

# STRONGER PORTFOLIOS BUILT FOR A CHANGING WORLD

## Sustainable Investing Equities

Incorporating Environmental, Social & Governance (ESG)  
J.P. Morgan Asset Management

September 2019



LET'S SOLVE IT.®

# Equities

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## Overview

In our view, ESG is three separate issues, not one. Certainly, there cannot be a single response that fits all market views on these topics. Governance has long been part of our process, and our view on board balance, disclosure & transparency, rights of shareholders, and alignment of compensation is broadly homogeneous between markets and our client constituency. Environmental concerns are increasingly part of the investment landscape as legislation changes the rules, and social issues, too, can have a real impact on a business. However, it is important to recognize that views on what constitutes both environmental and social best practices can vary widely (for example, differing attitudes on alcohol, abortifacients, fossil fuels, nuclear power and weapons manufacture). For this reason, we believe the best approach is to focus on the potential economic impact of these issues and apply an appropriate discount when making investment decisions, while always being cognizant of our clients' requirements and views.

## Governance

Corporate governance issues, in our view, have the most direct bearing on the risk/reward profiles of our portfolios, so this is the area that is most integrated into our investment process. Although in developed markets we would only exclude a company from our portfolios on purely governance criteria in extreme circumstances, we recognize that it is a risk factor we must understand and take into account as part of the investment decision. We will also seek to change substandard governance, when we can, through our proxy voting and engagement activity. We manage the voting rights of the shares entrusted to us as we would manage any other asset. It is our policy to vote shares held in our portfolios in a prudent and diligent manner, based exclusively on our reasonable judgment of what will best serve the longer-term financial interests of our clients. We also regard regular, systematic and direct contact with senior company management, both executive and non-executive, as crucially important. Where appropriate, governance specialists will attend scheduled one-to-one meetings alongside analysts and portfolio managers, as well as convene dedicated meetings, as required, in order to debate areas of concern.

## Environmental

Environmental concerns are an ever-increasing part of the investment landscape, partly because of legislation in many countries, but also due to the impact they can have on investment returns and cash flows. As investors, we often make an assessment of environmental issues and include them in our decision-making process. This is also an area where a growing number of clients have specific questions and expectations. We do not exclude specific assets or types of assets from portfolios explicitly on environmental criteria (unless specifically requested by clients or required by local legislation), but we do need to be aware of the environmental risks associated with a given company and/or industry, and consider the potential economic implications.

## Social

Social issues are the most difficult to assess, as they mean very different things to different people, and this is reflected in our global client constituency. For segregated clients, we are willing to customize individual mandates to exclude companies engaged in businesses that the sponsoring client finds unacceptable. We have also, in some cases, expanded this approach to include pooled funds, for example with landmines in Europe. Beyond that, for unconstrained portfolios, we consider the materiality of social issues. In these instances, we must focus on the economic impact of this involvement.

## TO LEARN MORE

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