



# 7 Essentials of ESG

As of June 30, 2022





## 7 Essentials of ESG

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1. ESG considerations are affecting consumer preferences and public attitudes
2. Policymakers are setting environmental and social goals
3. For some companies this may be a headwind...
4. ...but it also creates significant opportunities for those at the forefront of change
5. It's not just climate, G matters and focus on S is growing
6. ESG is affecting the investment landscape...
7. ...and is changing the nature of investment flows

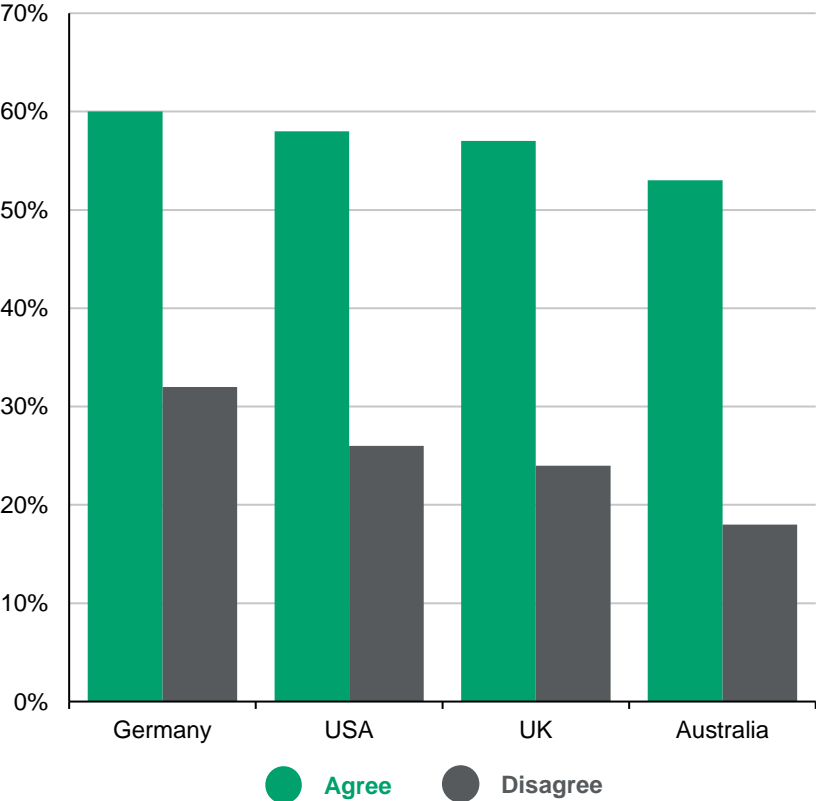
ESG is Environmental, Social, and Governance



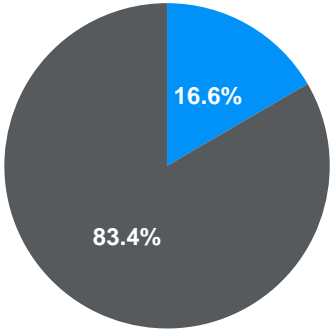
# ESG considerations are affecting consumer preferences and public attitudes.

“I don’t mind paying more for products that are good for the environment.”

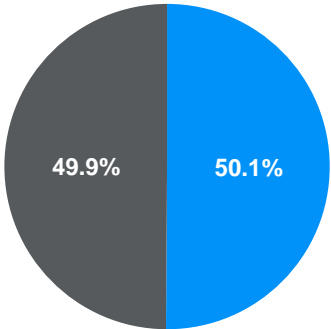
% of adults



Growth of sustainability-marketed products



Share of market (2018)



Share of market growth (2013-2018)

