Investment Stewardship, Asia ex Japan – 2023 Q3

November 2023

J.P.Morgan
ASSET MANAGEMENT

At J.P. Morgan Asset Management, we are committed to delivering the highest possible risk-adjusted returns to our clients. We believe one of the key contributors to strong investment returns is a full understanding of the corporate governance principles and practices of the companies in which we invest. We expect all our companies to demonstrate the highest standards of governance in the management of their businesses, as far as is reasonably practicable.

Central to our investment approach is regular engagement with our investee companies in order to better understand their operating, strategic and governance issues. As a fiduciary, we recognize the importance of active ownership on behalf of our clients and we have an obligation to maintain a dialogue with the companies in which we invest, to ensure that our clients' interests are represented and protected. We routinely meet with the senior executives of our investee companies to exercise our ownership responsibilities. And where a governance issue is material, we will engage with the company to better understand the issue and seek to promote best practice. Our analysts and portfolio managers take these issues into account as part of their investment process.

Contents

Market developments and trends

More actions from the Australian regulator to avoid greenwashing

In July this year, the Australian Competition and Consumer Commission (ACCC) released new draft guidance on environmental and sustainability claims[1]. The regulator has listed out the eight principles that companies should follow when making their environmental and sustainability claims. These include:

Principle 1: Make accurate and truthful claims

Principle 2: Have evidence to back up your claims

Principle 3: Don't leave out or hide important information

Principle 4: Explain any conditions or qualifications on your claims

Principle 5: Avoid broad and unqualified claims

Principle 6: Use clear and easy-to-understand language

Principle 7: Visual elements should not give the wrong impression

Principle 8: Be direct and open about your sustainability transition

Regulatory focus on greenwashing has increased in Australia

ACCC is the national competition regulator that promotes competition and fair trading that is under the Department of the Treasury. The draft guidance explains the obligations under the Australian Consumer Law (ACL) which businesses must comply with when making environmental and sustainability claims. Notably, ACCC is not the only national regulator taking action to curb greenwashing. The Australian Securities and Investments Commission (ASIC) is also actively tackling greenwashing issues as it relates to the financial services industry and has taken legal action against public companies and institutional investors.

The consultation which was open to public ended on 15 September 2023. While the final version of the guidance may take some time to be published, companies should take immediate actions to review their statements and disclosures with respect to their environmental and sustainability claims. Improving transparency and ensuring reliability of disclosed information are key to mitigate the risks of potential allegations of greenwashing. Investors should scrutinize the claims of their investee companies. The reputational risks and legal consequences due to greenwashing could result in material and long-term damage to a company's value.

[1] Source: "ACCC publishes draft guidance to improve businesses' environmental claims", Australian Competition and Consumer Commission, July 4, 2023.

New initiative aims to increase and drive better nature-related disclosures

After a few rounds of drafts and consultation, the final version (Version 1.0) of the Taskforce on Nature-related Financial Disclosure (TNFD) was released in September 2023[2]. The TNFD, in collaboration with Business for Nature, Capitals Coalition, CDP and a few other initiatives, produced a beginners' guide to help public and private sectors. The work of the TNFD has been welcomed by many investors.

The recommendations of the TNFD are consistent with the language, structure and approach of the Taskforce on Climate-related Financial Disclosure (TCFD). The TCFD is incorporated into the International Sustainability Standards Board (ISSB), which is shaping to become the global reporting standard for sustainability. The main difference with the TCFD is that the TNFD makes an additional ask for information with respect to the reporting entities' impact on the nature.

The lack of nature-related disclosures from investee companies has posed challenges for investors seeking to assess their exposure and investment risks related to nature. The TNFD recommended 13 indicators for core disclosure metrics that relate to dependencies and impacts on nature. With more investee companies reporting standardised and important nature-related information, investors can better assess the nature-related risks of their portfolios. This information can help facilitate investor engagement on topics related to nature. This provides us, as investors, with a better sense of direction as we set our engagement objectives with companies as it pertains to nature-related investment risks.

[2] Source: "Recommendations of the TNFD", Taskforce on Nature-related Financial Disclosure, September 2023.

Corporate engagement

ENN Energy Holdings Ltd.

