



2025 Climate Change and Natural Capital Engagement & Voting Report

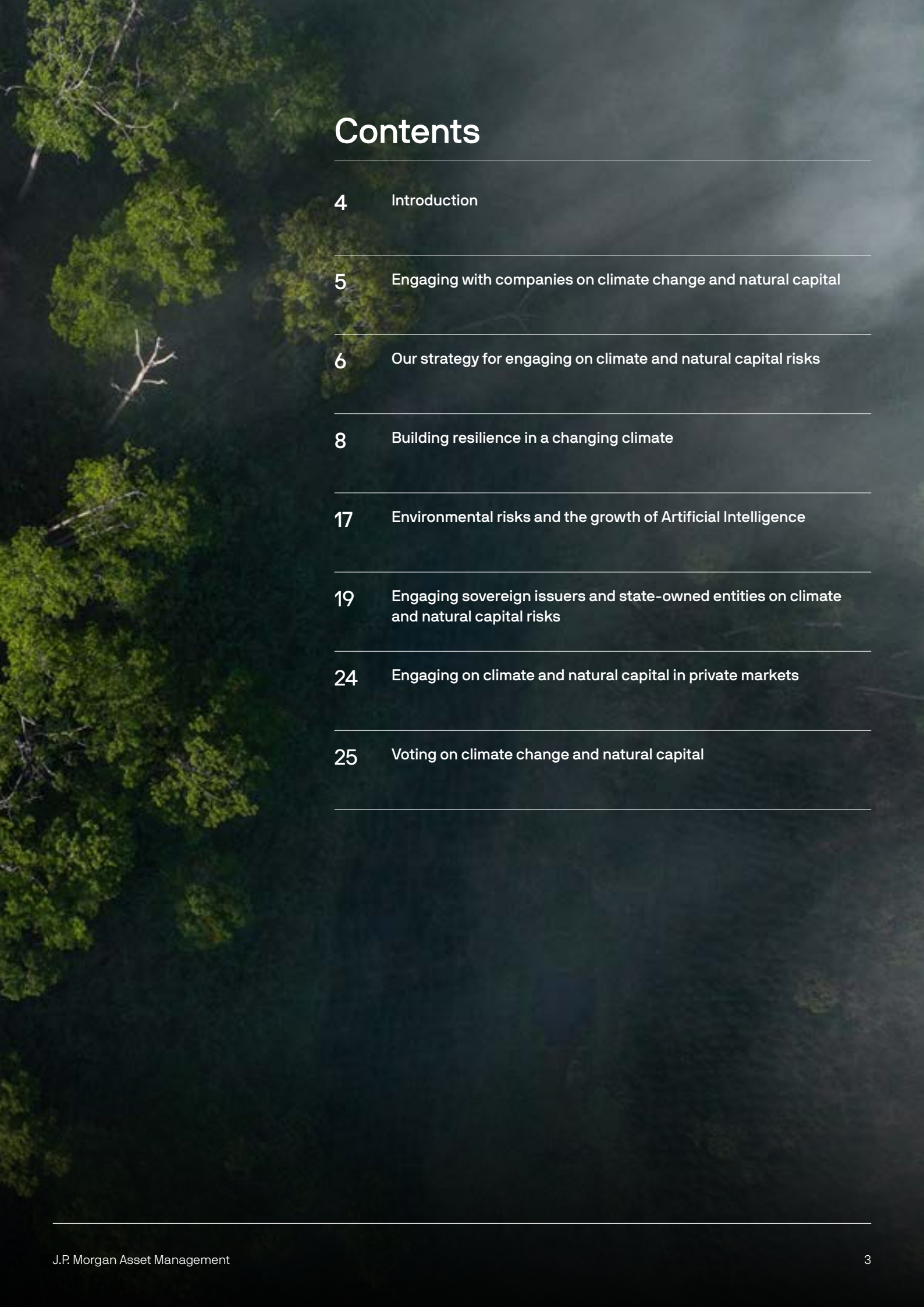
April 2026

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J.P.Morgan
ASSET MANAGEMENT

An aerial photograph of a dense forest. The majority of the trees have a pinkish-purple or magenta hue, suggesting they might be cherry blossoms or a similar species in bloom. There are several distinct patches of bright green trees, likely deciduous trees with full foliage, scattered throughout the forest, particularly towards the top and right edges of the frame. The lighting is soft, and the overall tone is somewhat dark, with the pinkish-purple trees standing out against the darker background.

This report is as of December 31, 2025 and includes information that was obtained at an earlier date during the course of engagements with companies or in the course of voting proxies. Such information has not been updated, verified or audited. The case studies and examples are provided for illustrative purposes only and may not be updated in the future. While we view engagement as an important part of understanding the risks and opportunities facing companies held in our client portfolios, such engagement may not be effective in identifying such risks and opportunities and we do not guarantee any particular results or company performance as a result of such engagement. The engagement statistics are approximations only and were derived from our internal research notes to help identify engagements related to specific engagement priorities and sub-themes. Such information has not been audited and no assurance can be made with respect to the accuracy or completeness of such information.



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Introduction

In 2025, climate change and associated commercial developments and regulations continued to be a source of material risks and opportunities for investee companies across sectors. As increasingly extreme and volatile weather events result in operational disruption and rising costs, we have engaged with companies across sectors on climate resilience. The rapidly evolving and fragmented policy environment globally has had knock-on impacts for commercial outlooks in many sectors and has resulted in extensive discussions with investee companies around the world on the management of climate-related transition risks.

We have also deepened our engagement on natural capital. Key developments in 2025 included the International Sustainability Standards Board's (ISSB) adoption of nature disclosure standards and continued negotiations on a proposed United Nations Global Plastics Treaty. More formalized disclosure regimes and a global commitment to reducing plastic pollution, if achieved, may reshape the landscape for investee companies. It will be important for companies to stay on top of such developments to safeguard their ability to create value for stakeholders over the long term.

This report includes excerpts from our 2025 Investment Stewardship Report. We hope you find our report useful in understanding the important role our investment stewardship plays as part of managing risk and generating long-term returns for our clients. For a full report into our investment stewardship practices please see our 2025 Investment Stewardship Report. Thank you for your continued feedback, trust and confidence.

Engaging with companies on climate change and natural capital

In 2025, we conducted over 500 engagements with over 300 companies in over 50 markets on climate change and/or natural capital through our Global Stewardship Programme.

Top sectors engaged

Sector	%
Industrials	17.1%
Materials	16.9%
Utilities	12.0%
Energy	12.0%
Consumer Discretionary	10.0%
Financials	9.8%
Information Tech	7.4%
Consumer Staples	5.6%
Communication Services	2.4%
Real Estate	1.0%
Health Care	0.8%

Top markets engaged

Market	%
United States	15.7%
Japan	11.4%
United Kingdom	9.8%
France	5.4%
China	4.8%
Germany	4.4%
India	4.0%
Australia	3.8%
Cayman Islands	3.2%
Saudi Arabia	2.4%
Taiwan	2.4%

Our strategy for engaging on climate and natural capital risks

As a global asset manager, JPMAM believes climate change and the transition to a low-carbon economy present significant risks and opportunities to clients' investment portfolios and to the assets that JPMAM manages on their behalf. Closely linked to climate change is the issue of natural capital degradation, which is both negatively impacted by and a contributor to accelerating climate change. We therefore also consider nature loss as a potentially material risk to our clients' investments.

We view both climate change and nature loss as core investment topics and as significant market-wide risks. We believe we have an important role both in identifying the risks of investing or remaining invested in companies unprepared to navigate the low-carbon transition and investing in companies that will benefit from the opportunities that arise. This report details a number of steps we have taken to address climate change and nature risks associated with our investments.

We encourage voluntary disclosures in line with organisations such as the Sustainability Accounting Standards Board. This includes asking companies to report on climate-related risks and opportunities and setting and targets aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). For nature, the Taskforce on Nature-related Financial Disclosures (TNFD) may help with standardizing assessment and disclosure for companies and investors alike, although uptake is still in the early stages.

