2024 Investment Stewardship Report

Investor-led, expert-driven

April 2025

This report is as of December 31, 2024 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.

J.P.Morgan
ASSET MANAGEMENT

Contents

Back to contents

Foreword

George Gatch

Chief Executive Officer,
J.P. Morgan Asset Management

In 2024, we saw a new economic era emerging and with it we saw a number of opportunities, despite often challenging headlines. So, how do we continue to navigate the spectrum of opportunities and risks faced by our clients? As an active investment manager and a fiduciary, we have a deeply-held conviction that in-depth research and rigorous analysis – by experts across functions, sectors and regions – are key to delivering long-term risk-adjusted returns for our clients. Our approach to investment stewardship is aligned with this vision, and we consider active engagement as an important tool to maximize returns in our investment processes over time through constructive and open dialogue with investee company management and board of directors.

Against this backdrop, we are pleased to launch J.P. Morgan Asset Management's fifth annual Investment Stewardship Report. In 2024, we leveraged the power of J.P. Morgan Asset Management's access and expertise across global markets and continue to deepen our commitment to fundamental research and expand the resources supporting our overall investment stewardship programs.

We seek to deliver stronger investment outcomes, including by focusing our engagement dialogue on the most financially material issues that we believe impact the long-term performance of companies in which we invest. Additionally, we advocate for robust corporate governance and sound business practices. We believe that understanding the breadth of financially material issues plays an important role in delivering long-term value creation for our clients. Our efforts are supported through one of the largest buy-side research networks of approximately 300 equity and credit analysts globally, complemented by a dedicated stewardship team.

During 2024, we engaged with hundreds of companies globally to better understand and encourage them to develop and adopt their own practices to manage risk and create long-term shareholder value. Our engagement continued to be shaped by important medium- and longer-term material financial risks and opportunities faced by investee companies around our six stewardship priorities. These included climate change, natural capital and ecosystems, human capital management, social stakeholder management, governance, and strategy alignment with the long-term.

We engaged with companies in the artificial intelligence data center value chain, including data center operators, as the risks associated with the intensity of energy and water resource usage became increasingly apparent in this rapidly growing space. We assessed the merits of a series of high-profile activist investor campaigns at major companies in the U.S. and also in Japan. Additionally, we made a series of insightful field trips to experience matters on the ground and see the impacts of corporate practices first-hand.

On behalf of J.P. Morgan Asset Management, 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.

Thank you for your continued feedback, trust and confidence.

Back to contents

J.P. Morgan Asset Management

JPMorgan Chase & Co.

JPMorgan Chase & Co. ("JPMorganChase" or the "Firm") is a leading financial services firm based in the United States of America ("U.S."), with operations worldwide. JPMorganChase had $4.0 trillion in assets and $344.8 billion in stockholders' equity as of December 31, 2024. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers, predominantly in the U.S., and many of the world's most prominent corporate, institutional and government clients globally.[1]

J.P. Morgan Asset & Wealth Management

J.P. Morgan Asset & Wealth Management is a global leader in asset and wealth management services. The Asset & Wealth Management line of business serves institutional, ultra-high net worth, high net worth and individual clients. With combined overall client assets of USD 5.9 trillion and assets under management of USD 4 trillion as of December 31, 2024, we are one of the largest asset and wealth managers in the world.

J.P. Morgan Asset Management (JPMAM) is the marketing name for the investment management businesses of JPMorgan Chase & Co. and its affiliates worldwide. Unless otherwise noted, the focus of this report throughout is on J.P. Morgan Asset Management.

JPMAM is a leading investment manager of choice for institutions, financial intermediaries, and individual investors, offering a broad range of core and alternative strategies, with investment professionals operating in every major world market providing investment expertise and insights to clients. J.P. Morgan Asset Management oversees more than USD 3.4 trillion in client assets under management globally as of December 31, 2024.

For more details, please see the section J.P. Morgan Asset Management – Who we are.

[1] This report describes J.P. Morgan Asset Management's approach to investment stewardship. Please note that J.P. Morgan Asset Management's approaches are separate from JPMorgan Chase & Co. References to "we" or "our" in this document refer to J.P. Morgan Asset Management and not JPMorgan Chase & Co.

Part 1

Engagement and voting in 2024

Engagement in 2024: a year in review

In 2024, there continued to be significant interest in the stewardship practices of the asset management industry from clients and stakeholders worldwide. What continued to hold firm was our conviction that engagement and proxy voting should be shaped by in-depth active research, driven by investment outcomes and focused on the most financially material issues. This allows us to be stewards of capital in the best long-term interests of our clients.

In our entire Global Stewardship Program, we engaged 1,135 companies in more than 50 markets around the world. We reviewed and upgraded our technology systems to log and categorize our engagement activity through 2024 so, it may not be comparable directly with our engagement statistics from earlier years.

These engagements include in-depth engagements as part of our Enhanced Engagement Program. This program continues to be a focus of our time and effort and includes engagement with 412 companies in 2024. This included approximately 130 companies on our global focus list. For full details on the Enhanced Engagement Program, please refer to the section Our Approach to Engagement.

We have continued engaging on financially material topics related to our stewardship priorities, including increasing our engagement on climate change-related risks where appropriate. In light of the sudden growth in the use of artificial intelligence (AI) and the expectation that this will drive huge increases in data center power demand, we have engaged companies across the value chain on the environmental risks this presents. Details of this thematic engagement project can be found in our climate change chapter.

From a thematic perspective, the top three areas of engagement by issues were Human Capital Management, Governance and Climate Change. These remain unchanged from the previous year. More details are provided in the following sections, which report on our engagements by each stewardship priority theme area.

We continually work to improve the transparency, quality and impact of our stewardship reporting. In the following thematic chapters, you will find three areas of focus for improvement:

1. Effective April 1, 2024, we implemented a new section in our Global Proxy-Voting Guidelines, addressing our voting policies related to the management of financially material climate risks. The guidelines make clear that we encourage disclosures of minimum climate-related indicators for companies in sectors particularly exposed to financially material climate risks. In our climate change chapter, we report on votes against directors related to this change in our voting guidelines for the first time.
2. We have expanded our disclosure regarding stewardship in Alternatives. We include greater detail on our stewardship activities for real estate investments, in addition to a case study demonstrating our stewardship of forestry assets at Campbell Global.
3. In 2024, we have increased engagement on our newest theme, natural capital and ecosystems. In this chapter, you will find further details on our engagements related to plastics and water scarcity risks, as well as details on our voting related to this important and emerging theme.

