would mean that CRH would no longer be an eligible asset for some of our UK Equity funds.

Action

Recognizing that, while there may be some benefits to a shift in primary listing, it would not be in the best interest of all of our clients to vote consistently, we used our established governance process and escalated this case to the EMEA Proxy Committee. As part of the committee deliberations, the benefits of the primary listing shift and the arguments against were presented and discussed. While global funds could continue to benefit from the potential enhanced growth opportunities as part of the shift in listing, UK-based shareholders would lose an attractive quality stock and the diversity benefits if the company lost its primary UK listing.

Outcome

The Proxy Committee affirmed the proposal to adopt a split vote in this instance and portfolio managers exercised their judgement and voted their accounts in the best interest of their respective clients.

Use of proxy advisors and voting guidelines

To assist us in the filing of proxies, J.P. Morgan Asset Management retains the services of Institutional Shareholder Services Inc. (ISS), a proxy voting services advisor. As part of this service, ISS assists with functions, such as coordinating with client custodians to ensure that all proxy materials are processed in a timely fashion, recordkeeping, acting as an agent to execute JPMAM's Proxy Voting Guidelines, providing proxy research and analysis, and to provide certain conflict of interest-related services. To assist us with our voting research on a broad range of related sustainability and governance issues, we also retain the services of Morgan Stanley Capital International's ESG research service (MSCI ESG), Sustainalytics, CDP, Glass Lewis and ISS-. While JPMAM recognizes the contribution of proxy advisors and uses the research of certain proxy advisors as one of several inputs into the voting process, JPMAM has developed its own proxy voting guidelines and determines in–house how JPMAM will vote on any particular proxy voting issue. Importantly, such proxy advisors do not determine how JPMAM votes proxies except in certain limited situations such as to manage material conflicts of interest.[47]

More information on this can be found in the Monitoring Service Provider's section.

[47] A conflict is deemed to exist, for example, when the proxy is for JPMC or for J.P. Morgan Funds, or when the proxy administrator has actual knowledge indicating that an affiliate is an investment banker or rendered a fairness opinion with respect to the matter that is the subject of the proxy vote. When such conflicts are identified, the proxy ordinarily should be voted as determined by the independent third party.

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Proxy voting – How we utilized our voting rights in 2023 continued

Stewardship and fixed income investments

In EMEA, as a bondholder we may, on occasion, have the right to vote proxies on issues that affect our bond investments. We do not have specific guidelines for these types of meetings as we consider each case on its own merits in terms of investment outcome for our clients and beneficiaries.

More broadly, we conduct extensive engagements through ongoing dialogue with issuers including at the time of new issuance with bond issuers on bondholder related governance, transparency of covenants, review of transaction documents and other issues such as use of proceeds. These include discussions with bond-only issuers that do not have public equities issued.

We also are active in industry dialogue on fixed income investor issues. We have participated in a number of bond market-focused groups. This has included a working group studying the high yield bond market characteristics alongside the Green and Social Bond Principles. For more details, please refer to the Collaborative Initiatives and Managing Risks section.

Stock or securities lending

Certain clients participate in a securities lending program. As title passes in a securities lending transaction, client accounts are not permitted to vote proxies where the securities are out on loan over the record date. In most cases, JPMAM is not involved in a client's securities lending arrangements and ordinarily will not have the ability to restrict securities from being lent or recall securities from loan-to-vote securities. For the accounts where JPMAM is involved in the securities lending arrangement and has expressly agreed with the client, JPMAM will determine if it should recall securities on loans to vote proxies when it believes a vote is material with respect to an investment such as when JPMAM believes its participation in a vote is necessary to preserve the long- term value of an investment or in highly contested issue for which JPMAM believes its vote is important to the account's strategy.

Proxy voting review and assurance

The J.P. Morgan Asset Management Investment Stewardship team annually reviews all global proxy voting guidelines, which are made available on our website. These are approved on an annual basis by the applicable J.P. Morgan Asset Management Regional Proxy Committee, which is composed of investors, stewardship specialists and control function partners. It acts as an oversight function.

Regular reviews are conducted by internal control partners on committee materials to ensure consistency across each region and to track the attendance of the committee members. Additionally, our Control Management function performs periodic evaluations over the design and effectiveness of our proxy voting controls. We also conduct periodic internal audits of our stewardship activities, which include proxy voting and have committed to auditing our proxy voting process in line with ISAE3402 standards.

In Japan, our proxy voting activity is required to abide by the guidelines of the Investment Trusts Association, Japan (JITA), as well as the Japan Investment Advisers Association (JIAA), and to comply with Japan's Stewardship Code as a signatory to the code. Further details are described in the Internal and External assurance sections.

Part 2

Structures and practices supporting stewardship

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J.P. Morgan Asset Management – Who we are

JPMorgan Chase & Co.

JPMorgan Chase & Co. (the 'Firm') is a leading financial services firm based in the United States of America ('U.S.'), with operations worldwide.

JPMorgan Chase & Co. had 3.9 trillion in assets and USD 328 billion in stockholders' equity as of December 31, 2023. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing and asset management. Under the JPMorgan and Chase & Co. brands, the Firm serves millions of customers in the U.S. and globally including many of the world's most prominent corporate, institutional and government clients.[48]

J.P. Morgan Asset & Wealth Management

J.P. Morgan Asset & Wealth Management is a global leader in asset and wealth management services. The Asset & Wealth Management line of business serves institutional, ultra-high net worth, high net worth and individual clients. With combined overall client assets of USD 5 trillion and assets under management of USD 3.4 trillion as of December 31, 2023, we are one of the largest asset and wealth managers in the world.

J.P. Morgan Asset Management (JPMAM) is the marketing name for the investment management businesses of JPMorgan Chase & Co. and its affiliates worldwide. Unless otherwise noted, the focus of this report throughout is on J.P. Morgan Asset Management.[49]

It is a leading investment manager of choice for institutions, financial intermediaries, and individual investors, offering a broad range of core and alternative strategies, with investment professionals operating in every major world market providing investment expertise and insights to clients. J.P. Morgan Asset Management oversees more than USD 2.9 trillion in client assets under management globally as of December 31, 2023.

Our purpose

At J.P. Morgan Asset Management, we strive to deliver superior investment capabilities and insights to help our clients achieve their most important financial objectives.

This aligns with our fiduciary duty to act in the best interest of our clients. We are passionate about offering a global depth and breadth of investment solutions supported by dedicated market experts and continual reinvestment in tools, technology, and operational excellence. Our aim is to empower better investment decisions by providing investment insights that tap into over 150 years of investment experience.

We believe that robust investment stewardship practices are important to delivering on our fiduciary duty. As defined by the Financial Reporting Council ('FRC'),[50] "Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society." The key tenets of this definition of stewardship align with the spirit and purpose of our fiduciary approach, grounded in enhancing and protecting investment returns to produce better client outcomes through an expectation of high standards for corporate responsibility in companies in which we invest.

[48] This report describes J.P. Morgan Asset Management's approach to investment stewardship. Please note that J.P. Morgan Asset Management's approaches are separate from JPMorgan Chase & Co. References to "we" or "our" in this document refer to J.P. Morgan Asset Management and not JPMorgan Chase & Co.

[49] In 2023, J.P. Morgan Asset Management acquired 100% ownership of its former China joint venture, which has now been renamed as JPMorgan Asset Management (China) Company Limited ("JPMAM China"). Integration of JPMAM China into the global framework of J.P. Morgan Asset Management is currently in progress. Descriptions in this report concerning J.P. Morgan Asset Management, therefore, may not fully apply to JPMAM China at the time of publication.

[50] The FRC is a UK executive non-departmental public body sponsored by the Department for Business and Trade. The FRC promotes transparency and integrity in business. It regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes.

J.P. Morgan Asset Management – **Who we are** continued

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In this report, we strive to outline the activities, as well as the outcomes, that we believe point to how we contribute to driving long-term value creation:

- Through our ongoing policy advocacy efforts to support the integrity of capital markets.
- By incorporating financially material ESG considerations in active investment capabilities.[51]
- Through empowering our clients to make informed choices coupled with a relentless focus on helping them achieve their financial objectives.

Our business model and strategy

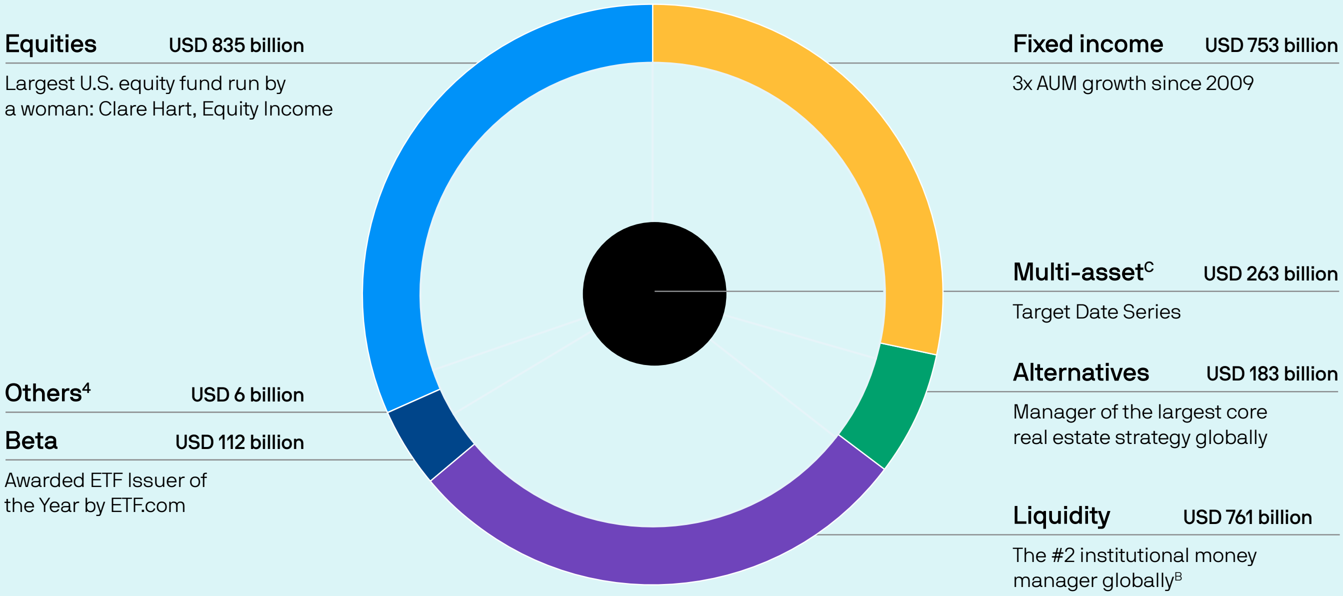
As a global asset manager, we provide investment services for institutions, intermediaries, and individuals alike, including doing business with 61% of the world's largest pension funds, sovereign wealth funds and central banks. [52]

Our fiduciary commitment to client outcomes extends across the investment services that we provide to all key client segments that we serve, including, but not limited to, the following client types: Defined Benefit, Defined Contribution, Insurance, Endowments & Foundations, Sovereigns, Intermediaries & Fund Management, Healthcare Providers and Corporate Treasury.

To help these clients build stronger portfolios to meet their needs, we offer a global breadth and depth of investment solutions across equities, fixed income, alternatives, solutions, global liquidity and beta.

Our investment platforms

Over USD 2.9tn AUM[A]



Note: AUM as of December 31, 2023.
Source: J.P. Morgan Asset Management; as of 31 December 2023. Due to rounding, data may not always add up to the total AUM. AUMs shown do not include custom glide path and retail advisory assets.
[A] AUM by asset class includes AUM managed on behalf of other investment teams. [B] iMoneyNet Fund Analyzer, iMoneyNet and iMoneyNet Offshore; based on AUM data as of 31 December 2023. [C] Includes $10bn of Solutions Direct AUM. [D] Others represent 55ip, Derivatives.

[51] In actively managed assets deemed by J.P. Morgan Asset Management to be ESG-integrated under our governance process, we systematically assess financially material ESG factors including sustainability risks in our investment decisions with the goals of managing risk and improving long-term returns. ESG integration does not change a strategy's investment objective, exclude specific types of companies or constrain a strategy's investable universe unless the offering document or investment policies for the strategy provide otherwise.

[52] JPMorgan Chase & Co., CEO letter to Shareholders, 2022 Annual Report.

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J.P. Morgan Asset Management – Who we are continued

How J.P. Morgan Asset Management considers ESG

J.P. Morgan Asset Management considers financially material environmental, social and governance (ESG) factors as important considerations for investors when assessing an investee company's performance. Consideration of financially material ESG factors can be used both to mitigate risk and unlock opportunities in an investment portfolio. ESG factors encompass a wide range of issues that can be important for investors, including, but not limited to, climate risk, natural resources use, human capital management, diversity, business conduct, governance practices, shareholder rights and executive compensation.

Our culture and values

We believe clients choose J.P. Morgan Asset Management to manage their assets because we have withstood the test of time and positioned ourselves to be market leaders for decades to come. Our management demonstrates these values by consistently investing in the strength and resilience of our business and fostering solid, long-lasting client relationships.

We encourage this long-term focus as a foundational aspect of our Firm-wide business principles, which call on all our employees to act and think like long-term owners and partners.

At the heart of J.P. Morgan Asset Management's values is a relentless focus on long-term performance, as well as doing first-class business in a first-class way, year after year, and decade after decade.

We uphold a culture that reinforces integrity, fairness and responsibility and we are committed to creating an environment of respect and inclusion where our employees, clients and partners feel welcomed and valued.

As part of this approach, we undertake continuous efforts to advance an inclusive workplace culture, consistent with our expectations of the investee companies with whom we engage as part of our stewardship commitments.

Specifically within Asset & Wealth Management (AWM), we are proud to count ourselves among a group of industry asset managers, globally, that is run by a woman – Mary Erdoes, Chief Executive Officer (CEO), AWM, who was recognized again as the Most Powerful Woman in Finance.[53] In addition, 23% of our fund managers, globally, are women and they manage or co-manage 34.6% of our total global assets.[54] We are proud of the diversity of our company, but recognize that there is more work to be done. We are committed to taking an inclusive approach to the work we do and to maintaining a first-class, sustainable business. We believe our success and the success of our clients are directly linked to our culture of respect, equity and inclusion, which promotes innovation and stronger decision making within portfolio management. For more information, please refer to the section on *Our Approach to Promoting Diversity, Equity, and Inclusion*.

53 American Banker Magazine, September 2023.
54 Source: J.P. Morgan Asset Management 2022.

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J.P. Morgan Asset Management – Who we are continued

Actions taken to ensure our investment beliefs, strategy and culture enable effective stewardship

As part of our broader, overall focus on meeting specific client needs by delivering strong investment performance across a range of global investment solutions, our stewardship efforts seek to contribute to long-term value creation by facilitating responsible capital allocation.

We do this through the incorporation of financially material ESG factors in investment processes for actively managed accounts that have gone through our governance process as part of our investment decision making. We also utilize our voice, as active owners, in our investee companies to strive to encourage changes that we believe manage risks and create long-term value for our clients.

Throughout 2023, we have taken several steps to further embed these considerations across our business.

In concert with these efforts, as a reflection of our broader, ongoing commitment to take actions that support effective stewardship across our approaches, to how we invest on behalf of our clients as a fiduciary, and to how we foster our corporate culture, we continue to take several key steps based on opportunities that we have identified to improve, such as the following activities:

- We have continued to enhance internal governance to create greater oversight and accountability of our sustainable investing activities, by assessing the effectiveness of the Sustainable Investing Oversight Committee (SIOC) during the reporting period. Further information is detailed in the Governance of Stewardship section.
- We conducted a review of our proxy voting practices. This resulted in a series of enhancements including developing and rolling out a proprietary in-house voting interface in our Spectrum technology suite, which allows better proxy voting workflow, including the integration of our voting decision-making practices with our research and investment decision-making approach. We also harmonized the operational practices to promote increased efficiency and avoid duplication of effort.
- For clients in separately managed accounts who have not delegated proxy voting authority to J.P. Morgan Asset Management, we helped facilitate their own proxy voting by providing administrative support to allow them to vote in accordance with a third party or custom client voting policy as selected by such clients. This provides clients with greater choice in determining whether they want to make their own proxy voting decisions using their own or a third party's proxy voting guidelines or delegate proxy voting to us to be voted by J.P. Morgan Asset Management's proxy voting guidelines.
- We have taken steps to deepen our climate research capabilities by developing in-house tools that can be used for both investment and stewardship activities to assess sector specific decarbonisation targets set by companies in different industries. These capabilities help us analyze whether a company's stated plans for addressing climate change risks and opportunities are credible.

In 2023, we published JPMAM's second report under the Task Force on Climate-related Financial Disclosures (TCFD) framework as part of our own transparency reporting.

These are detailed further in the report in the relevant sections.

Alongside these changes, in the summer we conducted what has now become an annual strategy implementation review into the effectiveness of our stewardship practices to identify specific areas of improvement to facilitate continuous improvement. This process included considering insights on industry stewardship practices from a wide range of stakeholders, including clients, alongside regulators and relevant oversight bodies, such as the UK Financial Reporting Council and the Taiwan Stock Exchange. The most material areas where we improved our practices are highlighted in the table below. It also shows areas for continuous improvement and potential further review in 2024. Full details can be found in the relevant sections of this report.

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J.P. Morgan Asset Management – Who we are continued

Key areas of reform

Key Areas of Reform	2023 Improvement Outcomes	2024 Next Steps
Governance	Provided ongoing education and training of SIOC members on new trends as well as regulatory and industry developments in sustainable investing and stewardship	Further strengthen governance and develop oversight processes related to strategies that employ values and norms-based exclusions. This enhanced process started in late 2023 with the establishment a new investor-led[55] forum to analyse companies that appear on third-party values and norms-based exclusions lists.
Engagement approach	Initiated an engagement program to understand how companies are managing climate change, including the credibility of any decarbonisation targets they set, as part of managing risks and contributing to long-term shareholder value. Increased engagement with sovereign and sovereign-linked issuers, especially in emerging markets on sustainability issues that we believe pose risks to and create opportunities for our client portfolios Published a research report into a new priority theme for 2023 - natural capital and ecosystems/ biodiversity. Initiated engagement on water and plastic waste to understand how companies are managing resources and reputational risks associated with resource usage and waste	Explore increasing engagement with mainland Chinese companies which only have onshore listings. This comes following the assumption of ownership in early 2023 of our China joint venture, which was renamed as JPMorgan Asset Management (China) Company Limited
Client needs	Organized a series of client education events on climate investment and stewardship for European institutional clients, who are implementing their own decarbonisation strategies. This covered research, investment and engagement with analysts, portfolio managers and specialists travelling to multiple cities across the region. Hosted a presentation on the role of engagement in our investment process at our Asia Global Research Summit for hundreds of regional client representatives	Expand client education events and workshops to other countries and regions such as in Asia, in response to requests from clients.
Proxy voting	Developed climate change voting guidelines which will be implemented for the 2024 voting season Reviewed proxy voting practice and implemented new technology to cast our votes Implemented provision of more voting choices for clients in separately managed accounts	Leverage the existing North American sustainable Voting Guidelines to develop and implement Sustainable Voting Guidelines for sustainable funds and mandates for other regions

55 For purposes of this report, the term investors refers to portfolio managers and research analysts within J.P. Morgan Asset Management.

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J.P. Morgan Asset Management – Who we are continued

Outcomes

The actions we have taken during the 2023 reporting period build on the significant uplift to our Stewardship practices over the past two years. We have taken stock of the broad reforms implemented and reflected on the effectiveness of our practices as well as extensive feedback from external stakeholders such as regulators and clients.

A particular focus has been to develop our research, data tools and technology in three key areas related to our Stewardship practice:

1. Climate change decarbonization target assessment tool that allows us to better analyze a company's stated decarbonization plans;
2. Natural capital and ecosystems/biodiversity research; and
3. Proxy voting interface integrated with Spectrum, our investment management and research tool.

All of these projects and initiatives helped to improve our ability to conduct more in-depth research-driven engagement and voting, and better understand the effectiveness of our stewardship program over time. The initiatives detailed above and our ongoing efforts to assess their effectiveness are discussed in greater detail throughout the report. As we continue to further incorporate stewardship within our business, we look forward to providing ongoing transparency into our efforts as we further enhance our practices.

Our ambition is to continue to build a leading role in stewardship, as well as to regularly assess how we can improve on the journey.

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Governance of stewardship

We believe investment stewardship creates value for our clients around the world, across asset classes. Our governance practices in stewardship and sustainable investing are structured to meet the constantly evolving challenges faced by a large, global, and complex asset management company.

We are one of the world's largest investment managers by assets under management, with investment teams across multiple asset classes based in locations around the world and clients globally across different segment types with evolving needs (for further details on our investment teams and clients please refer to the ESG Integration and Meeting Client Needs sections respectively). Our starting philosophy is that stewardship should be enabled for investments globally across all asset classes, investment styles, client types and regulatory regimes.

In reflection of the size, scope, and complexity of our company, J.P. Morgan Asset Management has established governance practices around stewardship and sustainable investing that are global and across asset classes in remit, spanning the material sustainability and corporate governance issues in our investments. Throughout 2023, we worked to further formalize and embed these practices as a standard part of our investment decision-making and oversight. This section contains further details about the actions taken this year.

Our governance framework for effective stewardship is designed with oversight from the top of JPMAM, led by the Chief Executive Officer (CEO) of Asset Management and fellow senior executives. Additionally, J.P. Morgan Asset Management's Sustainable Investing Oversight Committee (SIOC), co-chaired by the Global Head of Sustainable Investing and the Global Head of Sustainable Investing Integration, has the remit of directly overseeing stewardship and sustainable investing activities. It is the central group which is accountable for ESG-related matters.