● Sustainability-marketed products ● Conventional products

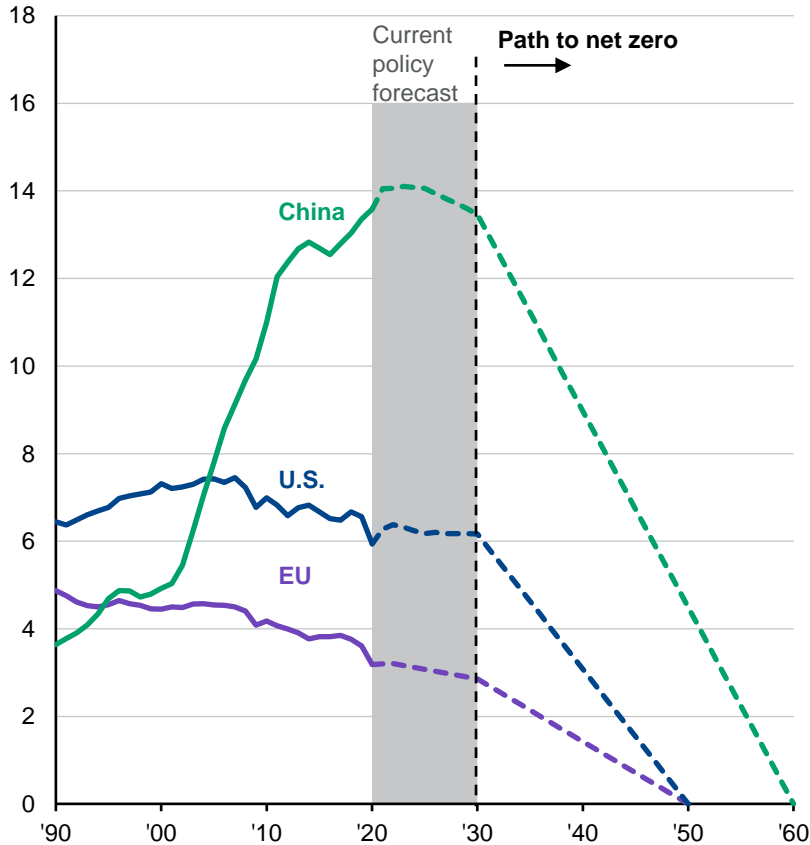
Source: IRI, NYU Stern Center for Sustainable Business, YouGov, J.P. Morgan Asset Management. (Left) Respondents identified as being mainly or partly responsible for grocery shopping for their household. Survey conducted April 2021. (Right) Products in 36 consumer packaged goods (CPG) categories comprising 40% of the total CPG market in dollars. Data are as of June 30, 2022.



