

STRONGER PORTFOLIOS BUILT FOR A CHANGING WORLD

Sustainable Investing Alternatives

Incorporating Environmental, Social & Governance (ESG)
J.P. Morgan Asset Management

September 2019



LET'S SOLVE IT.®

Alternatives: Global Hedge Fund Solutions

J.P. Morgan Alternative Asset Management (JPMAAM) Hedge Funds and Alternative Credit has formalized our consideration of ESG factors throughout our due diligence process. We have developed a list of factors across environmental, social and governance, and, where they weren't already included, are incorporating questions based on these factors formally into our due diligence reports. Throughout our history we have incorporated ESG-related considerations into our process, so the majority of these questions were already being asked. We believe that this increased consideration of ESG factors in our investment process can help reduce risk and ensure sustainability of returns.

After asking these questions of managers throughout our due diligence process, we actively engage them on a range of issues that may include social, environmental and governance concerns. We view good environmental, social and governance practices as a pre-requisite for responsible investing, but also as a tool to help mitigate potential risks and conflicts. We work closely with our managers to help them improve on ESG factors where we believe they are lacking, providing guidance and support to help them achieve best-in-class practices.

After being examined and potentially improved during the due diligence process, these ESG factors will be reviewed by JPMAAM's Investment Committee, and any red flags will be thoroughly discussed. ESG factors identified as part of this process are considered as part of the decision to invest in a new manager, remain invested with an existing manager, or terminate a manager.

We also partner with clients to address their specific ESG needs. Currently, specific funds, assets or types of assets are not automatically excluded explicitly on social, environmental, or ethical criteria unless specifically requested by clients or required by local legislation. However, JPMAAM has the ability to work with clients in a variety of ways to incorporate their ESG preferences, from exclusions-based (SRI) mandates to ESG thematic.

Alternatives: Global Real Estate

Overview: Acting solely in the fiduciary interest of our clients

Global Real Estate strives to deliver strong risk-adjusted investment performance to our clients worldwide. We believe that one of the drivers of that performance over the long term is the management of ESG behaviors and practices of the companies and assets in which we invest on behalf of our clients.

Philosophy: Incorporating ESG leads to better investment decisions

We believe continuous improvement of our assets/companies with respect to sustainability will ultimately improve both the environment in which those investments exist as well as asset competitiveness and value. Global Real Estate will:

- Always act in the fiduciary interest of our clients by buying, constructing and operating high-quality assets
- Maintain and improve operating performance to maximize long-term value

Global Real Estate's Sustainability Philosophy allows for flexibility among a wide range of companies, assets, locations, strategies and ownership structures—from operating companies to individual assets, from office buildings and shopping centers to apartment buildings. Global Real Estate's approach to ESG is one of integration—the systematic and explicit inclusion of sustainability/ESG factors into traditional analysis and decision making by investment managers. Sustainability issues are identified and quantified as part of our investment due diligence process, not only as a pre-requisite for responsible investing, but also as a tool to help mitigate potential risks.

Act as a Responsible Corporate Citizen

Environmental

Investments are underwritten to meet or exceed environmental standards, taking into account the long-term objectives of our investments, mitigating risks associated with expanding regulations and increasing the marketability of real asset investments at time of disposition.

Social

The construction of well-designed and well-managed real estate—for example, buildings, roads and power plants—has a positive impact on local communities, creating jobs and boosting economic activity. An understanding of an investment's potential impact on a variety of stakeholders is essential to an appropriate underwriting.

Governance

Companies in which Global Real Estate invests on behalf of its clients and/or partners should be controlled by effective management, with an appropriate balance of control and oversight for key functions, including reviewing and guiding strategy, major plans of action and risk policy. Remuneration for services should be aligned with the longer-term interests of investors. Companies should ensure that timely and accurate disclosure is made on all material matters, including the financial situation, performance, ownership and governance of the company. Companies should eliminate corruption in all its forms, including the payment or acceptance of bribes and inducements, and cartel behavior.

Alternatives: Infrastructure

Overview

The infrastructure team recognizes that management of material ESG issues can have a significant impact on the long-term operational performance of the companies in which it invests on behalf of its clients. As an asset class, infrastructure investing can directly benefit by the effective management of ESG factors.

In providing long-term capital, infrastructure investors are looking for companies to be managed for sustainable growth and resilience. We believe a focus on forward-looking ESG factors as a complement to traditional analysis, both in the acquisitions process and ongoing asset management, results in better long-term outcomes for our investors, portfolio companies, communities and other stakeholders.

