J.P. Morgan Global Sustainable Equity Strategy

Building a best-in-class sustainable global equity portfolio

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The J.P. Morgan Global Sustainable Equity strategy offers an established solution for investors looking for a core global equity portfolio allocation that focuses on stocks with best-in-class sustainability credentials and attractive valuations. The strategy stands out among its competitors thanks to its research-driven approach, investment and sustainable investing expertise, active ownership model, and strict risk controls relative to the benchmark.

The key highlights of the J.P. Morgan Global Sustainable Equity strategy include:

- **Research-driven security selection:** The portfolio is constructed based on the research output of our team of 80+ dedicated sector analysts located globally, and the investment expertise of our experienced global equity portfolio managers.
- **Single valuation model approach:** Our global sector analysts cover over 2,500 companies around the world, ranking each one on the strength of its business model, and assessing every stock for its environmental, social and governance (ESG) characteristics.
- **Rigorous sustainability analysis:** Our proprietary ESG framework combines fundamental ESG scores (based on our analysts' ESG checklist) and quantitative ESG scores to assess the sustainability credentials of the stocks that we cover.
- **Active ESG engagement:** We engage with the companies in which we invest on sustainability issues, in conjunction with our analyst team and our sustainable investing team. Engagement can also involve partnership with clients to establish coordinated action and reporting plans.
- **Strict risk management:** The strategy is managed within strict risk parameters, with individual active stock weightings, sector weightings and country weightings limited relative to the benchmark. As a result, returns will be driven by security selection, with regional, sector and thematic risks controlled at all times.

Past performance is not a reliable indicator of current and future results.

Invest sustainably without sacrificing financial performance

The Global Sustainable Equity strategy invests in a concentrated portfolio of 50-70 stocks that we believe are financially strong, attractively valued and are sustainable leaders today, or are on the path to being future sustainable leaders. We believe that ESG risks and opportunities can have a material impact on profitability and can directly affect the ability of companies to create long-term shareholder value

By investing in stocks with attractive financial and sustainable leaders, the strategy has been able to outperform the index since its inception in June 2021.

These returns are driven by our bottom-up approach, which leverages our extensive research network to identify the most attractively priced securities, which also meet a high bar when it comes to sustainable leadership and business fundamentals.

What we mean by sustainability

The Global Sustainable Equity strategy follows a best-in-class approach to sustainable investing. Best-in-class status can come through a company's internal operations and/or through the goods and services that it produces. We aim to invest in companies that are sustainable leaders today, or are well on the road to becoming leaders in the future (improvers), and we seek to avoid sustainable laggards.

To find these sustainable leaders, we first conduct a bottom-up assessment of companies with a focus on the issues that are material to a firm's business activities. We use a combination of information gained from company engagement activities together with our ESG research framework, which uses several internally developed processes to assess the ESG credentials of any business. Our ESG framework includes:

- An ESG Checklist, which applies the same detailed 40 questions to more than 2,500 companies that our analysts cover globally. This checklist generates the J.P. Morgan Asset Management Fundamental ESG Score.
- A proprietary, data-driven J.P. Morgan Asset Management Quantitative ESG Score, which draws on granular, outcomes-focused data, making full use of the significant increase in ESG disclosures and data availability over recent years.
- A fundamental materiality framework, which identifies the ESG issues that are most likely to have a financially material negative impact on a company were it to be mismanaged, or conversely, a financially material positive impact in the case of good management.
- A strategic classification framework, which provides a rating (Premium, Quality, Standard and Challenged) for stocks, based on our judgement of the quality of their businesses, including financially material ESG issues.

Combining these qualitative and quantitative insights gives us a depth of understanding of each company's sustainability characteristics, and allows our portfolio managers to make an informed assessment of their ESG leadership qualities, either today or in the future.

Identifying criteria for sustainable leadership

The strategy will exclude or apply thresholds to certain industries that are unsustainable based on the values that matter most to our clients, and will not invest in businesses that breach ESG norms or are unsustainable on our proprietary sustainability analysis.

However, the vast majority of our portfolio management team's time and effort is spent identifying those companies that are positively leading from a sustainability perspective. We define sustainable leadership as those companies that are taking action to promote "governance imperatives" across all their investments, as well as taking action to build "resilient ecosystems" and/or enable "equal opportunities". Specifically, we look for companies that are leaders, or are well on the way to becoming leaders, across four sustainability pillars: climate change mitigation and responsible resource consumption (resilient ecosystems), and social cohesion and diverse and motivated workforce (equal opportunities).