# Policymakers are setting environmental and social goals.

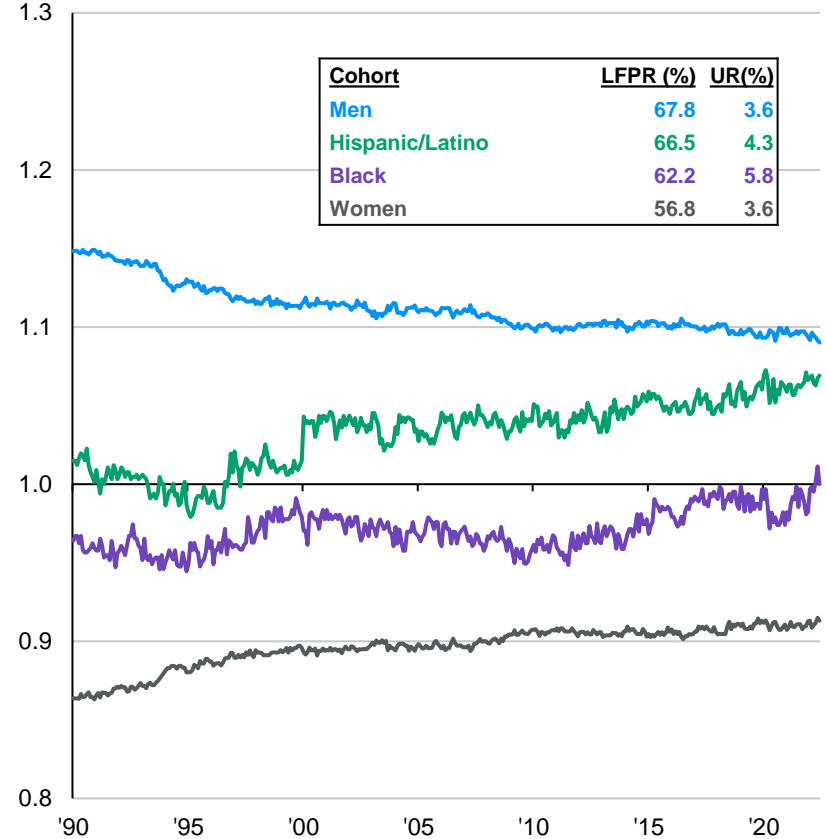
## Greenhouse gas emissions targets

Billions of tons per year, CO2 equivalent



## Labor force participation (LFP)

Ratio of LFP rate of cohort to total LFP rate, June 2022



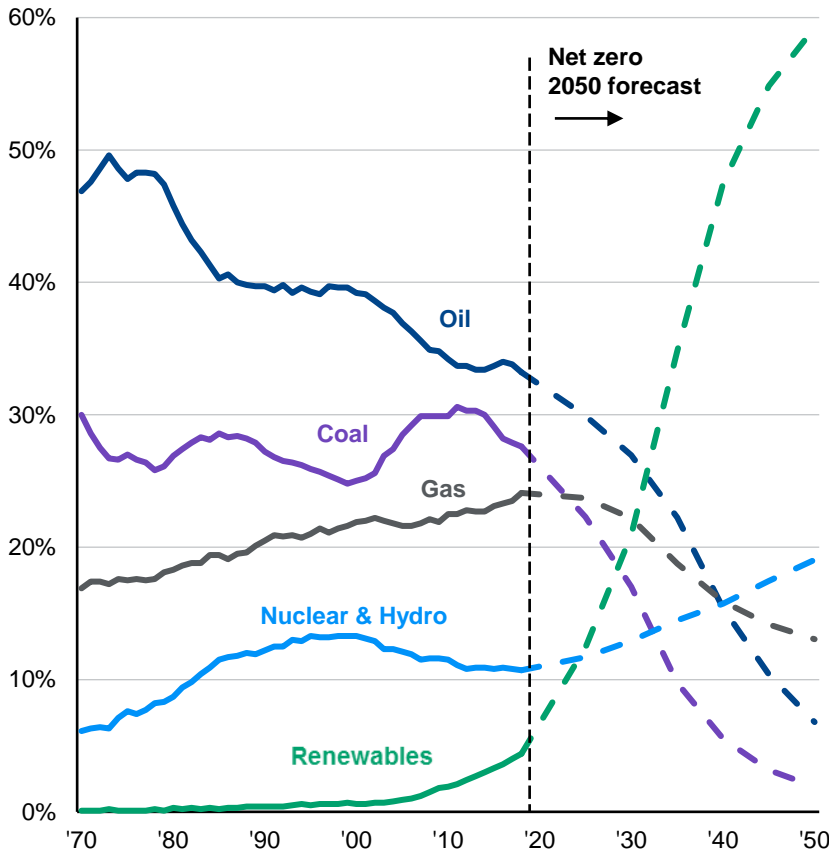
Source: J.P. Morgan Asset Management; (Left) ClimateActionTracker; (Right) Bureau of Labor Statistics. Data are as of June 30, 2022.



