



ESG integration at J.P. Morgan Asset Management

Global Equities

1 March 2022

For certain strategies that the adviser determines to be ESG integrated, the adviser integrates financially material environmental, social, and governance (ESG) factors as part of the Fund's investment process (ESG Integration). ESG Integration is the systematic inclusion of ESG issues in investment analysis and investment decisions. ESG Integration is dependent upon the availability of sufficient ESG information for the applicable investment universe. In addition, in order for an actively managed strategy to be considered ESG integrated, the adviser requires: (1) portfolio management teams to consider proprietary research on the financial materiality of ESG issues on investments; (2) documentation of the adviser's research views and methodology throughout the investment process; and (3) appropriate monitoring of ESG considerations in ongoing risk management and portfolio monitoring. ESG determinations may not be conclusive and securities of companies / issuers may be purchased and retained, without limit, regardless of potential ESG impact. The impact of ESG Integration on performance is not specifically measurable as investment decisions are discretionary regardless of ESG considerations.

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J.P.Morgan
ASSET MANAGEMENT

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Research / due diligence

A key strength of our investment process is our in-house research, produced by over 100 fundamental and quantitative equity analysts. Our ESG views on specific companies are the product of proprietary research and one-on-one engagements with companies. We also draw on data from external providers. These ESG views are one of multiple informational inputs into the investment process, alongside data on traditional financial factors, and so are not the sole driver of decision-making.

Our research framework uses several internally developed processes to assess the ESG credentials of any business:

- 1) A 40-question ESG checklist applies the same detailed questions to more than 3,000 companies under coverage globally. The ESG checklist asks 12 questions specifically addressing environmental considerations, 14 on social and 14 on governance. Analysts across Equities and Fixed Income collaborate on the questionnaire, resulting in one set of responses on environmental and social matters as we believe these are consistent across the capital structure. The governance questions differ slightly by asset class. The checklist includes both negative and positive questions, and a severity assessment. The checklist is not a 'pass/fail' exercise but rather a tool to inform discussions between portfolio managers and fundamental analysts, and our engagements with the companies we cover.

In addition, analysts conduct deep-dive research into ESG topics identified as material to our investment process. Among the topics examined: flaring in U.S. oil fields, the environmental impact of fast fashion in Europe and corporate governance in insurance companies in Asia.

- 2) Our proprietary data-driven ESG 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. For further details, please see the section on ESG Data on page 11.

- 3) A fundamental materiality framework for 2,000+ companies was implemented in 2020 by our Emerging Markets and Asia Pacific team and in 2021 by many of our global equity teams. The basis of 'materiality' is to identify the ESG issues that are most likely to have a material negative financial impact on a company were it to be mismanaged, or conversely, the material positive impact in the case of good management. Across each of 57 different sub-industries, material issues are identified by research analysts within our 100+ strong global network, who come together to share perspectives with their sector group peers. Every company receives a score from 1 (best) to 5 (worst) on each of the material issues identified.

The implementation of this research framework has deepened our understanding of what best practice looks like for sustainability and we use this template to engage with companies. However, the score does not define or limit a team's investment options.

- 4) A strategic classification framework for 2,000+ companies. These classifications provide a rating (Premium, Quality, Trading and Structurally Challenged) for stocks, based on our judgment of the quality of the business. ESG is an explicit part of the rating process.

Portfolio construction

Although precise methodologies will vary, ESG information is considered throughout the investment process. All fundamental analysis, company meeting notes, and quantitative metrics for ESG are housed in our portfolio management systems to help ensure full transparency and access for all analysts and portfolio managers. Portfolio managers have a daily view of their exposure to the risks and opportunities associated with ESG factors, which can also be customized depending on the nature of the portfolio.

While we do not explicitly exclude individual stocks on the grounds of ESG criteria (except for certain of our strategies such as those classified as article 8 or 9 under SFDR regulation, or when specifically requested by clients or required by local legislation), ESG factors could influence our level of conviction and thus impact a stock's position size during portfolio construction. Our conviction is a function of the quality of the business and our understanding of the opportunity and the risks, which are informed by the research detailed above.

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Engagement

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 behavior 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 five investment stewardship priorities and our research framework.

Alongside the top-down guidance provided by the five investment stewardship priorities, our bottom-up research framework captures the ESG insights of our investors through the research elements detailed in the previous section. Our investors often identify issues related to ESG through their day-to-day work and interaction with company management teams. In these instances, investors may choose to involve the Investment Stewardship team.

Methods of engagement typically include regular meetings, video conferences or email exchanges with senior executives and non-executive management. Proxy voting is also a valuable means of communication. Where our concerns are not adequately addressed by our initial engagement, we will consider an escalation of our approach using the various means at our disposal.

Decisions to escalate will always be made on a case-by-case basis. More formal approaches include private meetings with the chairman or other board members, formal letters to the chairman and board or collaborative action where we believe that working together across the industry and unifying our voice has a better chance of delivering real life outcomes (where permissible under local laws and regulations). Examples of this collaboration include Climate Action 100+ and the 30% Club.

Documentation and monitoring

Over 100 fundamental and quantitative equity analysts, over 100 equity portfolio managers, and 13 investment stewardship specialists globally reflect the breadth and depth of J.P. Morgan Asset Management 's research resources around ESG integration.

- Fundamental analysts are responsible for fundamental research (40-question ESG checklist, fundamental materiality framework and strategic classifications), while the Global Equity Quantitative Research team is responsible for the data-driven ESG score.
- Portfolio managers are responsible for making the final buy-sell decisions, portfolio construction and risk management.
- Investment stewardship specialists are responsible for leading on engagement, understanding regulatory developments and educating colleagues on best practice and industry developments.

All research and corporate engagement meeting notes are housed in our proprietary technology platform, Spectrum™, to ensure full transparency to our investors, where appropriate.

Spectrum™ Portfolio Management Toolkit (PM Toolkit) focuses on giving managers the power to perform analytics on their portfolio data, including all ESG research and data. Tools are available to show their portfolios against benchmarks, visualize various comparisons against indices and factor-based views using charting and graphs, and giving flexibility to slice the data across multiple dimensions, and marrying internal valuation data with market information. PM Toolkit also offers risk analytics and performance-based tools.

Spectrum™ Research Notes is the central repository for all of the qualitative data that is important to the investment process. All meeting notes, strategic classifications and company visit information are entered into Research Notes to facilitate the simple searching and sharing of this information throughout our portfolio management population. It supports analysts through structured note creation and a phone/iPad-based version; and supports portfolio managers through a research storefront, full text search capability and real-time notifications of new research that may be of interest.

Global Equities continued

On a quarterly basis, the Investment Director teams conduct formal review meetings with each investment team. Portfolios are reviewed in the context of objectives, performance, risk positioning and ESG integration, and ESG characteristics are documented.

Formal review meetings are attended by the head of the relevant investment desk, portfolio managers and representatives from the Investment Director team, Risk Management and Portfolio Analysis Group.

The Investment Directors report directly into the Head of Equities, Paul Quinsee, and escalate any issues, including material negative ESG exposures, into the Equity Investment Operating Committee.

For more information on our approach to ESG Integration please contact your J.P. Morgan Asset Management representative.

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