Asset class: Equity, Bond

Market: China

Stewardship priority: Social stakeholder engagement, human capital management, natural capital and ecosystems

Focus: Labour rights, suppliers management, living wages, water stewardship

Issue

ENN Energy Holdings Ltd (ENN) is one of our focus companies in Asia and is a major gas utility company in China. We have been engaging with the company on its emissions disclosures and its energy transition plan. While the company's board structure has met the Hong Kong exchange requirement, it falls behind our expectation of majority independence. We also sought for more information on the process and findings of board evaluation.

Action

ENN has echoed the Chinese government's carbon neutrality targets and has already set a net zero emissions target without relying on purchases of green certificates and other offsets. The company has also provided 2030 emission reduction targets for its key businesses. In our meeting last year, the company mentioned that it would begin disclosing its Scope 3 emissions. The company took action and reported some Scope 3 emissions, including those related to purchased goods and services, fuel-and energy-related activities and upstream transportation distribution. We welcomed the Scope 3 disclosure in our meeting with them in September. We understand that ENN is partnering with an external party on TCFD-aligned reporting including scenario analysis.

The number of the independent directors on a board should be sufficient so that their views carry weight in the board's decision-making.

Board independence and evaluation are the areas in which ENN has progressed more slowly. Following the changes of directors in August 2023, there are now six executive directors, up from five in 2022 and four in 2021. The number of independent directors was unchanged at 4 or 36% of the total number of seats. A positive signal is that the board has become more diverse in terms of gender. There is an internal board evaluation but only a brief description was provided in their 2022 Annual Report.

The company admitted that there are challenges on increasing independence. Noticeably, ENN would like to seek an independent director with a more international background. Board evaluation is another area in which we are keen in getting more information. In the 2022 report, ENN mentioned that another round of board evaluation was forthcoming at the end of that year. Since then, there has been no disclosure about the findings of the evaluation.

Corporate engagement continued

Outcome

ENN has advanced its climate change journey from a disclosure perspective. We expect the company to report more Scope 3 emissions and TCFD-aligned content with respect to climate in its 2024-2025 ESG reports. Looking forward, our climate-related engagement will focus on carbon pricing and the transition beyond gas in the longer term.

Regarding governance, we will continue to push ENN to increase its board independence and to disclose its findings from the internal board evaluation.

Inner Mongolia Yili Industrial Group

Asset class: Equity, Bond Market: China Stewardship priority: Governance, Climate Change Focus: Capital allocation, Remuneration, Climate-related opportunities

Issue

Capital allocation is one of the key engagement themes under our governance priority.

Inner Mongolia Yili Industrial Group (Yili) has been generating significant cash flows and has maintained a healthy balance sheet. In line with our slower growth outlook, we believe the company has the scope to lift its dividend payout above the 70% level at which it has been paying.

At the recent shareholders' meeting in August 2023, Yili tabled a stock ownership plan for voting. However, the company had disclosed relatively little information about the plan. Accordingly, we approached the company for more information.

Action

We met with the company's management in-person in August 2023. Details of the stock ownership plan was an important agenda item. The company explained that the plan served as performance bonuses for the employees and included the issuance of restricted shares. There are internal key performance indicators (KPI) for individuals and teams to measure their performance. As per their explanation, capital spending for the plan would primarily be sourced from retained earnings and cash. In addition to stocks issued by the company, employees can also use their own capital to participate in the stock ownership plan. That option was not realised in a similar plan that was implemented in 2014. The company had no intention to ask employees to buy stocks.

Corporate engagement continued

In our view, the overall design of the stock ownership plan was fair and aligned with shareholders' interests. While we were supportive of tabling the plan, we had requested that Yili improve the level of disclosure.

As it pertains to the dividend payout, we suggested that the company to increase its dividend payout to more than the current ratio of 70%.

To mitigate the environmental impact, the company has committed to be carbon neutral by 2050. To reduce its total emissions, Yili had changed the mix of animal feeds. We asked about Yili's strategy for plant-based products. The company has rolled out some plant-based products but their contribution to overall sales is currently minimal. In their view, China consumers have been slow in switching their diet from dairy products to plant-based products.

Outcome

Yili welcomed our suggestions. We plan to engage them in the first quarter of 2024, as a follow-up to our suggestions on the dividend payout and share ownership plan.