SIOC serves as a single point of ongoing strategic oversight, effective decision making, review, and assurance across the key components of sustainable investing. This includes engagement, proxy voting, sustainable investment criteria, and oversight of ESG integration, as well as regulatory developments. Related policies, programs, targets and performance are overseen by this group.

The committee is co-chaired by the Global Head of Sustainable Investing and the Global Head of Sustainable Investing Integration. Members include Chief Investment Officers (CIOs) and heads of control functions such as Risk and Compliance, as well as non-voting members including the Global Head of Investment Stewardship and JPMAM's General Counsel. A direct line of senior responsibility derives from two aspects so that SIOC is accountable, credible, and representative of sustainable investing activities within investment teams and senior management:

- Strategic oversight of sustainable investing activities provided to SIOC by the heads of investment teams, the Global Head of Sustainable Investing and the Global Head of Sustainable Investing Integration through their participation in day-to-day management meetings across their asset classes and with senior management. This enables monitoring of stewardship effectiveness and key performance indicators and establishes a clear line of escalation and accountability as invitees provide updates to SIOC, where applicable. More information on the responsibilities of the heads of investment teams/ CIOs can be found within the section on *People and Resources*.
- Where and when required from a control and risk oversight perspective, formal escalation from SIOC is to the Global Asset Management Business Control Committee (AM BCC) and the AM Bank Fiduciary Committee (for specific fiduciary responsibilities). The AM BCC Committee provides oversight of the operational risks and control environment across the entire asset management business, with respect to proper identification, management and monitoring of existing and emerging operational risks, control issues and trends. This committee, which is co-chaired by the AM CEO and AM Business Control manager, includes decision-making members comprising all heads of controls functions, CIOs across all asset classes/product groups and heads of all major business areas.

SIOC's original meeting schedule contemplated regular quarterly meetings with additional meetings as needed. SIOC met six times in 2023 as part of its continuing oversight of the issues of increasing importance to our business. Currently, SIOC is scheduled to meet seven times in 2024, and at least once per quarter.

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Governance of stewardship continued

Below is an overview of J.P. Morgan Asset Management's governance structure on Stewardship and Sustainable Investing.

J.P. Morgan Asset Management's Sustainable Investing Governance Structure

Global AM Business Control Committee (*AM BCC*)

- AM BCC provides oversight of the operational risks and control environment across the entire AM business, to ensure proper identification, management and monitoring of existing and emerging operational risks, control issues and trends.
- Co-chaired by the AM CEO and AM Business Control manager, includes decision making members comprising all heads of controls functions, CIOs across all asset classes/product groups and heads of all major business areas.

Global AM Sustainable Investing Oversight Committee (*SIOC*)

- Single point of ongoing strategic oversight, effective decision making, review and assurance across the key components of sustainable investing. Related policies, programmes, targets and performance are overseen by this group.
- Co-chaired by the Global Head of Sustainable Investing and the Global Head of Sustainable Investing Integration. Members include Chief Investment Officers (CIOs), Global Head of Investment Stewardship, heads of control functions such as Chief Risk Officer for Asset Management and Global Head of Asset Management Compliance and AM's Chief Administrative Officer.

Corporate engagement | Proxy voting | Sustainable investments criteria | ESG integration

Regional committees and topic-specific working groups

Source: J.P. Morgan Asset Management, as at December 31, 2023.

This governance structure seeks to provide assurance over our stewardship activities by reviewing our policies, resources, priorities, engagement and voting activities, as well as our reporting. The SIOC serves as a resource to provide review and credible challenges to our processes as part of our goal to improve. Ongoing oversight is an important remit of the SIOC, alongside other key committees and working groups (further described in the following pages). It is the committee's responsibility to review the process, raise important issues for discussion and evaluate the need to further amend policies and procedures with key stakeholders, including what we refer to as the lines of defence.

In 2023, the SIOC reviewed and approved the publication of a series of important publications for sustainable investing and investment stewardship, including our 2022 Investment Stewardship Report. This was part of our ongoing efforts to promote a higher standard of reporting. We were able to attain 2020 UK Stewardship Code signatory status from the Financial Reporting Council for the second year running based on this report. Also, some sections of the report were translated into Chinese[56] and included as part of our Taiwan Investment Stewardship Report. We were pleased to have received a higher rating from the Taiwan Stock Exchange for our 2022 Taiwan Investment Stewardship Report, compared to both of the two previous years, and the Taiwan Stock Exchange ranked

[56] Our Chinese language Investment Stewardship Report from 2022 can be found at: https://am.jpmorgan.com/content/dam/jpm-am-aem/asiapacific/tw/zh/supplemental/stewardshipreport2022.pdf

Governance of stewardship continued

our 2022 report as one of the top nine best stewardship reports submitted by local asset managers in that year.

For more details on how this year's report strives to meet the expectations set in the world's various Stewardship Codes which we support and sign on to, please refer to Appendix 4.

Also, the SIOC reviewed and approved JPMAM's 2023 Taskforce for Climate-related Financial Disclosures (TCFD) Report.[57] In this report, we disclosed how we continue to consider climate-related risks and opportunities in the assets we manage on behalf of our clients. It includes information about how climate considerations feature in our governance and management structures as well as the key climate-related components of our strategy: ESG integration and research, our sustainable product offering and investment stewardship. It explores how we identify and manage climate risks and discusses governance and controls through our risk management and compliance functions. It also includes the disclosure of the data and metrics we currently use to assess and manage climate risk for the assets we manage. This year's report highlighted how we expanded choices across our sustainable investment products during 2022, continued to develop our climate analytics capabilities, and maintained climate change as one of our six Investment Stewardship Priorities.

Review and evaluation of committee effectiveness

As part of our ongoing review and evaluation of SIOC's effectiveness, in 2023 it was determined that the committee would benefit from a co-chairing structure, whereby chair responsibilities would also be assigned to the Global Head of Sustainable Investing Integration – a recently created role. The aim of this was to ensure senior representation from an operational and business management perspective, in addition to the subject matter-specific expertise brought by the Global Head of Sustainable Investing as co-chair and the Global Head of Investment Stewardship as a member of SIOC.

This additional perspective has led to a number of changes being implemented over the course of 2023, with the aim of improving the SIOC's credibility and effectiveness with regard to its oversight duties.

- For example, 2023 saw the establishment of a new forum comprized of key senior investment professionals and investment directors. Also, co-chaired by the Global Head of Sustainable Investing and the Global Head of Sustainable Investing Integration, this new forum has begun to meet monthly with the aim of facilitating more in-depth discussions and informed decision-making around sustainable investment exclusion and inclusion criteria. The new forum will liaise closely with the Investment Stewardship team.
- At the September 2023 meeting, SIOC approved changes to the governance/oversight process for ESG integration including changes requiring SIOC review of new strategies. Previously, our governance process contemplated SIOC review of ESG integration at the investment group level and did not require a review of individual strategies. Under the new governance process, on an ongoing basis, ESG integration is monitored by the applicable investment group's investment directors, or equivalent team, and overseen by the respective investment group's Investment Oversight Committee, or equivalent committee, as part of confirming that a strategy's investment process continues to be ESG integrated in accordance with the strategy's disclosures and documentation.
- The SIOC will continue to be responsible for certifying new investment strategies as ESG integrated against JPMAM's multi-factor ESG integration framework.

We continue to assess the appropriateness of the current sustainable investing governance structure and its ability to ensure rigorous oversight of key sustainable investing areas, including investment stewardship. We consider it important to oversee and support effective stewardship within an organization which is large in assets under management, broad in the range of asset classes and investment styles offered, and global in our investments, operations, and clients. The committee has demonstrated in 2023 that its structure is flexible and dynamic enough to modify its remit where it is deemed necessary while continuing to fulfil its designated oversight responsibilities.

[57] J.P. Morgan Asset Management TCFD Report 2023: https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/sustainable-investing/tcfd-report.pdf

Governance of stewardship continued

In 2024, we will look to broaden our efforts at training and knowledge development for SIOC members to also include members of the new forums and those with newly increased oversight responsibilities. We will continue to review and refine our structure and processes as needed, with an ongoing annual review of the committee's effectiveness as a key way to ensure the continued effectiveness of the committee and highlight any areas of concern.

Key stewardship-related regional committees and topic-specific working groups

Supporting the J.P. Morgan Asset Management Sustainable Investing Oversight Committee (SIOC) is a network of regional committees and topic-specific working groups. This is to ensure that there are clear forums for regular information sharing, discussion and decision making on region or topic-specific issues. The members of these are typically investment research analysts, portfolio managers, stewardship and sustainable investing experts and client-facing professionals. We consider that these are important aspects of enabling the SIOC-led governance structure at JPMAM and this seeks to manage the global, large, and complex nature of our business.

The key stewardship-related groups include:

- Regional Proxy Voting Committees are long established in our four key investing regions – North America; Europe, Middle East and Africa (EMEA); Asia excluding Japan; and Japan. These meet on a quarterly basis and are composed of senior equity investment analysts, equity portfolio managers, investment stewardship team members, legal, compliance and risk specialists. These committees are responsible for formulating regional proxy voting guidelines. They also provide an escalation point for voting and wider corporate governance issues. These committees in turn escalate into SIOC, which receives periodic updates from these committees and monitors effectiveness.
- Corporate Engagement working groups serve the purpose of facilitating active discussion, information sharing, and coordination of engagement activities across asset classes at JPMAM. Members are heads of investment research, analysts, portfolio managers and investment stewardship team members with representation from across asset classes and investment styles, including large-cap equity, small-cap equity, emerging market equity, investment-grade corporate fixed income, high yield corporate fixed income, emerging market debt and multi-asset investments. The groups also facilitate assessment of ESG controversies (e.g. events such as the Fundão dam collapse in 2015, which caused fatalities, environmental damage and resulted in high remediation costs and lawsuits for the companies involved) and norms breaches, such as United Nations Global Compact (UNGC), with investment analysts with a view to conducting reactive engagements with investee companies for accounts where such controversies are financially material and/or accounts that have norms-based exclusions. Like the regional Proxy Committees, there are engagement working groups in each of the four major investing regions.

Governance of stewardship continued

Oversight of ESG regulatory and industry-led change

New and evolving ESG-related regulations and industry standards (e.g. codes, guidelines, best practice recommendations) continue to accelerate the shift towards integrating sustainability into our investment management ecosystems, be that the baseline ‘consideration’ of financially material factors within the investment decision-making process; the uplift of existing asset management and governance frameworks to account for evolving ESG perspectives; and/or the development of new products and portfolio construction.

In partnership with the Sustainable Investing team, the global ESG regulatory change governance and implementation structure is designed to support internal business groups and functions to transform their operating models, practices, and processes to meet emerging regulatory and industry developments. Related projects and initiatives are governed by a steering forum comprized of senior cross-functional leaders, which meets regularly to oversee various workstreams. These workstreams include groups dedicated to the implementation of (including but not limited to) the European Union’s Sustainable Finance Disclosure Regulation (EU SFDR) and Taxonomy Regulation (EU TR); TCFD-related initiatives and the UK Sustainable Disclosure Requirements; and preparing for future developments (e.g. the EU Corporate Sustainability Reporting Directive and future requirements related to EU ‘Names Rules’, EU SFDR 1.5 and 2.0).

ESG regulatory- and industry-led change has been one of the most active areas of work within JPMAM in 2023, successfully implementing and evolving the required or existing ESG-related policies, frameworks, approaches and related disclosures to further comply with those developments that are directly and/or indirectly applicable to JPMAM. These initiatives have been supported by other parallel internal programs designed to evolve our ESG-related risk and oversight models, internal training, and awareness.

Sustainable investing leadership working groups with relevance to stewardship

To further collaborate on supporting and advancing J.P. Morgan Asset Management’s global leadership, a network of peer advisory working groups exists to connect expertise across our extensive platform of subject-matter experts. To bring together the relevant expertise to help our clients achieve their objectives, these working groups focus on a variety of goals. These range from achieving commercial objectives to contributing to developing innovative investment capabilities, to promoting a well-controlled approach to internal ESG policies, processes, and procedures. The membership of these groups consists of senior investment professionals, fundamental and quantitative investment research analysts, sustainable investing team members, investment risk specialists and client-facing team members. The working groups include:

- The ESG & Climate Research Working Group is composed of senior investment professionals, across all investment classes, such as the heads of research, portfolio managers, analysts, and sustainable investing team delegates. The working group is chaired by the Global Head of Sustainable Investing Research. The ESG & Climate Research Working Group advises on the development of ESG-related research methodologies such as the JPMAM Quantitative ESG score[58] as well as climate change-related research questions. The JPMAM Quantitative ESG Score assesses the extent to which companies face and manage financially material ESG risks and opportunities. This group was instrumental in selecting climate-related metrics for the development of a climate insights toolkit. Another project includes the development of an analytical tool to help assess the scientific credibility of decarbonization targets that are set by individual corporate issuers. Following the transfer of responsibility for monitoring and overseeing ongoing ESG integration, this working group will no longer provide formal review and feedback on the ongoing ESG-integrated status of the investment groups. For further details about this change, please see the section on *ESG integration*.

[58] The JPMAM Quantitative ESG score refers to the internal score developed by JPMAM’s Sustainable Investing team to support the investment groups’ quantitative ESG analysis and also to help inform qualitative assessments of individual companies. The purpose of the score is to provide portfolio managers and research analysts with useful information they might otherwise not have access to in order to facilitate ESG integration and investment stewardship. The score provides another reference point to enhance the consideration of material ESG risks and opportunities in active investment processes.

Governance of stewardship continued

- Our sustainable investing client strategy working groups, organized into three regional chapters, across the Americas, EMEA and Asia Pacific, are composed of investment specialists, distribution delegates and cross-functional business partners. They seek to propose and develop commercialization strategies, including prioritization through the identification of key clients, development of effective marketing efforts, and advancement of key initiatives such as ESG educational and thought leadership efforts.

In addition to the Sustainable Investing leadership working groups, JPMAM has a Global ESG Disclosure working group that includes representation from AM Legal, Control Management, Sustainable Investing, Communication Control Group, AM Marketing, Compliance and Risk. The working group meets regularly to discuss disclosure topics related to ESG integration and sustainable investing.

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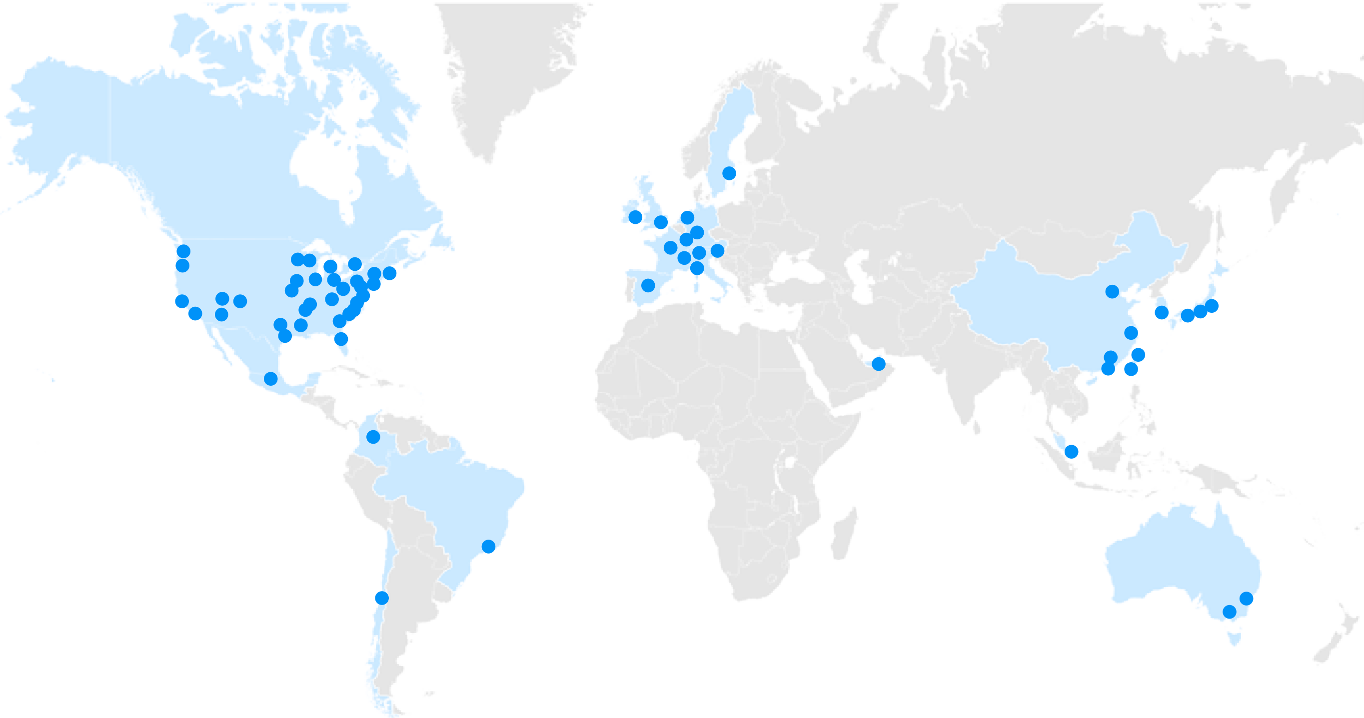
People and resources

We believe that stewardship is a J.P. Morgan Asset Management-wide effort and that engaging investee companies on financially material ESG issues is a responsibility across our investment teams around the world. They are supported by a growing team of sustainability and governance specialists within the Sustainable Investing team.

J.P. Morgan Asset Management Investment Centers

We have more than 1,100 investment professionals around the world



The key leaders in JPMAM who drive forward the spirit and culture of stewardship are:

Paul Quinsee
Global Head of Equities

The equities division consists of U.S. equities, International equities and Emerging Market equities

Robert Michele
Chief Investment Officer and Head of the Global Fixed Income, Currency & Commodities group

The group covers investments into Corporate Credit (Investment Grade, High Yield, and Emerging Markets), Municipals, Securitized and Sovereigns.

People and resources continued

Anton Pil
Global Head of Alternatives

The division covers a diverse range of investments including Private Equity, Infrastructure & Transport, Real Estate, Private Credit and Hedge Funds.

Jed Laskowitz
Global Head of Asset Management Solutions (AMS)

The team manages assets across the multi-asset and quantitative investment strategies. AMS is also responsible for J.P. Morgan's global ETF business and 55ip, a technology platform for multi-asset portfolio model management and tax-smart index and active separate account strategies.

John Donohue
Head of Global Liquidity

This division oversees short-term cash management and fixed income solutions. John also serves as the CEO of Asset Management in the Americas.

Jennifer Wu
Global Head of Sustainable Investing

This division is responsible for leading JPMAM's strategic efforts in sustainable investing, ESG integration, research and thought leadership, investment stewardship and the development of broader offerings of investment strategies.

James Barnett
Global Head of Sustainable Investing Integration

This division is responsible for leading strategic efforts in sustainable investing with a focus on ESG integration across JPMAM.

Yo Takatsuki
Global Head of Investment Stewardship

The Investment Stewardship team is responsible for driving worldwide efforts on engagement and proxy voting in close collaboration with investors across asset classes. The team is part of the wider Sustainable Investing division. It is comprized of 15 stewardship specialists.

These investment platforms are represented on the **Global Asset Management Sustainable Investing Oversight Committee**.

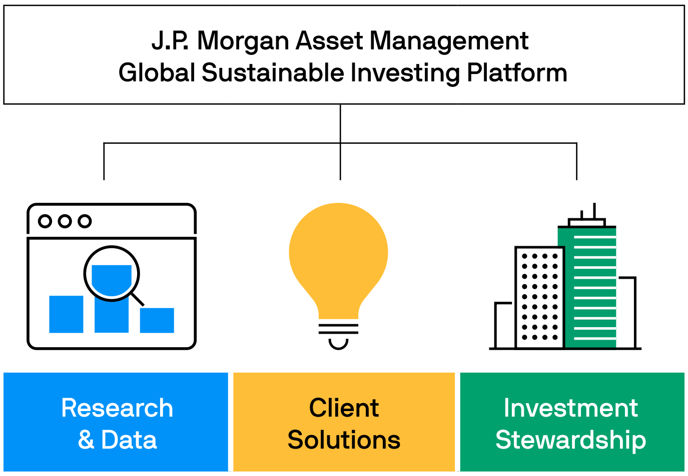
Our global Investment Stewardship team bring with them a variety of skills and experience in helping to deliver effective stewardship at JPMAM. Biographies of the team members and their experiences can be found in the *Appendix*.

People and resources continued

Sustainable Investing Division

Our strategy for sustainable investing is led by Jennifer Wu, Global Head of Sustainable Investing. She heads the efforts across sustainability-focused investment research, solutions development, and investment stewardship with a dedicated division of sustainable investing specialists. As of December 31, 2023, the Sustainable Investing Division has 36 personnel.

This team drives ESG-related research across asset classes, seeks to develop and publish sustainable investing thought leadership pieces, and works with clients to build and implement sustainable investing solutions. The division has members based in London, New York, Hong Kong, and Tokyo.



The Sustainable Investing Division is structured into three distinct teams:

- The ESG Research & Data team is focused on developing dedicated ESG research by partnering with our investors across asset classes and data scientists. Within this team, there is a dedicated Climate Research team.
- The client solutions pillar partners with our investment and distribution teams to provide expertise and to develop ESG solutions to meet our clients' requests.
- The Investment Stewardship team is responsible for our investment-led, expert-driven stewardship approach, engaging with companies and voting proxies on behalf of clients. The team runs the JPMAM engagement and voting program and works in close conjunction with our investment team colleagues in different asset classes.

