Investment Stewardship, Asia ex Japan – 2023 Q4

February 2024

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

A trend has continued is the increasing availability and quality of ESG data, which is supported by governments and regulatory bodies

Regulators' actions to drive transparency, and baseline for rating companies.

Amid the growing demand from investors and other stakeholders, the Environmental, Social, and Governance (ESG) rating services have been expanding over the past years. Rating companies have been scrutinised for lack of transparency and consistency in their rating methodologies. The International Organization of Securities Commissions (IOSCO) has published the recommendations for good practices as it relates to asset managers and ESG rating & data providers.[1] We have seen that the regulators in Asia have been responding to the IOSCO's call for actions with supportive initiatives announced over the past few months.

The Hong Kong Securities and Futures Commission (SFC) announced its support for the development of the Code of Conduct for voluntary adoption by ESG rating and data product providers. [2] The code will be developed via an industry-led working group and will align with ISOCO's recommendations. The International Capital Market Association (ICMA) is acting as the Secretariat of the working group, which plans to publish a draft of the code for consultation in the first quarter of 2024.

The Monetary Authority of Singapore (MAS) also published the Code of Conduct for ESG rating and data product providers and an accompanying 'Checklist' for providers to self-attest their compliance to the code of conduct.[3] This was followed by MAS' consultation with respect to the subject matter. According to the statement from the MAS, users also agree that providers' self-attestation on the checklist should, where feasible, undergo third party assurance or audit. International Capital Market Association in collaboration with MAS will disclose the list of ESG rating and data providers, that have publicly adopted the code on ICMA's website.

We at J.P. Morgan Asset Management use multiple service providers to support our stewardship efforts including research, engagement, and proxy voting. These service providers play a key role in facilitating the depth and breadth of our stewardship activities. Also, they help improve efficiency in data collection and other operational matters. As such, we welcome the actions from regulators and industry bodies which aim to establish baseline industry standards for transparency in methodologies, data sources, and governance, as well as manage conflicts of interest that may compromise the reliability and independence of the products of the rating companies.

[1]Source: IOSCO Good Sustainable Finance Practices, 7 November 2022

[2]Source: SFC Supports and sponsors the development of an industry-led voluntary code of conduct for ESG ratings and data products providers, 31 October 2023

[3]Source: MAS Published Code of Conduct for Providers of ESG Rating and Data Products, 6 December 2023

Initiatives needed to help nurture the development of a voluntary carbon market

A carbon market is not a silver bullet, but it is an important tool for enabling the energy transition for a low-carbon economy. The voluntary carbon market (VCM) is not regulated and certainly encounters questions and concerns, particularly with respect to the quality of the carbon credits. We have seen a growing number of initiatives to help enhance the development of a voluntary carbon market.

In October 2023, Bursa Malaysia released a VCM Handbook [4] at the Bursa Malaysia Carbon Market Forum. The handbook, which was developed in consultation with the Ministry of Natural Resources, Environment and Climate Change among others, provides initial guidance for interested parties to develop carbon projects in Malaysia.

In November , the National Centre for Climate Change Strategy and International Cooperation (NCSC), which falls under China's Ministry of Ecology and Environment, also proposed rules, on trial basis, to register for voluntary carbon offset projects and guidelines for the design and implementation of these projects, under the China Certified Emission Reduction scheme. These were published in Chinese only.

Climate change is among the six stewardship priorities of JP Morgan Asset Management. Some of our investee companies have indicated reliance on carbon credits to reach their emission reduction targets. The quality of carbon credits, in particular those derived from the VCM, will be scrutinised for greenwashing and other risks.

Company disclosure should include how carbon pricing assumptions vary across region and business segment.

[4] Source: VCM Handbook, Malaysian Green Technology and Climate Change Corporation and Bursa Malaysia Berhad, October 2023

Corporate engagement

Haier Smart Home

Asset Class: Equity

Market: China

Stewardship priority: Social stakeholder management, climate change

Focus: ESG disclosure, target setting

Issue

Through our individual meetings we learnt that Haier Smart Home has implemented multiple initiatives and practices which in our view have not been disclosed clearly in its public reports.