# For some companies this may be a headwind...

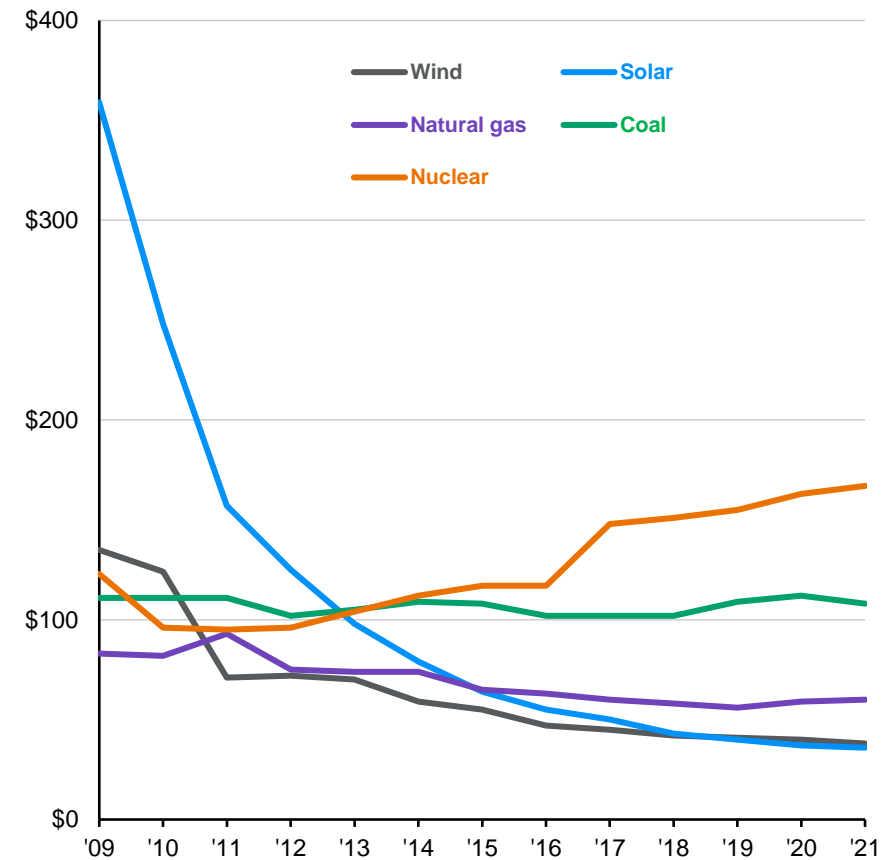
## Global energy mix

% of primary energy consumption



## Cost of wind, solar, natural gas, nuclear, coal

Mean LCOE\*, 2021, dollar per megawatt hour



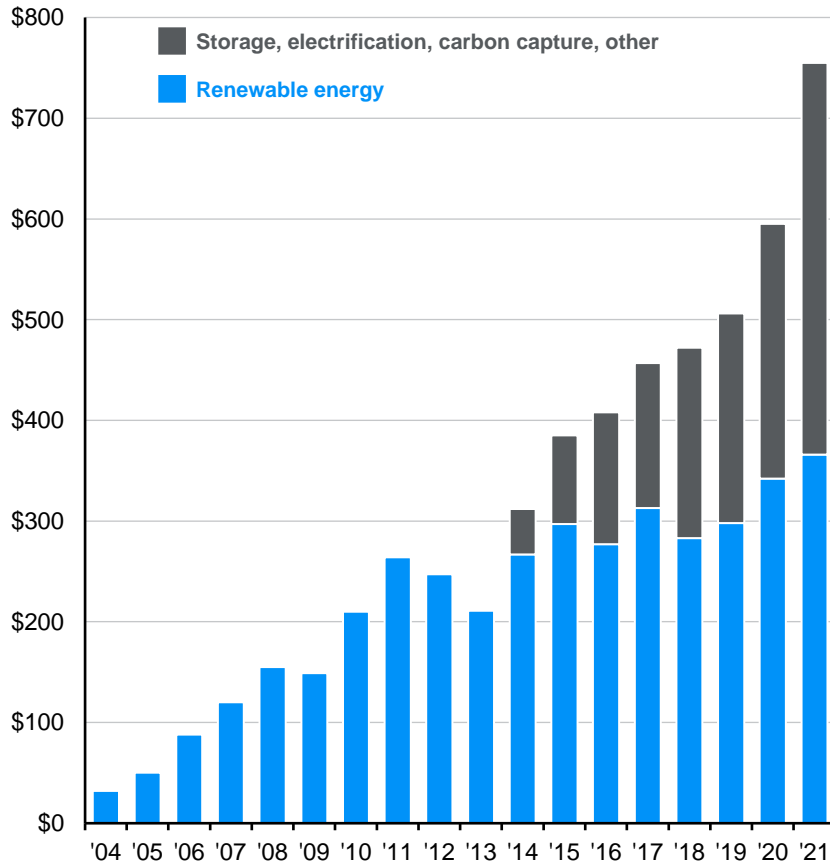
Source: J.P. Morgan Asset Management; (Left) BP Energy Outlook 2020 (Right) Lazard's Levelized Cost of Energy Analysis as of October 2021.  
 \*LCOE is levelized cost of energy, the net present value of the unit-cost of electricity over the lifetime of a generating asset. It is often taken as a proxy for the average price that the generating asset must receive in a market to break even over its lifetime. Data are as of June 30, 2022.



