

# J.P. Morgan Asset Management's Global Equity Investment Process

Global research in action



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Our investment process is designed to enable our experienced portfolio managers to source ideas from across J.P. Morgan Asset Management's investment engine, regardless of investment style or portfolio risk profile. The aim is to ensure that our global equity portfolios can fully benefit from the output of our fundamental stock-level research, which has provided attractive stock-level return forecasts across market cycles.

# 1. An equity investment process with long-term results

At the core of our global equity research platform is our network of career analysts, who forecast bottom-up, long-term earnings and cash flows for approximately 2,500 stocks globally using a fundamental equity research framework that we have developed over the last few decades. We have more than 80 dedicated in-house analysts employed across three continents, with each analyst covering 20 to 40 companies within their respective sectors and geographies.

The objective of our analyst earnings and cash flow forecasts is to provide an expected return forecast for every stock covered based on today's share prices. Stocks are then ranked systematically into quintiles across each sector, with the most attractively valued stocks in quintile 1 and the least attractively valued stocks in quintile 5.



**Our global equity research process has delivered outperformance to our clients since it was established close to 30 years ago.**



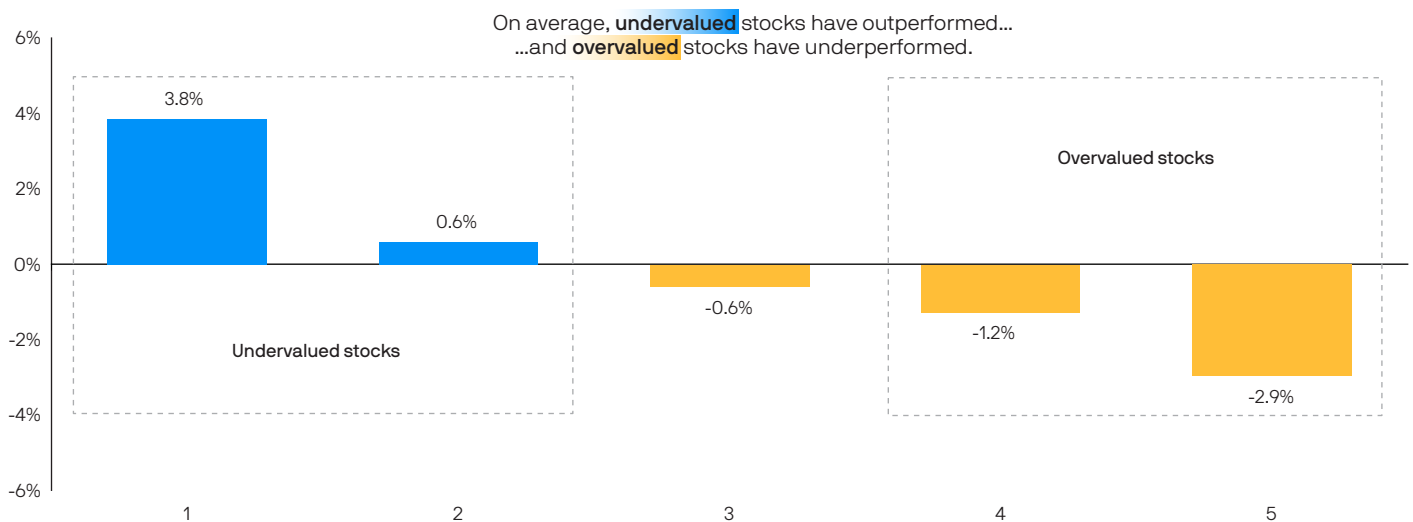
**Mark Ferguson,**  
Global Head of Equity Research

Our research works! Looking at data going back to 1996, stocks that have been identified as undervalued by our analyst research have outperformed the broader market while those that we've identified as overvalued have consistently underperformed.

## Global research ranking performance by quintile as of March 2024

Annualised excess performance, sector neutral quintiles

December 1996 - March 2024



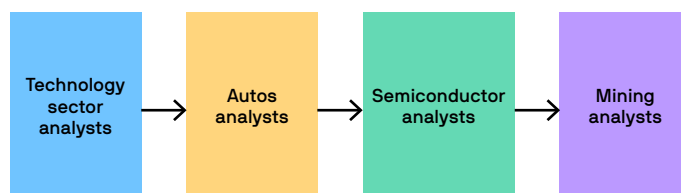
Source: J.P. Morgan Asset Management, DataStream. Each sector is index-weighted with quintiles rebalanced monthly. Quintile performance results have certain inherent limitations. Unlike actual performance, quintile results do not take into account actual trading, fees or transaction costs. No representation is made that any portfolio is likely to achieve profits or losses similar to those shown. Excess performance (relative to average of the coverage universe) has been standardized to sum to zero and expressed in USD.