Engagement in 2024: a year in review continued

2024 Engagement in numbers

1,135
companies engaged

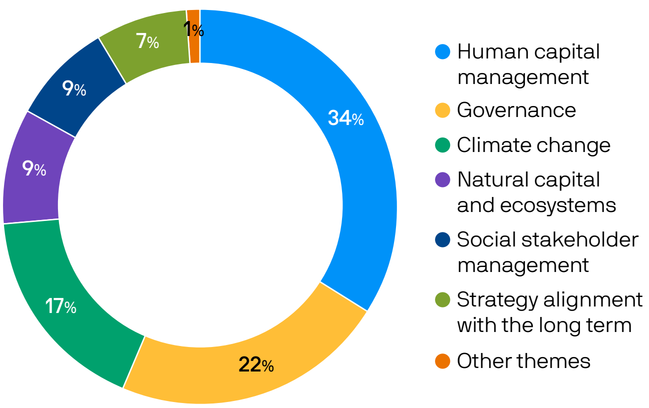
412
of which were in our Enhanced Engagement Program

50+
markets engaged globally

130
approximately which were 2024 Focus List companies

More than **650**
engagements with board directors (incl. chair) or senior executives

Engagement by investment stewardship priority issues



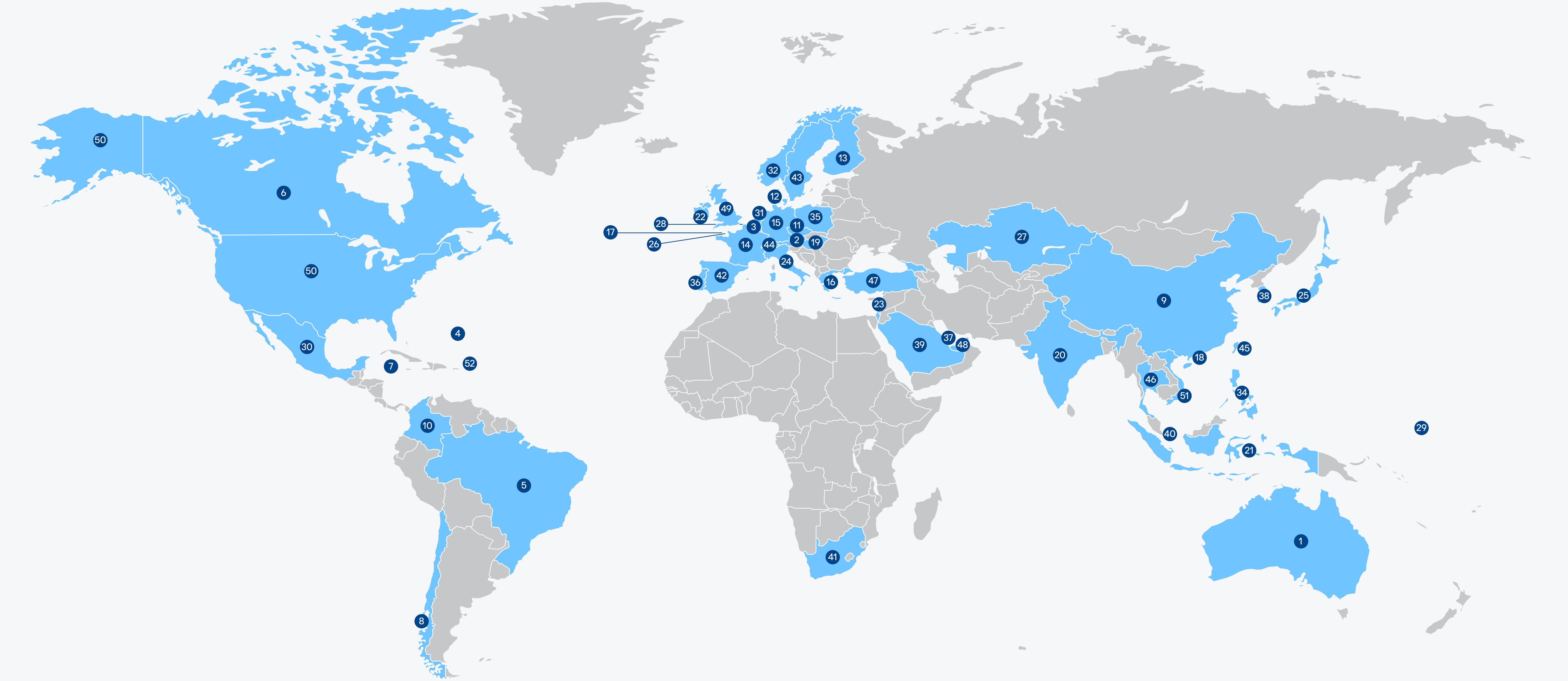
Engagement by sector

Sector	%	Sector	%
Industrials	17.7	Health Care	5.6
Consumer Discretionary	14.4	Energy	5.2
Information Technology	12.4	Communication Services	4.7
Financials	12.0	Utilities	4.6
Consumer Staples	10.0	Real Estate	2.1
Materials	10.0	Other (incl. Sovereigns)	1.5

* Percentages may not add up to 100 due to rounding.