# ...but it also creates significant opportunities for those at the forefront of change.

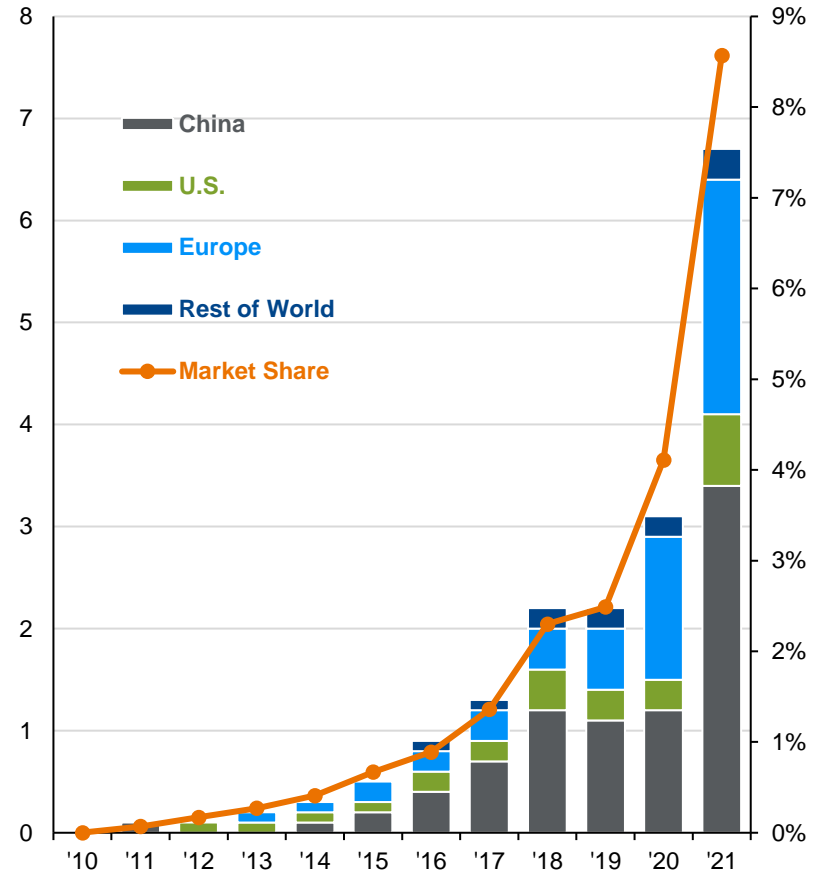
## Global investment in energy transition

Billions USD, nominal



## Global electric vehicle sales

Millions, percent



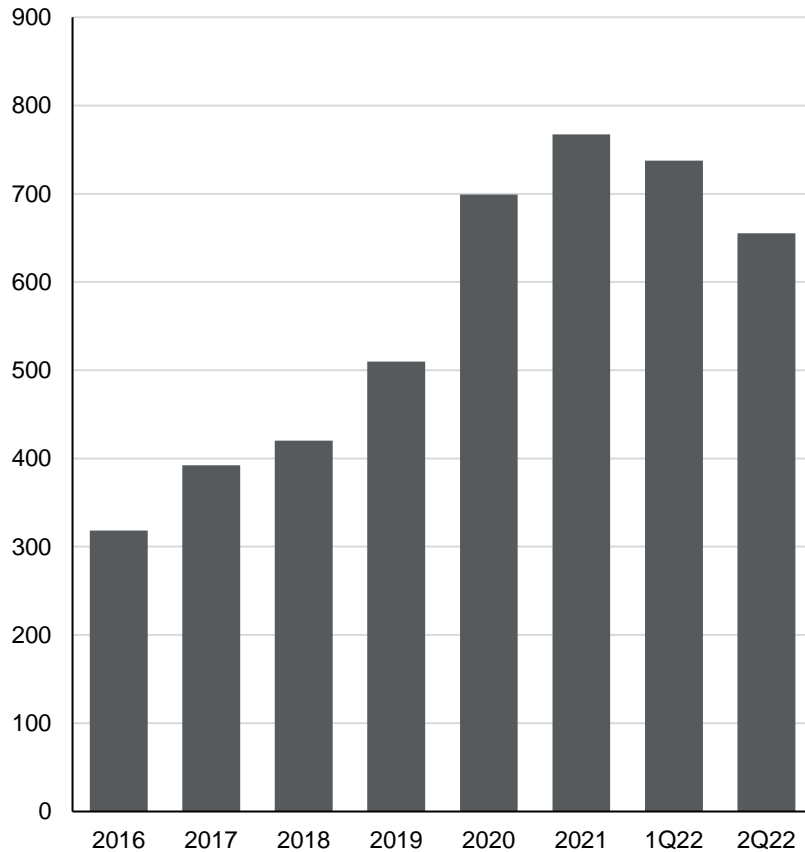
Source: Bloomberg NEF, IEA, J.P. Morgan Asset Management. (Left) Storage, electrification, other includes hydrogen, carbon capture and storage, energy storage, electrified transport and electrified heat. (Right) "Electric cars fend off supply challenges to more than double global sales," IEA. Includes passenger and commercial light-duty vehicles. Data are as of June 30, 2022.