Realtek Semiconductor Corp

Asset Class: Equity

Market: Taiwan

Stewardship priority: Governance, human capital

Focus: Board diversity, Diversity, equity and inclusion

Issue

Human capital is a key intangible asset for Realtek Semiconductor Corp (Realtek), a fabless integrated circuit (IC) designer. This is especially pertinent given that close to 80% of its employees are in the research and development (R&D) department, driving innovation and R&D – key areas that are core to the company's sustainable development. While the company discloses its average past employee turnover rate and workforce diversity statistics, we believe Realtek can improve its disclosures related to employee engagement. This is in addition to board diversity and independence, two aspects that we have been focused on since 2021.

Action

In September, we met with investor relations and the spokesperson to discuss its human capital management and board diversity. We welcomed the company's disclosure of less than 8% employee turnover rate over the last five years in its ESG report, but we also think there is scope to improve its employee engagement-related disclosures. We encouraged the company's management to establish a process to regularly engage with employees, such as through an annual employee engagement survey, and disclose the findings. We shared examples with the company after the meeting.

Diversity, equity and inclusion are important to unleash the full potential of human capital.

On gender diversity, while females account for roughly 20% of its overall workforce, female representation on the company's board is only 10%. We expressed our view that gender diversity should be better reflected on the board level. We further reiterated the content of the letter sent in May 2021 to the spokesperson on board composition. While we had supported all of management's proposals in 2021, we reminded the company that we had also requested for a credible plan that helps strengthen board independence and diversity to be established and disclosed before the next director election cycle in 2024.

Outcome

The company acknowledged our concerns and will endeavour to share our suggestions with senior management and the board of directors. We will continue to monitor its progress in advancing human capital related disclosures and board composition.

DBS Group Holdings Ltd

Asset Class: Equity, Bond, Global Liquidity

Market: Singapore

Stewardship priority: Human capital

Focus: Employee engagement and diversity

Action

DBS Group Holdings Ltd (DBS), a leading financial services group in Asia with its headquarters in Singapore, has a fairly diverse workforce, with female employees representing 48% of the overall workforce, 40% of senior management and 29% of group management. It is also recognised by external parties[3] as among the top employers in Singapore. However, we believe there is room for improvement in its diversity, equity and inclusion commitment and scope to step up efforts to meet global standards as well as the expectations of some of our global liquidity clients.

According to our internal assessment, the bank lacks clarity in terms of gender pay gap disclosure, gender pay equity programme, and discrimination policy.

[3]Source: "Top Companies 2023: The 15 best workplaces to grow your career in Singapore", LinkedIn News Asia, 19 April 2023.

Action

We met with the bank in September to discuss these issues. DBS disclosed that it has an overall gender pay gap of 1.8%, but there are no granular disclosures by rank or by market. We suggested the bank reference the gender pay gap disclosure by an international bank with significant presence in Asia, whose disclosures include the gender pay gap by markets and ranks such as in China, Hong Kong, Mexico and the UK. We also suggested that the bank reference another regional financial institution's disclosures. We do not prescribe the number of markets the bank should disclose, as long as the markets are relevant for the bank.

In our view, gender pay gap analysis is important to achieving gender pay equity. The bank said it is committed to gender pay equity across all the locations in which it operates and this priority is supported by various initiatives such as getting women to return to the workforce, providing flexible working arrangements, and avenues for learning and development. We encouraged the bank to state its commitment publicly and supplement its pledge with meaningful deadlines or aspirational goals that they might have, in addition to subsequent efforts on monitoring and measurement of progress.

On discrimination policy, the bank does not explicitly state the International Labour Organization (ILO) conventions. However, the bank had refreshed its human rights policy in November last year, which referenced UN Guiding Principles and the Equator Principles. We explained why it is important for the bank to explicitly commit to some specific international standards such as the ILO conventions to set its minimum expectations.

In addition, while we commend the bank's gender diverse workforce, we believe this should also be reflected in the composition of its board. Currently, 20% of the board directors is female. We shared with the bank our board gender diversity voting expectations of at least 25% by 2025, and at least 30% by 2030 in Asia ex Japan.

Outcome

The bank acknowledged the issues we raised at the meeting and will endeavour to consider our suggestions as it prepares for its upcoming sustainability reporting cycle.

Proxy voting

We review all resolutions to ensure that votes cast are in the best interests of our clients. Most resolutions raised are uncontentious, and we typically vote in support of incumbent management. However, in a number of instances, we either abstain from voting or vote against specific resolutions. In Asia Pacific, we have appointed Institutional Shareholder Services Inc. (ISS) to assist us in the processing of proxies and to provide us with recommendations based on our Proxy Voting Guidelines. At the same time, we are under no obligation to accept these recommendations if we believe that client interests are best served by voting differently.