Engagement in 2024: a year in review continued

Engagement by market



1	Australia	1.8%
2	Austria	0.4%
3	Belgium	0.3%
4	Bermuda	0.4%
5	Brazil	2.6%
6	Canada	0.7%
7	Cayman Islands	3.5%
8	Chile	0.1%
9	China	3.2%
10	Colombia	0.3%
11	Czech Republic	0.1%
12	Denmark	0.8%
13	Finland	0.2%
14	France	3.0%
15	Germany	2.6%
16	Greece	0.4%
17	Guernsey	0.1%
18	Hong Kong	1.1%
19	Hungary	0.1%
20	India	5.4%
21	Indonesia	0.4%
22	Ireland	0.6%
23	Israel	0.1%
24	Italy	1.3%
25	Japan	13.5%
26	Jersey	0.6%
27	Kazakhstan	0.2%
28	Luxembourg	0.6%
29	Marshall Islands	0.1%
30	Mexico	1.4%
31	Netherlands	1.5%
32	Norway	0.6%
33	Other	1.4%
34	Philippines	0.3%
35	Poland	0.9%
36	Portugal	0.2%
37	Qatar	0.1%
38	South Korea	3.7%
39	Saudi Arabia	1.6%
40	Singapore	0.5%
41	South Africa	1.3 %
42	Spain	0.9%
43	Sweden	0.8%
44	Switzerland	1.5%
45	Taiwan	1.8%
46	Thailand	1.6%
47	Turkey	1.6%
48	United Arab Emirates	0.4%
49	United Kingdom	12.4%
50	United States	20.7%
51	Vietnam	0.3%
52	Virgin Islands (British)	0.3%

Our approach to engagement

J.P. Morgan Asset Management has deeply-held convictions that in-depth investment research and rigorous analysis by experts are key to delivering long-term, risk-adjusted returns for our clients. Our approach to engagement is aligned with this vision and is an important part of our investment processes.

Engaging investee companies in dialogue and encouraging sound corporate practices (including around managing financially material environmental, social and governance (ESG) issues) is an important component of how we deliver our investment stewardship strategy. Our engagement is based on our in-depth investment research on companies, alongside our assessment of macroeconomic drivers, sector-specific factors and financially material themes.

This research insight enables us to act proactively and encourage investee companies to acknowledge issues and improve practices before risks are realized and opportunities are missed. This is how we seek to drive impact in our investment stewardship activity and advocate for sound practices at our investee companies. We believe this will ultimately preserve and enhance asset value.

Our engagement is based on these four principles:

- **Intentionality**: We are determined to act in the best interests of our clients by encouraging investee companies to focus on prudent allocation of capital and long-term value creation.
- **Materiality**: We strive to understand how factors impacting sustainability are financially significant to individual companies over time, understanding that the regions, cultures, and organizations in which we invest differ greatly.
- **Additionality**: We focus on strategic issues that are most urgently in need of our focus in order to deliver better long-term returns to our clients. We believe that as large investors, we have the ability to put our resources to work towards achieving the outcomes we seek on behalf of our clients.
- **Transparency**: We seek to be clear about the investment stewardship work we do and take steps to be transparent to our stakeholders, as we expect the same from investee companies.

Alongside the ongoing dialogue that we have with investee companies throughout the year, proxy voting at annual general meetings is another key tool we utilize in our investment stewardship activities. Demonstrating our views through proxy voting is increasingly relevant across our Investment Stewardship Priorities.

Investor-led, expert-driven engagement

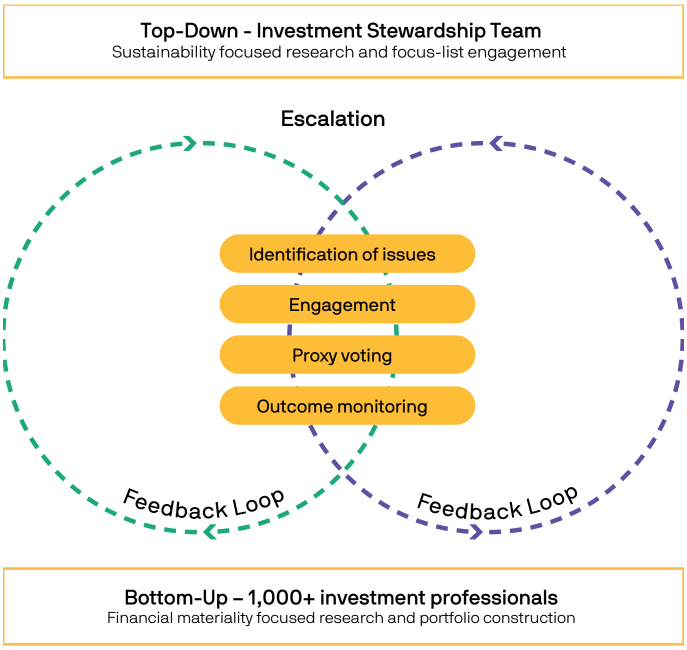
Our engagement model is built on an investor-led, expert-driven approach and leverages the knowledge of more than 1,000 investment professionals around the world, working in close collaboration with investment stewardship specialists. Our engagement process benefits from the longstanding relationships our investment teams have with local investee companies, through regular interactions with board directors and chairs, senior executives and CEOs. We believe this collaborative, well-resourced approach enables us to recognize significant risks early and identify new opportunities, supporting our goal of generating attractive risk-adjusted returns.

Combining our ESG research capability with the experience and skill of our investment teams and the expertise of our investment stewardship specialists gives us a deep understanding of the risks and opportunities facing different sectors, industries, and geographies. By integrating this expertise into a global common platform, we seek to maintain a consistently high standard of engagement, considering the myriad of nuances a responsible investor needs to embrace. Through engagement, we seek to encourage long-term sustainable outcomes in investee companies. Ultimately, the objective is to build stronger and more resilient portfolios for our clients.

Back to contents

Our approach to engagement continued

J.P. Morgan Asset Management Engagement Model



Source: J.P. Morgan Asset Management, as of December 31, 2024.

J.P. Morgan Asset Management's six Investment Stewardship Priorities

We have identified six Investment Stewardship Priorities that we believe can be broadly applied in our engagement efforts and will remain relevant through market cycles. These priorities address the ESG issues that pose the most significant long-term material financial risks to our investments, while also presenting the greatest opportunities. Engaging on these topics is therefore important to delivering value to our clients. This combination of priorities and evolving themes provides a structured and targeted framework for engagement for our investors and Investment Stewardship team globally.

The priorities are:

- Governance
- Strategy alignment for the long term
- Climate change
- Natural capital and ecosystems
- Social stakeholder engagement
- Human capital management

As we delve deeper into each of the six priorities in this report, we highlight specific engagement case study examples that address the key areas of material change we seek to encourage at our investee companies to manage risk and improve investor value. We also provide examples of how our proxy voting activity is informed by these issues.