In prioritizing companies for climate and natural capital engagement, we consider indicators such as the company's greenhouse gas (GHG) emissions or plastic footprint and the size of our holding of the company's securities, to understand where our investments could be most exposed to transition risks. However, we also use sector-specific knowledge and research to inform our assessment of the materiality of these risks, considering how these might manifest for particular sectors and companies and where our engagement can most effectively be used to drive investment outcomes.

In 2025, we pursued a number of engagement projects focused on climate- and nature-related themes identified as material for companies held in our portfolios, as well as engaging companies and issuers located in geographies that are more exposed to physical and transition climate-related risks. The following chapters outline some of our key focus areas in 2025 in greater detail. We built on previous engagement work around topical themes such as AI and data centres and deepened engagement in critical areas such as physical risk and resilience. We also expanded our engagement efforts to cover emerging market and sovereign issuers in more depth, leveraging our global footprint and on-the-ground expertise in regions across the world.



Building resilience in a changing climate

As global temperatures increase, weather patterns are changing across the world, and the incidence of extreme weather events is increasing. In eight of the ten largest industrialized countries, losses from weather catastrophes are significantly higher today than in the 1980s and have been particularly high over the past five years in the USA, Germany and India.¹ Current annual average losses associated with flooding total USD 388 billion globally,² while current drought costs already exceed USD 305 billion annually.³ The increasing incidence of such events may have financially material consequences for investments and society.

As a result, more companies are highlighting the materiality of climate risk in their disclosures. An MSCI survey of global companies indicates that over 80% of companies report operational impacts from extreme weather, and 85% are quantifying potential losses.⁴ However, the localized nature of climate hazards and need for asset-level data can make it challenging for investors to gain insight into the relative preparedness of investee companies. Quantifying adaptation and resilience spend can be challenging, and companies with global reach may face multiple hazards with varying impacts and probabilities – from droughts to flooding to wildfires to severe convective storms. Disclosures related to adaptation plans are often high level, and supply chain impacts are difficult for investors to assess systematically.

Given that increasingly extreme and volatile weather events may result in operational disruption and rising costs, we are engaging with companies across sectors on climate resilience. In 2025, our engagement on climate resilience has addressed a range of companies and topics: we have engaged with companies in high risk sectors such as utilities on resilience and adaptation planning; we have engaged the insurance industry on increasing natural catastrophe losses and the financial limits of insurability, recognizing the centrality of the insurance industry to global resilience; and we have engaged companies across sectors on water scarcity and plans for water replenishment. We aimed to better understand how companies are addressing the risk of operational disruption as well as their approaches to engaging with community stakeholders in water scarce areas.

Across our engagements with companies on physical climate risk, it is clear that the need for granular, asset-level data remains a key challenge for effective resilience planning. As climate hazards become more complex and localized, systematic asset-level risk assessment is central to ensuring business resilience.

In JPMAM's 2025 Global Climate Report,⁵ we disclosed how we continue to consider climate-related risks and opportunities in the assets we manage on behalf of our clients in line with the recommendations of the TCFD. It includes information about how climate considerations feature in our governance and risk management structures as well as the key climate-related components of our business strategy, namely aspects of ESG integration and research, our sustainable product offering and investment stewardship.

¹ <https://www.munichre.com/en/insights/natural-disaster-and-climate-change/weather-disasters-in-industrialized-countries.html>

² <https://www.undrr.org/gar/gar2025/hazard-exploration/floods>

³ <https://www.unwater.org/water-facts/water-scarcity>

⁴ MSCI Corporate Resilience Survey 2025

⁵ <https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/sustainable-investing/tcf-report.pdf>

Building resilience in a changing climate continued

Climate adaptation at the United Kingdom's national grid operator



National Grid



United Kingdom



Utilities



Equities and Bonds

Issue

National Grid Plc operates electricity and gas transmission and distribution networks in the United Kingdom (UK) and United States (US) as well as some electricity generation assets. The company faces complex climate-related risks, including the challenge of integrating significant new renewable energy capacity and allowing power supply to keep up with growing demand. In addition to transition risks, National Grid must manage physical climate risks from severe weather events that can threaten infrastructure reliability. Public analyses suggest that, absent adaptation, utilities are projected to experience substantial annual costs from physical climate risk, with S&P estimating costs of USD 4-6bn annually in the 2050s.⁶ Understanding how National Grid implements adaptation measures and integrates climate risk into asset planning is key to assessing the long-term resilience of their business.

Action

In 2025, we held several meetings with National Grid to discuss both transition and physical climate risks. In our meeting with the Chair, we focused on the company's climate strategy, risk management, and efforts to reduce emissions from assets while maintaining a reliable service. We discussed the impact of the UK and U.S. policy environments, including net zero and clean power commitments. National Grid highlighted energy affordability as a growing concern in both markets. In a meeting with the group sustainability and strategic engineering teams, National Grid demonstrated their Climate Change Risk Tool, a GIS-based program that systematically assesses physical climate risks across its asset portfolio in the U.S. and UK. The tool evaluates eight climate hazards, projects risk exposure out to the 2070s under different warming scenarios and supports scenario analysis for regulatory reporting and strategic planning. According to the company, the tool's granularity (7x7 km data) is generally suitable for temperature-related risks but less so for assessing highly local hazards such as riverine and coastal flooding which requires more detailed engineering input. Business units, supported by climate engineers, use the tool to inform vulnerability assessments and resilience plans, such as identifying substations with increased exposure to extreme heat and prioritizing interventions like upgrading critical grid components with heat resistant materials.

Outcome

National Grid plays a key role in integrating additional renewable energy into the grid in the regions in which they operate, contributing to emissions reduction in the energy system, and is working to address the complexity of integrating new capacity while supporting reliability and affordability. We appreciated National Grid's transparency on the Climate Change Risk Tool, which provided a detailed disclosure. We will continue to engage to better understand how day-to-day asset-level climate adaptation decisions are taken.

⁶ <https://www.spglobal.com/sustainable1/en/insights/special-editorial/ceraweeek-physical-risk>

Building resilience in a changing climate continued

Engaging insurers on physical risk and resilience

Climate change is reshaping the risk landscape for the insurance industry. The increasing frequency and severity of weather-related natural catastrophes may contribute to the increase in insured losses and challenges traditional approaches to risk assessment, pricing, and portfolio management. Rising natural catastrophe losses, among others, may contribute to higher reinsurance pricing and more volatile earnings. Simultaneously, we recognize the critical role insurers play in supporting broader societal resilience by striving to correctly price climate risk, incentivize climate adaptation and develop innovative insurance products.

In 2025, we engaged with providers of property and casualty insurance and reinsurance. The aim was to better understand how physical climate risks are being integrated into business strategies, risk models, and product offerings, and to assess readiness to support adaptation and resilience under evolving climate conditions. Climate change may pose risks to insurers in certain sectors that underestimate the volatility of weather events caused by climate change but is also an opportunity for companies with strong risk management strategies.

We examined how insurers are responding as for some regions and sectors affordability and availability pressures are rising, including pricing challenges and the difference between insured and uninsured losses, known as the protection gap. Our engagement explored policy and regulatory dynamics, such as public-private partnerships to maintain insurance availability. Below, we outline some of the key insights gained from these engagements:

1. **Evolution of climate risk modelling:** In our engagements, insurers report advancing their risk modelling capabilities to keep pace with the unpredictability and complexity of climate-driven natural catastrophes. The integration of AI and automation is often used to enhance scenario analysis, claims processing, and feedback loops. New data sources, including satellite imagery and drones, can help improving risk assessment and claims management. Despite these advancements, modelling secondary perils like wildfires and floods remains challenging due to their increasing frequency and unpredictability. Insurers emphasize the importance of regular model updates and the integration of relevant climate science, as historical data alone is no longer sufficient for future risk assessment.
2. **Limits of insurability and affordability:** The financial limits of insurability are being tested in regions experiencing repeated and severe natural catastrophes. Insurers are reducing exposure in some high-risk areas in the United States, such as Florida and California, tightening underwriting standards, and evolving reinsurance strategies. While market capacity for peak catastrophe exposure remains, affordability is an escalating concern, especially for retail customers and small businesses. In some cases, government intervention has become necessary, with public-private partnerships, risk pools, and state-sponsored 'insurers of last resort' emerging to maintain coverage. Regulatory price suppression in certain states has led to solvency and liquidity challenges, with state-backed insurers now dominating some markets. Insurers stress the importance of correct risk pricing to incentivize climate adaptation and avoid widening the protection gap.
3. **Importance of policy advocacy and resilience partnerships:** Insurers are increasingly engaging with policymakers to advocate for support for resilience, adaptation, and appropriate risk pricing. This includes bilateral engagement with finance ministries, participation in public-private pools, and support for infrastructure upgrades such as flood levees. While insurers generally support risk pools, they caution that blunting price signals through excessive intervention can reduce incentives for adaptation. Product innovation is focused on adaptation, with parametric insurance and 'Build Back Better' solutions gaining traction. Additionally, insurers are expanding customer engagement and risk reduction services, such as early warning systems, risk engineers, and community workshops, to help clients build resilience and reduce overall risk exposure.