Between July and September 2023, we voted on 2,952 proposals at 522 Asia ex Japan company meetings, of which China and Hong Kong accounted for close to 39.3% of total number of meetings, followed by India (33.9%), Association of Southeast Asian Nations (ASEAN) (4.8%), and Australasia (2.7%). Our voting statistics for the quarter are summarized below:

J.P. Morgan Asset Management voting for Asia ex Japan companies in 2023 Q3

*All Asia ex Japan companie	2023 Q3		2022 Q3	
Number of meetings	**522**		325	
Number of votable proposals	**2,952**		2,088	
Votes with management	**2,461**	**83.4%**	1,747	83.7%
Votes against management	**483**	**16.4%**	328	15.7%
Abstain and withhold	**8**	**0.3%**	13	0.6%
Total number of proposals voted	**2,952**	**100.0%**	2,088	100.0%
Number of shareholder proposals voted for	**96**		58	

Key Markets	China, HK		ASEAN		Taiwan		India		Australasia		South Korea	
Period*	**2023 Q2**	2022 Q2	**2023 Q2**	2022 Q2	**2023 Q2**	2022 Q2	**2023 Q2**	2022 Q2	**2023 Q2**	2022 Q2	**2023 Q2**	2022 Q2
Number of meetings voted	**296**	190	**25**	46	**1**	1	**177**	76	**18**	11	**5**	4
Number of proposals voted	**1531**	1159	**143**	285	**1**	2	**1159**	582	**103**	55	**15**	5
For	**1319**	965	**120**	232	**1**	2	**914**	494	**93**	51	**14**	3
Against	**212**	193	**23**	45	**0**	0	**237**	84	**10**	4	**1**	2
Abstain/Withhold/DNV	**0**	1	**0**	8	**0**	0	**8**	4	**0**	0	**0**	0
As % of total												
For	**86.2%**	83.3%	**83.9%**	81.4%	**100.0%**	100.0%	**78.9%**	84.9%	**90.3%**	92.7%	**93.3%**	60.0%
Against	**13.8%**	16.7%	**16.1%**	15.8%	**0.0%**	0.0%	**20.4%**	14.4%	**9.7%**	7.3%	**6.7%**	40.0%
Abstain/ withhold	**0.0%**	0.1%	**0.0%**	2.8%	**0.0%**	0.0%	**0.7%**	0.7%	**0.0%**	0.0%	**0.0%**	0.0%

**Based on ISS Country of Coverage*

Propsoal category	2023 Q3			2022 Q3		
	Number of Proposals	**As a % of total**	**% voted Against / Abstain / Withold**	**Number of Proposals**	**As a % of total**	**% voted Against / Abstain / Withold**
Capitalization	609	21%	4%	452	22%	6%
Compensation	360	12%	43%	243	12%	28%
Director related	952	32%	21%	606	29%	24%
Strategic Transactions	110	4%	11%	157	8%	11%
Routine business	406	14%	6%	291	14%	10%
Others	515	17%	13%	339	16%	16%

Similar to our observation in the past years, the July-to-September quarter coincided with the peak of the annual general meeting (AGM) period in India and extraordinary general meetings (EGMs) in China and Hong Kong. In China and Hong Kong, we voted against 212 proposals, of which 45.8% were related to Compensation. In India, we voted against 237 proposals, of which 62.0% were also related to director items related to AGM.

Proxy voting continued

Directors' election

During the quarter, we voted against 200 proposals related to director election due to concerns about overall board independence and long-tenure of independent directors and the lack of female representation on the board. About 73.5% of these proposals came from companies in India. Please refer to the following voting highlights:

We believe that a strong independent board is essential to the effective running of a company.

Bosch Limited (India)

Bosch Limited, an India automotive parts and equipment company, held an AGM in August proposing to elect directors. The company received a qualified opinion on its financial statements due to concerns over the non-compliance of related party transactions and effective operations of internal controls of the company. We believe that this is a serious governance concern, and we voted against the re-election of a director who served as an audit committee member. We voted against two non-independent non-executive directors due to concerns over the overall board independence as there are former executives and Bosch's representatives on the board already and the board needs more independent representation.