The company has also set a list of targets for various environmental and social issues, but these targets are very short-term in nature. The disclosure of Scope 3 emissions data were also missing.

Action

The company been on our Asia ex Japan Focus List for engagement since the beginning of 2022.

Haier Smart Home has enriched its ESG disclosure over the past two years. To further improve sustainability disclosure, we highlighted the need for reporting the time series of material ESG data. The company recognised the issue and stated that there were no problems with supply chain and employment data. The challenges are in emission and other environmental information due to the geographical fragmentation in collecting and managing these data points. The company is trying to overcome these challenges through different means such as upgrading its Enterprise Risk Management system.

Haier's environmental and social targets are generally short-term with one to three year targets. With respect to climate, the company mentioned that it has been working on estimating the environmental impact of its industrial park, and will set 2024 as their target. It is also trying to be a pioneer in China to report their Scope 3 emissions, based on ISSB standard but the timing is yet to be confirmed.

The majority of the company's emissions are coming from its supply chain and product use, also known as Scope 3 emissions. The same applies for the company's environmental impact. The company has observed rising customer demand for green products and is working to mitigate the impact on climate and other environmental aspects. Haier is conducting R&D on the life cycle of its products, to identify the changes they can make (e.g. reduction of molding, materials to avoid consumption, use more paper and less plastic for packaging) and the monetary impact associated with these changes.

Corporate engagement continued

The company has launched its smart home brand Sanyiniao (in 2021) for intelligent products that connect users, to different parts of their home, offering a holistic customised ecosystem. Among the objectives of the brand launch are standardisation and green labeling of home appliances. Haier's executives had also asked if there were other companies working on standardisation of appliances.

Outcome/ Next stage

We have seen a significant uplift of the company's third party ESG rating, which could be attributed to higher transparency on ESG matters. To further advance its disclosure, the company will disclose all the policies and codes of conduct under separate sections on its website. Our focus of engagement will be to set longer-term targets for material ESG issues.

Nien Made Enterprise

The company specializes in the production and sales of curtains and curtain parts.

Asset Class: Equity

Market: Taiwan

Stewardship priority: Social stakeholder engagement, governance

Focus: Supply chain management, board composition

Issue

We have seen a significant improvement in the breadth of ESG reports published by Nien Made Enterprise over the past three years. While it has disclosed its supply code of conduct, we want to understand the progress of its suppliers' commitment to the code. The governance of the board, which lacks majority independence and has no female director, is another area we discussed with the company in our in-person meeting.

Action

Nien Made has asked its suppliers to sign an agreement on its suppliers' code of conduct. The count of suppliers that have signed and returned the code increased from 110 in 2018 to 218 in 2022. But the coverage is still relatively small, accounting for 16% of the total number of suppliers in 2022. Nien Made explained that the company is itself a relatively small customer for many of its suppliers, which creates challenges in accelerating the endorsement and return of the suppliers' code of conduct. We had asked if all the committed suppliers were Tier-1 suppliers but no further breakdown was given.

Corporate engagement continued

We brought to their attention that we want our investee companies' board to be more diversified and have majority independence. Nien Made explained that due to limited female candidates in the window coverings industry, it is difficult to find a female director. We suggested that the company could expand their scope of search, and look for female candidates who have expertise in supply chain, sustainability, or an area that the current board considers lacking. We also encourage the company to go above the independence requirement of the Taiwan regulator. The spokesperson suggested that we write to the board with our recommendations.

Outcome and next steps

Nien Made has made clear progress in its disclosure on material environmental and social topics. We see room for more depth in the reporting of its supply chain management. We will write to the board regarding our view of governance, including board diversity and independence, and our voting intention for companies which do not meet our expectations.

Siam Cement Group

Asset Class: Equity

Market: Thailand

Stewardship priority: Governance, climate change

Focus: Board succession and composition, GHG emissions

Issue

The diversity and independence metrics of Siam Cement Group (SCG), though better than many listed companies in Asia, had been lower than our expectation.