We met with companies in markets with growing protection gaps and increasing physical risk to understand how insurers are managing these risks in their respective regions.

Building resilience in a changing climate continued

Case study: Engaging with developed market insurers on climate risk and the protection gap



Insurance Australia Group (IAG)



Australia



Financials



Equities

Issue

In Australia, the protection gap, which is one of the indicators of societal resilience to climate risk, is 33%.⁷ The physical impacts of climate change are expected to increase the frequency and alter the patterns of natural catastrophe losses, potentially heightening underwriting risk for insurers. We engaged with Insurance Australia Group (IAG) to gain insight into their approach to climate risk management, modeling, and resilience.

Action

We met with the head of Sustainability at IAG, who explained that IAG has a long history of modeling catastrophe risks in Australia and New Zealand, supported by a dedicated CAT modeling team of 10–15 people who work closely with other functions. The company explained it is undergoing a technology transformation, integrating in-house and external data to enhance the granularity of its pricing platform. As a member of Hazard Insurance Australia,⁸ IAG contributes to building understanding of high-risk hazard areas. IAG indicates that it participates in industry and government consultations. The company has commissioned research on land planning, home building, and rising sea levels to support responses to consultations. IAG has stated that it believes that tax and levy reductions could help address home insurance affordability, indicating that more than 50% of insurance costs in Australia are attributable to taxes and charges. In addition, IAG shared that it provides customers with access to tools, community partnerships, and local workshops to help reduce climate risk exposure. The company also collaborates with building councils to develop models for assessing bush-fire safety, with plans to expand these efforts to other perils.

Outcome

Our engagement with IAG helped us to better understand the company's approach to managing physical climate risks, supported by investment in technology, data, and industry collaboration. IAG's strategic reinsurance program and participation in industry and government consultations demonstrate its commitment to help building resilience against climate-related perils.

⁷ <https://www.swissre.com/risk-knowledge/mitigating-climate-risk/natcat-protection-gap-infographic.html#/country/Australia>

⁸ <https://www.nema.gov.au/our-work/resilience/hazards-insurance-partnership>. In Australia, hazard insurance for homes is typically bundled into household building and contents insurance (governed by the Insurance Contracts Act 1984), covering damage from fire, storm, theft, and often floods (usually on an "opt-out" basis). Due to rising natural disaster risks, costs are increasing, leading to a partnership between government and industry to manage risk.

Building resilience in a changing climate continued

Case study: Engaging with developed market insurers on climate risk and the protection gap continued



Travelers



United States



Financials



Equities

Issue

In recent years, there have been public withdrawals of coverage across California, Florida and Louisiana while state-mandated insurers of last resort programs have provided coverage in certain segments. We engaged with U.S. multinational insurance company Travelers to discuss climate risk management, modeling and resilience in the U.S. market.

Action

We met with the chief Underwriting Officer, Chief Sustainability Officer and Corporate Secretary. They indicated that Travelers is enhancing transparency regarding its modeling approaches and outputs, as reflected in public disclosures, to provide greater context on its risk assessment process. The company indicated it is also analyzing the impact of climate modeling on insurance pricing and reinsurance market dynamics. They noted that recent natural catastrophes are now impacting a wider geographic area than previously. Travelers indicated it is participating in regulatory discussions, particularly in states like California, Florida and New York (the largest states with the most complex climate risks). They shared that they are participating in trade associations on topics, such as land management and housing regulations. We discussed Traveler's TCFD-aligned disclosures on climate-related risks and opportunities, which also highlighted their investment in partnerships and proprietary models to better understand and price climate risks, focusing on location-specific data.

Outcome

Our engagement demonstrated the difficulty of operating in an evolving regulatory environment and indicated Travelers' continued investments in climate risk management and related disclosures.

Building resilience in a changing climate continued

Improving physical resiliency in shared water resources

For water-dependent companies and those located in water stressed areas, changes in water availability can cause business disruption and influence the price of key inputs across a value chain. Water scarcity can influence capital allocation, motivate changes in production, and even trigger the closure or relocation of vulnerable facilities or operations.⁹ According to CDP, companies report USD 339 billion in potential financial impacts linked to water-related risks.¹⁰ Despite these material risks, projections show that by 2030 global demand for freshwater is expected to outstrip supply by 40%.¹¹

We conducted an engagement project focusing on several investee companies across sectors including food and beverage, apparel, technology and chemicals, exploring their water stewardship commitments. Our findings highlighted that:

- Management of water-related risks is increasingly prevalent across sectors. While some sectors (e.g., consumer staples) have longer-standing water-risk programs (practices vary by company and geography), companies across other industries like technology, chemicals and apparel are also increasing their focus on water management linked to water-intensive activities such as cooling, product formulation and agricultural supply chains. Water availability is inherently local, varies by location, changes over time, and is highly impacted by local human use. Many companies we have engaged report to undertake a water risk assessment using tools like the World Resources Institute (WRI)'s Aqueduct or World Wide Fund for Nature (WWF)'s Water Risk Filter, and then conduct watershed-level assessments considering physical risks, regulation and the needs of other local stakeholders. For water-intensive companies, we support consideration of frameworks like the TNFD which help to standardize corporate approaches to assessing water-related risks.
- A comprehensive water stewardship strategy should go beyond the company's own water footprint. It is vital that companies in water-dependent sectors use water more efficiently within their own operations, but also consider extending oversight to the water basins in which their operations are located. Recognizing water basins as shared resources, some corporates have made commitments to work with local water-users through collective action initiatives. We understand these commitments as a way to secure continued access to water; such commitments may have implications for operational continuity and stakeholder relations. Where companies have set targets, we encourage companies to report the methodology, scope and coverage of targets and to report progress transparently.
- There is still significant room for improvement in addressing physical risks linked to growing water scarcity. We continue to explore how companies ensure their corporate water use is sustainable in the long-term. Our findings show that while a number of companies are considering science-based approaches to water targets, the capacity and technical feasibility to engage in basin management processes, in order to ensure corporate water use is linked with basin-specific hydrological needs, is still emerging.

Given the local nature of physical water risks, we engaged two companies who have experienced drought in Mexico. 31% of global GDP is expected to be exposed to water stress by 2050, with Mexico being one of four countries which together account for over half of the exposed GDP.¹²

⁹ CDP Water Report 2022: Riding the Wave: How the private sector is seizing opportunities to accelerate progress on water security.

¹⁰ <https://www.cdp.net/en>

¹¹ <https://www.weforum.org/stories/2023/03/global-freshwater-demand-will-exceed-supply-40-by-2030-experts-warn/>

¹² <https://www.wri.org/insights/highest-water-stressed-countries>

Building resilience in a changing climate continued

Case study: Engagement on water stewardship at a Mexican multinational



Orbia



Mexico



Materials



Bonds

Issue

In 2024, Orbia, a multinational company with specialism in polymers, materials and infrastructure, reported publicly that it was forced to declare a force majeure at its Altamira plants in response to extreme drought in eastern Mexico.¹³ Prolonged drought forced water managers to reduce industrial water supply in order to preserve scant supply for municipal use. Water supply to Orbia's Altamira campus was functionally halted, leading to a multi-day shutdown of production facilities.