Compensation

During the quarter, we voted against 180 proposals related to compensation due to concerns about failure to provide clarity on the increase of total remuneration and the grant of incentive schemes. About 62.6 of these proposals came from China and Hong Kong companies. Please refer to the following voting highlight in which we supported the management after an engagement:

Inner Mongolia Yili Industrial (China)

Inner Mongolia Yili Industrial, a China diary company, held an EGM in August to get shareholder approval on the company's employee stock purchase plan. There is insufficient disclosure about that plan and we met with the company to gather more information.

In our engagement, we learnt that the restricted shares to be issued under the share award plan served as performance bonuses for employees. There are internal KPIs for individuals, teams and business units. Presumably, the capital is sourced primarily from retained earnings and cash. The option for employees to use their capital to participate had not been realised in the 2014 plan.

Inner Mongolia Yili Industrial (China) – cont'd

In our view, the overall design of the plan is fair and is aligned with investors and shareholders' interests. Therefore, we supported the agenda item. In addition, we asked the company to improve their disclosures and to remove the option asking employees to buy stocks through the plan, given the lack of employee interests. The company appreciated our suggestions. We will follow up in 1Q 2024 on our ask for higher dividend payout and the adjustments to the stock ownership plan.

Capitalization and capital allocation

During this quarter, we voted against 27 proposals related to capitalisation, capital allocation and strategic transactions. About 92.6% of these proposals came from China and Hong Kong companies. Please refer to the following voting highlights:

Pharmaron Beijing (China)

Pharmaron Beijing, a Chinese life sciences tools and services company, held an EGM seeking shareholders' approval to authorise issuance of offshore debt financing instruments. We voted against the item because, while the company should enjoy certain financing flexibility, the approval of this item would give the company the opportunity to issue convertible shares at very unfavourable terms to shareholders. We believe that while the risk maybe very low, it cannot be avoided.

Shareholder proposals

During the quarter, we observed 99 shareholder proposals in the region but most of them were proposed by controlling shareholders about director re-election. We supported 96 proposals and voted against 3 proposals related to the election of directors and article of incorporations. There was no environmental proposal in this quarter.

Spotlight on: Mining and the Energy Transition

Jennifer Wu
Exp: 23/4

Scarlet O'Shea
Exp: 2/2

Veronika Lysogorskaya
Exp: 17/12

Anthony Lynch
Exp: 14/14

Alexandra Sentuc
Exp: 6/6

Callum Abbot
Exp: 11/11

Christopher Korpan
Exp: 19/13

In this quarter's report, we would like to draw attention to a paper written by representatives across Global Equities and the Sustainable Investing team on mining and the energy transition. We hope it illustrates the role mining will play in the clean energy transition. Contributors to this paper were Jennifer Wu and Scarlet O'Shea from the Sustainable Investing team, Veronika Lysogorskaya from Emerging Markets and Asia Pacific Equities and Anthony Lynch, Alexandra Sentuc, Callum Abbott and Christopher Korpan from the International Equity Group.

Why are mining companies important for investors interested in sustainable investing?

As more countries take steps to address the physical and transition risks posed by climate change, measures to decarbonise national economies are increasingly being implemented, often in the form of replacing fossil fuel energy with clean or renewable energy. The challenge of transitioning to a lower-carbon energy system is complicated by projected simultaneous growth in the global population and energy demand. Since clean energy technologies such as wind and solar power, electric vehicles (EVs), and electricity networks require significantly larger quantities of metals than traditional energy generation, our current carbon-intensive economy is likely to become much more metals-intensive.