Governance Imperatives			
Resilient Ecosystems		Equal Opportunities	
Climate Change Mitigation	**Responsible Resource Consumption**	**Social Cohesion**	**Diverse and Motivated Workforce**
• Enabling the transition to a low carbon economy • Clean energy • Green transportation & infrastructure • Electrification & efficiency	• Promoting circularity and protecting biodiversity • Recycling & waste management • Sustainable raw materials & packaging • Air, land & water protection	• Driving empowerment and well-being • Health & well-being • Essential needs • Financial & digital development	• Creating resilient and inclusive workforces • Education & employee empowerment • Workplace equality • Responsible value chains

Sustainability embedded throughout organisations

To bring our sustainable leadership investment criteria to life, below are four stock examples to illustrate how we evaluate companies across each of the four sustainable leadership pillars:

Climate change mitigation – Trane Technologies

About 15% of greenhouse gas emissions come from buildings. Trane manufacturers industrial products, such as air conditioning units, with a focus on enhancing energy efficiency. The company is bringing sustainable solutions to buildings, homes and transportation through its products and services. Of note is the company's "Gigaton Challenge", which aims to reduce 1 gigaton (1 billion metric tons) of carbon emissions from its customers' carbon footprint by 2030. This target is the largest customer climate commitment made by any business-to-business oriented company.

Social cohesion – Mastercard and Bank Central Asia

Financial literacy remains a significant global challenge, with two-thirds of the global adult population lacking an understanding of basic financial concepts. Mastercard has committed to bringing 1 billion people, and 50 million micro and small businesses, into the digital economy by 2025 and has also developed numerous financial education programmes worldwide. Another example is Bank Central Asia, which collaborates with schools and universities in Indonesia and also partners with government agencies to reach underserved communities and promote financial inclusion.

Responsible resource consumption – Burlington and Ross

The company's "off-price model" involves purchasing unwanted inventory from brands and selling it to consumers at a 40%-60% discount to the original retail price. Economically, moving inventory once it is in a store is too expensive, so Burlington and Ross is incentivised financially to sell the product to consumers and will keep marking down products until they're sold. We think the off-price model enables excess inventory to be put to good use with consumers instead of ending up in landfill when the branded players are unable to sell leftover stock.

Diverse and motivated workforce – Netflix

The company has developed a unique self-described "Freedom and Responsibility" culture. The focus of this initiative is to prioritise employee empowerment to drive employee satisfaction, with the result that Netflix has a much lower voluntary turnover rate compared to the average US company. This approach cascades through a number of initiatives, from feedback loops, to sharing widely sensitive financial and strategic information, to streamlining decision-making approvals to accelerating innovative decisions throughout all levels of the company.

The securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell.

Unconstrained positioning globally across regions and sectors

The Global Sustainable Equity strategy can invest in any region, sector and company that meets our best-in-class sustainability criteria.

As the portfolio is built on the investment team's highest conviction stock ideas, this broad global approach means minimal constraints are imposed relative to the MSCI AC World Index benchmark (stock +5%, sector +15%, country +/-30%). As such, the strategy is considered to be unconstrained, with forecast tracking error of 4%–8% per annum. And by investing across a portfolio of only 40 to 70 stocks, we can identify those sustainable leaders of today or tomorrow without sacrificing the potential for outperformance.

While the strategy invests in many sustainable leaders in sectors that are considered more traditional sustainable sectors, it also capitalises on opportunities in less obvious areas of the market. For example, some of the strongest positive contributors to returns since the strategy's inception have come from the technology–semiconductors and hardware sectors, and also from insurance. This approach means the fund can maintain broad sector diversification as well as providing sustainability. The key is the portfolio's balance from a macro perspective, with positioning driven from the bottom up.

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Where we're finding opportunities now

At the moment, the Global Sustainable Equity strategy favours defensive sectors, such as retail (Walmex) and financial services (exchanges, Mastercard), while we are being selective in cyclicals: with overweight positions in semiconductors (for example, NXP), banks (for example, UniCredit), and retail (for example, LVMH). We are underweight staples, as we don't believe in the sustainability of pricing power, and we do not find many sustainability leaders in this space. In technology, we are finding some opportunities but are waiting for an inflection in the current cycle, while we have structural underweights in energy and basic industry due to the impact of exclusions.

In terms of the Magnificent Seven, we have a small overweight exposure. We currently favour Amazon and Microsoft and are constructive on Nvidia's long-term investment case, at 25x price-to-earnings. However, we have concerns over Alphabet, where our analyst highlights long-term risks to Google's search engine. We've also moved back to an underweight position in Apple on valuation grounds, as we have been skeptical for some time on its hardware outlook. We did move overweight earlier in the year when the valuation became more attractive. Our valuation discipline has paid off, as Apple has been the biggest positive contributor to returns so far this year.

From a regional perspective, our bottom-up stock selection is uncovering greater opportunities in Europe, where companies and investors in general have historically been more forward thinking on sustainability. We are underweight in emerging markets, where governance still has some room for growth, and as we await more government stimulus measures in China, which is hedged with the Hong Kong exchange. However, we like Walmex, which is focused on lower-end consumers, and have exposure to Indonesian banks (for example, Bank Central Asia), which are spreading financial literacy.

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Make your global equity exposure count

For investors looking for a core global equity manager, J.P. Morgan Asset Management offers a wide choice of strategies, backed by deep stock-level research, time-tested processes and rigorous risk management.

Find out more about our global equity funds

Read our latest sustainable investing insights

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