Action

In our engagement, Orbia described that the specific drought event did not appear in their risk management models due to it being an acute, not chronic event. Within the region, Orbia are contributing to a water management project in the water-basin where their site operates along with other industrial water users. At a group-level, Orbia have set an ambitious commitment to be net positive on water, focusing on water reduction, improving wastewater reuse, and contributing to community water programs. The company are in the early stages of assessing how to meet this ambition. We encouraged Orbia to consider quantifiable and measurable targets, which may help investors to assess how a company is addressing water risk and to compare with peers. The company indicated plans to disclose a more detailed roadmap to meet their water commitment in the next 18 months.

Outcome

We note Orbia's commitment to be water-positive but acknowledge plans to manage operational water risk are still being developed and industry-wide best practice is still emerging. We will continue to monitor progress by the company and encourage disclosure for water management both at group and business level.

Consumer companies, from food and beverage to apparel, tend to be water intensive both within their operational processes as well as in their agricultural supply chains. Our engagements indicate that beverage companies tend to have a long history of water stewardship given their high dependency on potable water in products and direct operations. By contrast, the breadth and sophistication of water commitments for apparel companies is more mixed. While it is common to have water consumption targets for activities directly contained within company operations, such as wet processes like textile dyeing, assessments of water risks in the highly water intensive supply chain are rarer. Traceability remains a key hurdle to risk assessment and companies rely instead on certifications and regenerative agricultural practices, as well as commitments to next generation fibers.

Water use at apparel companies

Consumer companies, from food and beverage to apparel, tend to be water intensive both within their operational processes as well as in their agricultural supply chains. Our engagements indicate that beverage companies tend to have a long history of water stewardship given their high dependency on potable water in products and direct operations. By contrast, the breadth and sophistication of water commitments for apparel companies is more mixed. While it is common to have water consumption targets for activities directly contained within company operations, such as wet processes like textile dyeing, assessments of water risks in the highly water intensive supply chain are rarer. Traceability remains a key hurdle to risk assessment and companies rely instead on certifications and regenerative agricultural practices, as well as commitments to next generation fibers.

¹³ <https://www.vestolit.com/force-majeure-notice-for-altamira-plants-in-mexico/>

Building resilience in a changing climate continued

Case study: Engagement on water use at a Chinese apparel manufacturer



Shenzhou International



China



Consumer Discretionary



Equities

Issue

Shenzhou International is a leading Chinese vertically integrated apparel manufacturer, supplying to global clothing brands such as Nike, Adidas and Uniqlo. Over the past few years, it has expanded production into Cambodia and Vietnam. As textile production is water-intensive, responsible management of water resources is important for the company's continued operations, cost management and future growth.

Action

Water resource management has been a key topic in our engagement with Shenzhou. Our focus is on the company's overall approach and disclosure regarding water management, enabling investors to verify how water risks are managed and assess its operational resilience over time.

Moreover, in the context of our engagement, we wanted to better understand how the company assesses its exposure to water risks more broadly. We view this as material because customers evaluate suppliers' environmental risks, and failure to meet their expectations could jeopardize Shenzhou's orders over the long term. The 2024 ESG report states that Shenzhou conducts annual water risk assessments for all production sites using the World Wildlife Fund's Water Risk Filter. The company stated that test results showed that at the time of the assessment none of its locations were considered "high risk" with regard to water stress, whilst over 70% of its site locations were classified as "extremely low risk" or "low risk". Shenzhou's proactive approach to water management is intended to support operational stability and may help strengthen client trust and business reputation.

To reduce its water footprint, the company has highlighted its public commitment to achieving a 20% improvement in water efficiency by 2025 compared to 2020 levels, across its fabric and Flyknit factories in China and Vietnam.¹⁴ The company appears on track to achieving the target, with 17% efficient improvement achieved in 2024. We have encouraged Shenzhou to establish longer-term water efficiency targets and understand that such targets are currently under consideration.

Beyond setting quantifiable goals, we have sought greater transparency regarding the strategies and execution plans supporting these targets. Notably, Shenzhou has articulated in our engagement its environmental aspirations and goals in the past years. Our feedback has been that public disclosures were largely high level, and we have asked for greater transparency on the strategies and execution plans that will deliver these targets. We welcome the enhanced disclosure in the company's 2024 ESG report published in 2025.¹⁵ It provides details for a range of water stewardship initiatives. For example, the company highlighted reverse osmosis technology for water recycling as one of its focus areas. The company also shared with us that adopting digital printing methods is increasingly popular and could help reduce water consumption.

Outcome

We note Shenzhou has made progress in improving its disclosures around water management. To further strengthen its position, we encourage the company to set and disclose longer-term targets for water efficiency improvement. We would also welcome additional insights into how digital printing could influence Shenzhou's water footprint and associated business opportunities.

¹⁴ Shenzhou International defines water efficiency as the freshwater consumption intensity i.e. the volume of freshwater divided by fabric production.

¹⁵ <https://www.shenzhouintl.com/uploadfile/bigfile/1745400947953-xm5jy4cmilc.pdf>

Environmental risks and the growth of Artificial Intelligence

In 2025, the rapid global development and deployment of generative artificial intelligence (AI) has already started to transform industries and accelerate innovation. At the same time, it has brought with it heightened regulatory and societal scrutiny. In light of this, this year we have continued to broaden our engagement with companies across the AI value chain, focusing on three key areas.

Notably, the rapid growth of AI is driving demand for data center capacity, with significant implications for electricity, water consumption and local communities. We encourage companies to disclose how they are managing these impacts and associated risks. The International Energy Agency (IEA) projects that electricity consumption for data centers will double by 2030, more than four times faster than growth in other sectors.¹⁶ This is in large part being driven by the growth in data centers for AI. Meanwhile, two thirds of data centers built or in development in the US since 2022 are in water stressed areas.¹⁷ This expansion brings both environmental and social challenges. The Project Blue datacenter project in Tucson, Arizona, for example, has seen significant community protests resulting in legislative proposals, public hearings and regulatory reviews, due to concerns over exacerbating groundwater depletion and energy demand expected to be up to 1.3GW. This demonstrates the imperative for companies to maintain a social license to operate¹⁸ in resource-constrained regions, in order to prevent project delays or cancellations and associated costs.

As highlighted in our 2024 Investment Stewardship report, we began engaging with data center operators around the world to encourage companies to manage and mitigate these risks. In 2025, we deepened our dialogue with companies to understand the complex interaction between AI growth, climate commitments, resource efficiency, community relations and supply chain risks. Many companies are reporting Power Usage Efficiency (PUE), but Water Usage Efficiency (WUE) reporting remains less consistent. We have engaged with data center operators on their management of these risks and disclosure of these metrics, which are useful to investors for assessing the financial performance of companies reliant on data centers.

We also highlight the importance of stakeholder engagement (see Alibaba case study). Competition for water and rising electricity prices are top of mind for policymakers, companies and communities. Companies face reputational risks and operational delays, for example due to complications obtaining permits for work. Strong community engagement and efficiency plans are therefore becoming increasingly critical and will continue as a theme in 2026.

In 2025 we also expanded our engagement beyond data center operators to include companies which are adopting AI, to understand how they are assessing related risks and opportunities as well as the impact of AI adoption on pre-existing climate commitments and decarbonisation roadmaps.

¹⁶ <https://www.iea.org/reports/energy-and-ai/energy-demand-from-ai>

¹⁷ <https://www.bloomberg.com/graphics/2025-ai-impacts-data-centers-water-data/>

¹⁸ Social license to operate refers to the ongoing public acceptance of a company's activity where it operates.

Environmental risks and the growth of Artificial Intelligence continued

Case study: Engaging on environmental impacts of AI at the leading Chinese e-commerce platform



Alibaba Group



China



Technology



Equities and Bonds

Issue

Alibaba Group operates a growing network of data centers to support its technology and e-commerce businesses. The company has set a target to achieve 100% clean energy by 2030 for their data center operations as demand for AI workloads and data processing increases, the Alibaba Group is seeking to balance decarbonization objectives with the growing energy and water requirements of its operations.

