

Simple but powerful: Research Enhanced Index Equity (ESG) ETFs

A conversation with Piera Elisa Grassi



Piera Elisa Grassi
Portfolio Manager of
several JPM Research
Enhanced Index Equity
(ESG) ETFs*

In this interview Piera Elisa Grassi, co-manager of our five developed market JPM Research Enhanced Index Equity (ESG) ETFs*, explains why active ETFs can level up a passive core, how environmental, social and governance (ESG) factors are applied, and which region she favours in the current market environment.

1. Can you please briefly explain what Research Enhanced Indexing is?

While the name might sound complicated, the concept is actually quite simple. Research Enhanced Indexing (REI) means that you combine the best qualities of passive – index-like regional, sector and style exposures – with active management. We achieve the “enhancement” by applying the insights of our global team of 90+ research analysts. This is a process we have successfully used for over 30 years. What’s new, however, is the transfer of our REI strategies into the ETF wrapper, with our first REI ETF strategy launched in October 2018. The JPM Research Enhanced Index Equity (ESG) ETFs* are core building blocks that offer an attractive alternative to passive exposures thanks to their potential to outperform the index – something that we have achieved since we launched the first Research Enhanced Index Equity ETFs nearly four years ago.

2. The alpha component makes REI different from traditional passive ETFs. How do you generate alpha?

What we do is simple but very powerful. Our objective is to translate our stock specific insights into our REI portfolios while keeping the structure of the portfolios index-like. We do so by combining best in class fundamental research with robust risk management. We have a large team of career analysts who carry out in-depth research on over 2,500 stocks, utilizing a disciplined valuation framework, which is used across the whole firm. These insights are then packaged into an index-like portfolio, by applying small overweight or underweight position in certain stocks. The end result is a style-neutral, sector-neutral and regionally neutral ETF portfolio, which has the same shape and feel as the index and is very diversified at the same time.

3. How do you incorporate ESG* considerations into the portfolios?

Our ESG approach has evolved over time from an implicit risk management and good governance approach to a systematic ESG integration process. Our research analysts ask ESG-related questions when they meet company management and assess ESG factors inside and out. When we launched our REI ETFs we recognised the importance of building an ESG profile within the portfolio construction, and have therefore looked to focus our research on three key elements. First is exclusions, where we look to reduce the investable universe by not investing in common controversial sectors. Second is our fundamental research, which assess companies based on 40 ESG-related questions before incorporating their findings into our long-term earnings forecasts. The final element is engagement with the companies that we invest in, which provides the opportunity to sit at the table with company management to discuss ESG issues, while retaining the ability to divest – in part or in full – if no improvement is made. I really think this active investment stewardship approach can give us an edge over passive strategies. The combination of these three steps means that all our REI ETFs are categorised as Article 8 under the SFDR classification.

* JPMAM defines ESG integration as the systematic inclusion of financially material ESG factors (alongside other relevant factors) in investment analysis and 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.

Simple but powerful: Enhance your core with Research Enhanced Index ETF

4. Since the JPM Research Enhanced Index Equity (ESG) ETFs* are UCITS ETFs, their portfolios are fully disclosed. Can you give us an ESG example from the portfolio that brings the process to life?