With respect to climate risk mitigation, the company has committed to achieve net zero by 2050 and to cut 20% greenhouse gas emissions by 2030 compared to the base year of 2020. It is important to follow up on its strategy and progress, given the company engages in cement and some other hard-to-abate industries.

Action

Female directors account for 20% of the board.

We have seen positive changes to the board structure over the past three years. One of their long serving non-executive director has stepped down and the number of female directors has increased. Together with other changes, the board independence reached 53%.

Corporate engagement continued

Emission reduction has been a key challenge for SCG given its product exposure. Emissions had rebounded in 2023, but were lower than in 2020-2021. The company is tackling the issue through multiple channels, including the use of more renewable energy, changing the fuel input, improving product design and composition, and using nature-based solutions (forestation and rehabilitation). To accelerate its decarbonisation, the company has raised the internal carbon price from $18 to $25 per ton CO2eq.

We further discussed opportunities such as the products and businesses that the company had planned to or was expanding into, to service the world's demand for lower carbon. The company stated that green products had accounted for 54% of their revenue, in the first half of 2023.

Outcome/next steps

We welcome the uplift in SCG's board diversity and independence. We will focus on engaging the company on matters of climate change such as the carbon footprint of its new greener products relative to its own comparable traditional products. We also want to know more about the process of determining the internal carbon price.

LG Chem/LG Energy Solutions

Asset Class: Equity, Bonds

Market: South Korea

Stewardship priority: Social stakeholder management

Focus: Human rights, community

Issue

We want to understand how companies walk their talk on responsible sourcing.

LG Energy Solution (LGES), a subsidiary of LG Chem, is one of the world's leading electric vehicle and energy storage system and battery manufacturers. Over the last few years, they have joined different cobalt-related multi-stakeholder initiatives such as Responsible Cobalt Initiative, Responsible Minerals Initiative, Global Battery Alliance and Fair Cobalt Alliance. However, the public disclosure of its overall responsible minerals sourcing strategy and its particular involvement in these initiatives remain unclear.

Action

After engaging with LG Chem with respect to their sourcing of cobalt, we wanted to dig deeper into the issue and initiated an engagement with its subsidiary and battery manufacturer, LG Energy Solution.

We clarified with LGES their current audit practice for its cobalt suppliers. We were also keen to understand its position on different external responsible production schemes, and their considerations for human rights from different aspects. We also specifically asked about its view on artisanal cobalt and the mixing of artisanal cobalt with cobalt from industrial mining. We valued the candid discussion including the company's acknowledgement of the findings on this difficult issue. The company emphasised its involvement in the aforementioned multi stakeholder initiatives which addresses the artisanal cobalt issues, and manages artisanal and small-scale mining cobalt sector.

Based on the company's responses and its current public disclosure, we followed up with the company for a summary of industry-wide best practices along the cobalt value chain. Some of these practices that we suggested they include in their next reporting cycle include disclosing salient human rights risks of critical minerals sourced including cobalt, demonstrating meaningful consultation with right-holders in its human rights risk assessment, and articulating its contribution in the external industry initiatives to address the systemic child labour and human rights issues in the cobalt artisanal mining sector.

Outcome/next steps

The company acknowledged our suggestions on responsible cobalt sourcing and promised to listen to investors' feedback on its sustainability planning and reporting. We will continue to engage with the company not only on responsible cobalt sourcing but also other critical battery minerals.

The Republic of Indonesia

Asset Class: Sovereign bonds

Market: Indonesia

Stewardship priority: Climate change

Focus: GHG emissions

Issue

Indonesia was the first country to issue a sovereign green sukuk, an Islamic fixed-income security that is used to finance environmental related projects. In September 2022, the country submitted an enhanced Nationally Determined Contributions (NDCs). We think significant funding is required for the country to finance infrastructure projects that are essential to meet the national emission reduction targets.