Action

We engaged with Alibaba Group in 2025 to understand their strategy for decarbonizing their cloud business and managing other AI-related environmental impacts, such as water use to cool data centers. The company has set a target to achieve 100% clean energy by 2030 for their cloud computing business, with average PUE for self-built data centers not to exceed 1.3. The company reported an average PUE of 1.19 for self-built data centers in 2025. Clean electricity accounted for 64% of the total electricity consumption at Alibaba Cloud's self-built data centers, while leased data centers stand at 22.4%. For third-party leased data centers, the Group stated that supplier contracts mandate the use of renewable energy and energy efficiency standards, requiring suppliers to increase their use of clean energy and permitting on-site audits. Notably, the company indicated that five leased data centers in Guangdong are now supplied by clean energy on an annual basis. In addition, Alibaba Cloud is deploying more energy efficient hardware and cooling systems (e.g., liquid cooling) to unlock further energy savings.

In terms of water management, Alibaba Group has established WUE management guidelines and water use optimization strategies. While the company explained that there is no unified WUE target due to local environmental variability, specific WUE targets are set for each data center they build. In water-scarce regions, the company is increasing the use of rainwater to improve overall water efficiency. Alibaba Group has also conducted a water stress assessment for key data centers in China, with preliminary findings indicating lower water stress risks in southern China compared to the north. In 2025, Alibaba Cloud reported an average of 1.144L/kWh WUE for self-built data centers.

We also raised the importance of considering social factors, such as community engagement, in such assessments as potential local community protests can delay the company's data center expansion plans. The company acknowledged that this has not been a focus to date, with regulatory compliance remaining the key consideration for social issues.

Outcome

Our ongoing engagement with Alibaba Group has provided greater insight into their approach to manage selected climate and environmental risks related to their AI and cloud businesses, as well as their progress on energy efficiency, renewable energy use, and water management. We note the company's efforts to set and pursue decarbonisation targets, implement supplier standards, and assess water stress at key sites. We encourage Alibaba Group to continue enhancing disclosure in energy and water management and to consider integrating social considerations into their practices to mitigate project delay and reputational risks.

Engaging sovereign issuers and state-owned entities on climate and natural capital risks

Saudi Arabia Energy Transition

The Kingdom of Saudi Arabia (the “Kingdom”) has become a growing market for institutional investors to broaden their equity and fixed income portfolios in recent years. It is the largest economy in the Middle East and North Africa (MENA) region¹⁹ with GDP exceeding USD 1.2 trillion²⁰ and a population of 35 million²¹ in 2024. As of December 2025, JPMAM has approximately USD 5 billion in AUM in the Kingdom. Its strategic location, abundant natural resources, and ambitious Vision 2030 strategic framework and transformation plan presents an evolving opportunity set across sectors beyond oil and gas and related industries. At the same time, the country remains the world's second-largest crude oil producer²² and top exporter,²³ the Kingdom supplies about one-third of the Organization of the Petroleum Exporting Countries (OPEC)'s total output²⁴ while maintaining significant energy reserves.

Our stewardship approach to issuers in the Kingdom emphasizes various dimensions, including:

- supporting credible low carbon transition pathways clear targets and transparent reporting;
- encouraging governance frameworks that protect minority shareholder interests (e.g., including transparency and independent input to decision making) while enabling strategic flexibility; and
- maintaining dialogue on capital allocation efficiency as projects scale from pilot to commercial deployment.

Saudi Arabia's climate strategy is anchored by its pledge to reduce carbon emissions by 278 Mt annually) by 2030, supporting its goal of net zero emissions by 2060.²⁵ The Kingdom has embarked on a comprehensive economic transformation through Vision 2030, seeking diversification beyond dependence on hydrocarbon revenue.²⁶ The non-oil sector has been steadily growing as a proportion of the country's overall economy and accounted for more than half of its GDP in 2024.²⁷ The Kingdom has set a target to achieve a balanced 50/50 mix of renewables and gas-fired power generation by 2030, with the renewables rollout supported by a national program that aims to reach 130 gigawatts (GW) of capacity.²⁸ In parallel, the Kingdom is advancing its carbon capture, utilization, and storage (CCUS) ambitions, with a national target of 44 million tons of annual capacity by 2035.²⁹

The Kingdom's aim to transition from hydrocarbon dependence to a diversified economy by 2060 presents interconnected climate and nature risks with financial implications. As global energy markets evolve, Saudi Arabia faces transition risks from changing demand patterns.³⁰ In addition, it is vulnerable to physical climate risks including extreme heat and water scarcity that threaten infrastructure and productivity.³¹ Water stress drives greater dependence on energy-intensive desalination,³² while the Kingdom's green hydrogen ambitions require substantial water resources and renewable electricity, creating competing demands across the water-energy nexus.³³ Managing these interdependencies is critical for operational resilience and long-term competitiveness, and ultimately the protection and enhancement of value for long term investors.

In October 2025, we went on a field trip to Saudi Arabia with the objective of meeting and engaging with corporates and government entities around their work on the future of the Kingdom's energy use and production. The trip provided a first-hand view and direct insight into the Kingdom's climate strategy, energy transition, and natural capital management.

¹⁹ <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=ZQ>

²⁰ <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=SA>

²¹ <https://data.worldbank.org/indicator/SP.POP.TOTL?locations=SA>

²² <https://www.iea.org/world/oil>

²³ <https://www.reuters.com/business/energy/saudi-arabia-crude-exports-rise-six-month-high-august-2025-10-22/>

²⁴ https://www.eia.gov/international/analysis/special-topics/OPEC_Revenues_Fact_Sheet

²⁵ <https://www.vision2030.gov.sa/en/explore/projects/saudi-green-initiative>

²⁶ <https://www.vision2030.gov.sa/en>

²⁷ <https://www.spa.gov.sa/ar/w2323831>

²⁸ <https://www.sgi.gov.sa/about-sgi/sgi-targets/reduce-carbon-emissions/>

²⁹ <https://climateactiontracker.org/countries/saudi-arabia/policies-action/>

³⁰ <https://www.imf.org/en/publications/cr/issues/2025/08/02/saudi-arabia-2025-article-iv-consultation-press-release-and-staff-report-569252>

³¹ https://unfccc.int/sites/default/files/resource/KSA_BTR1_20250320-2.pdf

³² <https://www.arabnews.com/node/2603778/business-economy>

³³ <https://agsi.org/analysis/water-challenges-in-the-emerging-hydrogen-economy/>

Engaging sovereign issuers and state-owned entities on climate and natural capital risks continued

Case Study: Low-carbon transition at the world's largest oil and gas company



Saudi Aramco



The Kingdom of Saudi Arabia



Energy



Equities and Bonds

Issue

Given the scale and influence of Saudi Arabian Oil Company (Aramco) as the world's leading oil producer and the Kingdom's majority state-owned energy and chemicals company, direct engagement with Aramco is essential for understanding Saudi Arabia's energy transition. Our engagement with Aramco on climate change-related matters has been ongoing since 2021, offering a valuable perspective on the company's evolving approach to decarbonization and climate risk management.

Historically the company's disclosure about the risks and opportunities for its business associated with climate change was limited, though this has improved markedly over multiple years of engagement. Our initial engagements with the company were around establishing operational GHG reduction targets in line with the national targets and illustrating how the company is considering its business under different potential future climate change scenarios. We also suggested that the company measure methane emissions and set targets for methane emissions reduction.

Since our engagements began, Aramco has committed to net zero Scope 1 and Scope 2³⁴ emissions from wholly owned and operated assets by 2050, which is ten years ahead of the national target. They have also set a near-term target to reduce upstream carbon intensity by 15% by 2035 from the 2018 baseline. In 2024, the company announced a new interim target for upstream operations to reach 8.6 kilograms of carbon dioxide equivalent (kgCO₂e) per barrel of oil equivalent (boe) by 2030. This was a positive step, as interim targets help investors to understand the nearer term implications of longer-term targets. However, there remains a need for further clarity on the commercial viability of its decarbonisation-related projects, which will be the central tenants for delivery of the targets.

