



J.P. Morgan Asset Management Research Enhanced Index Equity (ESG) UCITS ETFs

BUILDING STRONGER PORTFOLIOS

ESG considerations in the investment process

Our Research Enhanced Index (REI) Equity ESG exchange-traded funds (ETFs) reflect the environmental, social and governance (ESG) concerns that matter to our clients, and seek to manage the impact of ESG factors on investment performance.

Key points

- Consideration of ESG factors is consistent with a long-term approach to investing.
- We take a two-tier approach, combining specific exclusions with ESG integration throughout the process.
- Research analysts and corporate governance specialists work together in the evaluation of ESG factors, providing an additional layer of risk mitigation.
- We engage with companies on ESG issues to create value for our clients.

Why consider ESG factors?

There are three reasons why we incorporate a consideration of ESG factors in our active ETFs. First, we believe we have a responsibility to consider the broader consequences of our investment decisions. Second, ESG factors matter to our clients.

Finally, we believe that consideration of ESG factors, particularly those related to governance, can play a critical role in a long-term investment strategy. ESG factors can impact corporate revenues, costs and operating cash flows. Poor ESG practices can erode the value of assets and limit access to financing. ESG factors can therefore be thought of as an additional screen to consider when making an investment, providing a layer of risk mitigation that can potentially lead to stronger and more sustainable risk-adjusted returns.

Our approach to ESG factors

Our REI Equity (ESG) ETFs employ a two-tier approach:

1. Values/norm-based screens

Values/norms-based screens restrict certain companies or industries that do not align with investor values or meet their norms or standards. In our REI Equity ETFs, we use independent third-party providers (see sidebar over the page) to determine portfolio exclusions. Exclusions of companies identified through this screening process are currently applied across four categories: tobacco, thermal coal, weapon producers and controversial weapons. We expect these categories and the exclusion lists within them to evolve over time.

2. ESG integration

ESG integration is the systematic and explicit consideration of ESG factors in the investment decision-making process. Through company meetings, in-depth research and engagement, investment teams can ascertain details about a company's resiliency, business practices and plans for the future, providing an additional layer of risk mitigation that can potentially lead to increased risk-adjusted returns.

For example, consideration of ESG factors can help a portfolio manager to avoid buying securities of a manufacturing company that fails to adequately prepare for resource shortages. Or it can help a portfolio manager choose a company that screens positively on privacy and data security vs. other companies that may face challenges.

Unlike values/norms-based screens, ESG integration does not limit the investment universe or exclude sectors or companies.

ABOUT ESG FACTORS

Environmental, Social and Governance (ESG) factors are non-financial considerations that are important for stakeholders to keep in mind when assessing a company's performance.

ENVIRONMENTAL

Issues relating to the quality and functioning of the natural environment and natural systems, such as carbon emissions, environmental regulations, water stress and waste.

SOCIAL

Issues relating to the rights, wellbeing and interests of people and communities, such as labour management, health & safety and product safety.

GOVERNANCE

Issues relating to the management and oversight of companies and other investee entities, such as board, ownership and pay.

Source: definitions: PRI; examples: MSCI.

Considering ESG factors in the portfolio

Research analysts and corporate governance specialists work together in the evaluation of ESG factors. Proprietary research and risk management tools are supplemented by third-party data to deepen our insight.

- Research analysts have deep industry expertise and knowledge of the ESG factors impacting the cash flows of companies they cover.
- Corporate governance specialists partner with research analysts and drive engagement with an emphasis on corporate governance and, where material and relevant, environmental and social factors.
- Portfolio managers draw on the expertise of these professionals, as well as third-party data, to address ESG issues in a manner consistent with their investment strategy.
- Investment directors work closely with chief investment officers, portfolio managers and risk management to monitor portfolios and discuss various risk outliers, including those related to ESG.
- Our Sustainable Investment Leadership Team provides a foundation for this framework, by sharing best practices and driving our commitment.

