Investing in China's carbon transition

JPM Carbon Transition China Equity ETF (JCCT)*

If the world is to achieve its net zero targets, it is clear that China will need to play a big role. In 2020 China accounted for 31% of global emissions, a staggering 17 percentage points ahead of the second largest emitter, the United States[1].

As well as the world's net zero targets, China's own long-term growth and prosperity is deeply intertwined with climate change. A key takeaway from the latest climate change report[2] by the UN's Intergovernmental Panel on Climate Change (IPCC), is that without adaption, China will suffer the world's biggest economic losses as a result of rising sea levels and the resulting floods, as well as threats to the country's food security due to extreme weather conditions.

China's government has launched a number of initiatives to mitigate the effects of climate change, and in September 2020 President Xi Jinping announced the country would aim to reach peak carbon emissions by 2030 and be carbon neutral by 2060.

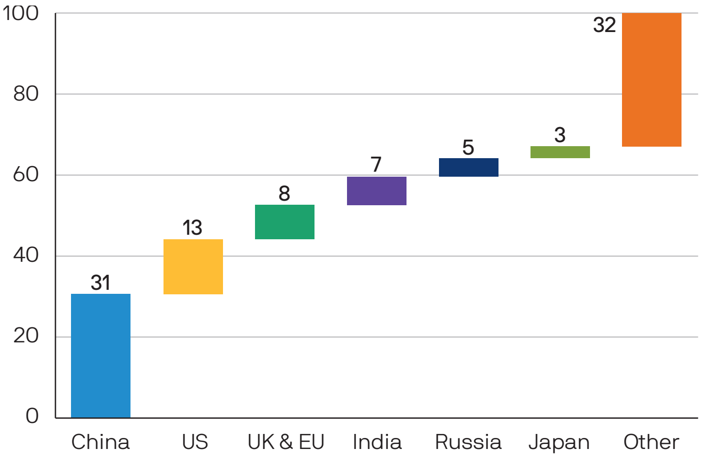
Achieving these targets will be a significant undertaking. The energy sector is responsible for almost 90% of China's greenhouse gas emissions[3], as the country is still highly dependent on coal, and ongoing urbanising means its demand for energy is still expanding. It is therefore encouraging to see that China is investing heavily in renewable energy, with more solar power capacity added than any other country year after year, according to the International Energy Agency (IEA).

However, China cannot rely solely on renewables to achieve its targets. Every industry, including those in the hard-to-abate sectors such as industrials, will need to adopt innovative new technologies, and more efficient and sustainable processes to avoid being left behind as the country transitions to a low carbon economy.

Global CO_2 emissions by country

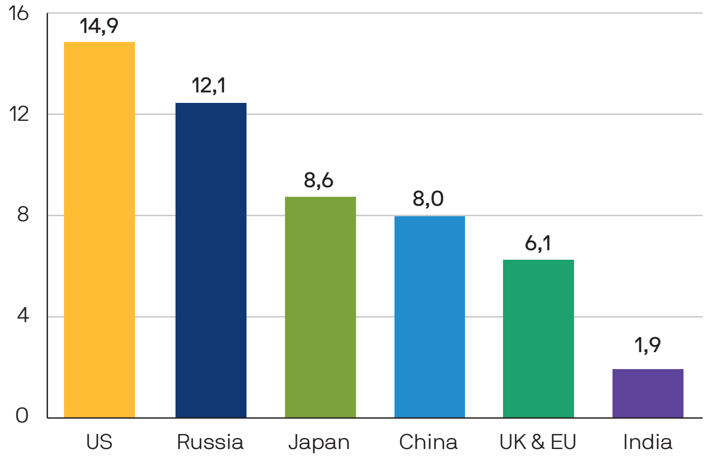
Share of global CO_2 emissions by country

%, 2021



Global CO_2 emissions per capita

Tonnes, 2021



Source: (All charts) Gapminder, Global Carbon Project, Our World in Data, United Nations, J.P. Morgan Asset Management. CO_2 emissions are from the burning of fossil fuels for energy and cement production. Emission impact from land use change (such as deforestation) is not included . *Guide to the Markets Europe*. Data as of 31 March 2023.

[1] Statista website, "Distribution of carbon dioxide emissions worldwide in 2021, by select country"

[2] IPCC, 2022: Climate Change 2022: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change.

[3] International Energy Agency: "An Energy Sector Roadmap to Carbon Neutrality in China" report

J.P.Morgan
ASSET MANAGEMENT

The JPM Carbon Transition China Equity ETF (JCCT)*

The JPM Carbon Transition China Equity (CTB) UCITS ETF (JCCT)* aims to invest in those companies facilitating China's transition towards a lower carbon economy and mitigate some of the risks from climate change.

The construction of the ETF starts with its proprietary benchmark. J.P. Morgan Asset Management has developed a research framework which helps to identify Chinese companies that are best positioned to benefit from the transition. Using data derived from companies themselves, third-party providers and our own data science team, we use this research framework to construct a proprietary index that leans into the best – and away from the worst – prepared companies for the carbon transition.

Our research suggests that there are three key ways that companies can prepare themselves for the transition to a low-carbon world. Analysis of company performance against these three key pillars forms the basis of our framework:

We then take overweight positions in those companies that are most transition-ready and underweight those companies that are failing to prepare their businesses for the carbon transition.

For example, in the transportation sector we might overweight automotive companies which are investing heavily in electrifying their fleet of vehicles. In contrast, we may underweight companies supporting high emitting forms of transit such as shipping companies, or those which have not disclosed any details on plans to achieve carbon neutrality.