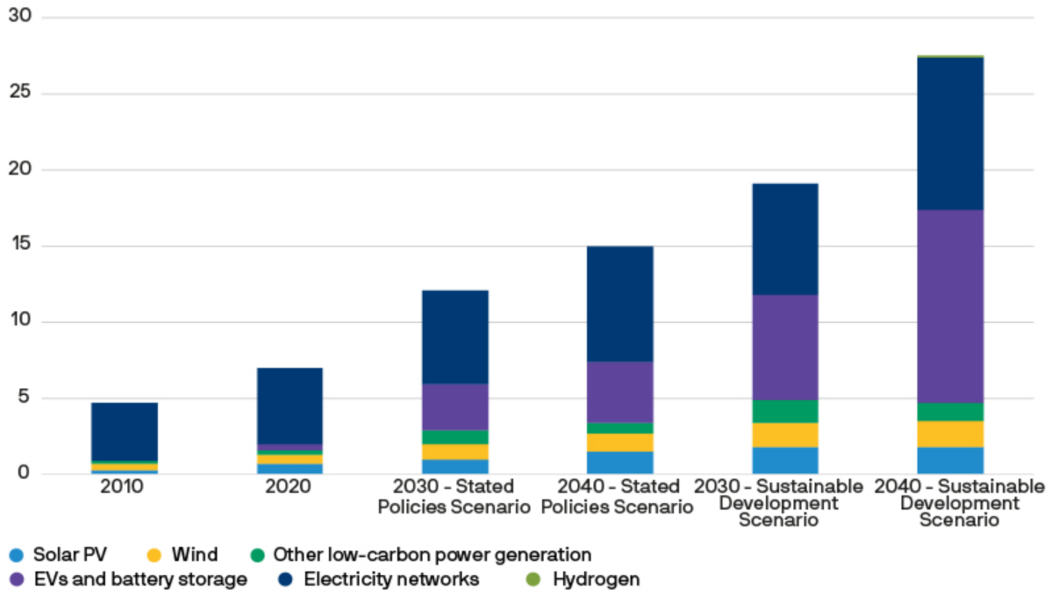
Attempts to try to cater for this rise in future demand are emerging – for example, in the form of metals recycling. However, it is unlikely that the need for miners producing key energy transition metals such as copper, nickel, lithium and aluminium could be completely negated.[4] Mining companies could therefore see a sharp rise in long-term demand for certain commodities as the world transitions to a cleaner and more developed future economy. In the context of our sustainable funds, we believe this demand for transition metals should be met in a manner that minimises the adverse environmental and social impacts with which mining companies have historically been associated. Some investors may wish to direct investment towards mining companies making efforts to acknowledge these impacts and increase the sustainability of their operations, while contributing to the needs of the transition.

Take the transition from internal combustion engine (ICE) vehicles to EVs, for example. A standard EV requires five times more minerals than a conventional car, with the International Energy Agency (IEA), in its sustainable development scenario for reaching net zero, forecasting that the supply of lithium would need to rise by a factor of 40 to meet future EV demand – along with a comparable jump in supply for other metals.[5]

Clean energy generation requires a similar increase in metals usage. An offshore wind farm requires around nine times more mineral resources to build than a natural gas plant[6] – but, due to the intermittent nature of renewable power generation backup power or energy storage is still needed in systems with a lot of renewables. As a result, 1 megawatt (MW) of wind or solar energy cannot be considered as a like-for-like replacement for existing natural gas power generation, which is flexible and can provide electricity on demand. Either renewables must be supplemented by additional storage infrastructure, which itself is highly metals intensive, or extra renewable capacity must be built to smooth out gaps in energy generation. Both options would further increase the amount of metal needed.[7]

Source: J.P. Morgan Asset Management. Data as of September 2023. The securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell. Experience figures shown are: years in industry/firm.

Exhibit 1: Total mineral demand for clean energy technologies by scenario, 2010-2040



Source: IEA. Solar PV = solar photovoltaic

Can miners contribute to positive sustainable outcomes?

As key enablers of the energy transition, we believe that miners can contribute to the efforts to achieve positive environmental outcomes, but only if they appropriately manage their impact on the environments and communities in which they operate.

Investors should look to ensure that the mining companies in which they invest have business models that seek to mitigate adverse outcomes and any form of significant harm as far as possible. The emergence of industry best-practice can also help to guide the assessment of environmental and social issues as they relate to individual companies.

