

# Approach to EU MiFID Sustainability Preferences

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## J.P. Morgan Asset Management (JPMAM)

Note: EU MiFID refers to the European Union Markets in Financial Instruments Directive II Delegated Regulation, which aims to integrate sustainability preferences into financial firms' advisory and portfolio management processes to ensure that investors' sustainability preferences are taken into account.

The following is based on JPMAM proprietary assessment of Sustainable Investments and Principal Adverse Impacts as defined by EU SFDR.

### EU SFDR “Sustainable Investment” Methodology

Investments can qualify as ‘Sustainable Investments’ in one of two main pathways (each subject to a sustainability indicator and a JPMAM threshold); and adherence to the ESG Minimum Safeguards outlined below:

- 1. Pathway 1:** Investee companies which have products and/or services contributing to environmental or social objectives, as measured by products and services sustainability indicators (that may include the percentage of revenue derived from a sustainable business activity) and which meet JPMAM's proprietary thresholds.
- 2. Pathway 2:** Investee companies that are sustainable leaders in one or more areas of their operations. To qualify as an operational leader in sustainability, a company must be a peer group leader (subject to passing JPMAM's proprietary threshold) relative to a defined set of operational sustainability indicators.

Certain fixed income investments are subject to additional pathways and qualifying criteria which focus on:

- Use of proceeds (i.e. Green Bonds)
- Issuer's mission (supranational entity)
- The use of operational sustainability indicators shall apply to government issuances

Note, the above is applicable as at the date of this document and may not represent an exhaustive list of asset class specific conditions to be considered a Sustainable Investment as further asset classes may be added and this document updated to reflect them in due course.

### Note:

A Thematic sub-fund tracking an index that meets the requirements for EU Climate Transition Benchmarks will consider a broader range of PAIs than the “ESG Promote and Thematic” category below. EU SFDR Article 9 sub-funds consider all PAIs according to their underlying asset class (at least indicators 1-14 in the table below and the remaining indicators as applicable).

### ESG Minimum Safeguards

All investments are subject to the following ESG Minimum Safeguards/principle:

- The minimum safeguards as outlined by Article 18 of the EU Taxonomy Regulation (including alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).
- Application of good governance practices (these include sound management structures, employee relations, remuneration of staff and tax compliance).
- Compliance with the Do No Significant Harm principle (DNSH) as prescribed under the definition of Sustainable Investment in EU SFDR.

### Principal Adverse Sustainability Impacts of Investment Decisions on Sustainability Factors (“PAI”)

#### Framework and Methodology

PAIs are considered through values and norms-based exclusions on all of our EU SFDR Article 8 and Article 9 sub-funds.

Where a sub-fund commits to investing a minimum proportion of assets in Sustainable Investments, certain additional PAIs are considered at an asset level, recognising Sustainable Investment indicators, DNSH indicators and additional values based exclusions. In addition, for certain sub-funds, PAIs are considered by leveraging our stewardship team to deploy an engagement model that seeks to address certain identified PAIs.

Please refer to the table below for a mapping of the PAI indicators to the relevant sub-fund category in respect of EU SFDR Article 8 sub-funds.

J.P. Morgan Asset Management Article 8 Product Categories	Value Based Exclusions (Weapons, Tobacco, Fossil Fuel)	Norms Based Exclusions UNGC Violators	Additional Value Based Exclusions	Centralized Engagement Framework	EU Sustainable Investment Inclusion Criteria	DNSH Screens
Article 8 - ESG Promote and Thematic						
Article 8 - Positive Tilt						
Article 8 - Best-In-Class						

Adverse Sustainability Indicators			Value Based Exclusions (Weapons, Tobacco, Fossil Fuel)	Norms Based Exclusions UNGC Violators	Additional Value Based Exclusions	Centralized Engagement Framework	EU Sustainable Investment Inclusion Criteria	DNSH Screens	
1	Investee Companies – Environmental	Greenhouse gas emissions	1 GHG Emissions						
			2 Carbon footprint						
			3 GHG intensity of investee companies				X	X	X
			4 Exposure to companies active in the fossil fuel sector			X <sup>^</sup>			
			5 Share of non-renewable energy consumption and production			X	X		X
			6 Energy consumption intensity per high impact climate sector						X
		Biodiversity	7 Activities negatively affecting biodiversity sensitive areas						
		Water	8 Emissions to water						
		Waste	9 Hazardous waste ratio					X	X
	Investee Companies – Social	Social and Employee Matters	10 Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises		X*		X		
			11 Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises						
			12 Unadjusted gender pay gap						
			13 Board gender diversity				X	X	
			14 Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	X		X			
Sovereigns and Supranationals	Environmental	15 GHG Intensity							
	Social	16 Investee countries subject to social violations		X*					
Investment in Real Estate	Fossil Fuels	17 Exposure to fossil fuels through real estate assets							
	Energy Efficiency	18 Exposure to energy-inefficient real estate assets							
2	Climate	Emissions	2 Emissions of air pollutants			X			
3	Social and Employee Rights		2 Number of days lost for injuries accidents fatalities illness considered in the investment strategy			X			

ESG Promote funds with stock/credit exposure will select PAI 10. ESG Promote funds with Freedom House exclusions on Government bonds will select PAI 16.

<sup>^</sup> Selected Positive Tilt funds consider PAI 4.

\* Selected sub-funds will have a lower commitment based on the underlying securities' data availability.

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