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People and resources continued

In focus: Investment Stewardship team

J.P. Morgan Asset Management's Global Investment Stewardship team consists of 15 members. Each member has a specific thematic expertise in one or two of our six Investment Stewardship Priorities. The team members are based in four regions: North America (New York), EMEA (London), Asia excluding Japan (Hong Kong) and Japan (Tokyo).

We believe that a key aspect of promoting effective stewardship for a large and global asset manager is by having regional stewardship teams of local market experts located on the ground, working on a day-to-day basis with our investors and engaging with companies. Our team members include a breadth of nationalities and languages. We consider the diversity of our team as a key enabler of success in many markets, as we believe there is no substitute for being able to engage investee companies in their own language with the full understanding of local business norms. Alongside English, our team members speak Spanish, Japanese, Korean, and Mandarin amongst others. We see that traction on engagements on complex, often technical issues such as climate change risks or diversity, is better when the discussion is taking place in a language which is native to the company.

We also consider that this regional presence is crucial for understanding the evolution of local client needs, regulatory expectations, and Stewardship Codes (see Appendix for how we meet the expectations of various Stewardship Codes, which we are signatories to). For example, since 2022, our Asia ex Japan team translated sections of the investment stewardship reports to facilitate the assessment of our stewardship practices by the Taiwanese Stock Exchange. We received a higher rating from the Taiwan Stock Exchange for our 2022 Taiwan Investment Stewardship Report compared to the two previous years.

While Investment Stewardship is a long-running activity, the single global team structure was established in 2021 and we have continued to implement and build on this structure since. The outcome of this organizational change was broadly positive. It resulted in:

- clear leadership and management structure;
- a strategy based on global thematic expertise;
- resource needs assessed and recruitment conducted globally;
- efficient sharing of latest research insights and industry developments through sub-teams focused on thematic areas aligned with our stewardship priorities. These sub-teams (called Pods) facilitate knowledge sharing across the global team;
- effective coordination of stewardship activities globally across asset classes on key priority themes, between the Investment Stewardship team and the investment teams; and
- pooling of resources to better strengthen our stewardship-related operational practices such as for engagement activity recording in our research system, client reporting, managing service providers and proxy voting reform implementation.

Team members bring diverse backgrounds, qualifications, and experiences. These include equity research, commercial banking, ESG research, climate consulting, corporate sustainability reporting, public policy, financial journalism, auditing, proxy research and advisory, impact investment, and stewardship specialist roles at other asset managers. This range of backgrounds is a crucial aspect of being able to credibly provide a breadth of ESG insights to investment teams. This is particularly important now, as the level of scrutiny from clients and regulators on asset managers' expertise on financially relevant sustainability and governance issues has risen markedly. Against this backdrop, stewardship continues as a pillar of managing assets in our clients' best interests.

Please see Our Approach to Promoting Diversity, Equity, and Inclusion section to understand our approach to this topic.

Full bios of the Investment Stewardship team members are in Appendix 2.

People and resources continued

Other resources

Investment and Stewardship teams are supported by a wide range of internally developed and externally sourced sustainability and governance-related research, data, and analytical tools. Alongside sell-side broker research, we utilize third-party research providers for ESG information.

For more information on our service providers please refer to the section on *Monitoring Service Providers*.

In 2023, there were two areas of particular focus for ESG-related research, data and analytical tools which have relevance to investment stewardship.

We are developing a proprietary tool that will allow us to systematically assess the scientific credibility of decarbonisation targets that are set by individual investee companies. These insights will be available to inform our research and engagement on climate risk. We also assessed a range of climate metrics across several sectors to look at how to measure decarbonisation progress on targets that companies set and concluded that a broader range of transition indicators should be used to predict how likely companies are to meet their own decarbonisation commitments.[59]

We also surveyed data solution providers for natural capital and biodiversity loss risk. We concluded that the data is not as mature for systematic assessment as data for climate, and we continue to monitor product development and data availability in this space.[60]

[59] Managing investment portfolio for the carbon transition – how investors can perform decarbonisation analysis - Oct 2022, J.P. Morgan Asset Management.

[60] Integrating biodiversity into investment decisions – March 2023, J.P. Morgan Asset Management.

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ESG integration at J.P. Morgan Asset Management

As an asset manager, we are guided by our duty to act in the best interests of our clients. Certain actively managed strategies deemed by JPMAM to be ESG integrated under our governance process systematically assess financially material ESG factors (alongside other relevant factors) in our investment decisions with the goals of managing risk and improving long-term returns. This is known as ESG integration. Except for certain strategies that use ESG integration as part of their investment process in addition to other sustainable investing strategies, ESG integration by itself does not change a strategy's investment objective, exclude specific types of companies or constrain a strategy's investable universe. ESG integration is dependent upon the availability of sufficient ESG information relevant to the applicable investment universe. ESG factors are not considered for every investment decision.

In order for a strategy to be considered ESG integrated, JPMAM requires:

1. Portfolio management teams to consider proprietary research on the financial materiality of ESG issues on the strategy's investments;
2. documentation of the research views and methodology throughout the investment process; and
3. appropriate monitoring of ESG considerations in ongoing risk management and portfolio monitoring.

The impact of ESG integration on performance is not specifically measurable as investment decisions are discretionary regardless of ESG considerations. ESG integration does not happen in isolation and is one element alongside other factors considered in our investment processes.

Introduction

By considering financially material ESG factors, we believe ESG integration can inform better long-term investment decision making and can help build stronger portfolios for our clients.

We view ESG integration and stewardship as complementary practices working in tandem to encourage investing in a way that ultimately benefits clients.

Our approach to ESG integration focuses on financial materiality, with the understanding that not all ESG factors are relevant to a particular investment, asset class or strategy. Below you will find our approach to ESG integration for a variety of our asset classes. Note, the method by which an investment group performs ESG integration is consistent across geographies.

Active ownership is a key component of both our standard investment processes and our commitment to ESG integration. We use it to understand how companies or issuers consider issues related to ESG and encourage best practices, for the purpose of enhancing returns for our clients. We define engagement as active interaction with investee companies or issuers, exercising our voice as a long-term investor through engagement with individual companies, and proxy voting. Active ownership in the context of ESG integration allows us to manage ESG risks and to systematically incorporate insights gained from engagement into our investment decisions.

Please refer to Our approach to engagement section for further details on engagement practices.

The practice of integrating financially material ESG metrics into investment processes aims to strengthen risk management and may contribute to long-term financial returns. Consequently, we believe ESG integration can help deliver enhanced risk-adjusted returns over the long run. It is important to note that the financial materiality of ESG metrics varies depending on the time horizons under consideration, as well as specific regional or macroeconomic influences. We believe it is important to align the consideration of ESG metrics to the specific investment style, such that the integration of ESG information contributes to investment performance.

ESG integration at J.P. Morgan Asset Management continued

As a global active manager using a variety of investment styles, we integrate financially material ESG metrics into the investment process of an investment group in a manner consistent with the underlying strategy, from the purely quantitative to those based on a combination of fundamental research and qualitative judgments. We define investment groups as investment teams which share a common investment process and ESG integration approach and common investment strategies. Because of the variety of actively managed investment strategies, types of investments and investment processes, financially material ESG metrics will differ across investment groups, and we do not mandate that each investment group implement ESG integration in the same way. For example, there may be differences in which equity and fixed income investors evaluate governance practices of a company. Instead, we apply key metrics that focus on the robustness of the ESG integration process to determine if an investment group can be considered as ESG integrated by J.P. Morgan Asset Management. We use a process-focused multi-factor framework to validate the approach applied by the investment groups for the respective strategy.

We also offer a growing range of products designed for clients who want to go beyond standard ESG integration and invest in products with more defined ESG characteristics or objectives. Nevertheless, we can make no assurance that the integration or security selection methodology used by our portfolio managers and analysts will align with the individual beliefs or values of a particular client, nor that ESG integration will apply to every security in a client's portfolio.[61]

Please note: ESG determinations may not be conclusive. Securities of companies or issuers may be purchased and retained that may be negatively impacted by such factors while the adviser may divest or not invest in securities of issuers that may be positively impacted by such factors. The effect of ESG integration on a financial product's performance is not specifically measurable as investment decisions are discretionary regardless of ESG considerations. Unless stated otherwise in a financial product's documentation and included within its investment objective and investment policy, ESG-integrated products are not designed for clients who wish to screen out particular types of companies or investments or are looking for products that meet specific ESG goals. In other words, ESG integration by itself does not change a product's investment objective or constrain the investment managers' investable universe, nor does it imply that a product is marketed or authorized as an ESG product in any jurisdiction where such authorisation is required.

The assessment of environmental, social and governance information and events requires subjective judgments, which may include consideration of third-party data that may be incomplete or inaccurate. There can be no guarantee we will correctly assess such impact.

[61] For further details on strategies that are ESG integrated, please reach out to your local JPMAM representative.

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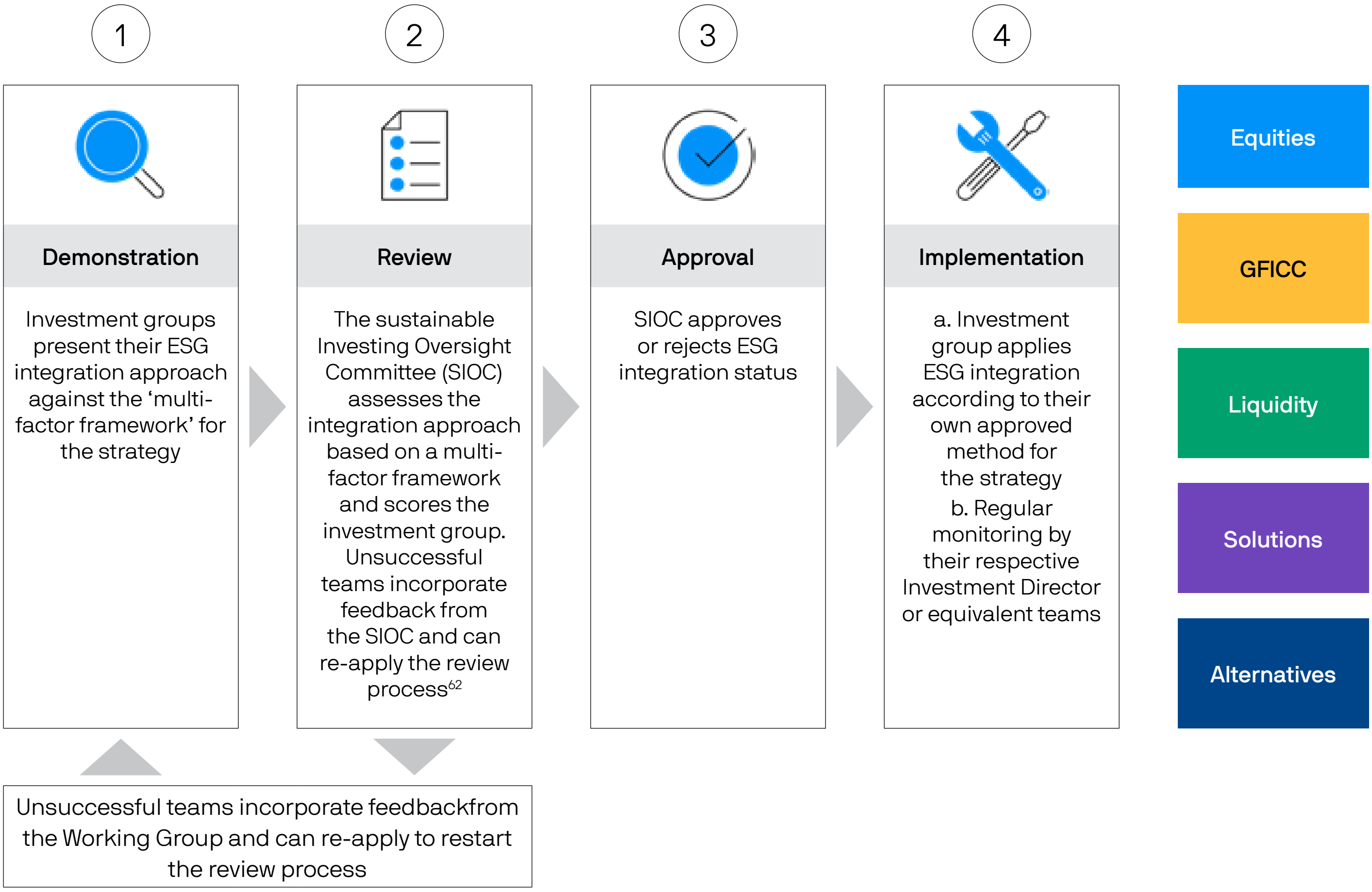
ESG integration at J.P. Morgan Asset Management continued

Our ESG integration process

The following describes J.P. Morgan Asset Management's current process for determining whether an investment strategy has integrated ESG into its investment processes.

ESG integration validation process at J.P. Morgan Asset Management



Source: J.P. Morgan Asset Management, as of December 31, 2023. Provided to illustrate the current governance process, not to be construed as research or investment advice. Not all investment strategies are ESG integrated.

[62] Prior to the fourth quarter of 2023, JPMAM's governance process contemplated a SIOC review of ESG integration at the investment group level and did not require review of individual strategies/products by SIOC. During the fourth quarter of 2023, JPMAM enhanced its ESG integration governance process to require all new strategies to be reviewed individually by SIOC prior to their presentation to JPMAM's product steering committee ("PSC") in order for such strategy's investment process to be considered ESG integrated. SIOC was established in 2021 as part of a comprehensive review of our SI governance practices, with a particular emphasis on structures for oversight of investment stewardship and ESG integration. Prior to 2021, a working group known as the Sustainable Investment Leadership Team determined ESG integration.

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ESG integration at J.P. Morgan Asset Management continued

As described in the chart on the previous page, the Sustainable Investing Oversight Committee (SIOC) will review and if appropriate approve the ESG Integration status of the put forward strategy.

Our process for determining which investment groups are ESG integrated has continued to evolve and improve with the development of the framework (see multi-factor framework for ESG integration).

J.P. Morgan Asset Management 10-metric framework for ESG integration

	Metrics	Sub questions
Research and Investment Management	1. Access to ESG Metrics & Indicators as part of Research & Investment Process	• Are internal and/or external ESG metrics and indicators available to research and portfolio managers? If yes, please provide examples. • Please describe the mix of internal and/or external data sources and due diligence conducted and/or selection criteria used on external data sources?
Research and Investment Management	2. Research Analyst, Portfolio Management & Investment Decision Considerations	• Is ESG fundamental to the investment decision-making process? • Do ESG factors lead to a reweighting of the portfolio? • Do the portfolio managers and/or investment committee override or add insights to analysts' ESG analysis?
Research and Investment Management	3. Company Engagement	• Please describe the role of company engagement on financially material ESG factors as part of the research and investment due diligence process? • How is ongoing company engagement related to ESG topics documented, monitored and assessed, especially with respect to progress and success of the activities?
Documentation	4. Documentation of ESG Integration Information	• Are there desk procedures that outline how ESG is integrated across the Investment team? If so, please describe. • Are there other documents (e.g. investment process/prospectus) that discusses ESG integration process?
Monitoring	5. Monitoring	• Is the strategy subject to in-business first line risk review, including discussion of ESG metrics and indicators? If so, please outline the frequency and teams involved.
Monitoring	6. Oversight	• What escalation oversight structure is in place? • Is evidence of escalation and discussion available?

Source: J.P. Morgan Asset Management Sustainable Investing team and ESG & Climate Research Working Group. The framework above replaced J.P. Morgan Asset Management's 10-point framework as part of enhancements to its governance process during the fourth quarter of 2023.

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ESG integration at J.P. Morgan Asset Management continued

Although JPMAM's ESG integration validation framework is led by the SIOC, the ownership of implementation and execution lies with investment teams. ESG determinations may not be conclusive, and securities of certain companies or issuers may be purchased, retained or sold by portfolio managers for reasons other than their ESG assessment.

Moreover, given the wide range of strategies we offer and the regional and sectoral diversity of our portfolio holdings, we emphasize that ESG integration does not mean investment in certain sectors or countries is prohibited. Please refer to the asset class level sections in the following pages for details about how ESG integration works in practice at various asset classes.

The systematic consideration of financially material ESG metrics in the investment process also informs our investment stewardship activity. Where an analyst identifies a financially material environmental, social or governance issue within a company, the investment team, in close collaboration with the Investment Stewardship team, may wish to trigger, or extend, an engagement or may inform a proxy voting decision. The results of this engagement can be tracked over time using Research Notes within our investment management tool, Spectrum™. This feedback loop, from both a bottom-up materiality-focused and top-down principle-based perspective, is designed to allow our views on the companies within our investable universes to remain current, as well as complemented by additional layers of insight as a result of direct engagement.

Moreover, stewardship also plays a role in helping our ESG integration process to remain effective and accountable. Investment stewardship and engagement sit explicitly within the 'Research and Investment Management, Investment Due Diligence' criteria within the 6-metric framework for ESG Integration, as depicted above.

In 2023, JPMAM received its PRI Rating for the 2023 reporting period (data as of the end of 2022). Further details on our PRI results can be found on our website.[63] UNPRI are a set of voluntary and aspirational principles; signatories to the principles are required to report publicly on their responsible investment activities each year. ESG integration is an explicit factor in this assessment. The module is designed to provide information concerning each signatory's overarching approach to responsible investment, including governance, responsible investment policies, objectives and targets, the resources that are allocated to responsible investment and the incorporation of financially material ESG issues into asset allocation.

Combining our ESG research capability with the diversified experience and skill of our investment teams, and the expertise of our investment stewardship specialists, gives us a deep understanding of the risks and opportunities facing different sectors, industries and geographies. We believe that this collaborative, well-resourced approach enables us to take an effective approach to both ESG integration and investment stewardship. While we follow an overarching process to determine whether an investment group is deemed to be ESG integrated, our ESG integration processes for investment groups are designed to allow investors and stewardship specialists to take into account specific risks and nuances as applicable. For example, in the case of strategies investing in real assets, many of the risks surrounding these assets depends on physical location and regulatory jurisdiction.

Resources we share across the JPMAM system

In addition to the portfolio management teams, who use ESG integration as part of their investment processes, we have a suite of technology and research systems to enable the sharing of resources and insights across JPMAM. Our extensive research capabilities allow us to conduct in-depth research into the ESG profile of many of the companies in which we invest. The ability to flag risks and opportunities early on through our research resources means that we can conduct timely and effective engagement on financially material ESG issues that arise. Research is therefore a key part of both ESG integration and stewardship, enabling

[63] Our PRI results can be accessed here: https://am.jpmorgan.com/content/dam/jpm-am-aem/emea/regional/en/communications/lux-communication/jpm-pri-scorecard-per-ce-en.pdf.
The UNPRI survey includes modules that solicit information from signatories, including J.P. Morgan Asset Management, on topics including an overall Policy Governance & Strategy module and a number of modules covering individual asset classes, such as Listed Equity, Fixed Income and Infrastructure. Information is self-reported by signatories, including J.P. Morgan Asset Management, and was not audited by any party, including J.P. Morgan Asset Management, independent public accounting firms or UNPRI. Information on the UNPRI 2023 assessment methodology along with FAQs on the 2023 reporting cycle are included in the following links: 2023 Reporting Framework: Overview and Structure Guide and FAQ Reporting 2023. UNPRI scores are not reliable indicators of current and/or future results or performance of underlying assets.

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ESG integration at J.P. Morgan Asset Management continued

us to maintain oversight of a company's activities and engage where we feel it would be beneficial to our clients.

J.P. Morgan Spectrum™, launched in 2017, is J.P. Morgan Asset Management's common technology platform, built by combining our leading capabilities across the organization. The platform is designed to optimize internal communication by connecting sales, investment and client service functions.

The platform standardizes and enhances our extensive research, portfolio construction and risk management capabilities. Spectrum™ is a single centralized source for all critical data sets that helps provide consistency of portfolio information throughout the full lifecycle.

The Spectrum™ platform strengthens J.P. Morgan Asset Management's investors' collaboration and accelerates the inclusion of our best ideas into solutions for our clients. It also supports investment decision making with integrated analytics, providing the ability to view and manage risks across multiple disciplines, enabling us to build stronger portfolios.

Spectrum™ combines multiple operational oversight tools into an integrated suite with higher automation, integrated workflows and timely alerts. It also enables our client-facing specialists to deliver a high-quality client experience – from onboarding through to portfolio management and reporting.

ESG analysis and research are embedded in Spectrum™ and shared across investment teams where appropriate. Spectrum™ thereby enables greater collaboration, as expertise can be leveraged across the J.P. Morgan Asset Management platform, subject to information barriers. For example:

- **Qualitative Research Notes**: We share qualitative ESG assessments of companies on Spectrum™ via an application called 'Research Notes.' Investors, as well as the Sustainable Investing team, are able to record relevant ESG information arising from a company meeting or research, while specific environmental, social and governance issues can be flagged through a tagging facility to alert other system users. For example, a sector research analyst within global equities can view the ESG research notes of a company that a Global Fixed Income, Currency and Commodities (GFICC) credit analyst wrote, and vice versa, allowing investment professionals to access the latest information and exchange views. In addition, the engagement notes written by the Investment Stewardship team can be viewed by the global equities and GFICC investment teams. ESG metrics that are deemed to be financially material are highlighted through the engagement process.

