

# The ESG evolution of our Research Enhanced Index Equity ETF range



J.P. Morgan Asset Management's Research Enhanced Index (REI)\* investment process has been refined over 30 years, aiming to combine the best qualities of passive – index-like regional, sector and style exposures – with active management. Since launching the first REI strategy in the ETF wrapper in October 2018, the range has grown into one of the biggest active UCITS equity ETF strategies, with eight regional exposures and assets under management of over USD 6 billion.

## Research Enhanced Indexing: The best of both worlds.

The REI process is simple but powerful. The objective is to translate our stock specific insights into our REI portfolios while keeping an index-like structure. 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, leveraging 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 positions 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.

The use of ETFs which consider environmental, social and governance (ESG) factors has been growing in popularity among investors, with 60% of total UCITS ETF flows in 2022 going into ESG focused ETFs.<sup>1</sup> Our REI ETFs have also been part of this evolution of ESG investing. The assessment of ESG factors has been part of the REI\* strategy for decades. We believe that active management has a distinct advantage when investing sustainably. The market also appears to see the benefits of active ESG ETFs, with over 60% of participants from the 2023 Trackinsight Survey stating they use solely active or a combination of active and passive approaches to invest in ESG ETFs.

## The evolution of ESG

Our established REI ETFs\* use a robust ESG framework to integrate the insights of our fundamental research analysts who assess companies based on 40 ESG-related questions. We then engage with the companies that we invest in on an ongoing basis to discuss ESG issues.

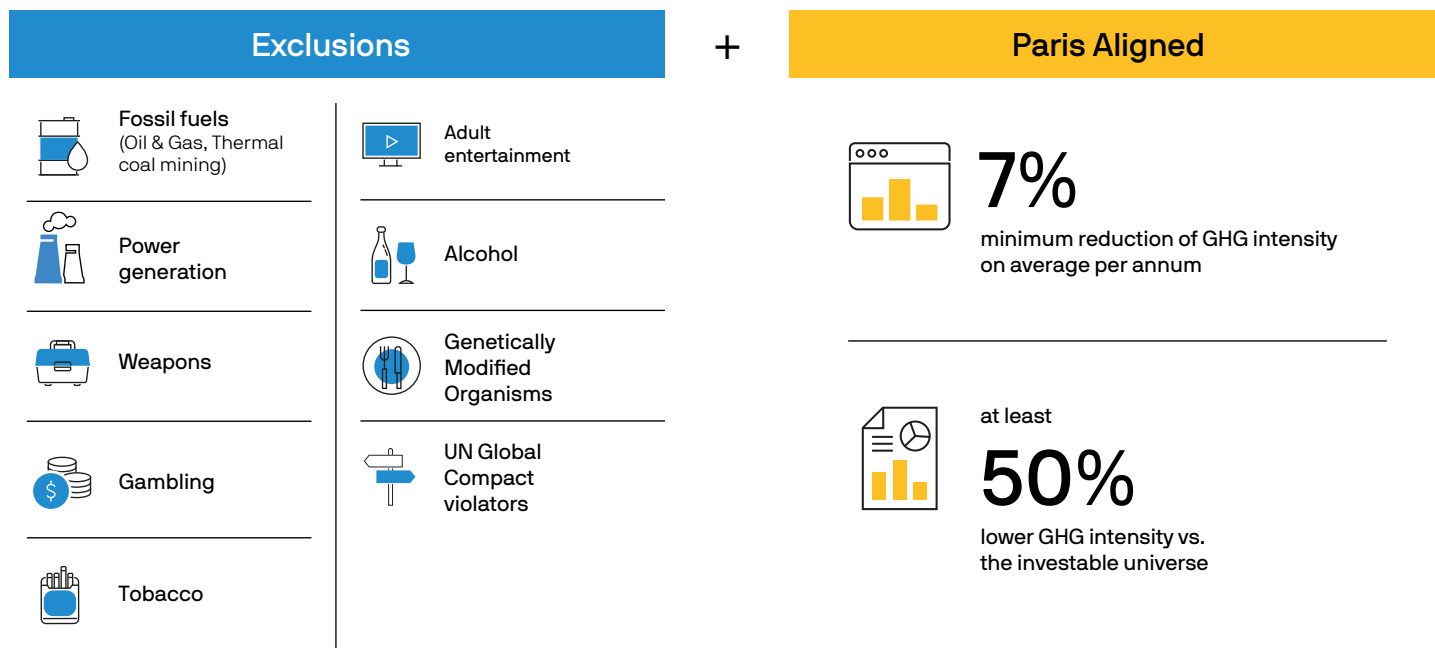
Recently, as part of the evolution of ESG across our ETF offering, we launched a new range of socially responsible investing (SRI) REI ETFs\*, for investors who want sustainability front and centre of their core investments. This range of ETFs uses the same REI investment process but with one important differentiation. While our traditional REI range uses an ESG framework to take active positions against a traditional benchmarks, like the MSCI World or S&P 500, our new REI SRI ETFs\* have bespoke sustainable benchmarks.