Action

During our field trip, we visited Aramco's headquarters in Dammam where we gained extensive first-hand insight into the company's climate strategy and operational progress. The company is clear in its intention to remain the world's top fossil fuel producer for as long as there is demand for oil, leveraging its significant cost advantage in oil and natural gas extraction. This is the basis on which our engagement with the company is conducted. Aramco continues to operate extensive oil and natural gas fields both onshore and offshore in the Arabian Gulf and is confident that its cost leadership in oil production can also be maintained in natural gas. Aramco emphasizes its high operational efficiency and low emission intensity, promoting Saudi oil as having one of the lowest carbon footprints globally.³⁵

We saw through in-person demonstrations the range of projects and investments Aramco is making across a number of business areas to help achieve its decarbonization targets. In line with our original engagement asks, measures to meet its upstream operational target include monitoring methane leaks, reducing flaring, and using technologies such as satellites, drones, and AI models to monitor emissions in real time.

continued →

³⁴ Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy.

Engaging sovereign issuers and state-owned entities on climate and natural capital risks continued

Case Study: Low-carbon transition at the world's largest oil and gas company continued



Saudi Aramco



The Kingdom of Saudi Arabia



Energy



Equities and Bonds

The company is also seeking to gradually diversify its product mix as part of its efforts to reduce hydrocarbon dependence, in line with Saudi Arabia's Vision 2030. Natural gas is a central pillar of this energy transition strategy. The company is targeting a 60% increase in its shale gas production capacity by 2030 versus 2021 production levels, with unconventional resources such as the Jafurah shale gas project playing a growing role. We learnt that much of the output is intended to meet local demand, supporting the shift away from oil in power generation. However, we note that Aramco saw a 3.1% increase in its Scope 1 emissions in 2023-4, which it attributes to this increased natural gas production.

Carbon capture, utilization and storage (CCUS) also plays a critical role in Aramco's decarbonisation roadmap. The company is advancing CCUS through the Jubail Phase 1 project, a partnership with Linde and SLB. The first phase of construction is expected to begin in 2027, targeting capture and storage capacity of up to 9 MtCO₂ per year, making it one of the largest projects globally. In addition, we saw the direct air capture (DAC) technology that Aramco is piloting at its Dammam headquarters, in collaboration with Siemens. This technology is location-independent, using metal-organic frameworks (MOF) to capture CO₂ directly from the atmosphere. The current DAC unit has a capacity of 12 tCO₂ per year but Aramco believe that the technology can be scaled quickly. We will monitor the company's progress on scaling CCUS and DAC to assess the viability of carbon capture as a mechanism for achieving its decarbonisation targets.

Aramco is also investing in renewable energy and related research and development (R&D). The company is a minority, non-operating partner in joint ventures with local utilities like ACWA Power and the sovereign wealth fund PIF, supporting Saudi Arabia's National Renewable Energy Program (NREP). Seven new projects have been announced, aiming to generate a combined capacity of 15 GW, with 12 GW from solar photovoltaic and 3 GW from wind energy. Aramco is also utilizing renewable energy, especially solar, at its production facilities and has committed R&D spend to novel battery technology, including the commissioning of a megawatt-scale iron-vanadium flow battery system to store solar energy for remote gas well operations, as a backup power source. We heard from the company that this technology is designed for durability in Saudi Arabia's extreme climate and has broader applications beyond the oil industry.

We noted that water scarcity is a persistent challenge for Saudi Arabia, particularly as the energy transition and digital transformation drive greater demand for reliable water resources. The Kingdom's plan to meet 90% of national water needs through desalination by 2030 is supported by over USD 80 billion in infrastructure investment and the adoption of seawater reverse osmosis (SWRO) technology, reflects a strategic commitment to securing water supply.

Outcome

We appreciated the opportunity to observe these developments first-hand during our trip. The trip deepened our understanding of the Kingdom's progress in operational efficiency, emissions management, and low-carbon technology deployment. The company's natural gas and renewable energy investments form an important portion of their energy transition strategy. Other aspects of the company's strategy are less mature. For example, green hydrogen production remains a long-term strategic vision for Aramco while DAC still relies on significant cost reductions in order to scale. Meanwhile, carbon offsets remain the company's largest decarbonization lever, exposing them to certain risks related to the quality and credibility of purchased offsets. Continued integration of water, energy, and technology strategies will be important for achieving the Kingdom's long-term climate and development goals.



Engaging sovereign issuers and state-owned entities on climate and natural capital risks continued

Case Study: Saudi sovereign funding of Vision 2030 and decarbonisation



Saudi sovereign



The Kingdom of Saudi Arabia



Sovereign



Bonds

Issue

Saudi Arabia's Vision 2030 targets economic diversification and reduced reliance on oil, with energy transition and emissions reduction as stated priorities. In February 2025, the Kingdom issued its first euro-denominated sovereign green bond, raising EUR 1.5 billion – the first from a MENA region sovereign.³⁶ The bond's use of proceeds align with the International Capital Market Association (ICMA) Green Bond Principles, covering pollution prevention and control, water and waste management, climate adaptation, and biodiversity. As investors in both the green bond and the wider sovereign bond program, we consider credible sustainability outcomes, adherence to market standards, and transparent reporting important for understanding the Kingdom's progress with regards to its energy transition plan. We therefore sought an opportunity to deepen our understanding of the issuance's sustainability attributes and to communicate areas where we felt improvements could be made.

Action

As part of our field trip to Saudi Arabia, we met with the National Debt Management Centre (NDMC) in Riyadh. The NDMC led the multi-year effort to establish the Kingdom's Green Financing Framework and launch the debut euro-denominated sovereign green bond. They provided significant detail on the efforts taken to ensure that the approach was credible and that it sent a message to investors of Saudi's commitment to Vision 2030 and related environmental policy funding. We welcomed the ambition of the issuance and the market signal it created. We recommended that the narrative around the bond's link with the Kingdom's energy transition policy could be strengthened, to better position the sovereign for future green bond issuances. As a next step, we suggested that the NDMC periodically come to market with a green bond as this continues to strengthen alignment between the Kingdom's energy transition policy and its green bond program. We encouraged post-issuance reporting to include both quantitative use of proceeds breakdown as well as qualitative case studies. We also encouraged NDMC to focus the use of proceeds on recent capital expenditure instead of the refinancing of existing projects or routine government operational spending, as the additionality of the latter two is less clear.

Outcome

The discussion was open and constructive. The NDMC was receptive to many of our suggestions and indicated that they would consider providing narrative case studies in the upcoming post-issuance report. We appreciated the NDMC's openness and believe that these steps will help support investor confidence and strengthen the credibility of Saudi Arabia's green bond program. We plan to continue to monitor these developments to assess long-term risks and opportunities for our clients.

³⁶ <https://www.environmental-finance.com/content/news/saudi-arabia-raises-15bn-from-testing-debut-sovereign-green-bond.html>

Engaging on climate and natural capital in private markets

Campbell Global

Campbell Global, JPMAM's timberland investment division, provides nature-based investment opportunities related to climate, conservation, and biodiversity. Acquired in 2021, Campbell Global has over 40 years of experience and is recognized as a pioneer in timberland management, having managed more than five million acres worldwide for pension funds, foundations and other institutional investors. Campbell Global certifies all assets under management in accordance with third party sustainable forestry standards. It also tracks and discloses key performance indicators across many facets including GHG accounting metrics and nature-based KPIs. This helps to monitor and manage ESG considerations over the active management phase of the investment horizon and supports the long-term sustainability of our clients' and beneficiaries' assets.



Campbell Global



United States



Forestry



Alternatives

Issue

Nature-based investments have the potential to offer impactful environmental, social, and climate co-benefits. As an asset class, timberland simultaneously provides investors with a hedge against inflation, diversification, and a steady income.