Illustration of Spectrum™ "Research Notes" dashboard

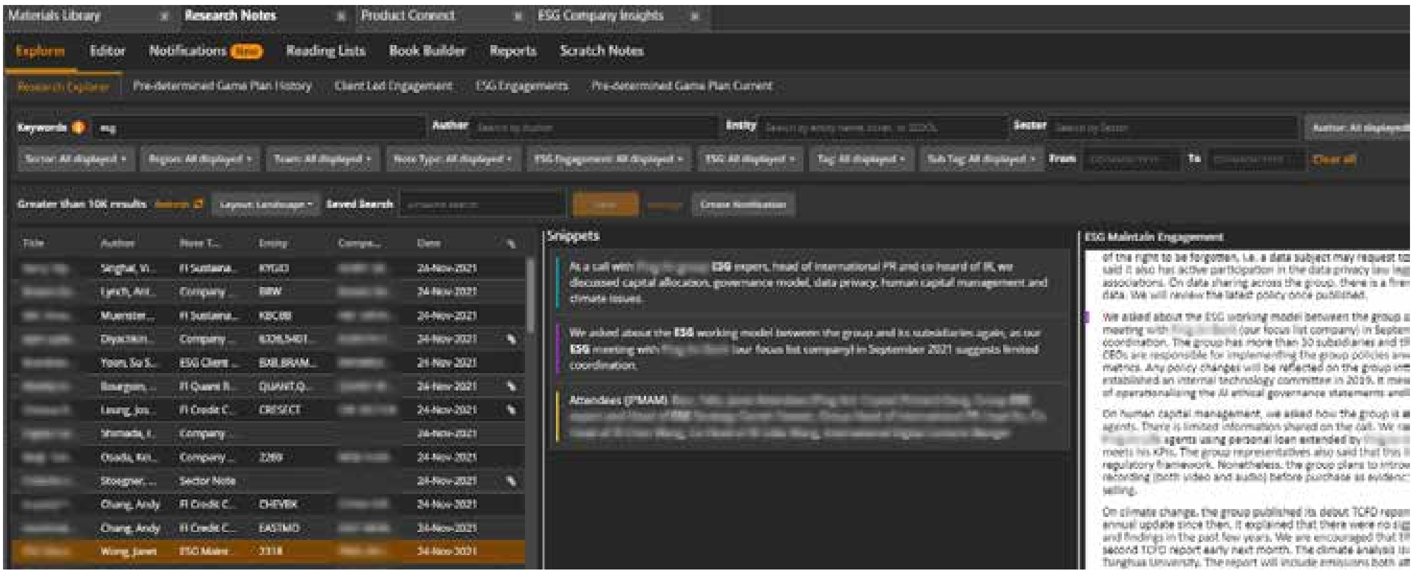

Image source: J.P. Morgan Asset Management Spectrum™.

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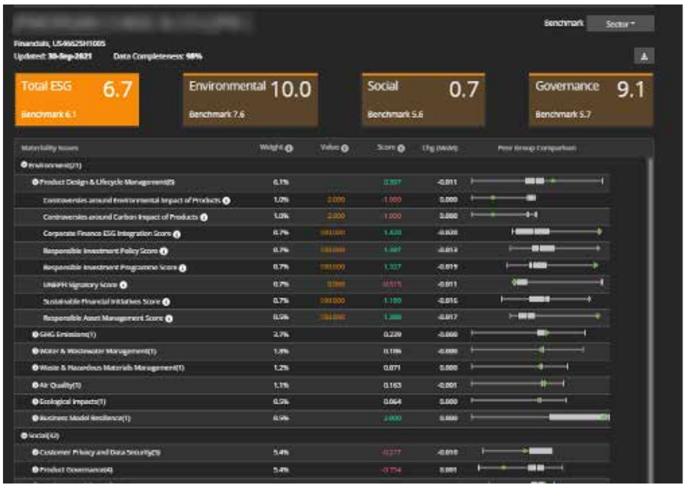
ESG integration at J.P. Morgan Asset Management continued

- **Quantitative ESG data**: Investment teams can view the JPMAM Quantitative ESG Score within Spectrum™, as well as the underlying metrics from which the score is derived subject to any required information barriers. Investors are also able to access a historical view of the overall JPMAM Quantitative ESG Score over the last five years. Illustration of Spectrum™ dashboard Image source: J.P. Morgan Asset Management Spectrum™.
- **Portfolio management systems**: Spectrum™ is also used as a portfolio management tool by many investment teams. Within the respective system, both the proprietary ESG assessment and third-party data are embedded so that the information can be referenced to inform investment decisions. For further details on this, please refer to individual asset class sections in the following pages.

Illustration of Spectrum™ "ESG Company Insights" dashboard



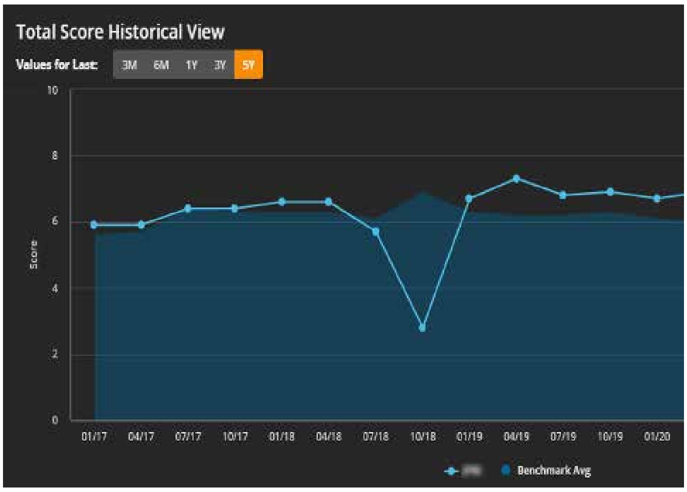


Image source: J.P. Morgan Asset Management Spectrum™.

People

J.P. Morgan Asset Management's approach to investing builds on our long heritage of active management and stewardship. A key strength of our investment process is our in-house research capabilities, on both a fundamental and a quantitative basis.

- Research capabilities of our investment teams: ESG information is integrated systematically into actively managed strategies leveraging the expertise of over 1,000 investors through proprietary research, engagement and portfolio construction. Subsequently, ESG metrics are monitored on an ongoing basis for risk management purposes.
- In particular, J.P. Morgan Asset Management has over 300 experienced career research analysts – situated globally and organized by sector – whose knowledge and experience provide an invaluable research resource. They offer in-depth specialist analysis of companies within their particular sector and region.
- Central Sustainable Investing team: As of December 31, 2023, we have 36 dedicated specialists supporting ESG integration from the perspectives of proprietary ESG and climate research, investment stewardship and products and solutions innovation.
- Dedicated Investment Stewardship team: As of December 31, 2023, we have 15 investment stewardship specialists globally who work in collaboration with our portfolio managers and research analysts to direct interactions with companies/issuers across our six Investment Stewardship Priorities and the specific research frameworks utilized by each asset class.

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ESG integration at J.P. Morgan Asset Management continued

ESG data[64]

To the extent that J.P. Morgan Asset Management uses third-party providers, the criteria and rating systems used by third-party providers can differ significantly.

There is no standard ESG scoring system and the methodology and conclusions reached by third-party providers may differ significantly from those that would be reached by other third-party providers or J.P. Morgan Asset Management. In addition, evaluations by third-party providers may be based on data sets and assumptions that may, at times, be insufficient, of poor quality, or contain biased information.

At the same time, the ongoing improvement in the quantity and quality of ESG-related data available to investors has enabled us to introduce the next generation of proprietary ESG data – a globally consistent, JPMAM Quantitative ESG Score that is available to our portfolio management and research analyst teams through Spectrum™. The purpose of the score is to provide portfolio managers and research analysts with useful ESG information they might not otherwise have access to, in order to facilitate ESG integration and investment stewardship. The score provides another reference point to enhance the consideration of material ESG risks and opportunities in active investment processes. For most strategies, scores are not a definitive driver of investment decision-making, and portfolio managers may continue to hold low-scoring securities for reasons unrelated to their ESG profile as the integration of ESG data is one element alongside other factors considered in our investment processes.

The JPMAM Quantitative ESG Score assesses the extent to which companies face and manage financially material ESG risks and opportunities. This score is evolving from leveraging third-party ESG data to instead draw on granular, outcomes-focused data, making increased use of the significant increase in ESG disclosures and data available over recent years. Please note that investment teams are not required to use the JPMAM Quantitative ESG Score as part of their investment process and not all JPMAM investment teams use the JPMAM Quantitative ESC Score as part of their ESG integration process.

The score provides additional insights that allow internal users to drill down into individual data points, such as greenhouse (GHG) emissions and supply chain-related metrics, in order to understand the specific risks and opportunities that individual companies face. This enhanced visibility means that analysts and our stewardship team are better able to pinpoint issues with greater accuracy and have an improved ability to monitor company behaviour and performance.

Having been developed in collaboration with the Sustainable Investing team's ESG & Climate Research Working Group, the score also leverages our data science capabilities, such as machine learning, algorithms and natural language processing, to enrich our understanding of ESG metrics beyond corporate disclosures and at scale.[65]

- The JPMAM Quantitative ESG Score capability aims to enhance our understanding of what ESG information is available for research and investment decision-making and provides a consistent view of the financially material ESG metrics within each sector. This helps J.P. Morgan Asset Management to manage the associated risks and opportunities.

[64] While J.P. Morgan Asset Management looks to data inputs that it believes to be reliable, J.P. Morgan Asset Management cannot guarantee the accuracy, availability or completeness of its proprietary system or third-party data. Under certain of J.P. Morgan Asset Management's investment processes, data inputs may include information self-reported by companies and third-party providers that may be based on criteria that differ significantly from the criteria used by J.P. Morgan Asset Management, which often include forward-looking statements of intent and are not necessarily fact-based or objectively measurable. In addition, the criteria used by third-party providers can differ significantly, and data can vary across providers and within the same industry for the same provider. Such data gaps could result in the incorrect, incomplete or inconsistent assessment of an ESG practice and/or related risks and opportunities.

[65] While J.P. Morgan Asset Management looks to data inputs that it believes to be reliable, J.P. Morgan Asset Management cannot guarantee the accuracy, availability or completeness of its proprietary system or third-party data. Under certain of J.P. Morgan Asset Management's investment processes, data inputs may include information self-reported by companies and third-party providers that may be based on criteria that differ significantly from the criteria used by J.P. Morgan Asset Management, which often include forward-looking statements of intent and are not necessarily fact-based or objectively measurable. In addition, the criteria used by third-party providers can differ significantly, and data can vary across providers and within the same industry for the same provider. Such data gaps could result in the incorrect, incomplete or inconsistent assessment of an ESG practice and/or related risks and opportunities.

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ESG integration at J.P. Morgan Asset Management continued

- The score draws on granular data. This includes a company's management of natural resources and environmental impacts, effectiveness of its human capital development programs, supply-chain risks, customer welfare and risk management. For example, we leverage company disclosures, third-party estimates of environmental impact, data science signals, which make use of our in-house natural language processing tool, ThemeBot, and alternative data sets provided by external vendors.[66] We use a number of different data providers in order to obtain as comprehensive and varied a set of information as possible with which to measure ESG aspects. We assess companies using a wide range of data inputs, combined with fundamental analysis. While we look to data inputs that we believe to be reliable, we cannot guarantee the accuracy of our proprietary system or third-party data.
- The score harnesses our expertise and experience in active asset management and ESG integration. For example, the weights we attach to different ESG issues reflect the insights of hundreds of sector analysts who have many years experience identifying financially material ESG metrics and who understand the specific challenges within different industries and regions.
- Our data science capabilities, such as machine learning algorithms and natural language processing, can generate useful insights by processing unstructured, alternative data to measure specific ESG issues and complement companies' self-reported and/or third-party ESG data.

A trend that has continued is the increasing availability and quality of ESG data, which is supported by governments and regulatory bodies. Globally, more organizations and governments are encouraging or mandating compliance with recommendations laid out by the Task Force on Climate-related Financial Disclosures (TCFD). In 2024, we expect to see greater adoption of the International Sustainability Standards Board's (ISSB) sustainability and climate disclosure standards, with the TCFD recommendations having been fully integrated into the ISSB's standards.

However, corporate ESG disclosure remains a challenge. Companies across a wide sectoral and geographic spectrum are increasingly being scrutinized on data points, such as Scope 3 GHG emissions and employee satisfaction ratings, as well as the lack of disclosure of these data points. In particular, emerging markets are an area where notable progress on disclosure is being made. This is why engagement is an important element of ESG integration at J.P. Morgan Asset Management, as we encourage more companies to disclose on their ESG efforts. As visibility of companies' performance on key ESG indicators improves, it will become possible to make more informed and accurate forward-looking financial materiality assessments and investment decisions over time.

Ongoing Monitoring: ESG integration

J.P. Morgan Asset Management undertakes ongoing monitoring to review the ESG integration work of investment groups – specifically, the application of sustainability risks and financially material ESG metrics within their ESG-integrated strategies. Our Sustainability Risks Policy summarizes the integration of sustainability risks in the investment process. This forms part of an existing, regular investment review system.

For example, the Investment Director teams in equity, global fixed income, currency & commodities and multi-asset solutions oversee performance and risk oversight of portfolio management. They do this to maintain discipline around investment objectives and processes in the context of client objectives or fund guidelines, performance, risk position and ESG profiles. The Investment Director teams monitor ESG, quantitatively and qualitatively, as part of their quarterly review meetings.

Any material findings from the ongoing monitoring process will be escalated to the CIOs of the relevant asset class using the existing investment oversight/ escalation process. We have regular monitoring processes in the global liquidity and alternatives solutions, which are tailored to the nature of their asset class. For more details, please see the relevant asset class sections in the following pages.

[66] Where J.P. Morgan Asset Management uses the proprietary system, any changes to an algorithm or underlying assumptions may have unintended consequences, which could have an adverse effect on the performance of a strategy. Algorithms may not perform as intended for a variety of reasons, including, but not limited to, incorrect assumptions, changes in the market and changes to data inputs. In addition, the data sets that the proprietary system processes may be insufficient, of poor quality or contain biased information. Although J.P. Morgan Asset Management obtains data and information from third-party sources that it considers to be reliable, J.P. Morgan Asset Management does not guarantee the accuracy and/ or completeness of any data or information provided by these sources.

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ESG integration at J.P. Morgan Asset Management continued

In addition, AM Independent Risk has the Sustainable Investing Risk Oversight framework to monitor the consideration of financially material ESG metrics in the investment process of our active strategies. This process has the objective of identifying investment strategies with ESG metrics scores that are materially different from their benchmark and understanding the rationale for such differences. The analysis will be shared with AM Risk and AM CIOs periodically. This process aims to increase the transparency of specific exposures or strategies with ESG ratios that may be inconsistent with the strategy's name, investment objective or disclosures. This process is not expected to limit an exposure identified as an outlier or to trigger changes in positions that would negatively impact portfolio returns.

Refining our process through review from multiple dimensions

Given the evolving nature of ESG data, technology and research capabilities, we encourage investment teams to continue to improve their ESG Integration process. Financially material ESG factors are integrated into each investment process in a manner consistent with the underlying investment style. However, JPMAM's governance process for oversight of ESG integration is uniform. We follow an approach of 'Demonstrate, Review, Approval and Implementation'.

Investment groups present their ESG integration approach against the 'framework' for the strategy to the SIOC. For consistency, this is done against a multi-factor framework. After the assessment, the SIOC approves or rejects the ESG integration status.

Prior to the fourth quarter of 2023, JPMAM's governance process contemplated SIOC review of ESG integration at the investment group level but did not require a review of individual strategies/products by SIOC. During the fourth quarter of 2023, JPMAM enhanced its ESG integration governance process by requiring all new strategies to be reviewed individually by SIOC prior to their presentation to JPMAM's product steering committee ('PSC') in order for such strategy's investment process to be considered ESG integrated. SIOC was established in 2021, as part of a comprehensive review of our sustainable investment governance practices, with a particular emphasis on structures for oversight of investment stewardship and ESG integration. Prior to 2021, a collection of working groups including the ESG & Climate Research Working Group determined ESG integration status. Historically, such working groups were referred to collectively as the Sustainable Investment Leadership Team ('SILT').

As of the fourth quarter of 2023, ESG integration is monitored by the Investment Directors, or equivalent teams, as part of confirming that a strategy's investment process continues to be ESG integrated in accordance with the strategy's disclosures and documentation.

Global Equities

Research/due diligence:

A key strength of our investment process is our in-house research, produced by over 100 fundamental and quantitative equity analysts. Our ESG views on specific companies are the product of proprietary research and one-on-one engagements with companies. We also draw on data from external providers. These ESG views are one of multiple informational inputs into the investment process, alongside data on traditional financial factors, and are not the sole driver of decision-making.

Our research framework uses several internally developed processes to assess the financially material ESG credentials of any business:

- An ESG Checklist applies the same detailed questions to the approximate 2,500 companies under coverage, globally. This generates the JPMAM Fundamental ESG Score. The ESG checklist asks 12 questions specifically addressing environmental considerations, 14 on social and 14 on governance. Analysts across equities and fixed income collaborate on the ESG Checklist, with questions about governance tailored to reflect the investment angles of each asset class. The checklist includes both negative and positive questions, as well as a severity assessment. The checklist is not a 'pass/fail' exercise but rather a tool to inform discussions between portfolio managers and fundamental analysts and our engagements with the companies we cover.

The Investment Stewardship team work closely with research analysts to update the ESG Checklist periodically, with the aim of making it more suitable for the purpose of ongoing monitoring and targeted corporate engagement. For example, new questions around supply chain environmental risks, workforce

ESG integration at J.P. Morgan Asset Management continued

diversity and disclosure on social and diversity were added in 2022, as well as detailed guidance as to how analysts should think about responding to these. This helps to identify leaders and laggards in the key ESG issues for each sub-sector and brings more depth to our ongoing ESG research while serving as helpful guidance for more focused ESG engagement with companies.

In addition, analysts conduct deep-dive research into ESG topics identified as material to our investment process. Among the topics examined are flaring in U.S. oil fields, the environmental impact of fast fashion in Europe and corporate governance in insurance companies in Asia.

- The JPMAM Quantitative ESG Score is a proprietary, data-driven ESG score. This score draws on granular, outcomes-focused data, making full use of the significant increase in ESG disclosures and available data over recent years. The score also leverages our data science capabilities, such as machine learning, algorithms and natural language processing to enrich our understanding of ESG factors beyond corporate disclosures, at scale. For further details, please see the section on *ESG data*.
- A fundamental materiality framework across 2,000+ companies. The basis of 'materiality' is to identify the ESG issues that are most likely to have a financially material negative impact on a company were it to be mismanaged, or conversely, the material positive impact in the case of good management. Across more than 50 different sub-industries, financially material issues are identified by research analysts within our 100+ strong global network, who come together to share perspectives with their sector group peers. Each company under coverage receives a score from 1 (best) to 5 (worst) on each of the material issues that have been identified. The implementation of this research framework has deepened our understanding of what best practices look like for sustainability, and we use this template to engage with companies. However, the score does not define or limit a team's investment options.
- A strategic classification framework provides a rating (Premium, Quality, Standing and Challenged) for stocks, based on our judgment of the quality of the business, including financially material ESG issues.

Engagement

Active engagement with companies is an integral part of our approach to investment and ESG. We use it not only to understand how companies consider issues related to ESG but also to try to encourage companies to develop and adopt best practices, for the purpose of enhancing returns for our clients. Engagement is a collaboration between portfolio managers, research analysts and the Investment Stewardship team. Each brings a different perspective to our interactions with companies across our six Investment Stewardship Priorities and our research framework. Alongside the top-down guidance provided by the six Investment Stewardship Priorities, our bottom-up research framework captures the ESG insights of our investors through the research elements detailed in the previous section. Our investors often identify issues related to ESG through their day-to-day work and interaction with company management teams. In these instances, investors may choose to involve the Investment Stewardship team.

Methods of engagement typically include regular meetings, video conferences or email exchanges with senior executives and non-executive management. Proxy voting is also a valuable means of communication. Where our concerns are not adequately addressed by our initial engagement, we will consider an escalation of our approach using the various means at our disposal. Decisions to escalate will always be made on a case-by-case basis. More formal approaches include private meetings with the Chair or other board members, formal letters to the Chair and board or collaborative engagement.

ESG integration at J.P. Morgan Asset Management continued

Global Fixed Income, Currency and Commodities (GFICC)

Research/due diligence

We utilize a disciplined and systematic process to evaluate and identify attractive investment opportunities through the analysis of fundamental, quantitative and technical investment factors. Proprietary research forms the foundation of our approach to ESG integration, with over 70 career research analysts dedicated to thoroughly analyzing every aspect of investments, including financially material ESG factors. As part of this in-depth fundamental research, credit analysts assess the impact of ESG risks and opportunities on issuers' current and future cash flows. If the analysis of ESG factors shows that they are financially material and relevant, analysts will reflect this view in their assessments.

Our proprietary research process incorporates inputs such as company regulatory filings, annual reports, company websites, direct communication with companies and government issuers, media, third-party research and proprietary J.P. Morgan Asset Management research. Other inputs include sell-side investment research and reports from industry groups.

Our fixed income sector teams have developed quantitative ESG rating systems that capture the nuances within their specific markets and align with their existing investment processes. These include an ESG Checklist for the corporate bond market, country ESG rankings for both developed and emerging market sovereign bonds and systematic identification of ESG leaders and laggards in the securitised space. These scoring frameworks serve as useful tools for aggregating the numerous ESG metrics for each issuer and allow for comparison across issuers in the universe. Importantly, the scores are applied to portfolios in a judgmental, not formulaic, fashion and they are accompanied by analysts' qualitative research.

Within Spectrum™, our centralized technology platform, analysts also have access to third-party ESG data for each issuer. This data is displayed in various ways to track individual environmental, social and governance scores, as well as to observe changes over time. This third-party data serves as a supplement to our analysts' views. Our analysts form their own opinions based on their research and judgment, and this is articulated in written research reports, which contain specific sections for ESG comments when material and relevant.