Corporate engagement and proxy voting

We proactively engage to create value for our clients. We believe effective engagement requires a thorough grasp of industries, market trends, individual companies and operating environments. To accomplish this important undertaking, we rely on both the expertise of our research analysts and our corporate governance specialists.

We manage the voting rights of the shares entrusted to us as we would manage any other asset. We vote shares held in the best interest of our clients, based on our reasonable judgement of what will best serve the financial interests of our clients.

The active advantage

We believe our two-tier approach to the consideration of ESG factors is aligned with the best interests of our clients. Amid an increasing emphasis on ESG factors, we have seen a consensus emerge that investors do not want to hold the types of companies excluded by our values/norms-based screens.

But active management allows us to go further. While index trackers can exclude certain categories from their investment universe and seek to influence companies through proxy voting, our REI Equity ETF investment teams also embed ESG considerations throughout the investment process and engage with companies to create value, potentially enhancing risk-adjusted returns over the long term.

OUR COMMITMENT TO SUSTAINABLE INVESTING

- Putting our clients' interests first means recognising and managing the investment risks and opportunities associated with Environmental, Social, and Governance factors.
- Through our engagement with clients and partner organisations, we continually expand our thinking on key ESG issues and best practices.
- We have been a signatory to the United Nations-supported Principles for Responsible Investment initiative since 2007 and are committed to incorporating ESG factors into our investment practices, where material and relevant.

OUR THIRD-PARTY ESG EXCLUSION LIST PROVIDERS

MSCI

MSCI is the world's largest provider of ESG Research providing in-depth research, ratings and analysis of ESG - related business practices to companies worldwide. This research allows investors to identify all global publicly-traded companies involved in activities such as the production of controversial products. MSCI ESG Research provides a profile of each company's specific business involvement which includes details on the company's tie to this controversial activity, any related corporate actions in the last three fiscal years, and ownership information if the company has ties, through a subsidiary or parent company, to the business activity in question.

With broad coverage of companies and issues as well as MSCI's robust security data infrastructure, MSCI ESG Business Involvement Screening Research ensures no securities are missed.

Source: MSCI.

ISS-ETHIX

ISS-Ethix is a subsidiary of Institutional Shareholder Services Inc. (ISS), a leading provider of corporate governance solutions to the global financial community with deep expertise across a range of sustainable and responsible investment issues.

ISS helps provide detailed assessments of companies' involvement in banned or controversial weapons, including: cluster munitions, anti-personnel mines, depleted uranium, nuclear weapons, biological and chemical weapons and white phosphorus.

Source: ISS.

NEXT STEPS

For further information, please contact jpmam.etf@jpmorgan.com

This is a marketing communication and as such the views contained herein are not to be taken as an advice or recommendation to buy or sell any investment or interest thereto. Reliance upon information in this material is at the sole discretion of the reader. Any research in this document has been obtained and may have been acted upon by J.P. Morgan Asset Management for its own purpose. The results of such research are being made available as additional information and do not necessarily reflect the views of J.P. Morgan Asset Management. Any forecasts, figures, opinions, statements of financial market trends or investment techniques and strategies expressed are, unless otherwise stated, J.P. Morgan Asset Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all inclusive and are not guaranteed as to accuracy. They may be subject to change without reference or notification to you. It should be noted that the value of investments and the income from them may fluctuate in accordance with market conditions and investors may not get back the full amount invested. Past performance and yield are not a reliable indicator of current and future results. There is no guarantee that any forecast made will come to pass. J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our EMEA Privacy Policy www.jpmorgan.com/emea-privacy-policy. This communication is issued in Europe (excluding UK) by JPMorgan Asset Management (Europe) S.à r.l., 6 route de Trèves, L-2633 Senningerberg, Grand Duchy of Luxembourg, R.C.S. Luxembourg B27900, corporate capital EUR 10.000.000. This communication is issued in the UK by JPMorgan Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority. Registered in England No. 01161446. Registered address: 25 Bank Street, Canary Wharf, London E14 5JP.