Action

We met with representatives of the Indonesian Ministry of Finance and Ministry of Environment and Forestry. The purpose of the engagement was to understand Indonesia's climate-related plans and its intentions for financing them. We explained the need for us as investors to assess sovereign issuers' climate risk mitigation performance to ascertain the integrity of sustainability linked instruments. We conducted our evaluation based on the framework incorporated by Yale University for the environmental assessment of countries. The representatives from the ministries highlighted that the assessment did not capture Indonesia's enhanced Nationally Determined Contribution (NDC) targets announced in September 2022. The representatives also expected that the planned pollution tax and the new energy-efficient infrastructure projects will help improve Indonesia's air quality going forward.

We also sought an update on Indonesia's plan in the Just Energy Transition Partnership (JETP), a climate financing program for developing countries backed by the Group of Seven (G7). Noticeably, Indonesia has recently released the final draft of its Comprehensive Investment and Policy Plan (CIPP) to support the US$20 billion climate financing pledge made by the G7 in November 2022. We welcomed Indonesia's medium- term targets of 44% renewable energy generation by 2030, an increase from 12% in 2012. Indonesia is also aiming to lower carbon dioxide emissions for its on-grid power sector by 2030, and ensure net zero emission for the power sector by 2050. That said, this scope of targets are only for the on-grid power sector, and do not cover the off-grid captive coal-fired power plants built by industrial users. We also asked about the long-term financing plan to meet the total estimated investment cost of US$97 billion, which is higher than the US$20 billion initial commitment by the CIPP.

Outcome/next steps

We appreciate the dialogue with the representatives from the Indonesian government as it relates to their green bond financing programme. That was an important step for us to exchange ideas on climate actions. To get better insights into the progress being made towards meeting the country's medium-term targets, we will monitor the situation and engage, as appropriate, with the sovereign in 2024.

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's interest are best served by voting differently.

Between October and December 2023, we voted on 2,834 proposals at 610 Asia ex Japan company meetings, of which China and Hong Kong accounted for close to 63.8% of the total number of meetings, followed by Australasia (23.4%), India (9.3%), and Association of Southeast Asian Nations (ASEAN) (2.6%). Our voting statistics for the quarter are summarised below:

J.P. Morgan Asset Management voting for Asia ex Japan companies in 2023 Q4

*All Asia ex Japan companie	2023 Q4		2022 Q4	
Number of meetings	**610**		454	
Number of votable proposals	**2,834**		2,611	
Votes with management	**2,380**	**84.0%**	2,294	87.9%
Votes against management	**448**	**15.8%**	313	12.0%
Abstain and withhold	**6**	**0.2%**	4	0.2%
Total number of proposals voted	**2,834**	**100.0%**	2,611	100.0%
Number of shareholder proposals voted for	**118**		4	

Key Markets	China, HK		Australasia		India		ASEAN		South Korea		Taiwan	
Period*	**2023 Q4**	2022 Q4	**2023 Q4**	2022 Q4	**2023 Q4**	2022 Q4	**2023 Q4**	2022 Q4	**2023 Q4**	2022 Q4	**2023 Q4**	2022 Q4
Number of meetings voted	**382**	269	**143**	110	**57**	41	**16**	26	**11**	8	**1**	0
Number of proposals voted	**1835**	1718	**793**	656	**109**	71	**80**	146	**15**	20	**2**	0
For	**1503**	1489	**692**	601	**92**	65	**76**	119	**15**	20	**2**	0
Against	**327**	225	**101**	55	**17**	6	**3**	27	**0**	0	**0**	0
Abstain/Withhold/DNV	**5**	4	**0**	0	**0**	0	**1**	0	**0**	0	**0**	0
As % of total												
For	**81.9%**	86.7%	**87.3%**	91.6%	**84.4%**	91.5%	**95.0%**	81.5%	**100.0%**	100.0%	**100.0%**	N/A
Against	**17.8%**	13.1%	**12.7%**	8.4%	**15.6%**	8.5%	**3.8%**	18.5%	**0.0%**	0.0%	**0.0%**	N/A
Abstain/ withhold	**0.3%**	0.2%	**0.0%**	0.0%	**0.0%**	0.0%	**1.3%**	0.0%	**0.0%**	0.0%	**0.0%**	N/A