ESG analysis and research are visible on Spectrum™ and shared across all investment teams, including fixed income and equities, enabling greater collaboration and leverage across the J.P. Morgan Asset Management platform.

Engagement

As bondholders, although we do not typically carry voting rights, we believe our role in providing financing to issuers means we have the ability to advocate for and influence positive change. As such, we engage on a wide range of financially material ESG issues with a variety of market participants. Our large global scale and status within the asset management industry allow us significant representation across asset classes. We often conduct engagement in conjunction with members of the Investment Stewardship team; we also collaborate with our equity colleagues to engage with companies to which we have exposure in their bonds as well as their equity. We participate in many meetings with issuers from across the fixed income investment universe (companies and countries) every year.

The C-suite relationships that our research analysts have developed over their careers, enable us to engage regularly with company management and representatives of government issuers on matters that are material to our credit assessment, including financially material ESG factors. We also regularly meet with originators of securitised products and regulators. During these engagements, research analysts raise issues they have identified as material and relevant, including ESG concerns, in an effort to positively influence issuers to adopt best practices.

We also aim to contribute to positive change by participating in industry forums and regularly consulting with third-party data providers. For instance, we have board representation on industry bodies, such as the European Leveraged Finance Association, allowing us to encourage closer cooperation among issuers on key ESG initiatives and to advocate for better disclosure and transparency across the industry. We also scrutinize the data from third-party ESG data providers, working closely with them to improve their coverage of the fixed income universe, data accuracy and timeliness.

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ESG integration at J.P. Morgan Asset Management continued

In the sovereign space, we recognize that engagement is critical, but it can be more nuanced compared to the corporate market given the inherent politics involved. We seek to engage with the sovereign market in a variety of forms, including investing in sovereign debt to finance specific sustainable projects, meeting with government officials regularly to understand progress on climate goals and participating in industry groups to encourage better disclosure and improved practices from state-owned companies.

The results of our ESG engagement are reflected in the research reports produced by analysts, and they feed back into the overall view of an issuer, thereby influencing investment decisions when financially material.

Global Liquidity

Research/due diligence

As part of our security selection strategy for our strategies that are ESG integrated, we seek to assess the impact of ESG factors on many issuers in the universe in which we invest. We utilize both top-down and bottom-up approaches to thoroughly analyse such issuers, including ESG risks and opportunities that may affect issuers' current and future cash flows.

Proprietary, fundamental bottom-up credit analysis forms the foundation of our approach to ESG integration. We analyse companies across a range of inputs including company regulatory filings, annual reports, company websites, direct communication with issuers, media, and third-party and proprietary research.

Proprietary quantitative ESG rating systems have also been developed to capture the nuances across specific fixed income markets. These include a proprietary multi-question ESG checklist for the corporate bond market, at both the ticker and specific bond level, country ESG rankings for developed markets and systematic identification of ESG leaders and laggards in the securitised market. These ESG-related frameworks allow analysts to make informed decisions on the ESG profile of issuers within their respective sectors.

In addition, the JPMAM Quantitative ESG Score developed by the Sustainable Investing team provides further breadth of ESG data using proprietary methodology.

As a supplement to these proprietary tools, our common technology platform – Spectrum™ – displays third-party ESG data for each issuer, tracking individual environmental, social and governance scores and changes to those scores, over time.

Our analysts form opinions based on their independent research and judgment and produce reports containing specific sections for ESG comments that are leveraged across different asset classes when appropriate. The analysts apply a fundamental credit rating to each issuer, and this rating, which can be adjusted based on ESG concerns, ultimately determines an issuer's maximum lines using Global Liquidity's credit guidelines. These guidelines set maximum tenors (duration) and exposures at both the platform level and within each fund and account.

For a more detailed review of the research/due diligence process, please refer to the GFICC section of this report.

Engagement

As bondholders, we do not typically carry voting rights. However, as providers of financing, we have the ability to advocate for and influence positive change by actively engaging on a wide range of ESG issues with a variety of market participants.

Frequent meetings with company management teams or governmental issuer representatives help illuminate ESG risks and opportunities identified as material and relevant in an effort to positively influence issuers to adopt best practices. This information informs the overall ESG analysis within the proprietary fundamental ESG checklist analysis. The results of our ESG engagement are reflected in the research reports produced by analysts, and feed back into the overall view of an issuer. Portfolio managers work with research analysts to understand how engagement opportunities are impacting the overall view of a credit.

Below are a few keyways we engage with management teams and other stakeholders:

- Have board representation on industry bodies, where we encourage closer cooperation among issuers on key ESG initiatives.
- Work with rating agencies to promote better corporate behavior in certain sectors and encouraging cooperation between legislators, issuers and other industry bodies.

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ESG integration at J.P. Morgan Asset Management continued

- As previously stated, ESG integration is dependent on the availability of sufficient ESG information on investee issuers. Recognizing the existing limitations around ESG data quality and availability, we collaborate with data providers to encourage them to improve the overall coverage of the fixed income universe with timely and accurate data.

The results of our ESG engagement are reflected in the issuer reports produced by research analysts, which in turn feed back into the investment process alongside other factors.

Asset Management Solutions Multi-Asset Solutions

Research/due diligence:

The Multi-Asset Solutions team designs and manages multi-asset portfolios, integrating the breadth and depth of investment talent within J.P. Morgan Asset Management, drawing on its proprietary quantitative and qualitative research capabilities, strategy and security selection, asset allocation and risk-focused portfolio management expertise.

For our ESG research in Multi-Asset Solutions, we leverage the following teams: Multi-Asset Manager Research, Sustainable Investing and corresponding asset class research analysts.

Within the manager/strategy evaluation process, we focus on understanding how financially material ESG considerations influence the capabilities of the underlying manager/ strategy and the investment process. The emphasis is on understanding how ESG metrics, where financially material, are considered and how the manager/strategy defines, evaluates and rationalizes inclusion of securities that may score poorly and/or contain perceived headline risk. Multi-Asset Solutions portfolio managers consider this information, among other variables, when reviewing managers/ strategies within the overall portfolio construction process. At Investment Director quarterly meetings, ESG characteristics can be challenged and discussed.

Engagement

Engagement functions are a collaboration between J.P. Morgan Asset Management portfolio managers, research analysts and the Investment Stewardship team. Each brings a different perspective to our interactions with companies across our six Investment Stewardship Priorities and our research framework.

From a Multi-Asset Solutions perspective, we leverage the expert insights of the Investment Stewardship team and underlying investment teams on issues related to proxy voting and engagement activities.

Quantitative Solutions

Research/due diligence

- In order to integrate financially material ESG considerations in factor-based strategies (long-only and long/short) and thematic, we rely upon a third-party vendor to evaluate companies based on a quantitative ESG metric.
- Third-party vendor coverage for our full long/short universe is approximately 95%, with most in Europe and least in Asia, emerging markets and small cap, and is increasing over time. The result of the ESG evaluation provided by the third-party vendor is reflected in scores that are normalized by sector, but not by region. The scores range from 1-10 (10 being the best score), with most benchmarks' ESG score averaging around 5.

ESG integration is dependent on the availability of sufficient ESG information on relevant companies or issuers and the investment universe. We recognize the limitations around ESG data quality and availability.

Engagement and voting

- JPMAM votes according to J.P. Morgan Asset Management Global Proxy Voting Guidelines. The Stewardship team may engage with companies held in Quantitative Solutions' portfolios as part of its stewardship program.
- When there are significant proxy voting issues on companies without fundamental analyst coverage, the Stewardship team will engage with the Quantitative Solutions portfolio managers. The two groups will evaluate the resolution, discuss the issues and come to a decision.

ESG integration at J.P. Morgan Asset Management continued

Alternatives Macro Strategies

Research/due diligence

Our research process consists of an assessment of materiality and ESG scoring: Assessment of materiality: Our proprietary analysis aims to capture key ESG topics pre-trade and on an ongoing basis for all long exposures in individual companies, bond and FX investments. We have determined distinct ESG materiality frameworks for corporates and sovereigns that facilitate a repeatable process for assessing ESG across industries and countries and identifying the most relevant ESG topics.

Our framework for corporates leverages multiple considerations. This includes inputs such as ISSB, and relevant data for the sub-industry. We also look at third-party research as appropriate. We may add as needed an additional ESG area for review that we believe could be material for a particular activity or company. For sovereigns, we assess debt and FX positions against the UN PRI ESG topics from its guide to sovereign debt investing and have added 'central bank credibility' as an additional standalone Governance topic.

The portfolio managers have the discretion to add further ESG topics they believe could be financially material to specific positions. Our materiality assessment draws on the managers' understanding of inherent ESG risks and opportunities across countries, sectors, industries and activities, and their knowledge of their sector of coverage and specific companies. We integrate proprietary, broker and ESG-specific third-party research and company disclosures into our assessment as well as insights from scoring and active ownership. The final analysis is documented as part of a security's investment thesis, which supports the ability to monitor exposures over time.

ESG scoring: Third-party scores provide a complement to our own assessment of materiality and are an objective quantitative framework for the consideration of ESG credentials. We leverage ESG scoring and the associated analysis from MSCI, using the All Country World Index (ACWI) scores for equity and credit, and the country scores for sovereign debt, which feed into Spectrum™. Within Spectrum™, we can view our portfolios' aggregate scores, the component parts and the scores for the broader universe. We also leverage the norm-based scoring assessment from ISS-ESG, referring to its red/amber/ green flags. In addition, the JPMAM Quantitative ESG Score provides further insights of ESG data using JPMAM's proprietary methodology.

Engagement

To enhance our ESG analysis and ensure active ownership on behalf of our clients, the Macro Strategies team leverages the expert insights of the Investment Stewardship team, specifically relating to proxy voting and engagement activities. Further, we engage directly with companies on certain issues where we believe additional discussion may be materially beneficial.

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ESG integration at J.P. Morgan Asset Management continued

Alternatives

Research/due diligence

J.P. Morgan Alternative Asset Management (JPMAAM) Hedge Fund and Alternative Credit Solutions believes that sustainability is a key factor, alongside others, in managing risks and identifying opportunities, and we have developed a holistic investment approach that reflects this belief. Our ESG framework primarily focuses on ESG integration in our manager due diligence process. Our proprietary framework for evaluating managers includes an extensive list of questions on ESG metrics across 25 categories in relation to their operational and investment processes. We apply the framework to every manager while recognizing that the financial materiality of certain ESG risks and opportunities may vary by manager type, size and strategy. This comprehensive analysis informs our view of ESG-related risks and is an important part of our investment decision-making process.

Engagement

After evaluating managers on financially material ESG metrics throughout our due diligence process, we actively engage them on any identified financially material environmental, social or governance risks. We work closely with our managers to help them improve on financially material ESG metrics where we believe they are lacking, providing guidance and support to help them to improve practices. We believe this improves a company's ability to operate successfully, both now and in the future, thereby enhancing the potential of our investment. The platform has helped many hedge fund and private credit managers to incorporate financially material ESG metrics into their businesses and investment processes. Notably, over 90% of managers on the J.P. Morgan Alternative Asset Management platform already have or are actively drafting an ESG policy focused on investment and/or business practices, up from less than 20% at the start of 2018.

Client and beneficiary needs

Our investment stewardship approach aims above all to generate long-term, risk-adjusted returns for our clients. We manage assets on behalf of a broad base of both institutional and retail clients, with more than 9,500 institutional accounts and over 700 funds in over 70 countries. On the institutional side, we serve corporate and public institutions, endowments, foundations, charities, insurers, consultants, financial advisors and governments worldwide. On the retail side, we offer our services through third-party and direct distribution, high-net-worth individuals, families and business owners.

As of December 31, 2023, our total assets under management were USD 2.9 trillion, broken down as follows by asset class, client region and client type:

Asset class

	Total assets under management (in USD millions)
Alternative Investments	202,338
Equity	802,907
Fixed Income	1,675,664
Multi-Asset Solutions	266,212
Total	**2,947,121**

Client region

	Total assets under management (in USD millions)
Europe ex-UK	334,287
Japan	26,985
North America	2,125,201
Other	152,810
Pacific ex-Japan	159,506
UK	148,330
Total	**2,947,121**

Client type

	Total assets under management (in USD millions)
Institutional	1,499,558
Retail	1,447,562
Total	**2,947,121**

Portfolio management by country

	Total assets under management (in USD millions)
Australia / New Zealand	77
China	12,116
Hong Kong	51,688
Japan	20,040
Other Latin America	164
Singapore	2,776
Taiwan	6,435
U.K.	394,193
U.S.	2,459,632
Total	**2,947,121**

At J.P. Morgan Asset Management, we are constantly looking to evolve and improve our approach to stewardship, and we consider our clients and stakeholders as a vital source of insight into how this can best be done. Throughout the year, we continued our efforts to obtain additional insight from clients and stakeholders through a number of formal and informal feedback mechanisms.

We seek to understand clients' views and positions on sustainable investing and stewardship from the start of the relationship. This can be via direct discussion, or through the request for proposal stage. We are seeing clients asking for more detailed qualitative information on a wide range of sustainable investing issues, including resourcing and commitments, industry memberships, ESG investment process and stewardship. We also receive increasing requests on quantitative aspects, including the ESG rating characteristics of portfolios, carbon metrics, alignment to net zero emissions reduction pathways, engagement activity breakdowns and voting records, among others. This provides significant insight into the extent to which sustainable investing-related issues matter to our clients.

Client feedback is also sought on a more ad hoc basis, through industry events, training webinars and due diligence feedback. We have continued to work to strengthen the communication channel with our sales and distribution teams, which has allowed us to collect feedback more efficiently on how our stewardship practices correlate with clients' needs.

Client and beneficiary needs continued

Soliciting client feedback

In 2023, we conducted the second instalment of the J.P. Morgan Asset Management Future Focus Survey on ESG and sustainable investing Trends. Surveying 830 professional investors and 2,000 end investors across Europe, it covered questions such as how investor behaviour and preferences are evolving, advisers' asset allocation intentions, and the drivers behind these choices. Our findings paint a detailed picture of the sustainable investing landscape and what advisers see as the key topics for today and the future. Overall, we found that the sustainable allocations and views are broadening, with investors now considering more asset classes, themes and approaches to sustainable investing. The survey revealed that investors are interested in a wider set of ESG issues. For instance, while climate change remains a firm priority with clients, there were other areas such as health and wellbeing, sustainable water and wastewater management, and food security and sustainable agriculture which the survey responses showed clients were interested in for potential investment solutions to be provided. In terms of asset classes, responses indicate that fixed income and multi-asset portfolios are seen as a strong source of ESG opportunities in the months to come. Findings from the survey will help to shape our client conversation and will enable us to continue to support our clients in areas that are most important to them.

Building on client surveying activity carried out in previous years, JPMAM's Client Operating Committee wanted to gain a better understanding of the importance of a range of ESG issues to consultants and their clients. A series of calls was set up to collate feedback on market best practice and how we can improve our own approach to matters such as remuneration linked to ESG outcomes, consistent global messaging on ESG, and clear communication of JPMAM's approach to sustainability. Through the exercise, we were made aware of several areas where we could learn from industry peers, for example in relation to senior-level leadership on ESG, use of outside subject matter experts to bolster in-house knowledge and capabilities, more proactive sharing of expertise with clients and internal stakeholders, leadership on ESG, and use of best-available metrics and measurement tools whilst acknowledging current limitations around data quality and availability.

We have different working groups and committees such as ESG & Climate Research Working group and SI Client Strategy Working Group that have worked on several of the issues outlined above.

In 2023, we held dedicated sustainable investing sessions at the J.P. Morgan Asset Management Global Research Summit in Europe and Asia, which is our flagship annual regional client event for our investment fund clients in wholesale channels. We dedicated a session in Hong Kong on the role of investor engagement in delivering long-term returns for investment portfolios and provided specific examples of the work we were doing with investee companies in the Heating, Ventilation and Cooling sector. This was in response to earlier client discussions and surveys which showed that clients in Asia wanted more detailed and tangible information on engagement.

As part of an ongoing effort to connect with our clients, share insights into our ESG-related investment and stewardship activity, and hear directly from them in order to better tailor our product offering to their needs, in 2023 the Sustainable Investing team and colleagues hosted net zero roundtables with large institutional clients across Europe. We travelled to five countries with a range of clients at different stages on their journey to implementing net zero targets. The roundtables aimed to provide a forum to share challenges and opportunities presented by net zero target setting from different perspectives, as well as showcase the depth of climate expertise at JPMAM and collaboration across investment teams and the Sustainable Investing team on integrating net zero considerations into portfolios for clients who have adopted their own net zero targets.

In addition, we participated in a range of events and roadshows for ETF clients around active insights and investment stewardship, discussing how both active management and engagement can benefit their portfolios to achieve long-term investment outcomes.

Client and beneficiary needs continued

Client and stakeholder education

We view client and stakeholder education as a two-way and interactive process, taking the view that knowledge should be shared as far as possible. We offer a broad, internal education program to investment teams and client advisors, and this has gradually developed to encompass a comprehensive range of sustainable investing-related content.

The Sustainable Investing team, in partnership with our Client Skills Training team, worked to update and enhance our online Sustainable Investing Academy. This included a new internal website and the recording of new content to supplement our existing sustainable investing materials. The Sustainable Investing Academy is reinforced by regular in-person sustainable investing training workshops on key topics, such as sustainable regulation, fundamentals of climate change and sustainable investing and net zero. These workshops aim to equip client advisors with a solid foundation in sustainable investing knowledge to support their interactions with clients. In this way, we seek to create the basics for more meaningful discussions with clients on key sustainability issues.

With the aim of providing opportunities for client education in mind, we held a number of client events with a focus on sustainable investing and stewardship, such as our online Sustainable Investing Summit and our 2023 Global Research Summit. This included dedicated sessions on the role of alternatives in sustainable investing, sustainable ETF investing, and sustainability in practice, where we heard from solution providers leading the way in the low-carbon transition. We also moderated a discussion for the CIOs of endowment clients on opportunities for investing in the low-carbon transition at our CIO Summit in New York in the second half of the year.

This year we took part in a range of sustainable investing industry events, where we were able to engage with clients and stakeholders whilst also contributing to topical industry debates. JPMAM co-hosted an event on nature and biodiversity with the PRI in our London offices, where our Global Head of Sustainable Investing spoke to clients about the importance of nature to the global economy and how investors can make decisions with nature in mind.

We sponsored the GIIN (Global Impact Investor Network) conference in Copenhagen, where we hosted a session with colleagues from our sustainable forest management subsidiary, Campbell Global, to highlight the role of timber investing in decarbonisation, carbon markets, promoting biodiversity, and enabling negative emissions.

In 2023, we continued to produce sustainable investing-related content on a wide range of topics for our clients and end-beneficiaries. We published regular thought leadership pieces including two sustainable investing market outlooks and an in-depth series of four pieces on investable opportunities around climate adaptation. We also produced insights on topics that clients had shown a keen interest in, such as ESG considerations around mining for critical minerals and the role of hydrogen in the energy transition. In addition to this, JPMAM's Market Insights team produced a range of materials as part of our sustainable investing insights program. Topics this year included the ESG implications of food price inflation, sustainability and portfolio returns, explaining carbon credits, and assessing the risk of another energy crisis in Europe. A full list of publications can be found in the Appendix 3.

Articulating and addressing the client needs

An important part of our Sustainable Investing team's remit is to work with clients and distribution teams to advise on the design and implementation of sustainable investing solutions. This involves understanding the needs of individual clients regarding their ESG approach, including discussions on sustainable investing policy development, investment strategy and stewardship. Over the last few years, we have been working to formulate strategies that both proactively anticipate market trends in sustainable investing, and which respond to specific client demands.

We have noted that some of our clients have climate objectives that focus on decarbonisation, in connection with the transition to a low-carbon economy. This year we launched our first Paris-aligned benchmark products, aimed at clients with portfolio decarbonisation objectives.

Client and beneficiary needs continued

In recognition of that fact that themes beyond climate are also gaining traction with sustainability-focused clients, in 2023 we launched an emerging markets-focused social advancement strategy. We have continued to see client demand for core sustainable fixed income strategies, in response to which we launched our first 'Best-in-Class' Fixed Income Sustainable strategy (Global Short Duration Corporate Bond Sustainable strategy). This builds on the Green, Social and Sustainable Bond strategy which we launched in late 2022.

Strategy specific exclusions

With regards to exclusions of specific securities/ issuers due to ESG-related criteria, we consider the needs of specific clients and/or compliance with laws and regulations, including the European Union's Sustainable Finance Disclosure Regulation, and/or expectations set in sustainable investing-related fund-labelling regimes. Sustainable investing represents a broad set of approaches, and on top of our own firmwide minimum exclusions framework for EU SFDR Article 8/9 funds, we have recognized that clients have specific ways they need us to implement their sustainability objectives. This includes having their own custom exclusion list of companies. With that in mind, we seek to meet client needs by advising them on exclusions and providing support to implement clients' tailored exclusion lists. These cover a range of areas including:

- Fossil fuels including thermal coal and (un)conventional oil and gas.
- Electric power generation
- Tobacco
- Alcohol
- Controversial weapons
- Conventional weapons
- Nuclear weapons
- Gambling
- Adult entertainment
- International norms-based breaches (such as United Nations global compact).

Facilitating and supporting client interest in engagements

We are conscious that our clients are themselves often tracking current ESG issues and the activity of the companies in which their money is invested. An example of this was our decision to join a range of new industry initiatives aligned with issues that have been brought to our attention by clients. For example, we are members of an industry group called Pensions for Purpose and this reflects our commitment to continually assess the avenues via which we manage and invest our clients' assets, as well as our determination to maintain visibility of industry developments in the sustainability space. Throughout the course of 2023, we have partnered with Pension for Purpose on a series of teach-ins and webinars. For example, we delivered a bespoke training session, on the topic of 'outcome-driven/impact investing' to UK pension fund clients. The training focused on definitions/terminology, the evolving landscape and trends, and also spoke to the regulatory environment as it pertains to impact. We also spoke on engaging on climate change to their members (which are also some of our clients) at a conference they hosted.