It's important to note that while we believe these six priorities to be relevant across asset classes, strategies, and geographies, we acknowledge that our engagement activity will reflect material differences between industries, regions, and financial markets.

For example, in the area of human capital management, U.S. engagements have focused on labor practices at technology and consumer-facing services companies; in Asia, the focus has been on the global supply chain. The same issue can differ by industry: We may ask a clothing retailer to provide its Tier 1 supplier list due to concerns regarding supply chain risk, but we would rarely request this information from an insurance company.

Similarly, within climate change engagements with extractive industries, methane emissions figure more prominently in discussions with North American companies. Discussions in emerging markets where there may be less regulation, on the other hand, may focus on providing meaningful transparency on emissions performance.

Within long-term alignment engagements, engagement in the U.S. emphasizes pay for performance alignment given the quantum, and increasing complexity, of compensation plans. In the UK, compensation discussions have focused on equity and the generous pension terms granted to executives versus regular employees. In many other markets, we still seek meaningful information on establishing basic good practices around executive pay.

Our approach to engagement continued

Our Investment Stewardship Program

In 2024, there were thousands of meetings between our investment team members (e.g., research analysts and stewardship experts with board directors, senior management, and operational experts from investee companies) as they engaged with 1135 companies. The focus and purpose of our discussions are shaped and informed by our in-depth analysis of investee companies' strategy, financial performance, and key practices on ESG issues with material financial impact (please refer to the section on ESG Integration for full details). Through our regular and ongoing interactions with companies, we discuss a range of issues including financially material ESG factors, and we highlight areas of good practices we believe they should aspire to. We systematically track and monitor these interactions as part of our Core Stewardship Program. Through this program, we focus on issues that we believe investee companies should address to protect value by minimizing risk and to create value by capitalizing on opportunities. We assess companies' responses to engagement and monitor the progress being made over time, including around the transparency of sustainability practices. Alongside our dialogue with investee company representatives, proxy voting is also an important component of our approach.

However, we also recognized that there is a need for a program of in-depth engagements. These are cases where we allocate more of our time and resources to engaging a narrower group of companies which our research and analysis have identified to be of need. Our Enhanced Engagement Program aspires to meet the expectations of our global investment teams across asset classes, and of our clients and stakeholders around the world, to manage risk and promote long-term shareholder value at investee companies that most merit our time and attention.

The three key pillars of our Enhanced Engagement Program are:

- **Focus list**: This is a list of companies in our portfolios held in equities and corporate credit, which includes companies that issue no public equity and are bond-only issuers, where we have meaningful investment exposure, and our research has identified areas of financially material ESG risks and opportunities. This list is agreed upon with the relevant JPMAM investors. We assess our ability to drive improvement through engagement with these companies, considering issues such as our previous track record, the company's acknowledgement of the issue and broader regulatory factors shaping the circumstance.

  We then establish clear objectives up front and seek to encourage companies to develop and implement their own plans to address our concerns over the course of 18-36 months, depending on the complexity of our concerns. Key focus issues are largely around our six Investment Stewardship Priorities where we have in-house expertise, but we are not limited to such topics, as companies may face unique issues and risks.

  The focus list in 2024 consisted of approximately 130 companies. Progress of engagement is regularly monitored to assess next steps and is a key component in the periodic review of the inclusion of the companies on the list.

- **Thematic projects**: Alongside the focus list, we run engagement initiatives on specific themes aligned with the six Investment Stewardship Priorities, where we target a broader number of investee companies on the same set of issues. The aim is to engage around 30–40 companies throughout the lifetime of a particular project.

  For example, in 2024, we started a thematic project with regard to data centers and environmental resource use impact. More details on this project are to be found in the climate change engagement section.

Our approach to engagement continued

- **Reactive engagements**: While we endeavor for our proactive engagement to encourage our investee companies to be more resilient to financially material ESG risks and more alert to capitalizing on opportunities, there are always corporate actions, notable events, major developments, controversies, norms breaches and matters arising from the proxy voting process that require reactive engagement. This can also include long-running issues being uncovered with regard to controversial corporate practices, products and services. For more details on this, please refer to the Reactive Engagement section of this report.

Establishing objectives and evaluating progress

The objectives for engagements are set using a variety of inputs and guidelines, ranging from proprietary analysis and guidance provided by our investment teams to our proxy voting guidelines and the expectations set in the six Investment Stewardship Priorities. For example, with collaboration from JPMAM investors, we may identify problematic features incorporated in, or absent from, a company's executive remuneration plan. We may define the objective as the removal or inclusion of such features.

Monitoring of progress on engagements is facilitated by setting engagement objectives and systematically using our documentation system to identify the status of the engagement. Further discussion on engagement tracking can be found in the Engagement Progress, Milestones and Failures section.

How we engage with companies

Engagement with investee companies can be conducted through in-person meetings, video or phone calls, speaking engagements, formal letters or emails, and field trips. This is largely done on a one-to-one basis, but we may collaborate with other asset managers, where permitted and in accordance with applicable regulation, where we consider it to be an effective approach to progress the engagement.

Please refer to the section on Collaborative Engagement for more details.

We enjoy good access to companies and, as a result, many of our engagements are conducted with representatives at senior levels of the company. This includes the board of directors, senior executives, general counsel, and operational specialists from the company who have subject matter expertise, such as heads of compensation, or investor relations.

Increasingly, our interactions with companies in the Core Stewardship Program on ESG issues are led by investment research analysts responsible for primary coverage of the company in equity and corporate bonds. They are supported by the thematic expertise on ESG issues by the Investment Stewardship team.

We consider it to be a key part of our approach to ESG integration that the investors should play an active and visible role in driving stewardship, which shapes the long-term investments they seek to have with investee companies. This is critical to our investment success, in the quality of engagements and the focus on clear outcomes in a time-bound fashion. Generally, it can take several years before our engagements yield tangible results; we expect an engagement timeframe of about three years before our milestones are achieved.