Propsoal category	2023 Q4			2022 Q4		
	Number of Proposals	**As a % of total**	**% voted Against / Abstain / Withold**	**Number of Proposals**	**As a % of total**	**% voted Against / Abstain / Withold**
Capitalization	321	11%	11%	545	21%	3%
Compensation	541	19%	19%	437	17%	16%
Director related	1,102	39%	15%	844	32%	10%
Strategic Transactions	186	7%	9%	227	9%	30%
Routine business	107	4%	31%	104	4%	15%
Others	577	20%	17%	454	17%	14%

Similar to our observation in past years, the October– December quarter coincided with the peak of the AGM period in Australia and EGMs in China and Hong Kong. In China and Hong Kong, we voted against 327 proposals, of which 35.5% were related to director items related proposals. In Australasia, we voted against 101 proposals, of which 57.4% were also related to compensation.

Proxy voting continued

Directors’ election

During the quarter, we voted against 163 proposals related to director’s election due to concerns about overall board independence, long-tenure of independent directors, and lack of female director on the board. About 71.2% these proposals came from China and Hong Kong companies. Please refer to the following voting highlights:

Sun Hung Kai Properties Limited (Hong Kong)

Sun Hung Kai Properties Limited, a Hong Kong real estate company, held an AGM in November proposing to elect directors. The board failed to meet majority independence with only 37% board independence. We voted against a re-election of an independent director, Ka Cheng Li because the nominee had served for more than 12 years and is a member of multiple other boards. We believe that non-executive directors should have sufficient time to meet their board responsibilities. To devote sufficient time to his or her duties, we would not normally expect a non-executive to hold more than three significant directorships at any one time.

Goodman Group (Australia)

Goodman Group Limited, an Australian real estate company, held an AGM in November proposing to elect directors. In past years, we have seen positive changes to the board which has expanded in size from 11 to 13. They have appointed independent directors with rich and relevant international experience, that are aligned with the company's growth trajectory and their long-term initiatives. In terms of composition metrics, the board has increased independence (up from 55% for 2022 to 62% based on our definition) and female representation (up from 27% to 31%). Despite the positive changes, we expressed our concern at the appointment of independent director Chris Green. Noticeably, the company has invested directly into Chris’ companies. Goodman considered the investment small (less than 1% of Goodman’s asset) and there are no further investment commitment to Chris’ businesses.

After being voted down twice by shareholders for its Remuneration Report, the company has made further improvements in the design of the Long-Term Incentive Plan (LTIP) of executive compensation. The LTIP design is now more aligned with investors’ interests.

We had a constructive pre-AGM engagement and supported all AGM items.

Proxy voting continued

Compensation

During the quarter, we voted against 104 proposals related to compensation due to concerns about failures to provide clarity on the increase of total remuneration and the grant of incentive schemes. About 55.8% of these proposals came from Australian companies. Please refer to the below voting highlight:

Dexus (Australia)

Dexus is a major Australasian Real Estate Investment Trust. The company put forward “the Adoption of the Remuneration Report” for shareholders to vote in the AGM held in October 2023. We engaged with the company to express our concerns about the design of the compensation plan for senior executives, in particular for the CEO.

The clarity of the “Role-specific” assessment for the CEO’s performance, which is one of the key performance indicators (KPIs) in determining the executive’s Short-term Incentive (STI), is a key subject we discussed at the meeting. According to the CEO scorecard disclosed in the 2023 Remuneration Report, this “Role-specific” element carried 20% weightage in the design of the assessment for the STI. The only thing mentioned under this element is the successful integration of the AMP Capital’s real estate and infrastructure equity business platform (AMPC), which Dexus acquired in March 2023. The company’s representatives mentioned about the importance of getting key people and assets through the acquisition and emphasised that the acquisition is value-accretive.

Another topic we discussed was the reduction in the maximum STI payout of other executives from 125% for the previous year to 100%. However, the maximum payout of the CEO stayed at 125%. We also suggested the company consider increasing the portion of LTI in the composition of the total remuneration.