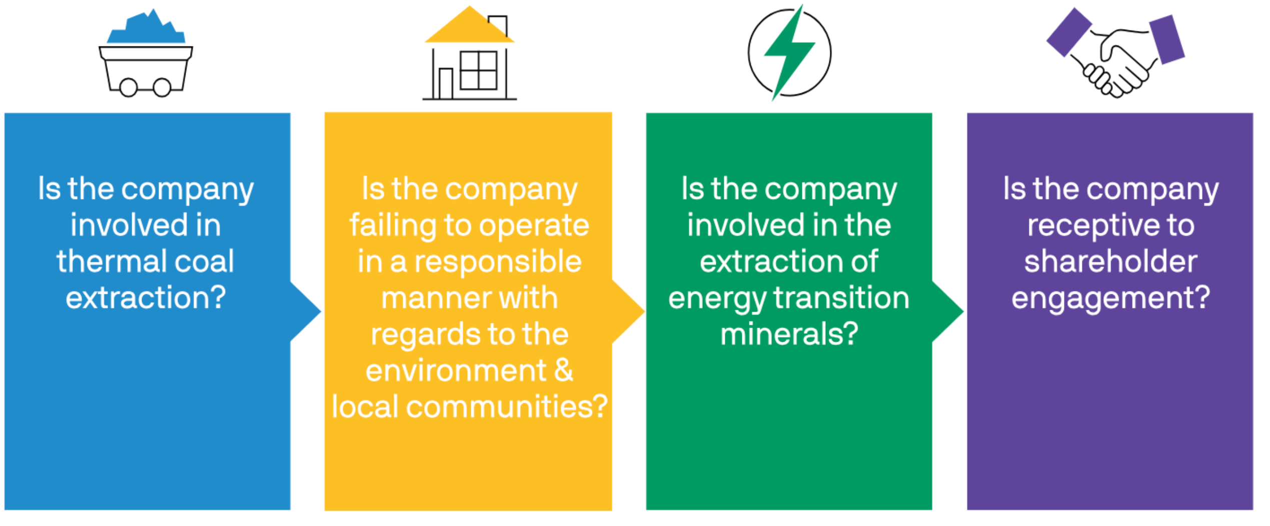
Moreover, mining companies also have the potential to create positive social outcomes for the communities in which they operate. The need for good long-term relationships with, and co-operation from, local communities means that mining companies are often incentivised to prioritise social projects, creating potential benefits for community wellbeing and development overall. This “social licence to operate”, which can be essential for natural resources companies operating in multiple, often remote regions around the world, can include contributions to the provision of infrastructure, water, power, and even healthcare and schooling, with positive social outcomes extending to job creation and skills training in local areas.

Infrastructure investment associated with mines needs to be carefully regulated and monitored to minimise any environmental harms. We use the criteria outlined in the section below to carry out this monitoring and assessment. However, this is also an example of how mining companies can potentially boost local employment and growth prospects, in line with the objectives of United Nations Sustainable Development Goal 8 to provide decent work and economic growth – often in areas where alternative job opportunities are scarce.

Source: J.P. Morgan Asset Management. Data as of September 2023. The securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell.

J.P. Morgan Asset Management's criteria for including miners in sustainable funds

Mining companies involved in the extraction of critical minerals have a vital role to play in the transition towards a more sustainable global economy, but they can also contribute to adverse impacts on society and the environment. To mitigate the risk of a company that we invest in causing significant environmental or social harm, when we assess the eligibility of a mining company for our sustainable funds, we ask ourselves four main questions:



The first question, regarding thermal coal extraction, is the most straightforward to assess, as we apply exclusionary criteria based on revenue thresholds to thermal coal across our sustainable product range.[8] However, the second question, regarding the sustainability of a company's operations with regards to the environment and local communities, is much more nuanced. Assessing whether a company is operating responsibly requires a review of its current policies and procedures, as well as its past practices, to give us confidence in the appropriateness of including it in a sustainable funds.

On the environmental side, three of our key considerations are: carbon intensity; water use; and biodiversity. As well as contributing to the energy transition, mining companies should be demonstrating clear evidence of efforts to improve their environmental profile. In terms of carbon intensity, our view is that mining companies should be actively targeting a reduction in their own carbon footprint and should set both short- and long-term goals to benchmark progress. In terms of water use, we expect mining companies to report on volumes used, especially where they are operating in water stressed regions, and to implement targeted policies for water reduction. And finally, in terms of biodiversity, we expect companies to have procedures for reducing adverse impacts, with leading companies showcasing plans for improving biodiversity on the sites of their operations.

Source: J.P. Morgan Asset Management. Data as of September 2023. The securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell.

When it comes to the responsibility that companies have to local communities, since the concept of the social licence to operate is crucial for mining companies, we assess whether a company has made a commitment to free, prior and informed consent, and whether it aims to maintain non-controversial relations with communities. We further expect management to ensure that operational safety is prioritised at the highest levels of the organisation, and we require companies to have robust anti-bribery and corruption controls. We identify and track such issues through controversy screening, our 40-question analyst checklist, monitoring of earnings releases, engagements with management and, when relevant, sustainable classification documents.