We believe that, for the majority of significant ESG matters, our JPMAM equity and fixed income investors typically share a common perspective on what serves the company's best long-term interests. This alignment is increasingly supported by collaborative engagement efforts between our Fixed Income and Equities teams. However, we acknowledge that there are certain issues, like capital structure or the scale of buybacks, where their views may differ. This is now backed up by experience where there is growing collaboration on engagement between our colleagues in Fixed Income and Equities teams. We note that there are some issues on which they may diverge, such as capital structure or magnitude of buybacks.

Engagements involving voting issues related to annual stockholder meetings, also referred to as annual general meetings (AGMs), are attended by equity investors in addition to members of the Investment Stewardship team.

Our approach to engagement continued

Escalation

Engagements with targeted companies are documented, allowing us to monitor the stage of engagement. There will be times when, despite prolonged engagement, our concerns around managing risks and increasing and preserving the long-term value of our client accounts have not been addressed. Under such circumstances, we may undertake the following forms of escalation depending on the circumstances:

- meetings with non-executive directors, a lead independent director or chair;
- voting against management and the non-executive directors;
- communication to the chair or lead independent director disclosing our voting rationale;
- collaboration with other investors or public statements with other investors as appropriate; and
- reduction in holdings or divestment in certain cases.

It is important to note that securities of companies may be purchased and retained for financial reasons, irrespective of the level of success of engagement activity.

Having reviewed the potential benefits of such action on our objectives, We will escalate concerns, while acting in the best long-term interests of our clients. Our approach to escalation considers the facts and circumstances of each specific case. However, we note that voting escalation is principally aimed at equity holdings rather than other asset classes where the opportunity to vote is far rarer. We do not generally differentiate our approach to escalation based on geography or fund type – unless there is a valid reason (e.g., our approach to proxy voting for Russian companies following the 2022 invasion of Ukraine or certain votes specific to sustainable strategies).

Collaborative engagement

Collaborative engagement is defined by JPMAM as when we have joint dialogue alongside other institutional investors with investee companies on financially material issues. Such collaborative engagement can occur, for example, through direct meetings with a company, via joint written communication to a company requesting more information on a given topic or investor calls.

Most of our engagements are one-on-one dialogues with companies. Even though we make our own independent investment and proxy voting decisions, there are cases where we also consider that collaborative engagements can be an effective way to impress upon companies common concerns shared by investors and understand individual company situations with respect to their exposure to financially material risks and opportunities, and how these affect investor value. We find collaborative engagement to be effective when one-to-one engagement does not result in a meaningful response or progress over time.

The focus for us on collaborative engagement is no different than one-to-one engagement; it is to utilize our investor rights and meet our fiduciary duty to deliver the best long-term outcome for our clients. It is based on understanding risks that are financially material to investee companies and stating our expectations for the robust and rigorous management of these risks so that they do not harm investor value. This includes assessing how companies are taking advantage of competitive opportunities to innovate in response to consumer demand and regulatory requirements around the world.

Collaborative engagement is supported by and encouraged by regulators, in certain markets, on certain issues. For example, in the UK, climate change industry collaboration is seen as important and expected. While adhering to all applicable rules and regulations, such as antitrust and competition laws, we believe that collaborative engagements can facilitate effective communication of investor concerns to companies.

Our approach to engagement continued

With attention on collaborative engagements, it is important for clients to understand what "collaborative engagement" entails and what it does not. For example, while collaborative engagements involve multiple investors (such as other asset managers) who share common concerns around risks and opportunities facing individual companies, each investor makes their own investment and proxy voting decisions. JPMAM does not share competitively sensitive information regarding its client accounts or its investment decisions with other investors. It does not work in concert with other investors on investment matters and makes its own independent decisions concerning investee companies, including how to vote proxies and whether to change its allocations, invest in, or divest from an investee company. Investee companies make their own strategic decisions based on their own assessment of the balance of views from various parties.

Human rights risks

We believe the effective management of human rights risks can mitigate reputational, regulatory and legal risks amongst others and, ultimately, is in the best interest of shareholders and our clients. We view respect for human rights as important to the long-term value of companies in which we invest, considering the evolving human rights due diligence regulatory framework and their legal, reputational and financial implications.

Governance initiatives

In 2024, we were members of governance-focused initiatives such as the UK 30% Club Investor Group, Japan 30% Club Investor Group and its Best Practice Working Group and its Thought Leadership Working Group and a member of 30% Club Hong Kong Investor. In 2024, we participated in the 'Next Generation Leaders Development Program in the Financial Industry,' an event where female board members from corporations are invited. This event was hosted by the 30% Club Japan Investor Group and supported by the Asset Management Women's Forum. Established in 2022, the Forum aims to promote the advancement of women in the asset management industry in Japan. Our Japan Asset Management unit became a member of this Forum in 2023.

In 2024, we worked with the Asian Corporate Governance Association (ACGA) on corporate governance issues in Asia. We are a member of its China Working Group, Korea Working Group and Japan Working Group. Meeting with investee companies to discuss their governance issues, including their governance of material issues, is a key activity of these countries working groups.

In 2024, in addition to engaging with investee companies through these three working groups, we have also participated in the ACGA Member Delegations to Korea in April and Japan in September. Alongside other institutional investors, we had constructive dialogues with regulators and industry bodies, as well as investee companies.

Back to contents

Our approach to engagement continued

Felix Lam, Asia ex Japan Head of Investment Stewardship, speaking in a panel discussion at ACGA Conference in Singapore about transparency and executive compensation structures in Asia.

In recent years, Japanese companies have undertaken reforms to enhance corporate value, a key factor in the stock market's strong performance. Effective resource allocation is crucial for Japan's economic revival, benefiting all stakeholders.

However, "strategic shareholdings,"[2] remain entrenched. These are often criticized for inefficient capital use and hindering corporate reforms. Despite some divestments and guidance from Japan's Financial Services Agency for insurance companies to divest, progress has been slow, especially outside the financial sector.

In collaboration with other investors and ACGA, we issued an open letter urging the acceleration of strategic investment reductions where it is an inefficient use of capital. The letter, which includes governance recommendations, can be found here.