# It's not just climate, G matters and the focus on S is growing.

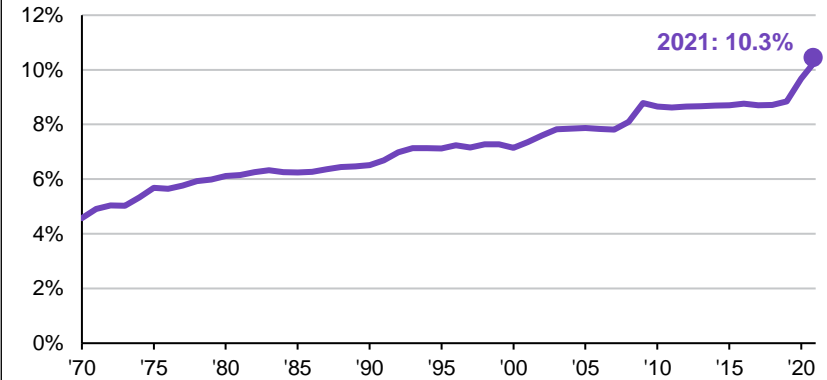
### Market cap of public cybersecurity companies

Billions USD



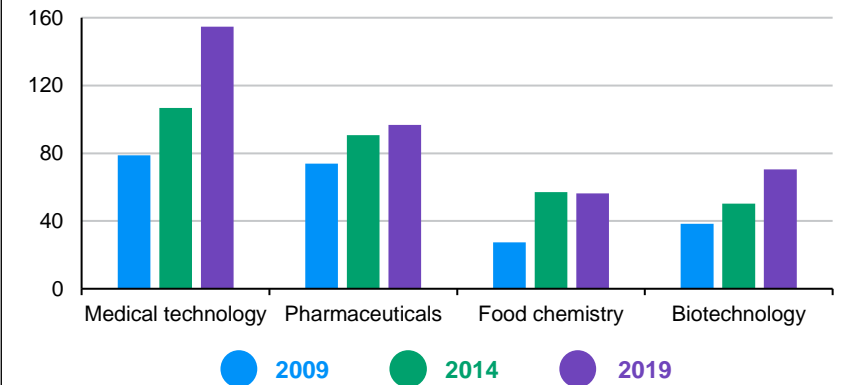
### OECD average current expenditure on health

% of GDP



### Published patent applications

Number, thousands



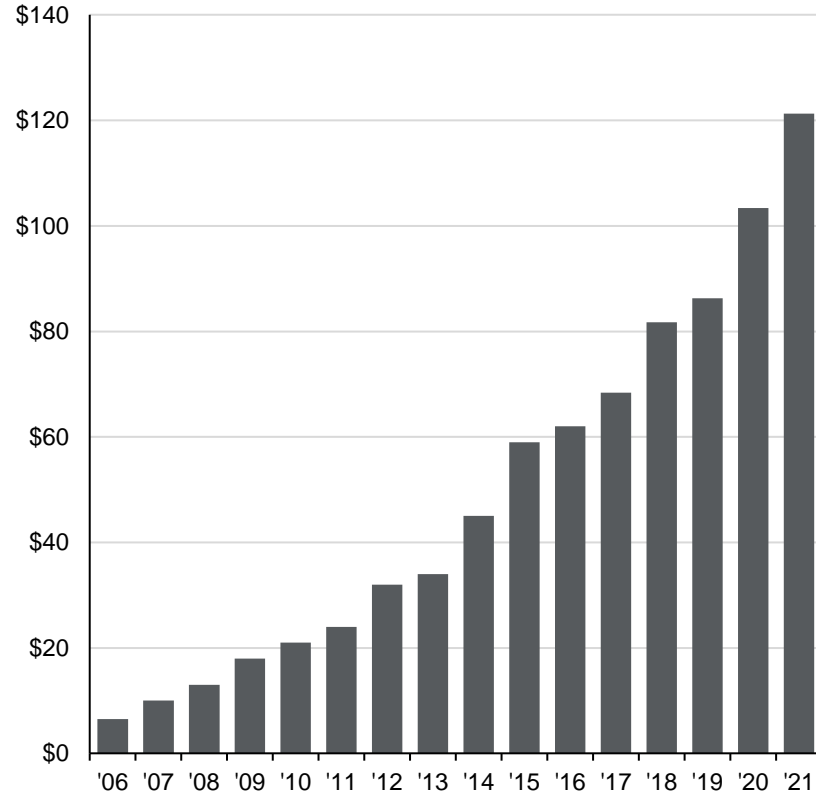
Source: Bloomberg, FactSet, MSCI, OECD, World Intellectual Property Organization, J.P. Morgan Asset Management. (Left) Market capitalization data for the MSCI ACWI IMI Cyber Security Index prior to 2021 is estimated using a bottom-up calculation. Each constituent's market cap is calculated by multiplying stock price by free float and then summed to derive an aggregate market cap for the index. Index constituent data is as of June 30, 2022. (Top Right) OECD Health Statistics 2022. Simple average, not GDP-weighted. 2021 is an estimate based on 17 countries reporting preliminary estimates. (Bottom Right) World Intellectual Property Indicators September 2021. Data are as of June 30, 2022.