Since commercial timberland properties can represent a mosaic of land, soil, and vegetation types, there may be portions of the asset that isn't as viable for forestry than a higher and better use alternative. One way that Campbell Global's active management strategies seek to create value from these areas on the landscape is pursuing monetizing conservation opportunities with local stakeholders. This approach may help clients achieve climate, nature, and/or biodiversity goals while serving the best interests of their investors.

Action

In 2020, Campbell Global identified several non-strategic parcels of forestland on one of our timberland properties in Oregon with exceptional conservation values.

Despite the area having limited capacity to deliver traditional timberland returns, the area is located along the McKenzie River, a vital waterway that runs through the Cascade Mountain range and provides sources of drinking water and hydropower to the city of Eugene, Oregon, and surrounding communities. The river also provides critical habitat for many aquatic species, including federally listed salmon and steelhead.

Throughout 2024, Campbell Global, on behalf of its client, worked in collaboration with McKenzie River Trust (MRT), McKenzie Watershed Council, and Eugene Water and Electric to establish a conservation easement needed to facilitate a large-scale floodplain restoration project. In 2025, work was under way to restore natural fluvial processes, mitigate flood risks, and increase habitat complexity for fish, lamprey, amphibians, and other aquatic invertebrates. This initiative also safeguards water quality for downstream communities.

Outcome

The easement was ultimately sold to MRT, demonstrating how active timberland management can generate positive economic returns for clients while protecting land in perpetuity by securing long-term social and environmental co-benefits.

Voting on climate change and natural capital

As a global asset manager, JPMAM believes climate change and the transition to a low-carbon economy present significant material financial risks and opportunities to companies around the world, and therefore to our clients' investment portfolios. We encourage companies to identify and address both financially material physical climate risks and transition risks. The nature and timing of these risks materializing is becoming more uncertain due to an increasingly unpredictable policy environment in many jurisdictions.

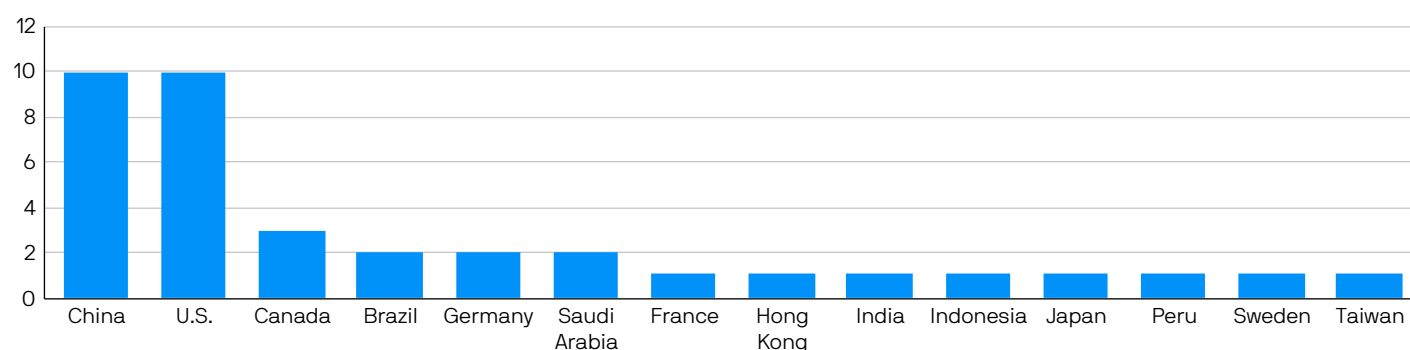
Our voting policies are designed to promote the long-term interests of our client accounts. As such, we may consider climate risk when voting in director elections, executive compensation or other management resolutions, where a company is not addressing the material risks it faces because of climate change.

Our [Global Proxy Voting Guidelines](#) outline our approach to voting on issues related to the management of financially material climate risks.³⁷ These guidelines reflect our conviction that climate change could pose a material risk to our clients' accounts, as well as our experience evaluating climate risk as part of voting proxies in recent years.

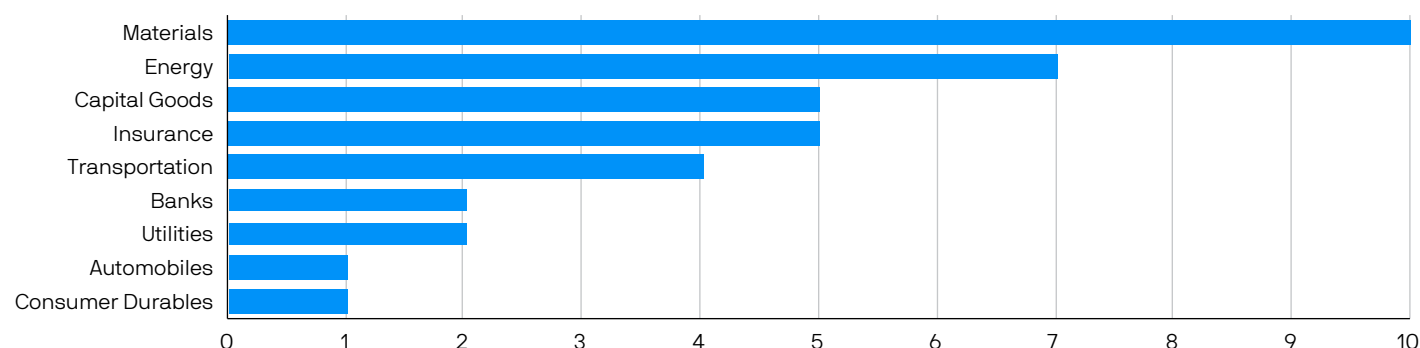
The guidelines make clear that we encourage disclosures of minimum climate-related indicators by companies in sectors particularly exposed to financially material climate risks. JPMAM may vote against the directors of relevant committees of companies where these are not available or meaningful (see full guidelines for further details).

In 2025 we voted against directors at 37 companies globally on the grounds of climate-related concerns.

Votes against directors for climate related issues by country



Votes against directors for climate related issues by industry



Source: J.P. Morgan Asset Management, as of December 31, 2025.

³⁷ <https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/institutional/communications/lux-communication/corporate-governance-principles-and-voting-guidelines.pdf>

Voting on climate change and natural capital continued

Case study: Voting against directors at US energy company for inadequate climate risk disclosure



Targa Resources



United States



Energy



Equities

Issue

U.S. midstream company, Targa Resources, did not provide substantial disclosures aligned with the reporting structure recommended by the TCFD, including scenario analysis. While their sustainability reporting included an index which mapped their reporting onto the TCFD framework, we did not believe their reporting answered the questions comprehensively, such as how business planning might change in different demand scenarios. Since we believe that climate change risks pose material risks to Targa's business, we would value enhanced reporting on this issue.

Action

We engaged with Targa on their climate-related disclosures. We highlighted the addition to our proxy voting guidelines last year that covered climate risk, including how the guidelines stated our expectations that companies materially exposed to climate risk (such as Targa itself) provide comprehensive TCFD reporting, including scenario analysis. Targa acknowledged that they have not provided such disclosures but also stated that they have begun exploring the potential for doing so. They also explained how they considered material risks every year as part of their risk assessment. They highlighted the actions they were taking to reduce methane emissions, such as use of Optical Gas Imaging cameras, flyovers and satellites to detect methane emissions and more quickly repair leaks. They had joined ONE Future¹¹ (a coalition of natural gas companies working collaboratively to reduce methane emissions) back in 2021, where Targa now serves as a co-chair of the technical committee. We asked if there was enough ambition in the methane intensity goals required for ONE Future to manage the associated risks effectively. Targa acknowledged that those goals were originally set ten years ago and will be made more ambitious when they are updated soon. They were originally predicated on the natural gas value chain needing a leak rate <1% for the chain to have a better emissions profile than coal. They will soon incorporate real measurement data and 'methane slip' calculations given advancements in these areas.

Outcome

As a result of our concerns about Targa's TCFD reporting, we voted against a member of the board's Sustainability Committee, which has oversight of these issues. We recognize the steps the company is taking to reduce methane emissions, but we believe they should provide investors with more information on how they are managing climate-related risks. We will continue to engage with them on the issue.