A full list of industry group memberships can be found on our website.

Engagement progress, milestones, and failures

We have implemented an approach to tracking engagement progress and recording milestones where objectives have been achieved. The aim is to make sure our engagements have a positive impact on risk and value at individual companies and investee companies are responding in a constructive fashion over time. It also allows us to identify areas where progress is slow and enable constant improvement of our engagement methodology and framework to achieve better outcomes effectively for our clients. We have established an ESG engagement recording system in our Spectrum™ technology platform[3] with the aim of enabling the systematic tracking of engagement progress.

In 2024, we continued to evolve and strengthen our approach to tracking engagement progress and recording milestones and engagement failures.

We identify financially material ESG issues at investee companies held in our portfolios and then initiate our engagement by discussing our concerns with companies and subsequently asking them to identify actions to address issues we believe are important for our client accounts. In most cases, engagement can take time to progress. It takes time before a board or management acknowledges an issue and starts to define and implement a roadmap of action to deliver meaningful change. Sometimes, issues we raise in our engagements can lead to the investee companies determining to make structural and organizational changes that are not easy or quick to achieve, which have impacts on business models, strategy, and investments. Generally, it can take several years before our engagements yield tangible results; we expect an engagement timeframe of about three years before our milestones are achieved.

[2] Strategic shareholdings, which include allegiant and cross-shareholdings, serve to form business relationships between group companies and their suppliers and customers.

[3] Spectrum™ is J.P. Morgan Asset Management's common technology platform. For more information please see the Resources we share across the JPMAM system section in Part 2.

Back to contents

Our approach to engagement continued

Our approach to engagement progress and milestone tracking

In order to check that our engagements are on track and progressing over time, we have established four stages in our engagement journey. The progress stages are:

1 **Issues raised to the company**

2 **Issues acknowledged by the company**

3 **The company develops a strategy to address the issues**

4 **The company implements changes and milestone are achieved**

We have also identified scenarios where we have concluded that no positive outcomes can be expected in the given timeframe:

0 **Engagement failed**

Our engagement progress in 2024

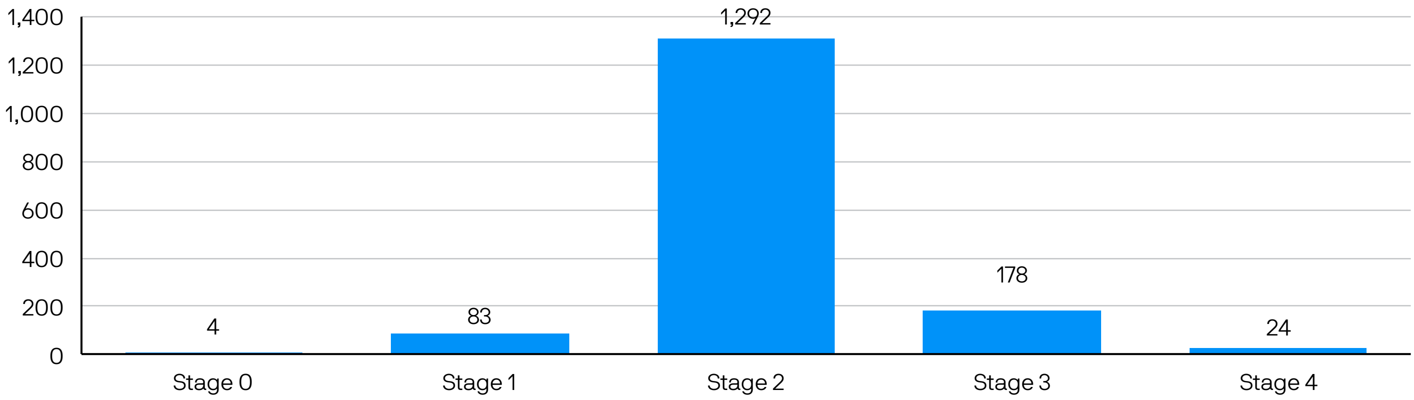
The chart below shows the stage of different engagements at the end of 2024.

In 2024, we observed more than 200 cases where engagements progressed from stages 1 and 2 to stages 3 and 4, moving engagements to their objectives as shown in the chart above. We recorded engagement progress and milestones in each area of our priority across all regions (see the Engagement progress by stage chart below for examples). This included the engagement priority of natural capital and ecosystems, which was added to our priorities in December 2022, and engagements ramped up through 2023 and 2024. Some successful cases are explained in more detail in the engagement case studies section.

We have observed successful engagements with investee companies taking steps to manage financially material risks and promote long-term value tend to have concrete objectives, such as, where applicable, reducing Greenhouse Gas (GHG) emissions, improving board structure, or revising the remuneration scheme. We have also found that companies are proactive in improving disclosures when asked for more transparency, by publishing reports on sustainability, human capital, human rights, TCFD or remuneration policy.

There was also a case where, despite our long-term efforts in engagement to understand how the company protected the rights of minority shareholders, our purpose was not achieved.

Engagement progress by stage



Source: J.P. Morgan Asset Management, as of December 31, 2024.
Note: In cases where there are several engagement themes for one company, engagement milestone for the company is measured against the theme where there was the most progress.

