



**BUILDING
STRONGER
PORTFOLIOS**

ESG Integration

Global Liquidity

July 2020

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Overview

The J.P. Morgan Global Liquidity team's primary focus is providing capital preservation and liquidity. Fundamentally safe and sound cash portfolios, like those that we deliver, also have a larger economic role: They are necessary for other capital markets to function effectively. Because risks can materialize across the investment realm in so many ways, the information that environmental, social and governance factors can provide about institutions' future cash flows and the integrity of their balance sheets is distinct and meaningful.

Global Liquidity's ESG philosophy

Our conservative investment philosophy is to preserve principal and maintain liquidity while generating a competitive return. As we aim to fulfill those goals, Global Liquidity incorporates relevant and material environmental, social and governance factors into our rigorous investment process to inform better investment decisions. We consider material ESG factors alongside other market risk considerations, such as event risk and headline (news media) risk.

Approach and integration

Global Liquidity partners with our colleagues in Global Fixed Income Currency & Commodities to assemble an array of analytical resources. Our teams of analysts utilize both top-down and bottom-up approaches, seeking to converge on ultra-short and short-term fixed income assets providing good risk-adjusted returns. Market research coupled with fundamental credit analysis provides an unusually disciplined framework.

As part of our security selection strategy, investment teams evaluate whether sustainability issues could materially impact the cash flows or risk profiles of the many companies in the investible universe. And while no issuer or specific asset is excluded from portfolios solely based on ESG criteria—unless mandated by regulation or requested by clients—E, S and G factors can change a security's fundamental outlook and expand or limit our ability to invest in a company or asset.

Our governance

Our production teams convene monthly investment forums to review portfolio strategies and execution. At these forums, our teams examine our largest funds by weighted ESG ratings, derived from MSCI ESG Ratings, and consider ESG characteristics across the platform. The teams also examine the best and worst ESG-rated holdings among the products in our portfolios; this reminds our teams which investments best demonstrate our commitment to building a better world.

Global Liquidity's ESG leadership team is charged with maintaining teammates' focus on the product line's sustainability efforts. The team's work includes furthering ESG integration into our investment process and training our teammates to utilize ESG factors effectively and be able to speak fluently about the process. The ESG leadership team consists of senior portfolio managers, analysts and distribution professionals across geographic regions.

Portfolio guidelines

GFICC's research analysts incorporate ESG factors into their proprietary fundamental credit ratings, and these fundamental ratings ultimately determine what securities make it onto an approved list of various debt issuers and instruments that Global Liquidity can purchase. For highly rated credits, we allow higher portfolio concentrations and the purchase of longer maturities. For lower rated credits, our portfolios have less access to them or the instruments are excluded altogether from approved-for-purchase lists. Within the last two years, several banks have been cited for serious money-laundering violations, and our analysts have responded accordingly by reducing limits and, in one case, eliminating an issuer from the approved lists.

Trading

We utilize an ESG rating service to provide adept, objective opinions related to sustainability issues, and we use those specific ESG ratings in conjunction with our proprietary analytics and fundamental credit ratings. Our proprietary trading system shows environmental, social and governance factor scores provided by vendors that allow portfolio managers to review similar trade opportunities (by yield and maturity) and make additional comparisons using these scores. As a result, a large Japanese bank with poor governance and environmental scores has missed several funding opportunities with our platform, particularly when banks with better ESG ratings provided similar return profiles.

BUILDING STRONGER PORTFOLIOS

At J.P. Morgan Asset Management, collaborating with our clients in an effort to build stronger portfolios drives everything we do.

We are committed to sharing our expertise, insights and solutions to help make better investment decisions. Whatever you are looking to achieve, together we can solve it.



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