## 2. A consistent and flexible global equity research framework

Several research inputs help to drive our analyst forecasts: an industry framework, which focuses on structural changes to identify long term winners; a strategic classification, which considers the quality of the business itself; and our own environmental, social and governance research, which looks to factor in any financially material sustainability risks and opportunities that may impact a stock's future growth. The aim is to estimate a level of earnings for each stock covered, normalised for the business cycle.

The consistent application of our research process to all the stocks we cover provides a common research language which, through dialogue, can drive idea generation and bring additional insights and perspectives globally across both sectors and regions. For example, collaboration can help our technology sector analysts provide our autos analysts with a better understanding of how chip supply issues could impact auto production. Our autos analysts can also share their electric vehicle penetration forecasts, helping to guide growth forecasts for our semiconductor analysts and feeding into our mining analysts' estimates of precious metals demand.

Unified research process: enhancing global insights and collaboration across sector analysts

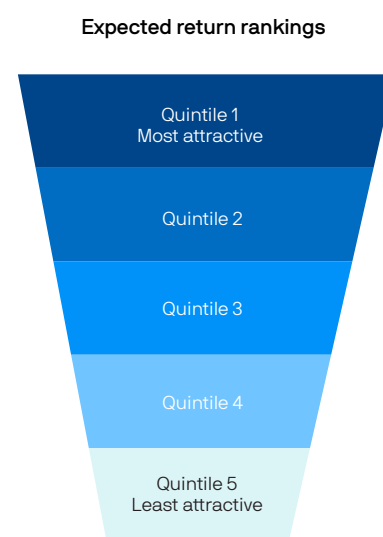
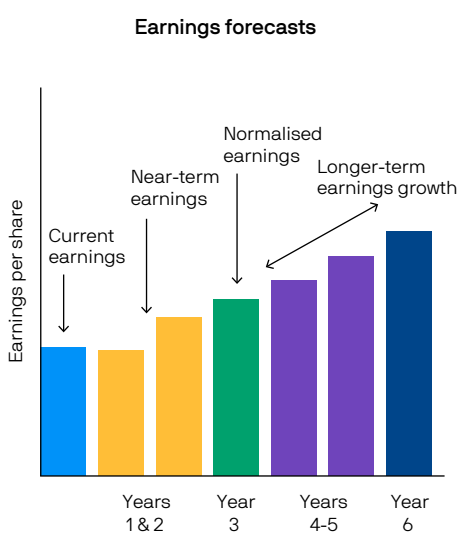


Our common research language further enables our analysts' valuation insights to be compared across sectors and regions, and allows their forecasts to be challenged by our portfolio managers. Our analysts arrive at a strategic classification and expected return for every stock they cover, but portfolio managers must be able to understand how these numbers are derived.

However, a harmonised research approach does not come at the expense of creativity. Our process is not prescriptive and has been designed specifically not to stifle our analysts' individual vision. Instead, the process acts as a framework for analysts to work within in order to deliver the differentiated insights that drive long-term performance.

### Many research inputs drive our analysts' long-term forecasts

Our focus: normalised sustainable earnings and growth rates



Source: J.P. Morgan Asset Management. Note: Quintiles are 20% by number of names, not capitalization. The chart above is shown for illustrative and discussion purposes only. In actively managed assets deemed by J.P. Morgan Asset Management to be ESG integrated under our governance process, we systematically assess financially material ESG factors amongst other factors in our investment decisions with the goals of managing risk and improving long-term returns. ESG integration does not change a strategy's investment objective, exclude specific types of companies/issuers or constrain a strategy's investable universe.

### 3. Valuation spread signals

The difference between the valuation of stocks ranked in the top quintile of our analyst research rankings and those ranked in the bottom quintile represents our research valuation spread. Our portfolio managers use the valuation spread as a tool both to recognise alpha opportunities and to navigate the market.

As valuation spreads widen, the more the stocks that our analysts rank as overvalued become mispriced compared to stocks that are ranked as undervalued, the larger the opportunity set to add alpha becomes in each sector. The data shows that spreads typically widen during periods of market dislocation, where sentiment and market noise tends to overwhelm bottom-up company fundamentals. When the market sentiment starts improving again, the spread can contract at a relatively high speed.



**The longevity of our proprietary data is incredibly challenging for other asset managers to replicate.**

**Mark Ferguson,**  
Global Head of Equity Research



Therefore, the more our portfolios are exposed to stocks in quintiles 1 and 2, the more we increase our potential to outperform across the market cycle.