In 2022, we became members of FAIRR, an industry initiative focused on managing ESG risks in the global food sector and promoting sustainable food systems. This demonstrated our strengthened focus on issues related to natural capital and biodiversity, also exemplified by the addition of our sixth Investment Stewardship Priority, natural capital and ecosystems. In 2023, with FAIRR we were able to take part in a roundtable focused on regenerative agriculture. FAIRR has now released a report on 'Regenerative Agriculture- Why it should be on investors' agenda'.

Client and beneficiary needs continued

Setting clear and measurable goals

The close working relationship we maintain with our clients means that we can offer them the opportunity to play a key role in defining their own ESG priorities. Like education, goal setting should be a two-way street, building off both our Investment Stewardship team's own insight and analysis and clients' responses when this is communicated to them.

We always aim to clarify intentions and expectations at the beginning of any client relationship, to set clear and measurable deliverables for the companies in client portfolios and to articulate the time horizon within which these should be met. When considering companies' risks and opportunities, and how best they can be mitigated or maximized, we believe targets should be set for a time horizon based on consideration of the full economic cycle. The investment time horizon should be appropriate to the region or asset class in question and be set with the aim of driving accountability and transparency throughout the investment and engagement process.

For us, investment stewardship is not about adhering to one set of norms or limiting our scope to one collection of standards. Rather, we strive to understand how factors impacting sustainability are financially significant to companies over time, understanding that the regions, cultures and organizations in which we invest differ greatly from one another. Recognizing that the engagement issues are not the only reason we may invest in or continue to invest in a company, we may continue to hold an investment even if an engagement is unsuccessful when consistent with client guidelines and when we believe that the investment continues to be in the best interests of our clients. That said, we may sell out of a stock completely if the company is unresponsive within the established time horizon, or if we feel that it is in the best interests of our clients to do so.

Voting on behalf of our clients

We vote shares held in our clients' portfolios in a prudent and diligent manner, based on our reasonable judgement of what will best serve the long-term interests of our clients. To help ensure that proxies are voted in the best interests of clients, J.P. Morgan Asset Management has adopted detailed, regional, proxy voting guidelines that incorporate comprehensive guidelines for voting proxies on specific types of issues, and these are publicly available on our websites. We aim to keep abstentions to a minimum. In certain instances, however, it may be in a client's best interests to intentionally refrain from voting.

At the same time, we are conscious of changing market trends and recognize the importance of a client-centric approach to proxy voting. While we are considering the interests of stakeholders in developing our stewardship/engagement program, we vote in the best interests of clients in accordance with the strategy and our view as an asset manager; we cannot always reconcile our view with the views of individual clients. However, we understand client needs are constantly evolving and are committed to reviewing our approaches as practices evolve.

Improving client reporting and information

Expectations from clients on communication and reporting on stewardship have rapidly evolved in recent years. We have provided clients with detailed reporting, especially in our equity investments for a number of years. The following documents are readily available on our website:

- Stewardship philosophy
- Investment stewardship Report
- Voting policy and guidelines
- Voting record
- Conflicts of interest policy
- Case studies on each of our six Investment Stewardship Priorities.
- ESG fund reports for certain funds.

Client and beneficiary needs continued

To address our action plan in 2023, we have built out an interactive online proxy voting dashboard for our European fund range, to enable clients to explore our voting activity on their behalf in more detail and on a continuous basis. This year we also enhanced our engagement reporting capabilities. At European fund-level, we show a breakdown of engagements that have occurred throughout the year, including number of companies engaged across ESG pillars with a further breakdown on specific ESG themes. The report also shows engaged on a regional and sectoral basis. This forms part of a wider sustained effort to increase transparency and accountability regarding our stewardship practices, providing clients with the information necessary to make informed decisions about the assets that they entrust to us for management.

Action plan for 2024

- We will continue to strengthen our client reporting capabilities for engagement and proxy voting. We see the demand for increased transparency in stewardship activities growing.
- We will work to build on the momentum and follow up with clients with decarbonisation goals, looking to host more roundtables and events to best support our clients.

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Structures, processes, policies and procedures supporting stewardship

J.P. Morgan Asset Management has a control framework that incorporates, among other things, policies, and procedures.

Typically, policies set out the requirements for any given topic, e.g., Firm-wide Conflicts policy, while procedures describe how we implement processes to meet policy objectives, e.g., Proxy Voting Guidelines are line of business specific document that include a section on how we handle conflicts.

Policies are reviewed at least annually and procedures periodically; however, reviews may happen more frequently as circumstances arise, for example, changes in regulation. Typically, J.P. Morgan Asset Management policies and procedures are for internal use only. However, under some circumstances, for example, if required by law, those documents may be made publicly available. The following describes the most relevant policies and/or procedures for the Investment Stewardship team and links for documents that are in the public domain.

Conflicts of Interest Policy - Firmwide: the objective of this policy is to outline how JPMorgan Chase & Co. handles actual, potential, and perceived conflicts of interest (collectively, 'Conflicts of Interest' or 'Conflicts.'). Types of Conflicts identified can be firm versus client, workforce member versus client, client versus client and workforce member versus firm. Management of Conflicts includes policies and procedures, training, management oversight, governance, and other controls, for example, separation of job functions and disclosure. Please see section on *Stewardship material conflicts of interest* for more details on corresponding mitigants and examples of how we've handled Conflicts.

Proxy Voting Guidelines (Guidelines): J.P. Morgan Asset Management has comprehensive proxy voting guidelines in our four key investing regions. The guidelines are consistent with law and expectations of good governance practices in these different locations. As standards of corporate governance vary widely, for non-EMEA markets we have generally adopted a principles-based rather than rules-based approach to voting in international markets, based on local corporate governance codes and recognized standards and best practices. These include good practice recommendations from the International Corporate Governance Network (ICGN) and the OECD, among others. Updates to the proxy voting guidelines, as a result of discussions within the proxy committee meetings and equity investors around the world, are made public at least annually. As described in the section on *Proxy Voting*, overall responsibility for the review and approval of the proxy guidelines rests with the regional proxy voting committees.

External Engagement and Proxy Voting Statement and Internal Engagement Policy: the objective of these documents is to outline the J.P. Morgan Asset Management global framework on engagement to be undertaken by the Investment Stewardship team and the investment teams across J.P. Morgan Asset Management sub- lines of businesses. The internal policy outlines minimum standards with regards to how J.P. Morgan Asset Management: 1) integrates engagement in its investment strategy; 2) monitors investee companies on relevant matters, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance; 3) conducts dialogues with investee companies; 4) exercises voting rights; 5) cooperates with other shareholders and with relevant stakeholders of the investee companies; and 6) manages actual and potential Conflicts of Interests in relation to their engagement. The External Policy on Engagement and Proxy Voting sets out how J.P. Morgan Asset Management integrates engagements with issuers into its investment strategies and should be read in reference to the requirements of the EU Directive 2017/828 and its implementing measures (collectively, the 'EU Shareholder Rights Directive II'), and Article 4 of the EU Sustainable Disclosure Regulation (EU SFDR).

Stewardship material Conflicts of Interest

J.P. Morgan Asset Management has policies and procedures in place to address material Conflicts of Interest, in order to maintain the integrity and independence of J.P. Morgan Asset Management's investment processes and decisions, including proxy voting decisions, and to protect J.P. Morgan Asset Management decisions from influences that could lead to a vote other than in its clients' best interests. JPMorgan Chase & Co. (including J.P. Morgan Asset Management) has adopted several policies including the Conflicts of Interest Policy – Firmwide, Information Safeguarding and Barriers Policy – Firmwide and Information Safeguarding and Barriers Policy – MNPI.

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Structures, processes, policies and procedures supporting stewardship continued

J.P. Morgan Asset Management Conflicts of interest

J.P. Morgan Asset Management also has a standalone Conflicts of Interest policy for corporate governance. Material Conflicts of Interest are further avoided by voting in accordance with J.P. Morgan Asset Management's prescribed guidelines (Prescribed Guidelines), which can be downloaded on J.P. Morgan Asset Management's investment stewardship website.

Given the breadth of J.P. Morgan Asset Management's products and service offerings, it is not possible to list every circumstance that could give rise to a material conflict. Examples of such material Conflicts of Interest that could arise include, without limitation, circumstances in which:

Management of a J.P. Morgan Asset Management client or prospective client, distributor or prospective distributor of its investment management products or critical vendor is soliciting proxies and failure to vote in favor of management, which may harm J.P. Morgan Asset Management's relationship with such company and materially impact J.P. Morgan Asset Management's business.

A personal relationship between a J.P. Morgan Asset Management officer and management of a company or other proponent of a proxy proposal could impact J.P. Morgan Asset Management's voting decision.

- The proxy being voted is for JPMorgan Chase & Co. stock or for J.P. Morgan Funds.
- When a J.P. Morgan Asset Management affiliate is an investment banker or has rendered a fairness opinion with respect to the matter that is the subject of the proxy vote.

Please note that third party U.S. mutual funds and ETFs are voted by an independent voting service provider.

Depending on the nature of the Conflict, J.P. Morgan Asset Management may elect to take one or more of the following measures, or other appropriate action:

- Removing certain Advisor personnel from the proxy voting process.
- Walling off personnel with knowledge of the Conflict to ensure that such personnel do not influence the relevant proxy vote.
- Voting in accordance with Prescribed Guidelines, if any, if the application of the Proxy Guidelines would objectively result in the casting of a proxy vote in a predetermined manner.

Deferring the vote to an independent third party, if any, that will vote in accordance with its own determination. However, J.P. Morgan Asset Management may request an exception to this process to vote against a proposal rather than referring it to an independent third party 'Exception Request' where the proxy administrator, the one charged with oversight of the entire proxy voting process, has actual knowledge indicating that a J.P. Morgan Asset Management affiliate is disclosed in the public domain as an investment banker or rendered a fairness opinion with respect to the matter that is the subject of a proxy vote. The Proxy Committee shall review the Exception Request and shall determine whether J.P. Morgan Asset Management should vote against the proposal or whether such proxy should still be referred to an independent third party due to the potential for additional Conflicts or otherwise.

Potential conflicts

In the course of its proxy voting or engagement activities, the following circumstances may occur:

- J.P. Morgan Asset Management may cast proxy votes consistent with client(s) investment strategies that may conflict with the investment strategies of other clients of ours, and notably, individual proxy votes may differ between clients.
- J.P. Morgan Asset Management clients may invest in the same company, or a single client may invest in the same company but in multiple accounts. In those situations, two or more clients, or one client with different accounts, may be invested in strategies having different investment objectives, investment styles or portfolio managers. As a result, J.P. Morgan Asset Management may cast different votes on behalf of different clients or on behalf of the same client with different accounts.
- J.P. Morgan Asset Management, or our clients, may participate in securities or stock lending programs or lend stock to third parties whose investment objectives may be different to ours and as a result the third parties may cast proxy votes that conflict with the investment strategies of our clients.

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Structures, processes, policies and procedures supporting stewardship continued

- J.P. Morgan Asset Management may engage with companies on behalf of impact and sustainable funds that have different objectives to other funds.

J.P. Morgan Asset Management may have a different position on environmental, social and corporate governance matters than its parent company (JPMC).

J.P. Morgan Asset Management clients may want us to engage or vote on corporate governance issues that further their interests but are not consistent with our policies.

J.P. Morgan Asset Management may participate in collaborative engagements with other industry participants, which may include joining a coalition, working with other asset managers/owners on issues relating to the Investment Stewardship priorities and/or signing of public statements and resolutions that may have conflicting or differing positions on corporate governance matters.

To the extent that the regional proxy administrator (Proxy Administrator), the individual charged with oversight of the JPMAM Proxy Voting Guidelines and the entire proxy voting process, determines that any of the above activities or any other activities give rise to the potential for a material conflict of interest for a particular proxy vote, the Proxy Administrator shall escalate to the relevant Proxy Committee to determine if the matter gives rise to a material conflict of interest and if so, what actions should be taken.

Sales and marketing professionals will be precluded from participating in the decision-making process. The resolution of all potential and actual material conflict issues will be documented in order to demonstrate that JPMAM acted in the best interest of its clients.

Material conflicts of interest in practice

A recurring Conflict of Interest relates to a JPMorgan Chase & Co employee being a director on the board of a public company for which we need to cast a proxy vote electing said Director.

Example of an actual conflict

In August 2023, a JPMorgan Chase & Co employee was elected to the Board of Cencora, Inc. (formerly known as AmerisourceBergen); her election was made after the annual shareholder's meeting and therefore, a vote for the director will not occur until 2024. We noted the director's election and promptly added her to the list of JPMorgan employee on boards. Assuming she remains on the board, we will refer the vote to an independent voting provider to avoid the conflict, i.e., supporting the election of the director because the director was an employee.

This demonstrates our existing processes on Conflict of Interest. These Conflicts were included in Conflict summaries that are presented to the Proxy Committee on a quarterly basis to ensure adequate oversight.

Delegated conflicts of interest votes

In 2023, there were 108 meetings referred to an independent voting service due to conflicts of interest. We retain records of Conflicts for which voting was referred to an independent voting provider in our internal system.

Internal assurance

- **First, second and third lines of defense**: J.P. Morgan Asset Management uses multiple lines of defense to assure adequate oversight over its activities, including stewardship. Our control environment can be thought of in terms of the lines of business or 'first line' including the ongoing management of embedded risk, independent risk management or 'second line' and Internal Audit or 'third line.' Given the size and complexity of J.P. Morgan Asset Management and diverse set of professionals working together, it was important to clearly establish specific roles and responsibilities to coordinate effectively and efficiently among the lines of defense. This enables a sound control framework by minimizing gaps in risk and control coverage, creating separation of duties and an oversight framework. The below lays out our lines of defense and include examples of how they relate to the Investment Stewardship team.
- **Lines of business**: The lines of business each are responsible for developing and maintaining effective internal controls. They also are accountable for identifying and addressing the risks presented by their respective business and for operating within a sound control environment. Control management is in place within each line of business to ensure a strong and consistent control environment across the organization. The Investment Stewardship team facilitates a sound control environment by developing appropriate guidelines and procedures

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that incorporate risk mitigation practices, establishing governance to monitor and escalate risk or control matters, etc. For example, the formation of the J.P. Morgan Asset Management Sustainable Investing Oversight Committee (SIOC), as described in previous reports.

- **Independent risk management**: Independent risk management includes risk management and compliance. They each have their own set of responsibilities but work together to provide oversight of the business and set Firm-wide control policies. Risk and Compliance both participate in the relevant stewardship governance committees to provide credible challenge and may provide independent review, consult and advise on line of business responsibilities to comply with regulatory requirements and best practices and develop training. For example, the Compliance is part of the review of the proxy voting changes on an annual basis
- **Internal audit**: The Internal Audit function operates independently from other parts of the company, providing testing and evaluation of processes and controls across the entire enterprise. The Internal Audit team assesses the effectiveness of our governance, risk management and internal controls; evaluates our compliance with laws and regulations; and identifies opportunities for improvement. Through this structure, we seek to subject business decisions and actions to rigorous consideration, testing and review for compliance with relevant laws and regulations, as well as consistency with our business principles.**Assurance of our proxy voting process**: In addition to the Proxy Committee, additional measures are in place to support the quality of the proxy voting process. This includes account setup and account reconciliations to ensure we are voting as required for client accounts, proxy vote end of day reviews and daily prioritisation to tackle timely escalation, reconciliation of vote recommendations, e.g., as part of the annual N-PX filing process in the U.S. and other checks performed by our operations teams. Additionally, given that proxy voting is identified as a key process for J.P. Morgan Asset Management, associated risks and controls are identified and evaluated as part of regular monitoring. The Investment Stewardship team in concert with Control Management will periodically test relevant controls to assess control design and effectiveness, identify gaps or weaknesses and create corrective action plans to address weaknesses. Any weaknesses in control would be identified and escalated to the respective regional proxy committees.
- **Oversight of proxy advisors**: J.P. Morgan Asset Management evaluates on a regular basis our third-party proxy advisor(s). The evaluation is intended to address several key areas including the vendor's general business matters, competency and capabilities and the handling of Conflicts of Interest. A summary of the results is shared at a regional Proxy Committee meeting and disseminated to the global Investment Stewardship team for awareness. If deficiencies are identified, we may put additional processes in place to mitigate such issues until an effective resolution is reached.
- **Review of our stewardship report** – In 2021, when we initiated the preparation of our annual stewardship report, we took concerted effort to ensure that the document is responsive to the requirements set out by the various global stewardship codes. To that end, we formed an initiative, under the leadership of the newly appointed Global Head of Investment Stewardship, that spanned the Investment Stewardship team, Legal, senior management and a third-party audit firm. The entirety of our document was reviewed by a third-party firm against the various stewardship codes including the UK Stewardship Code. Robust discussions were had with our third-party firm and feedback was incorporated into the document followed by internal review including review by members of senior management. The purpose of these reviews was to ensure our document adequately described our practices and indeed were fair, balanced and understandable. This document is the third and iterative version of the 2021 document. We have incorporated updates to reflect initiatives undertaken in 2023. Final approval to publish this report is also made by SIOC who has oversight of stewardship and sustainable investing activities for JPMAM.

External assurance of stewardship activities

- Sustainable fund label external assurance: Many European industry bodies have established their own sustainable finance labels. They serve as benchmarks for responsible investment practitioners and signal to clients the sustainable

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investing processes have been assured against their independent quality standards. Today, J.P. Morgan Asset Management has seven funds that hold the Belgian 'Towards Sustainability' label and five hold the French government's "SRI Label.' At a fund level, the investment teams are subject to periodic external audits driven by the label issuer but conducted by a third party. A number of these audits took place in 2023.

- External audit: J.P. Morgan Asset Management has operations that span the globe and given operating across many jurisdictions, we are subject to the oversight of many regulatory regimes. Our proxy voting activities, when required by regulation, may be audited by an independent external auditor.

Stewardship continuous improvements

Through our interactions across the lines of defence, governance committees, day-to-day activities and changing market and regulatory landscape, J.P. Morgan Asset Management will identify opportunities to evolve and improve our practices.

Example 1

We conducted a review of our proxy voting practices. This resulted in a series of enhancements including developing and rolling out proprietary in-house voting interface in our Spectrum technology suite which allows better proxy voting workflow, including the integration of our voting decision making practices with our research and investment decision making approach. We also harmonized the operational practices to promote increased efficiency and avoid duplication of effort.

Example 2

For clients in separately managed accounts who have not delegated proxy voting authority to J.P. Morgan Asset Management, we helped facilitate their own proxy voting by providing administrative support to allow them to vote in accordance with a third party or custom client voting policy as selected by such clients. This provides clients with greater choice in determining whether they want to make their own proxy voting decisions using their own or a third party's proxy voting guidelines or delegate proxy voting to us to be voted in accordance with J.P. Morgan Asset Management's proxy voting guidelines.

Example 3

We have taken steps to deepen our climate research capabilities by developing in-house tools that can be used for both investment and stewardship activities to assess sector specific decarbonisation targets set by companies in different industries. These capabilities help us analyze whether a company's stated plans for addressing climate change risks and opportunities are credible. In 2023, we published JPMAM's second report under the Task Force on Climate-related Financial Disclosures (TCFD) framework as part of our own transparency reporting.

These are detailed further in the report in the relevant sections.

Alongside these changes, we conducted what has now become an annual strategy implementation review in the summer into the effectiveness of our stewardship practices to identify specific areas of improvements to facilitate continuous improvement. This process included feedback from a wide range of stakeholders, including clients, as well as incorporating changes in response to changing regulations and industry guidance from relevant oversight bodies such as the UK Financial Reporting Council. The most material areas where we improved our practices are highlighted in the 'Key areas of reform' section.

Update from 2022

As referenced in example 1 above, we took steps to harmonize operational practices to improve efficiencies and avoid duplication of efforts. In resolving some of these underlying challenges, we postponed the expansion of additional voluntary vote disclosure reporting for the North America and Asia regions. We are currently considering timelines for such vote disclosure implementation, which we consider a market priority. Please not we do provide vote disclosure for certain markets as required to clients and pursuant to regulation, such as reporting the mutual fund and ETF proxy voting records on SEC Form N-PX.

Managing risk

At J.P. Morgan Asset Management, our overall objective is to manage the business and its associated risks in a manner that balances serving the interests of our clients with our fiduciary responsibilities, while protecting the organization's reputation. We believe that a well-functioning financial system is critical for

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our success as an organization and in fulfilling these objectives. As a responsible long-term investor, we are committed to contributing to well-functioning financial markets and maintaining prudent risk management frameworks, as well as to participating, as appropriate, in regulatory and industry-wide bodies to achieve these outcomes.

At J.P. Morgan Asset Management, we employ a multilayer risk management governance framework that operates by means of the three lines of defence.

The first line of defence is the line of business, including portfolio managers and the embedded risk teams. The portfolio managers have primary responsibility for the risk oversight of the client investments, they operate within guidelines and risk parameters and make active investment decisions to generate excess returns to the portfolio. As part of the first line, the portfolio managers also work with embedded risk teams who help execute risk and performance oversight of the portfolio including the review and challenge of the investment process. The second line of defence is comprized of the independent risk management function that is responsible for providing independent oversight and effective challenge of the risk management process. The independent risk management team measures, monitors and manages risk thresholds to review the risk profile of the portfolio. The independent risk management team will also activate the stressed market protocol during periods of high market volatility when appropriate. As part of its responsibilities, the independent risk management function has the ability to escalate risk matters to portfolio managers, chief investment officers or the Asset Management CEO. The third line of defence is Internal Audit, responsible for providing an independent assessment of the adequacy and effectiveness of the investment processes, controls, governance and risk management.