Overall, the company’s responses did not ease our concerns about the design of the executive compensation plan. As a result, we voted AGAINST the “Adoption of the Remuneration Report” resolution. The resolution failed to pass after receiving close to 30% of votes AGAINST the motion, compared to 8% the previous year.

Proxy voting continued

Capitalization and capital allocation

During this quarter, we voted against 52 proposals related to capitalisation, capital allocation and strategic transactions. About 96.2%of these proposals came from China and Hong Kong companies. Please refer to the following voting highlights:

Maruti Suzuki India (India)

Maruti Suzuki India, an Indian automobiles company, held an EGM seeking shareholder's approval to approve Material Related Party Transactions with Suzuki Motor Corporation. We voted against the item because we believe it is not beneficial for the shareholders. With Suzuki's continued ownership of the Gujarat plant, whose production volume is handled at zero profit, we had doubts that this arrangement would be beneficial for a longer duration. Furthermore, if the plant were to be sold to Maruti, we would prefer that Maruti pay cash for it instead of diluting their minority holdings.

Shareholder proposals

While we observed 135 shareholder proposals in the region during the quarter, most of them were proposed by controlling shareholders about director re-election. We supported 118 proposals and voted against 17 proposals related to election of directors and article of incorporations. There were 4 environmental proposals. We supported one proposal and voted against the rest of the proposals in this quarter.

Spotlight on: Research Enhanced Index Funds

Lina Nassar
Portfolio Manager,
EMAP Equities
Exp: 11,11

Piera Elisa Grassi
Portfolio Manager, IEG
Exp: 24,19

Masaki Uchida
Portfolio Manager,
Japan Equities
Exp: 20,20

In this quarter's report, we asked three Portfolio Managers responsible for managing our suite of Research Enhanced Index (REI) funds across the world about how ESG is integrated into their portfolios. Funds in our Research Enhanced Index ESG Equity range have an SFDR classification of Article 8, so we wanted to illustrate how this is achieved in practice. We spoke to Piera Elisa Grassi, Masaki Uchida and Lina Nassar who are REI Portfolio Managers for Global, Japan and Emerging Markets, respectively.

1. Could you provide an overview of the Research Enhanced Index ESG Equity Fund range, including how they incorporate ESG considerations?

The Research Enhanced Index ESG Equity Fund range reached its 5-year anniversary in the fourth quarter of 2023, but we have a long history of managing Enhanced index strategies at J.P. Morgan Asset Management, dating back to the late 1980s in the US.

Enhanced index at its best, has the positive traits of both active and passive investing. It has the ability to identify stocks more likely to outperform and package those ideas in a portfolio that closely resembles the index from a style, sector and regional perspective. The result is a product that looks and feels like the index but uses its low tracking error budget to outperform that index. Over the last three decades, our approach has been to utilize the stock specific insights from our team of experienced in-house fundamental research analysts located around the world to take small overweight and underweight decisions at a stock level. This results in a portfolio where stock specific risk is the driver of returns, and we think this gives the strategies far greater consistency and repeatability.

The long-term outperformance of these products are underpinned by the long-term earnings and cashflow forecasts from our fundamental research analysts which are used to determine stock overweights and underweights. ESG is embedded into these long-term forecasts through a disciplined and rigorous process; an ESG checklist and a Materiality assessment for every stock under coverage. The ESG checklist is a consistent 40 question questionnaire applied globally and provides an absolute assessment across sectors, whilst the Materiality framework focusses on ESG risks and opportunities for a sub-industry and helps to differentiate companies within the same peer group. This helps calibrate our analysts' thinking on ESG issues and how that impacts the long-term earnings power of each company, which in turn impacts its relative attractiveness from an investment standpoint. The idea is that Portfolio Managers do not need to mentally adjust an analyst's view for ESG considerations as they are already embedded in forecasts.

Source: J.P. Morgan Asset Management. Data as of December 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: years in industry/firm.

ESG considerations also feature in the REI suite through the exclusion of unsustainable sectors as defined below. These are broadly aligned to other SFDR Article 8 ESG Promote strategies but go slightly beyond in terms of scope.