Back to contents

Our approach to engagement continued

Table of 2024 engagement success examples

Company	Country	Priority	Milestone detail
Saudi Electricity Company	Saudi Arabia	Climate Change	Established a long-term decarbonization target by announcing a net zero by 2050 ambition, in line with the Kingdom of Saudi Arabia's aim to achieve net zero emissions by 2060. The company also set a grid emissions intensity target.
Valero Energy Corp	US	Climate change	The company updated the waterfall chart showing its emissions reductions/displacements on its website to clearly separate the categories of actions (i.e., emissions reductions, fuel displacements, and carbon capture/storage) and had three different outside firms evaluate their presentations for greenwashing risk before proceeding with their updated presentation. We had encouraged the company through multiple engagements to clearly define the different categories, as we believed the former presentation may expose the company to greenwashing risk.
Lenovo Group Ltd	HK	Social stakeholder engagement	Incorporated responsible AI as a social material topic in its FY23/24 ESG report and committed to UNESCO's AI ethics recommendations in February 2024. The company has also detailed its responsible AI principles and guidelines in its latest ESG report. Additionally, Lenovo appointed a Chief Security and AI officer to lead AI governance, reporting directly to the CEO. After initial discussions in March 2022, Lenovo has made significant progress in its commitment to responsible AI.
China Construction Bank Corp	China	Human capital management	Following our letter of recommendations sent in 2022, the bank disclosed its employee satisfaction survey results in its latest semi-annual ESG report. The results reflect issues including the need for continuous optimization of incentive policies, alleviation of work pressure, and ongoing strengthening of employee development.
Tokyo Electron Ltd.	Japan	Governance	At the June AGM, a new independent director and a female independent director were appointed. After several years of our engagement, the board has achieved a majority of independent directors, and its diversity has improved in terms of both nationality and gender.
Prologis Inc	USA	Strategy alignment with the long term	The company has made significant changes to its equity compensation plans in response to concerns about outsized pay levels. Starting in 2024, executives will no longer receive grants from the Prologis Outperformance Plan (POP), and the compensation pool for the Prologis Promote Plan (PPP) will be reduced from 40% to 25% of incentive fees. Additionally, the CEO's pay will be capped at $25 million, with equity awards valued at the target payout. These changes were announced following engagement with the company, addressing many of the expressed concerns.

Back to contents

Our approach to engagement continued

Case study – unsuccessful engagement

The Kansai Electric Power Co. | Japan | Equity

Issue

Kansai Electric Power Co., Inc. (KEPCO) is a Japanese electric utility company primarily operating in the Kansai region. In November 2024, the Company decided to raise additional equity through a public offering, resulting in significant share dilution. This decision was made without providing transparent explanations to investors.

Action

Since 2020, our stewardship team in Japan has been actively engaging with KEPCO to enhance its governance practices, following repeated reports of controversies, including bribery and cartel activities. Our engagement objectives for the Company included enhancing oversight of compliance and protecting shareholder rights by ensuring a clear separation between management and the Board, and improving the independence of the Board and its committees to strengthen management monitoring. In response to the Company's controversies, KEPCO implemented several corporate governance reforms, including the transition to a company with three committees and adoption of a majority-independent Board to better reflect shareholders' interests and provide greater oversight of management.

Despite these reforms, KEPCO's decision in November 2024 to raise equity through a public offering significantly diluted shareholder rights. Due to limited disclosure on this matter, we conducted a follow-up engagement meeting with the Company to gain a better understanding of the rationale behind this decision. Unfortunately, our efforts were unsuccessful, as the Company failed to justify the necessity for additional capital. They were unable to provide clear answers to several questions: whether debt financing had been explored, if the cost of capital was evaluated before the public offering, whether there are clear M&A or capex plans necessitating the equity raise, and what was discussed by the Board of Directors. In response, we advocated for greater transparency regarding the use of proceeds, how the capital raised would contribute to sustainable mid- to long-term growth, and the perspectives of outside directors on this dilution.

Outcome

We concluded that the governance reforms implemented in recent years did not contribute to enhancing shareholder value and we consider this engagement to be unsuccessful.

Our approach to engagement continued

Reactive engagements

Our engagement program is largely based on proactive engagement; however, we also engage on a reactive basis in response to real-world events. These events can include corporate actions, notable events, major developments, scandals, norms breaches and matters arising from the proxy voting process. This can also include instances when new information becomes uncovered about long-running concerns with regard to controversial corporate practices, products and services.

When controversies arise, we assess the severity of the issues and consider whether engagement can play a role in improving our understanding the situation for the company and investors, as well as the probability of success. When engaging reactively around particularly high-profile and controversial events, we have tended to engage multiple times and with greater intensity than we do for other engagements.

We engage with companies where corporate controversies have arisen and governance and management practices are called into question. In these types of cases, we tend to engage at the C-suite level and often with the CEOs themselves.

This year, we continued our engagement with companies whose business practices have been identified as violating international norms. In particular, we are engaging with companies that have been associated with severe social and environmental controversies to assess their board oversight, due diligence, and remediation efforts. These engagements are important to obtain a more accurate picture of ongoing developments around controversies than that which may be portrayed in the media or by third-party data providers. These engagements may inform investment decisions across all assets, but in particular some of our sustainable funds, where we exclude issuers who have been identified as violating international norms.

Finally, we engage in a number of high-profile voting-led engagements, typically where the company has lost a major voting resolution and we have carried out follow-up engagements, or cases ahead of a high-profile vote.

Our six investment stewardship priorities

Governance engagement and voting – 2024

Back to contents

Governance engagement and voting – 2024

As long-term investors, we seek to encourage and advocate for the prudent allocation, management, and oversight of capital by companies, with the aim of generating value for our clients' portfolios. We anticipate that companies will adeptly deploy the various forms of capital at their disposal through their business models to create long-term value. JPMAM believes that good governance is about safeguarding the integrity of the decision-making processes to enable a company to fulfill its mission through responsible allocation of capital, which can ultimately determine its success or failure.

The efficacy of corporate governance is contingent upon the quality and functionality of the board. Independence, diversity of perspectives, and a comprehensive array of skills are desirable attributes of a board that promote transparent and constructive decision-making. Furthermore, it is imperative that key committees, such as those responsible for nominations, compensation, and oversight, are properly structured and operate cohesively to fulfill their objectives. This is achieved through adequate supervision of management and by facilitating constructive discourse during board meetings.

In 2024, JPMAM carried out 451 engagements globally with regards to governance. As investors, we consider whether board directors are fulfilling their responsibilities by evaluating outcomes against achievements and assessing the board's effectiveness from multiple perspectives. Should we find governance lacking, we communicate our concerns to management and, if necessary, by voting against management proposals at general meetings to urge for anticipated refreshment of the board of directors. This section demonstrates how we are advancing engagement with investee companies on these topics.