We have established robust governance frameworks to manage different types of risks, including:

- **Investment risk**: The risk of investments declining in value due to economic developments or other events impacting the entire market.
- **Liquidity risk**: The risk that a fund not meeting requests to redeem shares issued by the fund without significant dilution of remaining investors' interests in the fund.
- **Counterparty risk**: The risk of the other party in an investment, credit or trading transaction not fulfilling its part of the deal and defaulting on its contractual obligations.

Our investment and risk management processes have evolved over time, including the integration of environmental, social and governance (ESG) metrics with the objective to build stronger portfolios for our clients. A Sustainable Investing Risk Oversight Framework aims to monitor material ESG and carbon metrics and their consideration in the investment process of our strategies. The framework helps identify investment strategies with ESG and carbon metrics that are materially different from its benchmark and understand the rationale for such differences.

In addition to our extensive risk governance frameworks, we employ the Stressed Market Protocol to address periods of high market volatility and market crises, which enables us to focus on accounts that are under current stress, performance or flow concerns. The Asset Management Chief Risk Officer (AM CRO) and/or the Asset Management Chief Executive Officer (AM CEO) can initiate the Stressed Market Protocol, considering a number of quantitative and qualitative factors including but not limited to macroeconomic indicators with a direct impact on stress as well as idiosyncratic political events, climate events or other indicators. Once the protocol is enacted, AM leadership holds regular meetings to focus on key risk-related topics such as swing pricing, market re-pricing in response to volatility, market trends, bid-ask spreads, regulatory responses, fund valuation considerations and operational concerns in real-time.

We produce a Rapid Response Report for all asset classes included in Independent Risk Management's oversight, which highlights key metrics and areas of concern contributing to market-wide and systemic risks. In response to volatility in the global financial services sector, we initiated the protocol in March 2023. (See case study below.)

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Case Study – Stressed Market Protocol and Volatility in the Global Financial Services Sector in March 2023

In response to the news of turmoil at Silicon Valley Bank, we activated the Stressed Market Protocol, which included:

1. A Rapid Response Report highlighting key metrics, regular discussions of key risk-related topics with AM leadership and real-time, deep-dive presentations and product-specific updates led by various portfolio managers.
2. Daily discussions among key AM stakeholders supported by standard and ad-hoc reporting during periods of high market volatility or market crisis. The goal is to share and escalate information in a timely manner and quickly act to adjust and protect client investments across the platform accordingly. Immediately following the news of the turmoil at SVB, AM Risk invoked the protocol and gathered senior stakeholders to discuss overall exposure to the banking sector and reassess exposures in other sector names such as Signature Bank and First Republic Bank. As events evolved, similar conversations and actions followed regarding European banks.
3. Portfolio Managers executed exposure reductions, as appropriate, in an informed manner throughout the stressed period. The protocol focus then turned to discussions about the heightened volume of client onboarding and the processing of increased inflows into Money Market Funds.
4. We continued to provide our key function of properly identifying, measuring and reporting risks to fulfil our fiduciary duties as risk managers while looking after our clients' investments.

Climate change

We view climate change as a core investment topic and one of the most significant market-wide and systemic risks that cannot be ignored. We have an important role in identifying the risks of investing or remaining invested in companies unprepared to navigate the transition and investing in companies that will benefit from the opportunities that arise. You will see throughout this report the many steps we have taken to address climate change.

Further, we are committed to understanding how climate change may drive or influence the risks and opportunities identify. We view climate risk as a driver that is being integrated into existing risk types and is not being treated as a new standalone risk type. Our Sustainable Investing Research Team includes team members with climate experience. One of the team's priorities is to extend existing ESG investment capabilities to provide an enhanced set of climate-related metrics and analytics. This includes providing the framework for calculating carbon exposure metrics, advancing portfolio-level climate scenario analysis capabilities and developing tools to measure portfolio alignment, as well as identifying companies that are better prepared for the transition to a low-carbon economy. We recognize that climate scenario analysis is becoming an increasingly important consideration for asset managers as a result of client and regulatory demand to understand their exposure to climate-related risks and opportunities.

As part of our advocacy and public policy work on climate, we support organizations that encourage voluntary disclosure, such as the Sustainability Accounting Standards Board and the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

More in-depth details of our work on climate change can be found in our Climate Engagement and Voting Report section.

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Advocacy and public policy

A robust internal risk management framework can only be as strong as the wider financial system it sits within. As a global asset manager, we undertake policy engagement with regulators, governments, standard setters and nongovernmental organizations, to advance effective disclosures and good governance by asset managers and other financial institutions. This includes engaging with policymakers and regulators directly and providing input to public consultations.

The Firm's political and regulatory engagement is coordinated by the Global Government Relations (GGR) team. The GRR team ultimately reports to the Firm's Head of Corporate Responsibility, who reports regularly to the Public Responsibility Committee. This organization and leadership help us focus the Firm's external engagement efforts on those public policy issues most relevant to the long-term interests of the Firm and our ability to serve our clients.

We also commit our time and expertise as participants of trade associations or bodies that advocate good stewardship practices, such as the UNPRI, the UK Investment Association, the Financial Reporting Council, Institutional Investors Group on Climate Change, International Corporate Governance Network and the Investor Forum.

We maintain a prudent approach in selecting initiatives we will participate in or support, dedicating time and resources to areas where we can leverage our expertise to have a material influence and impact consistent with our fiduciary duties.

For example, JPMAM supports the goal of effective and consistent disclosure regarding ESG-related products and services by those asset managers that offer them. Investors that may be interested in strategies incorporating financially material ESG elements will benefit from such disclosures, which should help them understand the fundamental characteristics of an ESG fund and/or an adviser's ESG strategy and make more informed investment decisions. Given the ongoing focus on ESG disclosures, we have engaged directly with both the Securities and Exchange Commission in the U.S. as well as the Financial Conduct Authority in the UK on this topic.

In addition to these, we are also signatories/members of a number of organizations and initiatives. More detailed information on this can be found in the Appendix.

Case study

An example of our continuing work and contribution in promoting well-functioning markets is our participation in collective engagements through the European Leveraged Finance Association (ELFA).

The ELFA is a trade association comprized of European leveraged finance investors that seeks to create a more transparent, efficient and resilient leveraged finance market while acting as the voice of its investor community. The ELFA was co-founded by a member of our European high yield team and various members continue to serve in different capacities such as ESG co-chair, D&I co-chair, engagement member and board member.

We participated in collective engagements through the ELFA where we felt value could be gained to advocate on behalf of the wider market. Through the engagement committee of ELFA, we:

- Spoke with the Lux regulator (CSSF) on the participation of UCITS in New Money Financing in order to increase liquidity and broaden participant limits.
- Through the ESG committee, we collaborated with the International Capital Market Association (ICMA) to publish Practical Recommendations for high yield sustainability-linked bonds to increase disclosure and accountability of these instruments in the leveraged finance market.
- The ELFA ESG committee also collaborated with Initiative Climate International (iCI) to publish Footprint Measurement Guide for companies and their lenders—a digestive insight piece for companies in the beginning of the ESG journey providing tangible resources such the Task Force on Climate-related Financial Disclosures (TCFD).
- Through the Disclosure and Transparency Committee, we developed an ELFA gold standard for issuers to demonstrate best-in-class disclosures.

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- In high yield, some issuers provide financial documentation behind password protected websites thereby limiting investor access. Therefore, we continue to push on improving disclosure practices in the high yield market.
- We've also held teach-in sessions open to all ELFA members on Special Situations: Creditor on Creditor Aggression to raise awareness of the scenarios and build resilience in the investor community.

Effectiveness in identifying and responding to market wide and systemic risks, and promoting well- functioning financial markets

J.P. Morgan Asset Management continues to play an important contributory role in a number of initiatives, whether driven by policymakers and regulators or industry associations and bodies to which we belong, to further promote well- functioning markets.

As part of a review into the effectiveness of our work in this regard and to further collaborate on supporting and advancing J.P. Morgan Asset Management's global leadership on sustainability, we strengthened our internal governance framework and in 2023, monitored the effectiveness of some of these changes through feedback and surveys. Alongside this strengthened internal governance, greater co-ordination was also undertaken by risk teams with the Sustainable Investing team enhancing internal coordination across the organization on all aspects of sustainability.

Monitoring service providers

J.P. Morgan Asset Management uses multiple service providers to support our stewardship efforts including data collection and background research. They play a role in facilitating our stewardship activities and ESG research. Also, they help support efficiencies in data collection, reporting and operational matters.

We are also members of some industry organizations and collaborative initiatives to promote sustainable investing practices and increase the effectiveness of our engagements and improve the chance of successful outcomes.

We conduct careful due diligence before the decision is taken to onboard each service provider. When selecting and onboarding any new provider, we conduct an in- depth evaluation of its capabilities, resourcing, costs and controls of vendors/memberships in line with an oversight program established by JPMC Corporate Third-Party Oversight (CTPO). We also assess alternative services and, as applicable, consider what an alternative provider would add beyond the current provision from existing providers. We evaluate service providers ongoing, periodic basis during the term of subscriptions to understand whether the provider is delivering what was initially expected or promised.

It is the responsibility of the Investment Stewardship team and other relevant divisions to evaluate the capabilities, objective and purpose of any stewardship- and research-related service provider. This may take into account the alignment of the vendor data and research to help drive our J.P. Morgan Asset Management commercial sustainable investing and stewardship priorities, as well as the quality and coverage of research to augment proprietary fundamental research and cost competitiveness. We also work as needed with our in-house technology partners to consider third-party technology providers that are stewardship related.

CTPO is responsible for defining and implementing the service provider oversight program across the Firm. This partnership helps to retain what we believe are competent, competitive and secure service providers and helps to mitigate potential financial, operational and performance risks.

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Service providers supporting stewardship and ESG research

The following table shows the list of service providers from third-party research and data vendors.

Type of data vendor	Data vendor	Type of service and provision
Market data	• Bloomberg • FactSet	Market data, financial information, ownership data and corporate ESG disclosures to inform views on companies and augment proprietary research for engagement and voting.
ESG and alternative data sets	• MSCI ESG • Sustainalytics • S&P Global • CDP • Miotech • Sigwatch • Equileap • PATSTAT • Revelio Lab • Science Based Targets Initiative	Environmental, social and governance research and data on companies used, amongst other use cases, as part of the JPMAM Quantitative ESG Score to augment proprietary research for engagement and voting.
Proxy research	• Institutional Shareholder Services (ISS) • Glass Lewis & Co	Proxy voting research a to implement the J.P. Morgan Asset Management custom voting policies in each region. Separately, provision of voting-related services to mitigate conflicts of interest.
Proxy vote execution	• Institutional Shareholder Services (ISS)	Vote execution platform and administrative services including reporting?
ESG exclusions, minimum safeguards	• Institutional Shareholder Services' ESG Platform (ISS-ESG)	Values and norms-based (United Nations Global Compact) exclusionary screening tools for portfolio construction in products (including EU SFDR Article 8 and 9 products) and informs research for engagement on norms- and/or values-based breaches.

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Oversight supported by the Corporate Third-Party Oversight (CTPO) Program

The JPMorgan Chase & Co. (JPMC) Global Supplier Management Policy sets forth the requirements for the procurement of goods and/or services from service providers and establishes a risk-based framework for oversight of service providers. Service providers are required to adhere to a set of minimum control requirements and are evaluated according to predefined criteria depending on their inherent risk classification.

JPMorgan Chase & Co.'s Corporate Third-Party Oversight (CTPO) Program sets the framework for service provider engagements. The Firm-wide 3-phase CTPO lifecycle is designed to manage the selection, onboarding, performance and risk monitoring and disengagement of service providers.

Service providers are reviewed initially during onboarding and periodically thereafter, commensurate with the inherent risk of the engagement. As part of this assessment, service providers are required to provide evidence to show that they are prepared to deal with issues relating to business continuity, disaster recovery and pandemics. This includes formal documented recovery plans to identify the resources and specify actions required to help minimise losses in the event of a disruption to the business unit, support group unit, application or infrastructure component. Any issues identified during the assessment are tracked by the business until remediated.

Service providers used by the Investment Stewardship team are considered to carry negligible, or at most, low, financial, operational, legal and/or regulatory risk to our business activities and/or clients. J.P. Morgan Asset Management has a long, active research heritage, and service providers are used to supplement or inform proprietary research, rather than being central to the core functioning of our business and consequently are considered to carry low risk to our business activities.

How we source, use and rate broker research

Research from third-party, sell-side brokers (both traditional brokers and independent research providers), sourced either through written reports or meetings with analysts, is a component of the research we use to understand shifts in ESG issues, market trends and sector dynamics. We also use company analysis especially as brokers are increasingly incorporating ESG analysis.

This helps shape and inform engagement and voting on company-specific and thematically driven engagements. We also use research from certain technical specialist brokers for analysis relating to proxy contests or say-on-pay votes.

It is important to provide transparent feedback on the value specific broker's research provides in aiding and augmenting our stewardship activities. We have a dedicated team that manages our broker relationships and coordinates user assessment of brokers' research quality across J.P. Morgan Asset Management on a bi-annual basis. For ESG research, our assessment considers the quality and depth of issues, thematic priorities and company-level coverage. Our feedback will be shared with brokers, and ultimately, where research providers have provided benefit to our investors, stewardship specialists and clients, payment allocations are made accordingly.

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Assessment and ongoing engagement with service providers

Beyond the in-depth due diligence and review conducted at the time of onboarding new providers or when renegotiating contracts on expiry, like the full review conducted with one of our major proxy service providers in 2022, we consider it to be important to assess and communicate on an ongoing basis with our service providers.

As we consider the needs of our investment teams and stewardship specialists and grow our expertise in ESG data in our investment decision making, as well as the requirements for data for regulatory compliance, we actively seek to assess methodology, scope and credibility of assumptions and forecasts of ESG data and third-party research. One such example relates to climate metrics. With continued interest from investment teams, stewardship specialists and clients for high-quality and granular data to assess how companies are positioned for climate risk, and with new offerings from existing data providers, a continued area of focus this year has been to engage with service providers on climate metrics. See the following case study on engagement with a data provider on Scope 3 emissions. Another area of engagement relates to regulatory compliance, where we may engage service providers as the regulatory environment evolves, such as mapping indicators for Principle Adverse Impacts (PAIs) to third- party data as part of the EU Sustainability Finance Disclosure Regulation (EU SFDR). Where the data obtained is financially material, we may choose to engage with companies.

On a more regular basis, the Investment Stewardship team has regular relationship calls with proxy voting service providers to consider capabilities including data quality and methodology, client servicing, and operational support for vote execution. Where we feel that performance is below our expectations, or we wish to evaluate the methodology or consider data to be out of date or inaccurate, we engage directly with service providers to discuss specific cases.

For instance, with regards to proxy voting research, we continuously evaluate accuracy of information from service providers for their benchmark research. This is a part of our ongoing due diligence of the standard of research provided. Where we have identified material differences in interpretation of company disclosure, we may provide feedback to relevant proxy research providers so that they can ensure their research reflects accurately appropriate disclosure and practices. We ask that research be updated in our ongoing dialogue with our service providers. We also carefully evaluate research, especially in Asia-based markets where we believe that there can be differences with interpretation of company disclosure due to local languages.

Another area of focus with our proxy providers this year has been to improve the operational plumbing of our vote execution services. As we continue to refine voting operations across the globe, we initiated a large technology project in partnership with our operations, technology and stewardship teams to reduce the operational touchpoint from four regions to one centralized location. This will ensure a more streamlined operational workflow and, importantly, will further enable our consistent application of applicable regional voting policies.

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Case study

Understanding a company's value chain GHG emissions

Issue

For many sectors, the most material source of company's GHG emissions is from their value chain, also known as Scope 3. More granular data on Scope 3 GHG emissions can allow investors to understand trends and potential climate risks from a company's value chain. Data availability for Scope 3 is lower than for Scopes 1 and 2. The GHG protocol breaks down Scope 3 emissions into 15 categories, which relate to upstream and downstream sources of emissions. It can be helpful to break down Scope 3 emissions into their individual categories to understand a company's value chain emissions, which may allow investors to better assess transition risks. Our primary data vendor, S&P Global has been providing company emissions data across Scope 1, 2 and 3.

Action

While significant progress has been made towards emissions reporting, at the start of 2023 S&P Global provided only an aggregate Scope 3 upstream and Scope 3 downstream metric. While the split between upstream and downstream emissions is helpful, this level of aggregation may make it more challenging to understand a company's emissions.

We discussed emissions estimation with S&P Global to better understand their methodology and highlighted the need for Scope 3 emissions data at the category level.

Outcome and next steps

Towards the end of 2023, S&P Global started publishing Scope 3 data at the granularity that matches the GHG Protocol for certain categories and have committed to a plan to publish the remaining categories.

Performance and compensation practices

The Firm provides market-competitive compensation and benefits programs to our employees. The Firm's compensation philosophy includes guiding principles that drive compensation-related decisions across all levels of the Firm. We believe our compensation philosophy promotes an equitable and well-governed approach to compensation, which includes pay-for-performance practices that attract and retain top talent in a competitive market, is responsive to and aligned with shareholders' expectations, reinforces our culture and Business Principles including the integration of risk, controls and conduct considerations. The Firm's commitment to diversity, equity and inclusion for all employees includes compensation review processes that seek to ensure that the Firm's employees are paid fairly and competitively for the work they do.

The Compensation framework for JPMAM's investment professionals (generally defined as portfolio managers, research analysts, traders and investment specialists, with a corporate title of VP and above) participating in public market investing activities is based on several factors that drive alignment with client objectives, the primary of which is investment performance, alongside of the firm-wide performance dimensions. The framework focuses on total compensation – base salary and variable compensation. Variable compensation is in the form of cash incentives, and/or long-term incentives in the form of fund-tracking incentives (referred to as the 'Mandatory Investment Plan' or 'MIP') and/or equity-based JPMorgan Chase Restricted Stock Units ('RSUs') with defined vesting schedules and corresponding terms and conditions. Long-term incentive awards may comprize up to 60% of overall incentive compensation, depending on an employee's pay level.

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The performance dimensions for investment professionals are evaluated annually based on several factors that drive investment outcomes and value – aligned with client objectives – including, but not limited to:

- Investment performance, generally weighted more to the long-term, with specific consideration for portfolio managers of investment performance relative to competitive indices or peers over one-, three-, five- and ten-year periods;
- The scale and complexity of their investment responsibilities;
- Individual contribution relative to the client's risk and return objectives;
- Business results, as informed by investment performance; risk, controls and conduct objectives; client/customer/stakeholder objectives, teamwork and leadership objectives; and
- Adherence with the Firm's compliance, risk, regulatory and client fiduciary responsibilities, including, as applicable, adherence to the JPMAM Sustainability Risk Integration Policy, which contains relevant financially material Environmental, Social and Corporate Governance (ESG) factors that are intended to be assessed in investment decision-making, per investment objectives.

In addition to the above performance dimensions for investment professionals, the Firm-wide pay-for-per performance framework is integrated into the final assessment of incentive compensation for an individual investment professional. Feedback from JPMorgan's risk and control professionals is considered in assessing performance and compensation.

Investment professionals are subject to a mandatory deferral of long-term incentive compensation under J.P. Morgan's Mandatory Investor Plan (MIP). In general, the MIP provides for a rate of return equal to that of the particular fund(s), thereby aligning the investment professional's pay with that of the client's experience/ return.

For investment professionals participating in public market investing activities, 50% of their long-term incentives are subject to a mandatory deferral in the MIP, and the remaining 50% can be granted in the form of RSUs or additional participation in MIP at the election of the investment professional.

For the portion of long-term incentives subject to mandatory deferral in the MIP (50%), the incentives are allocated to the fund(s) the investment professional contributes to, as determined by the employee's respective manager and reviewed by Asset Management's senior management (e.g., in the case of a portfolio manager, the specific fund(s) a portfolio manager is named on).

In addition, named portfolio managers on dedicated sustainable fund(s) are required to allocate at least 25% of their mandatory deferral in at least one dedicated sustainable fund(s). Investment professionals, regardless of whether they are named on and/or contribute to a sustainable fund, also have the ability to allocate a portion of their mandatory deferral to a sustainable fund.

To hold individuals responsible for taking risks inconsistent with the firm's risk appetite and to discourage future imprudent behavior, we have policies and procedures that enable us to take prompt and proportionate actions with respect to accountable individuals, including:

- Reducing or altogether eliminating annual incentive compensation;
- Canceling unvested awards (in full or in part);
- Claw back/recovery of previously paid compensation (cash and/or equity);
- Demotion, negative performance rating or other appropriate employment actions; and
- Termination of employment.

The precise actions we take with respect to accountable individuals are based on circumstances, including the nature of their involvement, the magnitude of the event and the impact on the firm.

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Our approach to promoting diversity, equity, and inclusion

JPMAM believes inclusive cultures foster better outcomes – for our teams, our clients and our communities. Working to ensure inclusivity with effective diversity, equity and inclusion ('DEI') programs positions us well to appreciate and leverage diverse perspectives and to generate creative ideas and differentiated thinking. We believe that having an inclusive workforce that is reflective of diverse background and perspectives, best enables us to support the communities in which we operate and invest.

By the numbers

26.6%
of our fund managers globally are women

J.P. Morgan Asset Management 2023

34.6%
of assets managed or co-managed by women

Source: J.P. Morgan Asset Management 2023

#1
globally ranked for longest average female fund manager tenure

J.P. Morgan Asset Management 2021
Source: Citywire Alpha Female Report 2021

100
score on Human Rights Campaign's Corporate Equality Index

JPMorgan Chase & Co.
Source: Human Rights Campaign 2022

How does JPMAM tackle this issue?

