



ESG integration at J.P. Morgan Asset Management

Global Liquidity

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

Global Liquidity

Research / due diligence

We use both top-down and bottom-up approaches to thoroughly analyze issuers, including ESG risks and opportunities that may affect issuers' current and future cash flows.

Proprietary, fundamental bottom-up credit analysis forms the foundation of our approach to ESG integration. We analyze companies across a range of inputs including company regulatory filings, annual reports, company websites, direct communication with issuers, media, third-party and proprietary research.

To complement and accompany the analysts' qualitative research we have developed a proprietary materiality matrix across fixed income markets. This matrix serves to highlight ESG-related risk factors and focuses on key ESG-related factors within each sector. Proprietary quantitative ESG rating systems have also been developed to capture the nuances across specific fixed income markets. These include a 40-question ESG checklist for the corporate bond market, at both the ticker and specific bond level; country ESG rankings for developed markets; and systematic identification of ESG leaders and laggards in the securitized market.

These ESG-related frameworks allow analysts to make informed decisions on the ESG profile of each issuer within its respective sectors. More detailed information on each sector team's ESG frameworks can be found in the GFICC section of this report on page 17.

In addition, the J.P. Morgan Asset Management proprietary data-driven ESG score being developed by the Sustainable Investing team, mentioned on page 11, provides further breadth of ESG data using proprietary methodology.

As a supplement to these proprietary tools, our common technology platform — Spectrum™ — displays third-party ESG data for each issuer, tracking individual environmental, social and governance scores, and changes to those scores, over time.

Our analysts form opinions based on their independent research and judgment, and produce reports—containing specific sections for ESG comments which are leveraged across different asset classes when appropriate. The analysts apply a fundamental credit rating to each issuer, and this rating, which can be adjusted based on ESG concerns, ultimately determines an issuer's maximum lines using Global Liquidity's credit guidelines. These guidelines set maximum tenors (duration) and exposures at both the platform level and within each fund and account.

For a more detailed review of the Research/due diligence process, please refer to the GFICC section of this report, at page 17.

Portfolio construction

Portfolio managers use both proprietary ESG views and third-party ESG research to evaluate overall risk in Global Liquidity portfolios. Research analyst opinions are shared with Portfolio Managers through Spectrum™. Through this technology platform, Portfolio Managers can access the qualitative ESG-related factors as well as the proprietary and third-party ESG quantitative frameworks, all of which can play a factor in security selection decisions.

Portfolio Managers regularly discuss ESG-related topics with the respective analysts to understand how ESG risks specifically affect an issuer's fundamental rating. When ESG factors are material and impact an issuer's rating, these factors will also determine how Portfolio Managers can manage exposure to an issuer from both duration (tenor) and absolute exposure across the Global Liquidity product line.

Portfolio Managers allow for ESG opinions to be differentiators for names within the same sector, as well as an overall risk tool for top-down portfolio analysis. For example, when two names have similar fundamentals and relative value, ESG scores can help differentiate positioning based on good governance, environmental initiatives, and/or social impact.

Our proprietary trading system shows third-party environmental, social and governance factor scores for each credit we are evaluating and calculates the impact to the portfolio ESG score. This allows Portfolio Managers to review similar trade opportunities (by yield and maturity) and integrate ESG factors into their security selection decision-making.

Global Liquidity continued

Engagement

As bondholders, we do not typically carry voting rights. However, as providers of financing, we have the ability to advocate for and influence positive change by actively engaging on a wide range of ESG issues with a variety of market participants.

Frequent collaborative meetings with company management teams or governmental issuer representatives help illuminate ESG risks and opportunities identified as material and relevant in an effort to positively influence issuers to adopt best practices. This information informs the overall ESG analysis within the proprietary fundamental 40-question analysis. The results of our ESG engagement are reflected in the research reports produced by analysts, and feed back into the overall view of an issuer. Portfolio managers work with research analysts to understand how engagement opportunities are impacting the overall view of a credit.

Below are a few key ways we engage with management teams and other stakeholders:

- Have board representation on industry bodies, where we encourage closer cooperation among issuers on key ESG initiatives.
- Work with rating agencies to promote better corporate behavior in certain sectors and encourage cooperation between legislators, issuers and other industry bodies.
- As previously stated, ESG integration is dependent on the availability of sufficient ESG information on investee issuers. Recognizing the existing limitations around ESG data quality and availability, we collaborate with data providers to encourage them to improve the overall coverage of the fixed-income universe with timely and accurate data.

The results of our ESG engagement are reflected in the issuer reports produced by research analysts, which in turn feed back into the investment process.

Documentation and monitoring

Roles and responsibilities around ESG integration within Global Liquidity are as follows:

- Research analysts are responsible for conducting fundamental ESG research, engaging with issuers and ongoing monitoring of the ESG opinions for each credit they cover. Research analysts are also responsible for assigning an overall security rating that has ESG inputs within the fundamental analysis.
- Portfolio managers own portfolio construction and investment decisions, aided by our systematic incorporation of research analysts' ESG views and third-party ESG scoring.
- Credit and Risk Administration owns the Global Liquidity risk matrix overlay and oversight of portfolios from an ESG risk perspective at both platform and individual fund levels.
- The Global Liquidity ESG Leadership team oversees Global Liquidity's continued progress on sustainability efforts including training, product development, and thought leadership.

Qualitative analysis and quantitative metrics related to ESG are housed in our common technology platform, Spectrum™, to ensure full transparency and access for all investors. This documentation includes analysts' credit opinions, which have dedicated ESG sections, and meeting reports, for which we have built out the tagging and search functions to improve the ability to track our engagement practices. It also includes the J.P. Morgan Asset Management data-driven ESG score and data from third-party ESG providers, again accessible for all investors.

Vendor-provided and proprietary ESG metrics are available within Global Liquidity's trading systems. Portfolio strategy and positioning across multiple factors are evaluated at monthly investment reviews attended by the Global Liquidity Chief Investment Officer, Credit and Risk Administration, Research Analysts, Investment Managers, Finance, Independent Risk, and Legal. This includes a review of ESG characteristics and trends across the Global Liquidity platform, and highlights the largest exposures to the highest- and lowest-rated issuers using MSCI ESG scores.

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

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