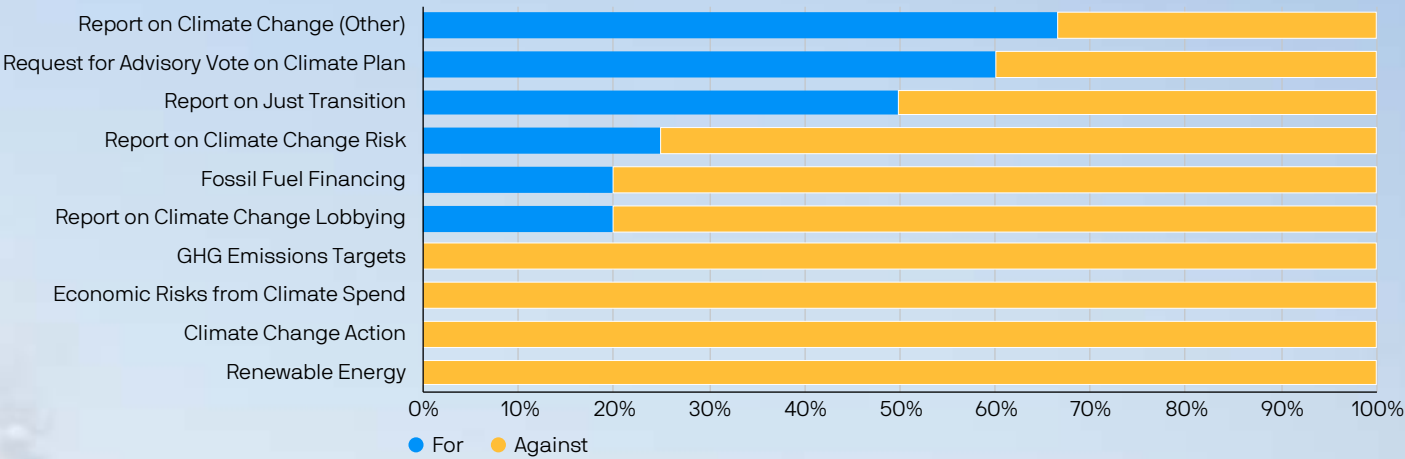
Voting on climate change and natural capital continued

Climate-related shareholder resolutions

We voted in favor of 20 climate-related shareholder resolutions globally in 2025, reflecting a decrease in overall support for these resolutions. We continued to evaluate shareholder proposals on a case-by-case basis, tending to vote against proposals which are overly prescriptive, or which may create unintended consequences for long-term shareholders. We have also seen many companies making improvements in disclosures which has meant escalation of concerns via support of shareholder resolutions did not appear to be necessary. We consider the most helpful resolutions to be those which are worded in a way that gives the company the ability to select the strategy which it considers most effective for achieving the resolution’s intended outcome (see Mitsubishi Corp case study).

In 2025, the number of climate-related shareholder proposals voted at U.S. companies dropped significantly in the face of evolving regulatory guidance, as the SEC rescinded guidance which prevented companies excluding proposals from the ballot.

Climate-related shareholder proposals



Source: J.P. Morgan Asset Management, as of December 31, 2025.

Voting on climate change and natural capital continued

Case Study: Voting on a climate change-related shareholder proposal at a Japanese industrial company

 Mitsubishi Corp
  Japan
  Industrials
  Equities

Issue

In June 2025, a coalition of climate-focused organizations - Market Forces, Kiko Network, and Friends of the Earth Japan - submitted two shareholder proposals at Mitsubishi's AGM. The proponents argued that the company's current disclosures did not provide shareholders with adequate information to evaluate how the company monitors and manages material risks, particularly those related to climate change. Accordingly, the first shareholder proposal requested the audit committee publish detailed findings on the company's climate change-related audits. The second proposal called for the company to disclose the potential financial impact should it fail to achieve its 1.5°C climate target. We sought to understand the robustness of its governance and preparedness to address potential long-term risks.

Action

We engaged with the company to discuss these shareholder proposals in detail. Regarding the first proposal, the company explained that the audit committee defines the scope and subjects of its audits and discloses its activities as appropriate, including in the annual securities report and integrated report. The company further clarified that sustainability is considered a material topic for audit, and the effectiveness of the committee is evaluated by its members. Additionally, through discussions with independent directors, we sought reassurance that audit activities are conducted thoroughly and their results are utilized effectively. We encouraged the company to enhance their disclosures on sustainability-related auditing.

For the second proposal concerning the 1.5°C target, we noted that the company does not currently disclose the potential financial impact of climate-related risks. We requested that the company provide this information ahead of the mandatory disclosure requirement, which will take effect for the fiscal year ending March 2027, as risks and opportunities related to climate change is identified as material to its business by the company. However, the current disclosure in the TCFD report does not sufficiently explain the business impact. We suggested that the company begin with sectors where climate risk is most material, but the company countered that third-party audit requirements further complicate the issue.

Outcome

Following our engagement, we voted against the first proposal, as the company already discloses how the audit committee addresses financial risks, including sustainability risks, and has committed to ongoing improvement in their disclosures. However, we supported the second proposal, as the company does not currently provide quantitative information regarding the financial impacts of climate risks. We believe that supporting this proposal will help advance the company's disclosure practices and improve transparency for shareholders. At the AGM, the first proposal received 3.5% support, while the second proposal received 8.2% support.

Voting on climate change and natural capital continued

Voting on Natural Capital

According to the World Economic Forum, over half of global GDP is dependent on nature.³⁸ The depletion or loss of natural capital – including ecosystem services such as clean air and water, fertile soil, pollination, and natural capital assets such as natural carbon sinks – due to overconsumption, environmental degradation and pollution presents a systemic risk and economic impact to businesses and the global economy.

Meanwhile, different jurisdictions are implementing regulations intended to halt nature loss, further increasing potential financial risks for companies. For example, seven US states have enacted comprehensive Extended Producer Responsibility (EPR) laws, placing financial responsibility for the entire lifecycle of plastic waste management on the producer.

In 2025, we continued to see shareholder proposals related to natural capital. We supported these proposals where we believed the issue in the proposal represented a financially material risk and that the company was not sufficiently managing the issue. In total, JPMAM supported 4 natural capital shareholder proposals in 2025.

Case Study: Voting on a natural capital shareholder proposal at a U.S. home improvement retailer



Home Depot



United States



Consumer Discretionary



Equities

Issue

U.S. home improvement retailer Home Depot received a shareholder proposal asking for a report on how the company could make their plastic packaging recyclable or reusable.

Action

We reached out to the company to clarify their current approach to plastic management, noting that the company does not disclose its absolute plastic footprint. While we welcomed their absolute virgin plastic reduction target, which aims to reduce 200 million pounds of virgin plastic by 2028, it is difficult to contextualize the target's materiality as the company currently does not disclose their total plastic use. Without this information, investors cannot assess the significance of the reduction compared to peers. The company did not provide a full answer in our meeting; they said that they take a risk-based approach, that they only track the plastic flowing into their products, and that they do not see the need to disclose the total footprint.

We noted Home Depot's lack of participation in pro-competitive multi-stakeholder initiatives. We view such initiatives as useful considering the systemic nature of the circular economy challenge, such as the need for improved recycling infrastructure and technological breakthroughs to increase product circularity. The company also could not articulate any specific industry initiatives in which it participates, whereas other retail players have much clearer disclosure. They said that in areas with EPR laws, their regulatory team engages with the relevant states. Finally, the company said they have a packaging team which has been active for several years, but there was no further discussion about its size, capacity and resources dedicated to this topic.

Outcome

Considering the lack of evidence provided by the company on their actions to address regulatory risks linked to plastic production and increase product circularity, we supported the shareholder proposal. We believed that, as US states implement EPR laws, the proposal would help investors understand the scale of potential costs and corresponding impacts to profitability, that could result from these laws, and how the company could work to mitigate them. The plastics-related shareholder proposal received 17% support overall.

³⁸ https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

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