

STRONGER PORTFOLIOS BUILT FOR A CHANGING WORLD

Sustainable Investing Global Fixed Income, Currency and Commodities

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

September 2019



LET'S SOLVE IT.®

Global Fixed Income, Currency and Commodities

Overview and philosophy

As bond investors, we view ourselves as lenders of our clients' money. We therefore expect the issuers in which we invest to conduct business in a sustainable manner and to demonstrate high standards. The Global Fixed Income, Currency and Commodities (GFICC) group is committed to delivering strong risk-adjusted returns for our clients, and we believe that one of the drivers of that performance over the long term is an assessment of the ESG practices of the issuers in which we invest. As such, we take into consideration, where relevant and material, ESG issues, alongside other market risk factors, as a fundamental part of our sound risk management and a core part of our fiduciary responsibility.

Approach and integration

Across the GFICC platform, we have historically considered ESG factors alongside other material return drivers as part of our research efforts. In the past few years, we have formalized this into a rigorous and systematic approach to ESG integration. Given the scale and variety of the global fixed income market, ESG factors in each sector and market are assessed slightly differently. However, our approaches share three common pillars: proprietary research, engagement and portfolio construction.

- **Proprietary research:** A key tenet of our fixed income platform is our focus on proprietary research. Our common research framework—in which every investment idea is assessed using fundamental, quantitative valuation and technical analysis—allows for comparison across all sectors of the bond market. GFICC's deeply resourced team of research analysts incorporates the assessment of an issuer's ESG practices directly into this framework, as part of the fundamental analysis. We use third-party data as an input into this view, but it does not dictate our position. Analyst research is documented in a dedicated ESG field in Research Notes (an application within our common global technology platform, Spectrum™). This information is visible to all investors across the platform, including portfolio managers and investment specialists, to encourage transparency and discussion.
- **Engagement:** As bond investors, we do not carry voting rights. However, we engage on a wide range of ESG issues

with a variety of market participants. In addition to individual companies, we also engage with government officials, industry boards and forums, ratings agencies, data providers and other global institutions, with the goal of driving progress on sustainability. Our scale and position within the asset management industry also allow us significant representation across asset classes, and we often conduct engagement with our equity counterparts, where relevant.

- **Portfolio construction:** We monitor ESG exposure throughout the portfolio construction process, on both an ongoing informal basis and during official periodic reviews. We have enhanced our front-office systems to incorporate ESG data, primarily from third-party providers, to give portfolio managers understanding and oversight of ESG risks in our portfolios on both a pre- and post-trade basis. This system provides significant flexibility, showing the breakdown of a portfolio's ESG score by a variety of factors such as sector and country. Portfolio ESG risks are also formally captured in a series of risk reports produced by the dedicated risk management teams. These are regularly reviewed and monitored by portfolio managers during official portfolio review meetings.

As a result of these efforts, and following a robust approval process, the Sustainable Investment Leadership Team has designated the GFICC platform as fully ESG integrated.

Solving clients' needs

We adopt a positive engagement approach to sustainable investing. Therefore, specific assets or types of assets are not automatically excluded from portfolios explicitly on environmental, social or governance criteria, unless specifically requested by clients or required by local or global legislation.

For our sustainability-focused investors, we offer a multidimensional approach. We are able to manage to ESG benchmarks, incorporate screens such as issuer exclusion on norms- and value-based criteria, and provide customizations such as thematic investments. We also support the green bond market, and, where appropriate and permitted by our clients, endeavor to allocate to green bonds given the opportunity they present to provide financing for environmentally beneficial projects and activities.

TO LEARN MORE

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