Philosophy

As a signatory to the United Nations Principles for Responsible Investment, where consistent with our fiduciary responsibility, we believe that ESG factors should be incorporated in the investment and asset management processes. Further, we believe that transparency around how a company manages ESG risks and opportunities is part of its value proposition: management of ESG factors impacts business results in numerous respects including access to capital, cost savings, productivity, revenue growth, market access, reputation, insurance cost and availability, talent retention and risk management. Well-governed companies with an environmentally sustainable and socially responsible way operating significantly de-risk their business model, and therefore, deliver better performance and achieve greater cost efficiencies and profitability for their investors. We believe it is appropriate to hold ourselves accountable to our stakeholders for our management of ESG factors and strive to do so through reporting, engagement with stakeholders and benchmarking.

Approach

In keeping with the principles set forth in the PRI, the largest direct equity infrastructure strategy at J.P. Morgan Asset Management has adopted a Mission Statement, Governance Principles, Governance Implementation Framework and ESG Policy, which together provide a roadmap to the management of material ESG factors and provide ESG guidance to the boards and management of the Strategy's portfolio companies. The Strategy's integrated approach to ESG includes consideration of ESG matters in acquisition due diligence culminating in:

- a distinct ESG section in each investment committee memorandum
- a requirement of each portfolio company's board of directors to adopt an annual governance calendar, which explicitly includes ESG matters,
- a requirement of each portfolio company to track and report on a variety of ESG matters, with the vast majority of its portfolio companies participating in ESG benchmarking assessments.

Alternatives: Macro

Our Macro strategy is ESG integrated. In the first quarter of 2019, we formalised the consideration of ESG risks in our investment process and built an ESG module specific to the macro approach in our common global technology platform, Spectrum™. Before investment, the portfolio managers review each security's ESG score, using third-party data, to ensure that potential risks are captured. Where the security's score is below that of the investment universe, the team carries out additional ESG research. As such, ESG risks can impact our decision-making and may lead to the inclusion of a security at smaller size or not at all; however, we do not systematically exclude securities solely on ESG grounds.

Alternatives: Private Equity

Overview

The objective of the Private Equity Group (PEG) of J.P. Morgan Asset Management is to identify and select attractive investments from across a broad spectrum of private equity investment opportunities. Sustainable investing is an important part of PEG's investment diligence process. PEG assesses the environmental, social and governance behaviors and practices of the companies and underlying third-party private equity managers with which we invest.

Philosophy

PEG's standard investment process includes due diligence on sustainability, a written investment memorandum and ongoing discussion with the portfolio managers of PEG with respect to sustainability issues. This process includes clarification and assessment of all material risk factors of sustainability including environmental, social and governance factors. PEG encourages the underlying third-party managers with which it invests to carefully consider these factors in their own investment due diligence as well. Sustainability considerations are an important component of both the initial due diligence and screening process and the ongoing monitoring of investments.

Approach

The investment strategy at the foundation of PEG has been developed and refined over 35 years and through a wide range of market and investment environments. Consistent with PEG's ultimate objective of providing attractive, risk-adjusted returns, specific companies and investment managers or types of companies or managers are not excluded from client portfolios solely on the basis of ESG criteria. However, PEG views sustainability issues as important factors that are likely to impact performance and therefore must be carefully considered as part of the investment review process. PEG believes that sustainability considerations must be reviewed holistically to account both for material risks and also potential opportunities which may make companies or underlying managers more or less attractive for investment.

PEG encourages the portfolio companies and managers with which it invests to advance the principles of sustainable investing in a practical manner consistent with return objectives and fiduciary duties, which include:

- Considering environmental, public health, safety and social issues and their impact on investment returns
- Positively impacting communities, including, for example, promotion of health, wellness and advancement
- Using governance structures that provide effective management, including in the areas of audit, risk management and potential conflicts of interest
- Implementing procedures and processes to ensure compliance with laws and to prohibit bribery, inducements and other improper payments or non-competitive behavior
- By promoting and protecting human and social rights, including confirming that underlying portfolio companies comply with labor laws and do not maintain discriminatory policies or engage in illegal work practices, PEG seeks to integrate ESG considerations into the investment process in a practical manner to ensure that the investment process is clear and consistent with the portfolio's investment objectives. This includes developing guidelines and an approach, which are adaptable to market conditions, portfolio construction and investment opportunities.

TO LEARN MORE

Contact your J.P. Morgan Representative
or visit www.jpmorgan.com/esg

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