If a company meets our expectations on the sustainability of its operations, our third question asks whether its products are helping to solve global sustainability challenges. In the case of miners held in our sustainable funds, the focus is on the role they can play in facilitating the clean energy transition. We look not only at a company's current mineral production mix, but also at capital expenditure. For example, we will tend to favour companies either with a larger exposure to copper, or with plans to increase that exposure via targeted investment, due to the significant need for copper in electrification and the importance of electrification as a strategy to reach net zero goals.

Our fourth and final question relates to shareholder engagement. Given the risks surrounding the operations of mining companies, we aim to establish an ongoing dialogue with investee companies. Engagement allows us to hold companies to account on sustainability commitments and to encourage continued improvement on environmental and social practices, while maintaining our investment in the resources needed for increased global deployment of clean technologies.

Energy transition case study: Anglo American

Anglo American is a global mining company with exposure to metals needed for the energy transition, such as copper, nickel and platinum group metals. As well as producing resources important for the transition, the company has committed to a full exit from thermal coal, set Scope 1, 2 and 3 decarbonisation targets, and made investments and established partnerships with renewable energy companies across Chile, South Africa and Australia. The result is that almost 100% of Anglo's current mining production is set to be powered by renewable electricity by 2030.

The company has also made pioneering investments in hydrogen trucks (pictured) to replace its current diesel trucks, and a sizeable portion of its capital expenditure is allocated to "future enabling products", emphasising its commitment to a decarbonised and sustainable business model. The company has further committed to achieving a net positive impact on biodiversity across its operations, including both site rehabilitation and ecosystem improvement.

In terms of ensuring its social license to operate, Anglo American runs programmes aimed at increasing access to education for children in the communities where they operate. In South Africa and South America, the company supports more than 600 schools and aims to invest US$61 million by 2027 to improve educational outcomes in their South Africa-based programmes. The company has also set a target to support five jobs off site for every one job on their sites in communities where they operate by 2030. By the end of 2022, they had supported 114,535 jobs through socioeconomic development programmes, including 1.8 offsite jobs for every one on site job.

Source: J.P. Morgan Asset Management. Data as of September 2023. The securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell.

Conclusion

Miners involved in the extraction of critical minerals are an important component of the transition to a low-carbon economy. These businesses support demand for green energy and mobility, which will increase exponentially over the next decades. Given their large scale and global reach, mining companies that prioritise sustainability in their operations have the potential to contribute not only to the clean energy transition, but also to the realisation of other sustainable outcomes, such as those outlined by the United Nations Sustainable Development Goals. For miners to be credibly included in certain sustainable funds, however, we use robust criteria to assess companies on both environmental and social aspects, and seek to engage regularly with company managements to ensure progress and accountability on these crucial issues.

[4] For further details on what constitutes an energy transition metal, see "The Role of Critical Minerals in Clean Energy Transitions", International Energy Agency (IEA), 2022.https://www.iea.org/reports/the-role-of-critical-minerals-in-clean-energy-transitions.

[5] Source: "The Role of Critical Minerals in Clean Energy Transitions", IEA, 2021. The IEA has developed a range of scenarios based on different assumptions around variables, including national and international policy ambition, financial sector investment, socioeconomic circumstances and climatic changes. The Stated Policies Scenario takes into account the policies and implementing measures affecting energy markets that had been adopted as of end of September 2022. The Sustainable Development Scenario assumes that concerted policy efforts speed up innovation timelines for new energy technologies. The requirement for minerals differs depending on the scenario used.

[6] Source: "The Role of Critical Minerals in Clean Energy Transitions", IEA, 2022.

[7] Source: "Eye on the Market Outlook 2023: The End of the Affair", J.P. Morgan Asset Management, January 2023.

[8] Source: Our best-in-class funds apply a maximum 10% of revenue threshold for exclusion of companies involved in thermal coal extraction as part of our ESG Minimum Safeguards. In the context of best-in-class funds, these thresholds are intended to mitigate the risks associated with investing in companies exposed to unsustainable activities not contributing to the low-carbon transition by excluding companies generating revenue from these activities. The focus of this piece is on mining companies whose products and services can be viewed as making a productive contribution. Exclusion thresholds are subject to revision.

Source: J.P. Morgan Asset Management. Data as of September 2023. The securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell.

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