This carbon transition benchmark index is aligned with the European Union's Climate Transition Benchmark (CTB) standards for sustainable products, aiming to lower carbon intensity by at least 30% compared to a traditional equity benchmark, while also targeting at least 7% rate of self-decarbonisation year-on-year.

J.P. Morgan AM's proprietary scoring framework

Managing emissions	Managing resources	Managing climate-related risks
Site Emissions Reduce direct emissions and shift towards greener forms of energy	**Electricity management** Reduce indirect GHG emission from the usage of electricity	**Physical risk** From physical risks from extreme weather conditions
Consumer emissions & opportunities Benefit from a shift in consumer demands towards low carbon alternatives	**Water management** Improve the sustainability of water flow management	**Reputational risks** Improve climate stewardship
	Waste management Reduce waste materials, both hazardous and non-hazardous	

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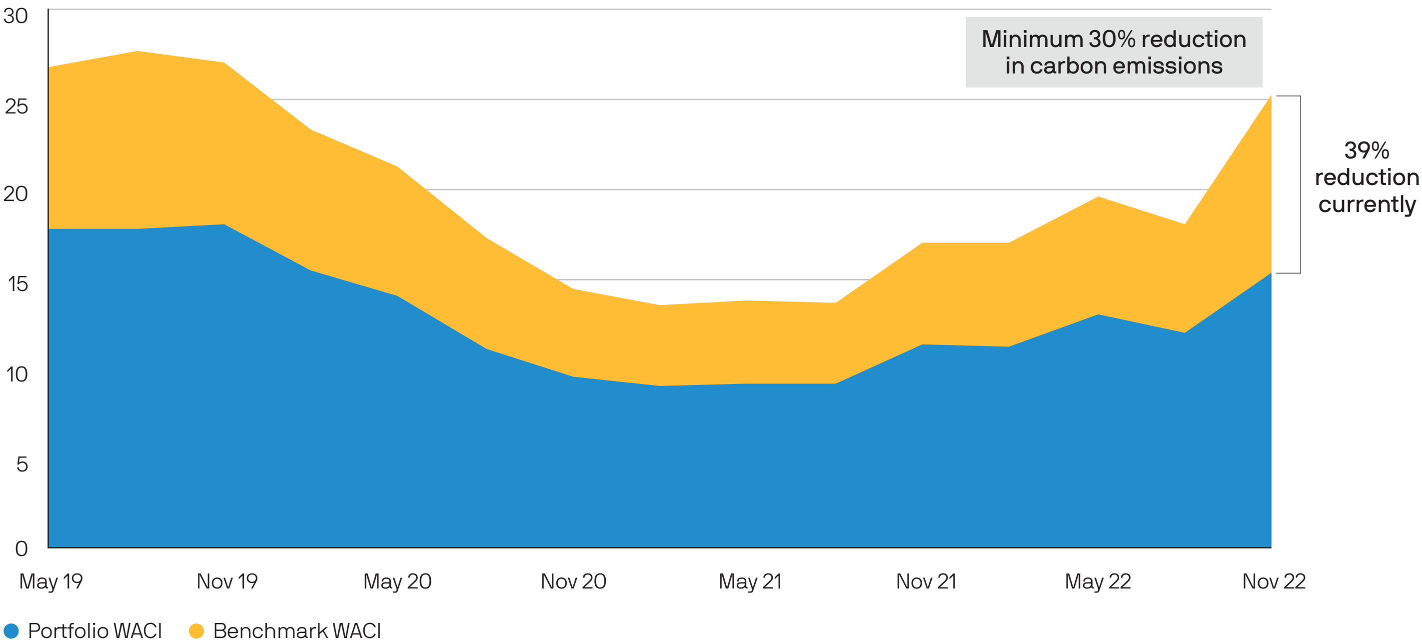
JCCT* tracks this proprietary index, achieving a meaningful reduction in carbon intensity relative to a traditional index. Importantly, we do this without applying sector exclusions, as we want to keep sectors in line with the traditional index. Instead we achieve the reduction in carbon intensity through individual security selection, investing in companies leading the way in the transition and avoiding those that will lose out as a result.

Meaningful reduction in carbon emissions
Weighted Average Carbon Intensity (WACI)



Source: J.P. Morgan Asset Management. Carbon emissions data as at 1 February 2023. Weighted Average Carbon Intensity = metric tons CO2 equivalent emissions per USD million Enterprise Value including Cash.

Summary

Achieving carbon neutrality in China will be imperative in safeguarding China's long-term growth and prosperity. It is also critical if the world is to meet its global de-carbonisation efforts, and while it may be a significant undertaking, the World Bank has recognised that China is well positioned to meets its climate commitments.

China's pathway towards a low carbon economy will therefore be transformative and will create a number of new growth opportunities to capitalise on.

By investing in JCCT*, investors gain exposure to a core Chinese equity portfolio that provides a meaningful reduction in carbon intensity compared to a traditional equity benchmark (at least 30%), provides more insulation from the risks of climate change, and seizes the investment opportunities made possible from China's transition to a low carbon economy.

JPMorgan ETFs (Ireland) ICAV - Carbon Transition China Equity (CTB) UCITS ETF

Ticker	JCCT
TER	0.35%
Fund inception	6 December 2022
SFDR	Article 9
Benchmark	Solactive J.P.MorganAsset Management Carbon Transition China Equity Index

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