Exclusionary ESG Requirements

	Exclusion	Threshold[1]
Fossil Fuels	Thermal Coal	30% of revenue[2]
Weapons	Conventional Weapons	10% of revenue
	Controversial Weapons	Full revenue exclusion
	White Phosphorous	Full revenue exclusion
	Nuclear Weapons[3]	Full revenue exclusion
	Connection to Nuclear Weapons[4]	2% of revenue
Tobacco	Tobacco Production	5% of revenue
Norms	Severe Violations of UN Global Compact	Full exclusion[5]

As of 31 December 2022. The above investment process applies to public funds only. More detailed information about each fund is available on https://am.jpmorgan.com.

1 Thresholds above which a company will be excluded from the investment universe.
2 Derived from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties.
3 Nuclear Fissile Materials, Nuclear Warheads and Missiles, or Nuclear Intended Use Component Parts
4 Applied to companies not already excluded through nuclear weapons screen. An example of a connection to the nuclear weapon industry includes, but not limited to, weapon delivery systems
5 Where the norms violation cannot be remediated in the near future or where the company has not shown any signs of addressing the issue, we will immediately exclude that company. Where it is less clear, we will engage with them on the issue.

2. How do we collaborate with our Sustainable Investing team within REI portfolios?

In addition to the fundamental ESG assessment from our research analysts, portfolio managers also utilize the J.P. Morgan Asset Management Quantitative ESG score produced by our Sustainable investing team. This score assesses the extent to which companies face and manage financially material ESG risk and opportunities. This score is evolving to draw on granular, outcomes-focused data, making full use of the significant increase in ESG disclosures and available data over recent years. The score also leverages our data science capabilities, such as machine learning algorithms and natural language processing to enrich our understanding of ESG factors beyond corporate disclosures at scale.

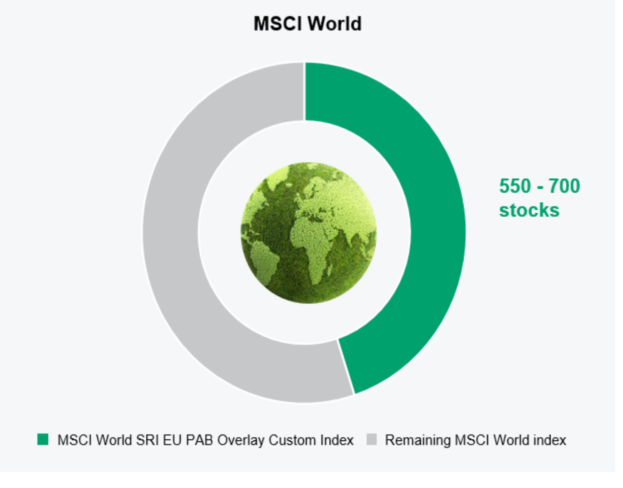
Our most critical partnership with the Sustainable Investing team however is through stewardship. Active engagement with companies has long been an integral part of our approach to investment and ESG. We use it not only to understand how companies consider issues related to ESG but also to try to influence their behaviour and encourage best practices for the purpose of enhancing returns for our clients. Engagement is a collaboration between portfolio managers, research analysts and the Investment Stewardship team. Each brings a different perspective to our interactions with companies across our six Investment Stewardship Priorities and our research framework.

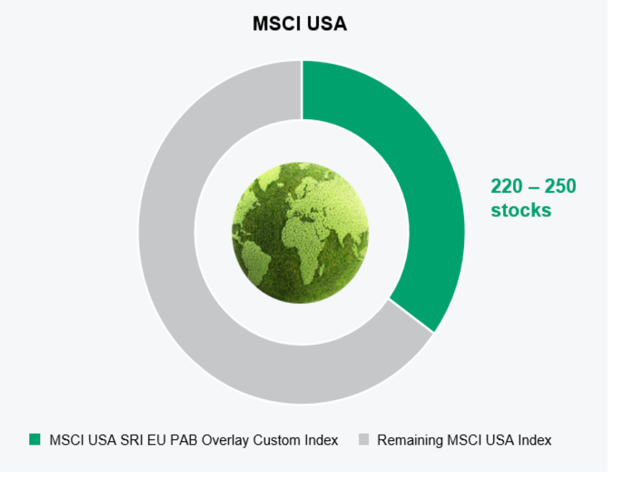
Source: J.P. Morgan Asset Management. Data as of December 2023. The securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell.

