

Principles of Responsible Ownership

May 2019

Introduction

As a major asset manager, J.P. Morgan Asset Management (“JPMAM”) has a responsibility to its clients to ensure that all entrusted assets benefit from the highest standards of governance. To this end, we support Hong Kong’s **Principles of Responsible Ownership**, which encourage asset owners and asset managers to take their ownership responsibilities seriously, and thereby help promote the long term success of the enterprises in which they invest. While it is clear that the primary responsibility for a company’s strategy and operations lies with its managers and directors, investors play an important role in holding the latter to account in meeting their obligations. For investors, exercising proxies at shareholder meetings is the primary means of achieving this. But JPMAM also believes that we should actively engage with the companies in which we invest, to demonstrate to our stakeholders that our ownership responsibilities are being appropriately discharged. Regular meetings with company representatives are central to our investment approach, as we seek to understand the strategies investee companies are pursuing on our behalf. By engaging with companies over issues such as corporate strategy, operating performance, risk management and capital allocation, we should be better able to understand how returns are generated and whether these returns are sustainable over the long term.

The efficiency of any market economy is driven by the allocation decisions of investors who allocate their capital to generate a specific risk-return trade-off. In order to do this, they need the information necessary to make informed investment decisions, and to monitor the progress of their investments once these decisions have been made. The **Principles of Responsible Ownership** encourage investors to seek out this information, thereby contributing to more effective decision-making within the economy as a whole.

The Principles set out the following:

- Investors should establish and report to their stakeholders their policies for discharging their ownership responsibilities;
- Investors should monitor and engage with their investee companies;
- Investors should establish clear policies on when to escalate their engagement activities;
- Investors should have clear policies on voting;
- Investors should be willing to act collectively with other investors when appropriate;
- Investors should report to their stakeholders on how they have discharged their ownership responsibilities; and
- When investing on behalf of clients, investors should have policies for managing conflicts of interests.

Our approach to these Principles and how we apply them are set out below:

1. **Investors should establish and report to their stakeholders their policies for discharging their ownership responsibilities.**

JPMAM is a global leader in asset management, acting on behalf of both institutional and individual clients. As fiduciaries, we are obliged to act solely in clients' interests and our fiduciary mindset underpins every decision we make on clients' behalf. As long term investors we are committed to meeting our clients' objectives by delivering the strongest possible risk-adjusted returns.

We strongly believe that all owners of capital should assume responsibility for their investments, and as a fiduciary, that responsibility is entrusted to us. This responsibility includes the active monitoring of investee companies in terms of strategy, operations, risk-management and governance; informed investor-led voting; and an assessment of the environmental, social and governance (ESG) policy framework in place for determining an entity's suitability for investment. By exercising our ownership responsibilities and by actively engaging with investee companies, we believe this will lead to improved value creation and superior performance over the long term.

To codify our corporate governance responsibilities we have set down the main principles in our [Corporate Governance Principles and Proxy Voting Guidelines](#), which can be downloaded from our website. The precepts which underlie this include:

- **Fiduciary Priority.** Our clients appoint us to manage their assets in order to achieve their investment objectives within specified risk parameters. Every investment decision taken will be consistent with meeting these objectives.
- **Stewardship and Engagement.** Regular contact with the companies in which we invest is central to all our investment processes. Our clients expect us to monitor the progress of investee companies on their behalf, and to encourage the adoption of the highest governance standards.
- **Proxy Voting.** Companies are held accountable to their shareholders through the exercise of proxy votes at shareholder meetings. We are obliged to cast proxies in a prudent and diligent manner, in the best interest of our clients.
- **Sustainability.** Environmental, social and governance factors can have a significant economic impact on the performance of our investments. We expect the companies in which we invest, should behave in a socially responsible manner, which recognizes their responsibilities to employees and other stakeholders, as well as their obligation to safeguarding the environment.
- **Ongoing Commitment.** We are committed to reviewing our governance policies regularly to ensure they reflect best practice.

We also produce a regular [Corporate Governance Report](#), which details our proxy voting activities on behalf of clients each quarter and provides a summary of some of the engagement we have had with investee companies. A copy of this report can be downloaded from our website.