# ESG is affecting the investment landscape...

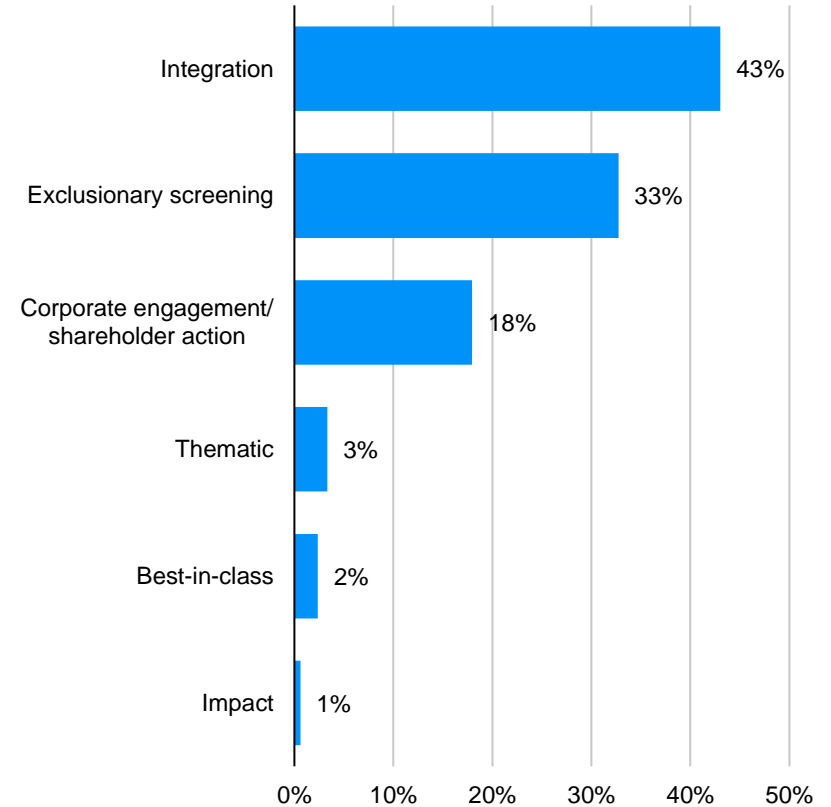
## Assets under management of Principles for Responsible Investment signatories

Trillions



## Sustainable investing assets by strategy

2020, percent



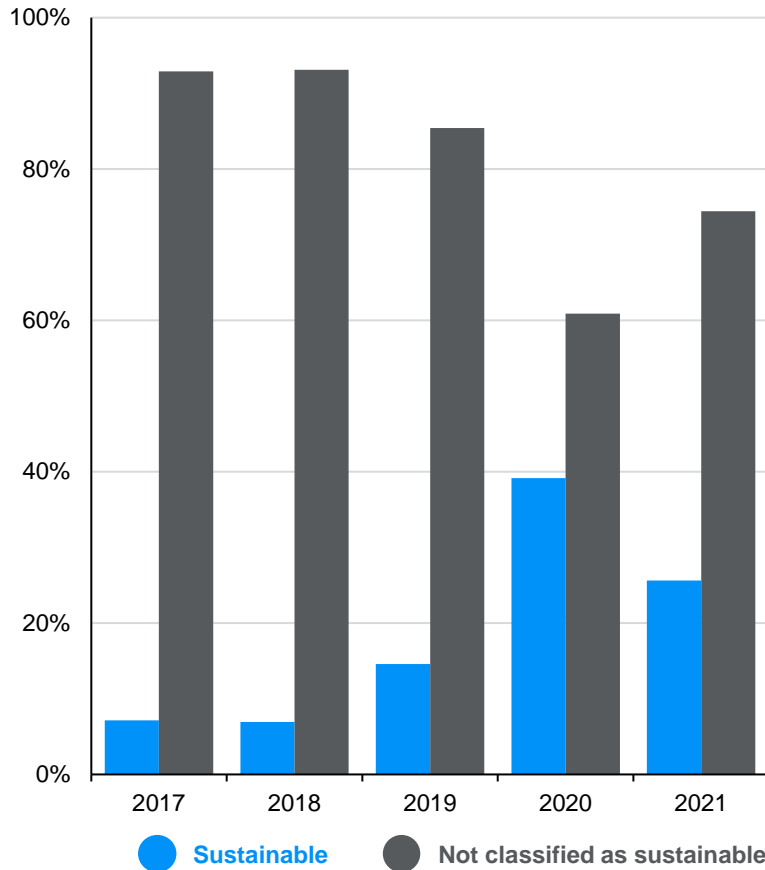
Source: Global Sustainable Investment Alliance, Principles for Responsible Investment, J.P. Morgan Asset Management. (Left) Before 2015 some assets are double-counted. (Right) "Global Sustainable Investment Review 2020." Integration: the systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis. Exclusionary screening: exclusion of certain sectors, companies, countries or other issuers based on activities considered not investable (negative screening) or screening against minimum standards of business or issuer practice based on international norms such as those issued by the UN, ILO, OECD and NGOs (norms-based screening). Corporate engagement and shareholder action: employing shareholder power to influence corporate behavior, including through direct corporate engagement, filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines. Thematic: investing in themes or assets specifically contributing to sustainable solutions. Best-in-class: investing in sectors, companies or projects selected for positive ESG performance relative to industry peers, and that achieve a rating above a defined threshold. Impact investing: investing to achieve positive, social and environmental impacts - requires measuring and reporting against these impacts, demonstrating the intentionality of investor and underlying asset/investee, and demonstrating the investor contribution. Data are as of June 30, 2022.