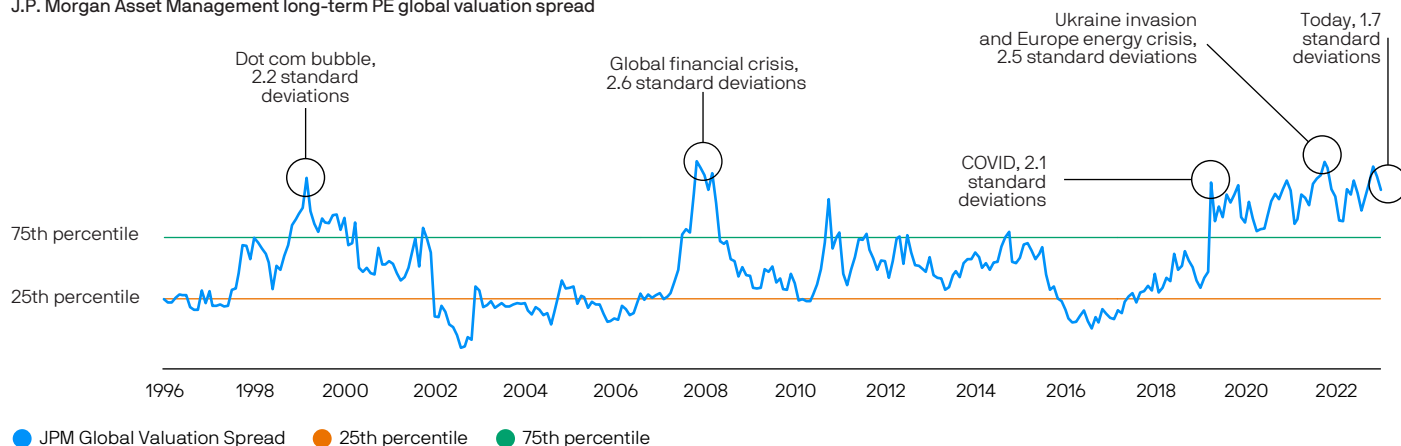
Data is an especially powerful tool and adds to our competitive edge. We have collected and maintained our proprietary valuation estimates since the early days of our investment process in the mid-1980s, providing a dataset that includes periods of market dislocation, such as Black Monday in 1987, the bursting of the tech bubble in the early 2000s, the global financial crisis in 2008, and the Covid-19 pandemic in 2020.

As a result, analysing this huge dataset can provide our analysts with a unique view of how investor sentiment can impact company performance. For example, we can employ data science to help predict forecasting error and to suggest revisions to long-term earnings estimates produced by our analysts, helping to flag either upside or downside risk to our forecasts.

Our in-house valuation data also creates a powerful lens to identify when our proprietary valuation spreads are at extremes, signalling increased alpha opportunities for our global equity portfolios and encouraging our analysts to explore where they may increase or trim their forecasts from a bottom-up perspective.

#### Valuation spreads inform our risk taking, and are currently signalling opportunity

J.P. Morgan Asset Management long-term PE global valuation spread



Valuation Spread = (Quintile 1 average valuation – Quintile 5 average valuation) / Universe average valuation. Global valuation spread calculated using Global coverage universe. Source: J.P. Morgan Asset Management- Global Quantitative Research. Period from 31 December 1996 to 31 March 2024.

## 4. Valuation spreads in action - a real life example

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Two recent events, the 2020 Covid-19 pandemic and the 2022 Ukraine war, show how we use valuation spreads to drive returns in our core global equity portfolios.

At the beginning of 2020 our valuation spread exploded as cyclical stocks sold off heavily in reaction to the Covid-19 outbreak.



**The insight derived from our proprietary framework provided the conviction to buy quality stocks at depressed valuations, helping to add substantial alpha over the subsequent months.**

**Helge Skibeli,**  
Portfolio Manager



However, when the spread tightened later in 2020 and into 2021, as the Covid-19 vaccine sparked recovery hopes, some defensive names began to offer value once again. We also took the opportunity to reduce exposure to holdings in high growth stocks through 2021 as these stocks became extremely overvalued in the recovery.

In 2022, markets were hit by the Ukraine war, a resulting energy crisis in Europe and a sharp interest rate tightening cycle across developed markets as inflation spiked. Our valuation spread widened to levels last seen during the global financial crisis in 2008, once again signalling the opportunity to snap up high quality companies at distressed valuations.

Of course, when the spread returns closer to its historical average, our in-depth fundamental analyst research continues to identify attractively valued stocks with the potential to deliver strong future growth. And thanks to our advanced data analytics capability, we are able to measure valuation spreads across sectors, regions and factors as well as markets in order to drive long-term returns.

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## Contact

For more information about our global equity funds, please visit our website.

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