2. Investors should monitor and engage with their investee companies.

Close monitoring of company performance is an essential element of our investment approach. JPMAM has over 1,200 investment professionals, including over 200 career analysts, tasked with analyzing securities and uncovering actionable investment ideas. As active institutional investors we invest considerable resources in our research capabilities, and our analysts and portfolio managers are expected to enter into a regular dialogue with investee companies to ensure that we understand all aspects of their businesses.

We define monitoring to mean:

- The assessment of commentary and data from market news sources and company announcements;
- The use of information from third party research providers, including sell-side brokers, specialist industry and ESG groups, and proxy advisers;
- Routine meetings with company managements, either on a one-on-one basis, at investment conferences or on shareholder communication calls.

We define engagement to mean a purposeful dialogue on issues which may, *inter alia*, include discussions on corporate strategy, operating performance, risk management, executive remuneration, leadership and corporate governance. We believe engagement should have clear, precise objectives and be undertaken to protect and enhance the economic interests of clients.

As part of these activities we generally seek to:

- Keep up-to-date with the main drivers of financial performance;
- Question senior management on strategic priorities, to gain assurance that a business is competently led, and that capital is being allocated appropriately;
- Remain fully briefed on the various risks that might impact a company's outlook and market valuation; and
- Ensure that Environmental, Social and Governance (ESG) issues are being addressed and that relevant policies are in place to both mitigate risks and demonstrate adherence to best practice.

Any information that we derive from these activities is used to make forward looking projections or valuation assessments, which are integral to our investment processes. A record of our engagement is maintained on a proprietary database, allowing all such information to be communicated to investment professionals throughout the firm. As part of this process, ESG factors are assessed for their impact on each company's performance and / or reputation. Any issues that do arise, are noted so that any material concerns may be communicated and addressed.

Our dialogue with investee companies only seeks to make use of information which has been publicly disclosed. However, it is possible that, as a result of our engagement, we gain access to information that has not previously been disclosed. JPMAM has well documented procedures to ensure that any such information that is received, is protected until it has been brought into the public domain. Where we come into receipt of material non-public information ("MNPI"), either inadvertently (where we choose to become insiders to facilitate a specific corporate action or event), or inadvertently (as a result of an error or lapse in communications policy), we are obliged to disclose this to our Compliance Department. The relevant security is then placed on a firm-wide banned list, and all dealings are suspended globally until the information has been publicly disclosed. Given the limitations this places on our ability to transact, we only seek access to MNPI in clearly defined circumstances, where we believe this to be in the best interests of our clients.

A narrative of some of our engagement activities with investee companies is given in our quarterly [Corporate Governance Report](#), which may be downloaded from our website.

3. Investors should establish clear policies on when to escalate their engagement activities.

JPMAM has established clear guidelines on how we should escalate our engagement activities to protect clients' interests. As noted above, we meet routinely with the senior executives of our investee companies as part of our monitoring process. In the event that concerns are raised, which have not been adequately dealt with at these meetings, we may seek further meetings with the Chairman or senior independent directors, at which our Corporate Governance specialists will be present.

Usually such issues can be resolved confidentially. However in a small number of instances, we may need to become more visible in our actions, by for example:

- Holding joint engagement meetings with other investors who share our concerns;
- Using our proxy votes to influence the composition of boards;
- Submitting shareholder resolutions and speaking at shareholder meetings;
- In extremis, requisitioning an EGM.

Decisions to escalate will always be made on a case-by-case basis, and in taking this step, we will consider, *inter alia*:

- The circumstances which have led to our concerns,
- The materiality of the potential impact or risk,
- The explanation, if any, provided by the company,
- The significance of the issue for our clients.

We also have the option of selling out of a position entirely, if the company is unresponsive, and if we feel this is in the best interests of our clients. While we prefer to work in partnership with our investee companies to generate long term value, we have a fiduciary responsibility to hold management and directors to account. We will use all means necessary to protect clients' interests.