From the traditional base index, industries such as fossil fuels, weapons and tobacco are excluded. There is then a further selection of securities to ensure that index constituents' greenhouse gas emissions are at least 50% lower than the wider investable universe and that carbon intensity is reduced by 7% each year. This process enables the index to meet the EU's Paris-aligned benchmark (PAB) criteria. The result is an index that has a smaller, but more sustainable investment universe. For example, the MSCI World Index includes approximately 1,500 stocks, while the bespoke SRI and PAB version will only have 600-700 stocks.

<sup>1</sup> Source: Bloomberg, 31 March 2023.

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## MSCI SRI EU PAB Overlay Index: Characteristics



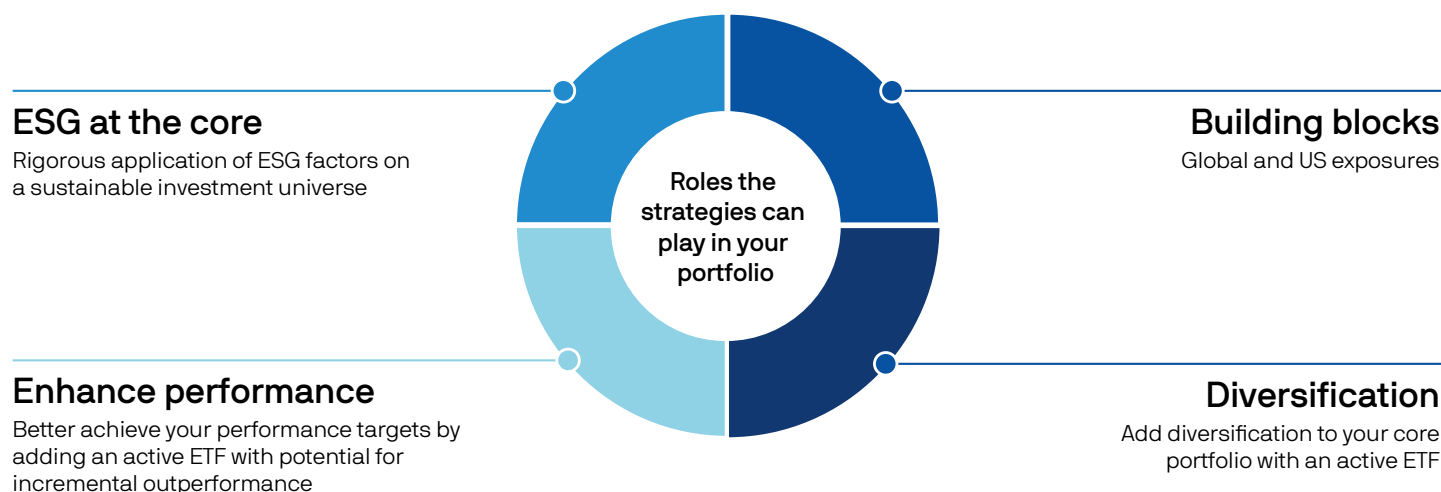
This is where the portfolio manager's work begins. Using the REI process, we take small overweight and underweight positions against this bespoke index, informed by our fundamental research. The process involves constantly monitoring these positions and engaging with the companies held.

## Portfolio allocation considerations

The JPM Research Enhanced Index Equity SRI PAB ETFs\* provide clients with core portfolio building blocks in global or US equities. The objective of these portfolios is to achieve a consistent performance above the benchmark over time, potentially enhancing the performance of a client's portfolio.

Diversification is another key aspect, with our REI SRI PAB ETFs complementing existing investments a client may already have in sustainable ETFs. Finally, given the emphasis of ESG characteristics in the portfolios, they could be used for clients who want to make ESG considerations a central focus of their investments.

## Asset allocation considerations



We believe our SRI PAB REI\* range of ETFs can offer investors efficient exposure to a portfolio of companies with genuine ESG characteristics, while also aiming to provide an attractive return.

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