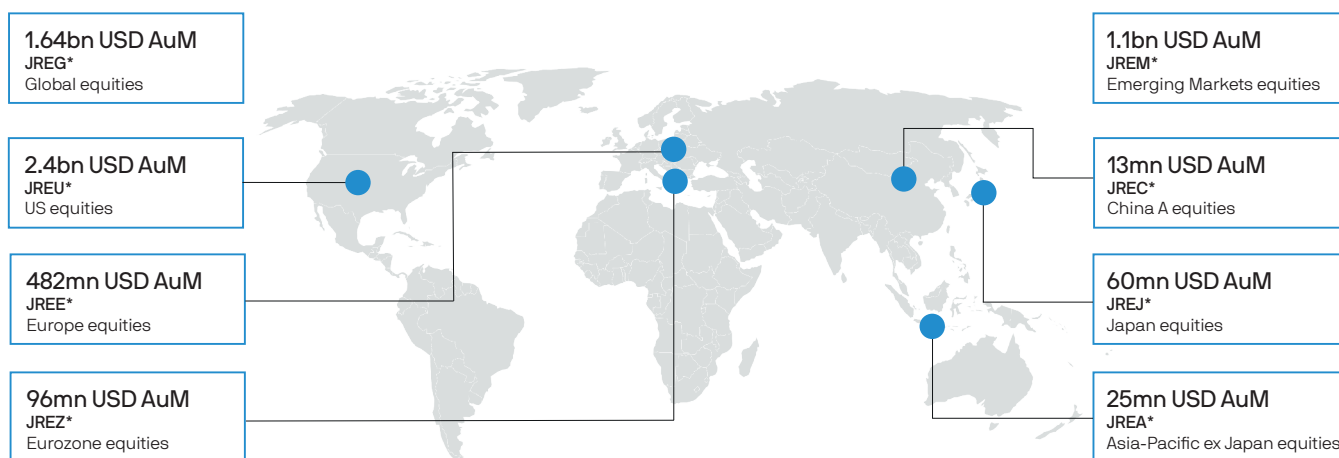
A particularly exciting example is John Deere, a stock that is overweight in our Global REI portfolio. John Deere builds farming equipment, but has managed to revolutionise its approach by utilising digital tools and machine learning to improve the way farmers work. The use of artificial intelligence has helped to decrease the amount of herbicides used for farming by 90%, which has had a real positive impact on the environment. But as I said, it is important to understand that John Deere is just one of a large number of active positions in our portfolios. We don't build large overweight positions in single stocks in order to maintain the index-like profile.

5. How can these ETFs be used in portfolios?

We find that most investors use the REI ETFs as a replacement for their passive core. They are attracted by the index-like exposure, and the opportunity to outperform an index and enhance performance. The REI ETFs also appeal to investors looking for a broadly diversified ETF portfolio, which can provide exposure to a market cap standard benchmark but apply a robust ESG framework at the same time. Therefore, the JPM Research Enhanced Index Equity (ESG) ETFs* have received strong investor interest. The range is the largest active UCITS equity ETF range.

In terms of exposure, some investors have just added one of the ETFs to their portfolio, while other clients – after seeing how the REI strategy can successfully deliver alpha – have broadened their allocation to more than one of the REI ETFs .

Research Enhanced Index (ESG) ETF range*: Combining active investing with benefits of ETF vehicle in all major markets



Enhance your core: Developed Markets

	JREG*	JREU*	JREE*	JREZ*	JREJ*
Benchmark	MSCI World	S&P 500	MSCI Europe	MSCI EMU	MSCI Japan
Alpha Target	0.75%	0.60%	0.75%	0.75%	0.75%
Tracking Error (Active Risk)	1.00-1.50%	0.50-1.50%	0.75-1.50%	0.75-1.50%	0.75-1.50%
AuM (as of 28.04.2023)	1.65bn USD	2.4bn USD	483mn EUR	96mn EUR	59mn USD
Country range	+2.0% to benchmark	US + Canada	+3% to benchmark	+3.5% to benchmark	N/A
Sector range	+/-3.0% to benchmark	+1.0% to benchmark	+1.0% to benchmark	+2.0% to benchmark	+2.0% to benchmark
Stock range	+/-0.75% to benchmark	+1.0% to benchmark	+1.0% to benchmark	+1.0% to benchmark	+1.0% to benchmark
Holdings	600-800	200-375	100-250	75-175	150-250
TER bps	25 bps	20 bps	25 bps	25 bps	25 bps
ESG	ESG Promote (Article 8, SFDR)	ESG Promote (Article 8, SFDR)	ESG Promote (Article 8, SFDR)	ESG Promote (Article 8, SFDR)	ESG Promote (Article 8, SFDR)
Portfolio Managers	Piera Elisa Grassi Raffaele Zingone	Raffaele Zingone Piera Elisa Grassi	Piera Elisa Grassi Nicholas Farserotu	Piera Elisa Grassi Nicholas Farserotu	Piera Elisa Grassi Masaki Uchida

J.P. Morgan Asset Management: Advancing the potential of ETFs



Past performance is not a reliable indicator of current and future results.

Source: ETF Express.

Simple but powerful: Enhance your core with Research Enhanced Index ETF

Next steps

You can find out more about our REI Equity (ESG) ETFs* here:

Austria: am.jpmorgan.com/at/etf

Belgium: am.jpmorgan.com/be/etf

Denmark: am.jpmorgan.com/dk/etf

Spain: am.jpmorgan.com/es/etf

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