Our areas of focus are:

Accountabillity

- Executing our DEI practices requires promoting accountability across the Firm. We seek to hold our senior leaders accountable for building and fostering a more inclusive work environment within their businesses and across the firm through the accountability framework, which we have continued to enhance since its launch in 2020. The framework is used to evaluate senior leaders, including Operating Committee members, on inclusive behaviors, practices and progress on the Firm's DEI priorities, and to incorporate that into year-end performance feedback.

Recruitment and retention

- We strive to attract and recruit the best talent for all roles across the Firm. We recognize that top talent is not limited to any particular group(s), so we source broadly, to identify qualified candidates for open roles. Our search for top talent includes, without limitation, sourcing from historically underrepresented communities and establishing strategic partnerships and programs to create new pathways for candidates with less traditional backgrounds.
- We strive to be inclusive with our candidates and cast a wide net to tap into the full array of qualified talent available in the labor market.
- We have non-discrimination policies that apply during the hiring process, as well as, during the course of employment.

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Our approach to promoting diversity, equity, and inclusion

- At JPMC, we continually work to create and reinforce a culture of respect, fairness and inclusion, in which our employees are empowered to be authentic and bring their best, most productive selves to the workplace.
- We have robust employee support and development programs, and promote a culture of belonging so that all employees feel the firm is a place where they are challenged professionally, recognized and can thrive.
- Data – We periodically review workforce metrics to help identify areas of focus as we continue our efforts to build a robust and inclusive work environment.

We have established forums for employee engagement, initiatives to advance inclusion and invite diverse perspectives, and education and training programs designed to support a work environment in which all of our employees have an opportunity to meaningfully contribute to the work we do and thrive.

The Firm's Centres of Excellence

Our Firm has established Global DEI Centres of Excellence ('COEs') to take a coordinated and intersectional approach to delivering dedicated leadership to assist in supporting the employees, clients, customers and the communities we serve. Our COEs play an important role in identifying and providing equitable pathways to opportunities for employees, customers and communities to grow and thrive. These COEs assist in leading our global strategies to advance priorities for historically underserved communities.

Our COEs, in partnership with Executive Forums and BRGs, also strengthen our internal culture of inclusion and belonging, and support manager accountability. These COEs amplify the work of the LOBs to deliver more inclusive products and services to clients and customers. They also work closely with a wide array of local, national and global partners in the communities we serve, leveraging the Firm's business expertise and philanthropic resources to help accelerate economic empowerment.

Our seven Centers of Excellence are:

- **Advancing Black Pathways ('ABP')**: Works to strengthen the economic foundation of Black communities. It seeks to address historical barriers to economic growth in Black communities through education and information sharing, talent sourcing and development, identifying and building leaders and leadership opportunities, supporting Black-owned businesses and improving financial health for Black communities worldwide.
- **Advancing Hispanics & Latinos ('AHL')**: Works on promoting the growth and success of the Hispanic and Latino community across the globe both inside and out of the firm. Its efforts are focused on extending opportunities for students, employees, business owners, and communities to help them build a stronger economic foundation.
- **Military & Veterans Affairs ('MVA')**: Honors those who have served and positions military members, veterans and their families for long-term personal success and financial confidence. Its efforts are focused on attracting, retaining and developing diverse veteran talent; supporting veteran-owned businesses; increasing the financial health of veterans and military families; and working with leading veteran service organizations on outreach and philanthropic efforts.
- **Office of Asian & Pacific Islander Affairs ('API')**: Leads the execution of global programs and initiatives focused on creating a more equitable and inclusive future for Asian and Pacific Islander employees, customers, partners and communities around the world; economic inclusion and community development initiatives; and advocacy.
- **Office of Disability Inclusion ('ODI')**: Leads strategy and initiatives aimed at driving an inclusive workplace while helping the Firm aspire to be a bank of choice for people with disabilities. ODI's other focus areas include driving small business growth and entrepreneurship, community development, and financial inclusion of people with disabilities.
- **Office of LGBTQ+ Affairs ('LGBTQ+')**: Focuses on advancing a culture of inclusion for LGBTQ+ employees, enabling LGBTQ+ owned businesses to grow and thrive, providing financial health awareness and education, and driving equity and inclusion for the LGBTQ+ community globally.

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Our approach to promoting diversity, equity, and inclusion continued

- **Women on the Move ('WOTM'):** Seeks to help create a more equitable workforce that enables women to achieve financial well-being, grow their skills and advance their careers. Its efforts are focused on supporting women-run businesses, improving women's financial health and independence, empowering women's career growth, and supporting women and girls in our communities.

Dedicated DEI Team

Chief Executive Officer and Chair Jamie Dimon and Global Head of Diversity, Equity and Inclusion and Vice Chair, Commercial Banking, Thelma Ferguson, set DEI objectives for business heads of each JPMorgan Chase line of business ('LOB'), and the objectives are discussed as part of their regular business reviews. In addition, a variety of diversity councils that are active globally provide support, leadership and focus on diversity and inclusion initiatives and programming.

Our Firmwide Diversity Advisory Council meets monthly and includes regional and LOB DEI Leads, tasked with assessing and discussing progress on specific diversity initiatives.

Thelma Ferguson, managing director, is the Global Head of DEI and vice chair, Commercial Banking at JPMorgan Chase, with responsibility for the Firm's DEI strategy. She joined the Firm more than 25 years ago in and reports to the firm's President and Chief Operating Officer with dual accountability to the heads of Corporate Banking (CB) and Human Resources — and serves as an Operating Committee member for Consumer & Community Banking, the Commercial & Investment Bank (CIB) and Human Resources. With an inclusive and intersectional approach, she is leading the global DEI organization to embed sustainable strategies and management accountability into the framework of how we do business – helping employees thrive, serving clients and customers, and uplifting external communities.

Ken Gladney, executive director, is the Global Head of Diversity for JPMorgan Chase's Asset & Wealth Management ('AWM') line of business. In this role, he is responsible for helping to advance the global DEI strategy for AWM, working closely with Thelma and senior leaders to drive accountability and engagement relating to attracting, retaining and promoting a diverse and inclusive workplace.

Advisory Council

JPMAM's commitment to DEI is further embedded into the organization through paths such as the Asset Management ('AM') Advisory Council. Formed in 2012, the council provides a platform to discuss global strategic and business issues, share best practices and identify any specific areas of interest or concern for the AM Operating Council ('AMOC').

The members are a group of high-achieving executive directors and managing directors from all regions, AM businesses and job functions who are leaders in their respective areas. Members are nominated by AMOC and are rotated over a two-year period to help ensure we continue to get diverse and fresh perspectives.

AM Advisory Council members participate in two AMOC meetings a year and work between meetings on specific AMOC-assigned projects. Past projects include DEI, bureaucracy busting, and effective communication.

Company policy

Our Equal Opportunity, Anti-Discrimination and Anti-Harassment Policy and the Code of Conduct set forth expectations for our employees. All employees (including both full-time and part-time employees) are required to complete anti-harassment awareness training annually. In 2023, new employees were required to complete Firmwide DEI training programs, including You Belong Here and Culture & Conduct. In addition, all employees were provided with access to supplemental DEI training that covers various topics of interest.

Across the Firm, we continually work to create and reinforce a culture of respect, equity and inclusion, in which our employees are empowered to bring their best, most productive selves to the workplace, leveraging their unique perspectives and experiences to deliver against firm objectives. We do so by creating forums for employee engagement, initiatives to advance inclusion and share diverse views, and education and training programs designed to identify ways that all of our employees can contribute to a dynamic and inclusive culture.

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Our approach to promoting diversity, equity, and inclusion continued

Firm Employee Driven Business Resource Groups (BRG's)

Our Business Resource Groups ('BRGs') serve as networks for employees to connect with colleagues and grow professionally, while advancing the Firm's DEI strategies. Recognizing the intersectionality of the different groups represented by our BRGs, we are taking steps to promote and facilitate cross-BRG collaboration. Our BRGs are:

Access Ability Disability Resource Group	Adelante Hispanic and Latino Business Resource Group	AsPIRE Asians and Pacific Islanders Reaching for Excellence	BOLD Black Organization for Leadership Development	NEXTGEN Leadership Development for Early Career Professionals
PRIDE Lesbian, Gay, Bisexual, Transgender, + and Ally Resource Group	Sage Administrative Professionals Resource Group	VETS Voices for Employees That Served	WFN Working Families Network	Women on the Move Interactive Network

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Appendix 1: Industry Groups

Appendix 1 – J.P. Morgan Asset Management industry group memberships related to stewardship

As a global asset manager, JPMAM participates in a number of organizations, including certain regional organizations, that focus on ESG issues that JPMAM believes are financially material to our client accounts and certain organizations that provide research that we may find useful for clients who choose strategies that have objectives beyond financial outcomes. Please see below for a list of the associations and initiatives to which we are a signatory at the time of publication. Our participation in these organizations comes with the understanding that we may not always align with all of their positions or those of their other members. The extent of our involvement in an organization may be limited. In addition, new memberships may be added to this list and existing memberships may be deleted from this list at any time without notice.

Environmental
Asia Investor Group on Climate Change
CDP (formerly known as the Carbon Disclosure Project)
FAIRR
Institutional Investors Group on Climate Change (IIGCC)
Net Zero Asset Manager's Initiative (NZAMi)
Transition Pathway Initiative

ESG Standards
UN's Principles for Responsible Investment initiative ('PRI')
Australian Sustainable Finance Institute (ASFI)
UK Financial Reporting Council - (UK Stewardship Code)
Sustainability Accounting Standards Board (SASB)

Governance
The Taskforce on Pension Scheme Voting Implementation (TPSVI) - FCA Vote Reporting Working Group
Asian Corporate Governance Association (ACGA)
Focusing Capital on the Long Term (FCLT)
Global Institutional Governance Network (GIGN)
Harvard Program
International Corporate Governance Network (ICGN)
Japan Stewardship Initiative (JSI)

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Appendix 1: Industry Groups continued

Industry Standards
Asia Securities Industry & Financial Markets Association (ASIFMA)
CFA UK
European Fund and Asset Management Association (EFAMA)
Global Impact Investing Network (GIIN)
Hong Kong Investment Funds Association (HKIFA)
ICMA Green and Social Bond Principles Investment Company Institute (ICI)
Investor Stewardship Group (ISG)
London Stock Exchange's Sustainable Markets Advisory Group Pensions for Purpose
Responsible Investment Association Australasia (RIAA)
The Investor Forum
UK Investment Association

Social
Principles for Responsible Investment (PRI)'s Advance Program
30% Club Investor Group (UK, Japan and Hong Kong chapters)
AI Asia Pacific Institute

Appendix 2: Biographies

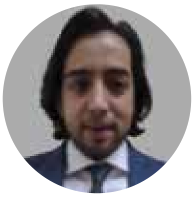
Global Stewardship Team Biographies

Yo Takatsuki
Global Head of Investment Stewardship
Executive Director, London
Experience (industry/at J.P.Morgan AM): 12/3

Yo leads our global Investment Stewardship team. He has been a stewardship practitioner for more than a decade and has led collaborative industry initiatives such as on Net Zero Stewardship, Climate Transition Finance and Access to Medicine Index. Prior to J.P. Morgan Asset Management, he led engagement at two other asset managers.

Lara Jackson
Investment Stewardship Specialist
Vice President, London
Experience: 10/3

Lara is a climate change specialist, joining J.P. Morgan Asset Management after four years as a sustainability and climate change consultant advising corporates. She also has prior experience in the not-for-profit sector supporting companies on agricultural commodity production in South East Asia.



Irfan Patel
Investment Stewardship Specialist
Vice President, London
Experience: 10/3

Irfan specializes in corporate governance and voting activities. He previously worked as a corporate governance analyst at another investment manager and as proxy research analyst at Institutional Shareholder Services (ISS).

Jemma Ockwell
Investment Stewardship Specialist
Vice President, London
Experience: 9/9

Jemma is a specialist in engaging on natural capital. She has been in the Sustainable Investing team for four years initially as a business manager before joining the Investment Stewardship team. Prior experience at J.P. Morgan Asset Management includes internal strategy, regulatory issues and controls. Jemma is a CFA charterholder.

Lisa Kladitis
Investment Stewardship Specialist
Associate, London
Experience: 4/1

Lisa is a specialist engaging on climate change and sustainable outcomes. She has prior experience as an Impact Investment Analyst at another investment manager, where she focused on research and engagement for listed equity impact strategies.

Appendix 2: Biographies continued

Nishesh Kumar
North America Head of Investment Stewardship
Managing Director, New York
Experience: 26/24

Nishesh leads our Investment Stewardship team in North America. His experience includes focus on governance and climate topics. He also spent two decades as an equity research analyst covering the energy sector in addition to transportation and consumer discretionary sectors.

Jonathan Steinmetz
Investment Stewardship Specialist
Executive Director, New York
Experience: 27/3

Jonathan focuses on executive pay. He has more than 20 years of experience including as an equity research analyst covering the North America automotive industry.

Aidine Rivera
Investment Stewardship Specialist
Executive Director, New York
Experience: 17/13

Aidine specializes in social issues including human capital management, diversity and human rights and labor rights. Prior to joining the Investment Stewardship team, she worked at J.P. Morgan Asset Management for more than a decade covering business management, regulatory issues, internal controls and audit exam management. Aidine also holds a certification in Sustainable Finance and Investment from the Yale School of Management Executive Education.

Bennett Rosenbach
Investment Stewardship Specialist
Vice President, New York
Experience: 9/9

Bennett is a governance and voting specialist. He has experience as an equity research analyst covering the energy industry.

Felix Lam
Asia ex-Japan Head of Investment Stewardship
Executive Director, Hong Kong
Experience: 19/3

Felix leads our Investment Stewardship team in the Asia ex-Japan region. His experience includes climate and governance topics. He worked as an equity research analyst for over 16 years with a primary focus on energy and material industries including renewable energy, oil and gas, metals and mining and construction materials.

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Appendix 2: Biographies continued

Janet Wong
Investment Stewardship Specialist
Vice President, Hong Kong
Experience: 9/3

Janet leads social issues including supply chain and human rights. Prior to J.P. Morgan Asset Management, she worked in London at another asset manager focusing on engagement, proxy voting and public policy advocacy and subsequently returned to Hong Kong to lead the Asia Pacific ESG, M&A and corporate governance advisory team at a consulting company. She is a CFA charterholder.

Su Sang Yoon
Investment Stewardship Specialist
Associate, Hong Kong
Experience: 7/3

Su Sang is a governance specialist. He has experience providing advice to Asian and Australian corporations on governance, shareholder engagement and ESG matters. He also served as a governance research analyst at ISS with a focus on Korean company meetings.

Shizuko Ohmi
Japan Head of Investment Stewardship
Executive Director, Tokyo
Experience: 32/3

Shizuko leads our Investment Stewardship team in Japan. She specializes in climate and governance. Shizuko joined J.P. Morgan Asset Management from another asset manager, where she served nearly two decades as an equity research analyst, covering Japanese industrials and then as Head of ESG in Japan.

Konomi Fujimori
Investment Stewardship Specialist
Vice President, Tokyo
Experience: 17/2

Konomi is a specialist on social issues. She has more than 10 years of experience as an investor relations manager at numerous Japanese companies including in the retail, healthcare, factory automation and broadcasting sectors. In those roles, she worked on corporate governance and sustainability-focused reporting.

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Appendix 3: Thought leadership publications 2023

Please find below a list of ESG related research publications in 2023. These can be found on our website **here**.

January
Adapting to a warmer planet: Why climate change isn't just about decarbonisation

February
Sustainable investing outlook: Five reasons why sustainability matters even more in 2023

March
Integrating biodiversity into investment decisions

May
Climate adaptation: How private investors can participate in evolving investment opportunities as cities adapt to climate risks

July
Understanding carbon exposure metrics

Mining and the energy transition

Climate adaptation: How private investors can support adaptation in nature and ecosystems

August
Sustainability and portfolio returns

September
Sustainable investing outlook: Themes set to shape the second half of 2023

The role of hydrogen in the energy transition: A complementary option, not a silver bullet

October
Managing investment portfolios for the carbon transition: How investors can perform decarbonisation analysis

December
Climate scenarios: What they are, why they are important, and how they are applied to investment portfolios

Climate adaptation: How investors can support adaptation in health and healthcare

Appendix 4 – Stewardship code mappings

This report has been reviewed and approved for publication, by J.P. Morgan Asset Management's Sustainable Investment Oversight Committee. It was also approved by the J.P. Morgan Asset Management International Limited Board, which we considered to be the most appropriate oversight body and has external non-executive directors as members, for submission to the Financial Reporting Council for adherence to the UK Stewardship Code. Please find the mapping of this report's content to the 2020 UK Stewardship Code's Principles in the table below.

The UK Stewardship Code

Principle	Signatory actions	Pages
Principle 1	Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	p.100-105, p.133-138
Principle 2	Signatories' governance, resources and incentives support stewardship.	p.106-116, p.117-132, p.151-156, Appendix 2
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	p.139-141
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	p.143-147
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	p.139, p.141-143
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	p.133-138
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfill their responsibilities.	p.11-24, p.117-132
Principle 8	Signatories monitor and hold to account managers and/or service providers.	p.147-151
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets.	p.6-24, p.26-89
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers.	p.16-19
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers.	p.15-16
Principle 12	Signatories actively exercise their rights and responsibilities.	p.90-98

Source: https://media.frc.org.uk/documents/The_UK_Stewardship_Code_2020.pdf

Appendix 4 – Stewardship code mappings continued

Taiwan Stewardship Principles for Institutional Investors

Principle	Signatory actions	Pages
Principle 1	Establish and disclose stewardship policies	p.11-24
Principle 2	Establish and disclose policies on managing conflicts of interest	p.139-142
Principle 3	Regularly monitor investee companies	p.26-89
Principle 4	Maintain an appropriate dialogue and interaction with investee companies	p.26-89
Principle 5	Establish and disclose clear voting policies and voting results	p.90-98
Principle 6	Periodically disclose the status of fulfilment of stewardship responsibilities	p.133-138
Principle 7	Service providers should provide services for institutional investors to fulfill their stewardship responsibilities	p.147-151

Source: Taiwan Stock Exchange
(https://cgc.twse.com.tw/docs/Stewardship%20Principles%20for%20Institutional%20Investors%20202307.pdf)

Hong Kong Principles of Responsible Ownership

Principle	Signatory actions	Pages
Principle 1	Investors should establish and report to their stakeholders their policies for discharging their ownership responsibilities	p.11-24
Principle 2	Investors should monitor and engage with their investee companies	p.26-89
Principle 3	Investors should consider and establish clear policies on when they will escalate their engagement activities	p.100-132
Principle 4	Investors should have clear policies on voting guidance	p.90-98
Principle 5	Investors should be willing to act collectively with other investors where appropriate	p.16-19
Principle 6	Investors should report to their stakeholders on how they have discharged their ownership responsibilities	p.133-138
Principle 7	When investing on behalf of clients, investors should have policies on managing conflicts of interests	p.139-142

Source: https://www.sfc.hk/-/media/EN/files/ER/PDF/Principles-of-Responsible-Ownership_Eng.pdf

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Appendix 4 – Stewardship code mappings continued

Australia Principles of Internal Governance and Asset Stewardship

Principle	Signatory actions	Pages
Principle 1	Monitoring of company performance on financial and non-financial matters;	p.26-89
Principle 2	Engagement with company management and the board (as appropriate) and escalation of issues in instances where initial engagements have not been adequately responded to;	p.15-16
Principle 3	Approach to considering Environmental, Social and Governance factors (risks and opportunities) and whether these considerations influence investment decision-making and company engagement;	p.11-24, p.117-132
Principle 4	Proxy voting	p.90-98
Principle 5	Collaborative engagement with other investors including involvement with industry groups and associations;	p.16-19
Principle 6	Principles used for policy advocacy including participation with industry groups and associations; and	p.16-19, p. 157-158
Principle 7	The approach to client engagement, education and communication regarding asset stewardship.	p.133-138

Source: FSC Australia (https://www.fsc.org.au/web-page-resources/fsc-standards/1522-23s-internal-governance-and-asset-stewardship)

Singapore Stewardship Principles For Responsible Investors 2.0

Principle	Signatory actions	Pages
Principle 1	Develop and articulate stewardship responsibilities and governance structures.	p.11-24, p.100-132
Principle 2	Monitor investments regularly.	p.26-89
Principle 3	Stay active through constructive and purposeful engagement.	p.26-89
Principle 4	Uphold transparency in managing conflicts of interest.	p.139-142
Principle 5	Exercise rights and responsibilities on an informed basis.	p.90-98
Principle 6	Report stewardship activities periodically.	p.133-138
Principle 7	Take a collaborative approach in exercising stewardship responsibilities where appropriate.	p.16-19

Source: https://www.stewardshipasia.com.sg/docs/saclibraries/default-document-library/ssp_for-20responsible-20investor-202-0-1-.pdf?sfvrsn=82133969_3

Appendix 4 – Stewardship code mappings continued

Japan Principles for Responsible Institutional Investors

Principle	Signatory actions	Pages
Principle 1	Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.	p.11-24, p.100-132
Principle 2	Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.	p.139-142
Principle 3	Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.	p.26-89
Principle 4	Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.	p.26-89
Principle 5	Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprized only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.	p.90-98, p.147-148
Principle 6	Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.	p.133-138
Principle 7	To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.	p.16-18, p.100-116, p.157-158

Source: https://www.fsa.go.jp/en/refer/councils/stewardship/20200324/01.pdf

For more information on our approach to Investment Stewardship, contact your J.P. Morgan Asset Management representative.

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