4. Investors should have clear policies on voting.

JPMAM, globally, votes at over 8,000 shareholder meetings each year in more than 70 jurisdictions. We endeavor to vote at all meetings wherever possible. As a matter of policy, we vote all proxies in a diligent and prudent manner, based on our judgement of what is in the best interests of our clients. Voting is an important part of our stewardship role in that it enables us to voice our opinion on a wide range of issues, and is a way of encouraging boards to listen to, and address, shareholder concerns. Votes are investor-led and are made on a case by case basis.

JPMAM retains the services of Institutional Shareholder Services Inc. (ISS), a proxy voting services advisor, to assist us with this function. As part of this service, ISS makes recommendations on each board resolution requiring a shareholder vote, according to its governance process. We have agreed with ISS a detailed set of guidelines, to help frame its recommendations to us. At the same time, we have the discretion to take a differing view, based on the results of our own engagement, or our own research insights.

Our [Corporate Governance Principles and Proxy Voting Guidelines](#) set out in detail the principles that underpin our voting policies. These are consistent with the corporate governance rules and practices of the various jurisdictions in which we operate. Responsibility for the formulation of these guidelines rests with the Asia ex-Japan Proxy Committee, whose role it is to review JPMAM's governance practices in respect of investee companies in the Asia Pacific region, and to provide an escalation point for voting and corporate governance issues. The Committee is composed of senior investors, governance specialists and members of our Legal and Compliance departments.

We disclose details of our voting and engagement activities in our quarterly [Corporate Governance Report](#).

5. Investors should be willing to act collectively with other investors when appropriate.

Subject to applicable laws and regulations in relevant jurisdictions, JPMAM is willing to work with other investors in collective or collaborative engagement activities, when we feel this is in the best interests of clients. This may take the form of direct engagement with specific shareholders, if we consider this appropriate; or it may take the form of indirect engagement through industry bodies, such as the Asian Corporate Governance Association (ACGA), of which we are a member.

Collective engagement with other parties is only undertaken when concerns previously communicated to investee companies have not been resolved satisfactorily. Where we engage with other investors, all engagement actions are documented to ensure they are compliant in the relevant jurisdiction.

6. Investors should report to their stakeholders on how they have discharged their ownership responsibilities.

JPMAM aims to provide transparency on our ownership responsibilities through regular reporting to our clients and via reports posted on our website. We maintain a record of our proxy voting and a summary of our engagement activities through our quarterly [Corporate Governance Report](#). We also produce, upon request, specific reports to clients on the voting and engagement activities that we have undertaken on their behalf. These reports provide qualitative as well as quantitative information on how we have discharged our responsibilities.

7. When investing on behalf of clients, investors should have policies for managing conflicts of interests.

JPMAM is part of the JP Morgan Chase Group (JPMC Group), which is a multi-service financial services group, providing a range of banking and investment services to its clients. At the same time, JPMAM is functionally and operationally independent from, and maintains arm's length commercial relationships with, other JPMC Group entities.

Conflicts of interest will almost certainly arise as a result of the various activities of different JPMC Group affiliates. As part of our broader Safeguard Policy, JPMAM has established formal barriers - both physical and electronic - to restrict the flow of information between JPMC Group entities. This includes information flow between JPMC's custody, securities broking and investment banking activities to JPMAM's investment professionals. In order to meet our fiduciary responsibilities we

need to ensure that our voting decisions are independent of any wider JPMC Group interest and that proxies are exercised solely in the interests of our clients.

Typical conflicts that can arise include: instances where a JPMC affiliate or other member of the JPMC group is involved in a material interest or relationship with an investee company; instances where JPMC personnel sit on an investee company's board; or instances where we are casting proxy votes in respect of in-house mutual funds or in-house investment trusts. To ensure that conflicts of interest can be managed appropriately, policies and procedures have been established, and a [Conflicts of Interest Disclosure for Corporate Governance](#) policy document has been drawn up, to codify our responsibilities and obligations in this area. This policy document is available from our website.

This statement has been issued to provide an overview of our commitments under the Principles of Responsible Ownership. The Asia ex-Japan Proxy Voting Committee, which oversees JPMAM's corporate governance policy and practices within the Asia ex-Japan region, will review this approach periodically, and make updates as appropriate.

J.P. Morgan Asset Management

Asia ex-Japan Proxy Committee