# ...and is changing the nature of investment flows.

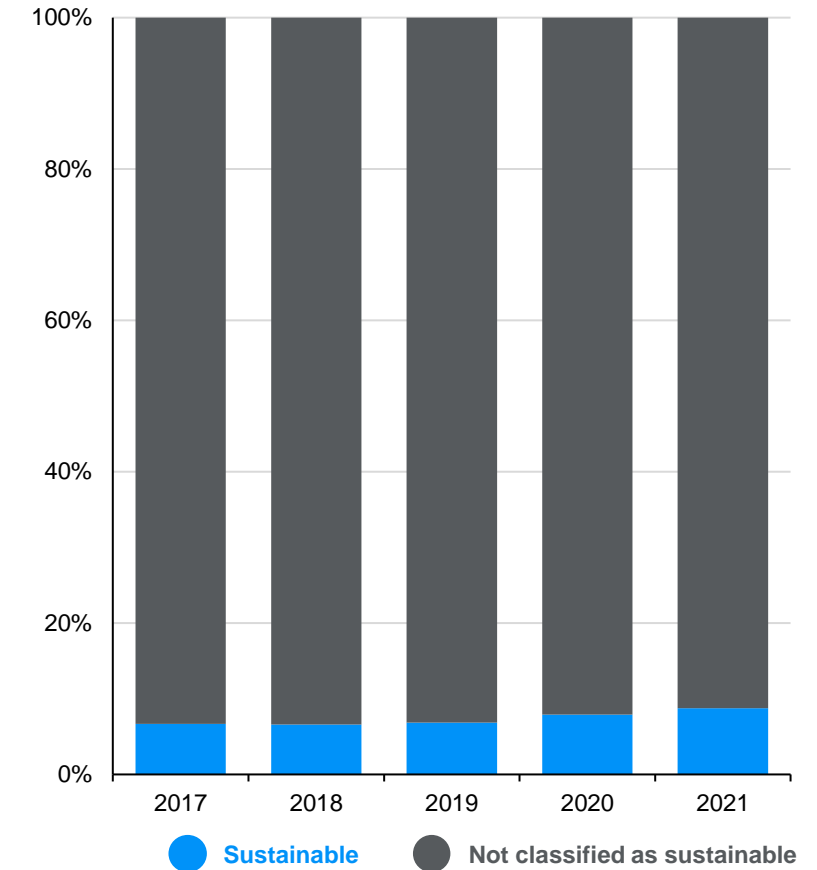
### Net flows into mutual funds and ETFs

% share of annual global net flows



### Mutual fund and ETF assets under management

% share of global AUM



Source: Morningstar, J.P. Morgan Asset Management. "Sustainable" refers to funds tagged as "Sustainable Investment - Overall" in Morningstar. Morningstar classifies "sustainable investment" as a fund that explicitly indicates any kind of sustainability, impact or ESG strategy in its prospectus or offering documents. Universe for flows and assets under management (AUM) covers all global mutual funds and ETFs in the Morningstar database excluding money market funds and fund of funds. "ETF" refers to exchange-traded fund. Data are as of June 30, 2022.



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Prepared by: Meera Pandit.

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