3. As the REI funds have a relatively lower tracking error versus other equity funds at J.P. Morgan Asset Management, have you experienced any challenges in meeting ESG requirements as a result?

REI portfolios operate at a low tracking error and are managed very carefully to ensure as much of our tracking error budget is spent on stock specific risk. As a result, exclusions can have a material impact on tracking error and cap the number of exclusions by weight that can be applied to an REI portfolio. In launching our REI ESG range, we carefully considered the delicate balance between exclusions and tracking error and exclude only the very worst sectors in the index. Where stocks are excluded, we hold positions in other stocks in the sector to control any sector underweight.

For some clients, the REI ESG range exclusions did not go far enough and there was a desire to also have a sustainable objective. In August 2023, we launched two new products (Global REI SRI PAB ETF and US REI SRI PAB ETF) which incorporate exclusions aligned with MSCI SRI principles and that are also Paris-Aligned meaning they have 50% lower carbon intensity versus their parent indices which declines 7% year-on-year. For these products, it was clear that to manage them versus MSCI World and MSCI USA would result in material tracking error. It was therefore necessary to develop two new indices with MSCI to incorporate these features and allow the REI philosophy to work. The charts below detail these two new indices versus their parents.





The exclusions in the Japan REI fund are fairly limited, but they are concentrated in the industrials sector. Because of the underweight in excluded names, tracking error becomes slightly higher and this can be major detractor in terms of excess returns.

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

4. How relevant are the engagements undertaken by our research analysts, portfolio managers and sustainable investing team for the REI portfolios?

ESG factors and engagement outcomes can influence our long-term forecasts and conviction in an investment case. This in turn can impact their position sizes in REI portfolios, or indeed if we hold it, and this can work both ways.

Previously, we had excluded Vale, the Brazilian mining company, but removed it from our exclusions after looking through their internal governance process. Our analyst took Vale to the Sustainable Investment Operating Committee (SIOC) in mid-July to discuss the company. Vale has been labelled as a UNGC severe violator on both the Institutional Shareholder Services (ISS) and Sustainalytics lists on the grounds that one of its joint ventures, Samarco, failed to credibly implement remediation measures agreed with Brazilian authorities following the environmental violations from one of its dams in November 2015. Whilst the company has made remediation efforts, ISS indicates that the effectiveness of these efforts is yet to be convincingly demonstrated. However, based on our extensive engagement with the company's management, we believe that there is clear evidence of reform and improvement and that the company has put in place a wide range of comprehensive remediation programmes and reported on the improvements from these. The timing of when the red flag will be removed is unclear given the ongoing legal process and the sensitivities around all the local stakeholders. However, the necessary resources have been committed and Vale's in-house ESG team is effective in updating stakeholders and is actively engaged in resolving the issue with the Brazilian Authorities and with ISS. Following the discussions, SIOC approved our proposal for this stock to be removed from the list and be investable for Article 8 funds.

Most of the exclusions in the Japan REI fund are weapon producers. We exclude these companies from the investable universe, but in some cases, we engage with companies to discuss possible reductions or terminations in weapon-related businesses. For example, we have engaged with Daikin, an air-conditioner producer that also produces components used in weapons. We have held meetings to discuss this issue and expressed our concerns about the business. The company has made no clear progress in this area at this point, but we will continue to engage with the company.

In Japan, corporate governance reform is happening in many companies, and we are trying to accelerate the change through engagement. It can be time consuming and challenging to change corporate culture, but by combining our insights from portfolio managers, our fundamental research team and the Sustainable Investing team, we believe we can accelerate change that can result in better investment performance.

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

RISK SUMMARY

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