Engaging with companies on governance

451
Number of issuers engaged on governance

45
Number of markets engaged on governance

Top markets engaged on governance

Country	%
United States	25.0%
Japan	18.9%
United Kingdom	11.4%
S. Korea	5.0%
China	4.0%
Cayman Islands	3.8%
Germany	2.7%
France	2.0%
Italy	2.0%
India	1.8%

Top sectors engaged on governance

Sector	%
Industrials	16.6%
Consumer Discretionary	15.7%
Financials	13.3%
Information Technology	11.5%
Materials	9.7%
Energy	7.0%
Consumer Staples	6.1%
Health Care	5.8%
Communication Services	4.9%
Utilities	4.7%
Real Estate	2.5%
Other (incl. Sovereign)	2.2%

Back to contents

Governance engagement and voting – 2024 continued

Engaging companies on board composition and board effectiveness

The independence of the board and its committees is crucial for ensuring fair decision-making. Our voting guidelines stipulate voting against boards that are not composed of a majority of independent directors, as a matter of principle, across all regions. Additionally, it is important to assess the independence of its key committee, and the skill set includes the necessary expertise for the business to operate effectively and achieve its objectives.

While this establishes a foundation for promoting the quality of decision-making, it is not sufficient on its own for the board to function effectively. Board assessments can often provide investors with valuable insights related to board functionality. We encourage the board to conduct regular evaluations to promote greater accountability and transparent communication, ultimately enhancing trust and improving decision-making. (see Techtronic case study).

Case study

Techtronic Industries Co Ltd | Hong Kong | Equity

Issue

Techtronic Industries is a global producer of power tools and floor care appliances, with a strong brand portfolio that includes Milwaukee, Ryobi and Hoover. We have been engaging with this Company for the past years on various material issues, including the independence and effectiveness of the Board.

Action

In our previous engagements with one of the Board's independent directors, we expressed our requests for the Company to have a majority independent Board and a fully independent audit committee. We also raised our concern that the audit committee lacked audit expertise.

In April, the Company appointed an additional independent director and a member of the audit committee. This director had previous experience as an auditor with Deloitte before they joined Shell Group. Most recently they were CFO at Shell Drilling. Together with changes in 2022-2023, the Board's overall independence increased from 33% to 50%. We consider directors with long tenure as non-independent directors. In October, Techtronic announced the appointment of another two independent directors who have years of professional experience in financial and investment. Following these changes, Techtronic has a majority independent Board and a fully independent audit committee with a director having an audit background.

We reiterated our suggestion for a board evaluation, which could help the Company identify areas where the Board can enhance its effectiveness in governance. Through evaluation every three to five years, we hope the Company can pinpoint areas for improvement to make the Board more effective. The Company indicated that they would take our suggestion of board evaluation into consideration.

Outcome

We welcome the changes to the Board and expressed our support through our votes at the Company's annual general meeting. We shared examples of what we believe to be good practices and disclosures regarding board evaluation and executive compensation, which is another focus of our engagement. We will follow up on these recommendations.

Back to contents

Governance engagement and voting – 2024 continued

Board evaluation - a tool to assess board effectiveness

Continuous board evaluation fosters a culture of self-reflection and openness to constructive criticism. We encourage boards to discuss how to measure their own effectiveness by considering key issues facing the company and how the board is addressing these issues, the board's functionality as a group, the effectiveness of individual board directors, the collegiality among directors and between the board and the management team, the effectiveness of board committees, and whether the full board is adequately informed about their work.[4]

While internal assessments are essential for improving the board's processes in a timely manner, regular external assessments conducted by an experienced and independent third party can provide a more accurate picture alerting the board to take developmental actions when necessary. We believe that the evaluation of the board's performance should be reported to shareholders particularly in relation to nominations. (see Shionogi case study).

Last year, we engaged to understand whether the right governance practices and board effectiveness evaluations are in place for a newly spun-off company, as these issues could present challenges for a newly incorporated entity. (see Sandoz case study).

Case study

Sandoz Group AG	Switzerland	Equity

Issue

Sandoz Group is a Switzerland-based pharmaceutical company that was spun off from Novartis in October 2023 and listed on the SIX Swiss stock exchange. Following the Company's first annual meeting this year, we met with the Company to discuss Board composition and key committees, Board effectiveness, and evaluation of Board and committee performance in line with Swiss market practice.

Action

The Company explained that, following the spin-off, the was Board composed entirely of new members with due consideration given to the background, skill set, and experience of each of the candidates. The Company does not anticipate any significant changes to the Board in the short term.

We explained the importance of ensuring the Board is operating effectively and cohesively and sought to understand how the newly-formed Board was addressing these challenges. The Company explained that the Board and each of its key committees conduct an annual self-assessment of their oversight and effectiveness. They further explained that the assessment covers several different topics including Board composition, purpose, scope and responsibilities, processes and governance, meetings and pre-reading materials as well as team effectiveness, leadership and culture. The Company also noted that the evaluation would be undertaken by an external expert periodically although no timeline was disclosed for this. The Company indicated that Board members received appropriate ongoing training and consulted external experts on specific topics where necessary.

Outcome

We welcomed the Company's commitment to ensuring strong governance practices, which can be particularly difficult for newly spun-off companies. We highlighted the importance of robust board effectiveness and board evaluation programs in identifying areas which require action. We will monitor these issues as the Company continues its journey as a stand-alone company.

[4] https://www.spencerstuart.com/research-and-insight/boardroom-best-practice-chapter-9

Back to contents

Governance engagement and voting – 2024 continued

Case study

Shionogi	Japan	Equity

Issue

We have engaged with Shionogi, a Japanese pharmaceutical company specializing in antibiotics, over many years concerning the effectiveness of its Board and the succession plan for the CEO, who has presided over the Company for more than two decades. We have raised concerns regarding the Board's effectiveness and independence and the skill set of its external directors. Due to our concerns, we have encouraged the Board to conduct a board evaluation by a third party who could offer advice on the functioning of the Board.

Action

The CEO explained that the nomination committee conducted a CEO performance review for the first time, initiated by the CEO. This review assessed performance over one year and identified key issues. Regarding succession planning, the CEO submitted a 3-4 year plan to the committee outlining how his current responsibilities would be transitioned to potential candidates. The CEO highlighted the plan's effectiveness, which was also affirmed by external board evaluation professionals.

We pointed out that we believe such initiatives should ideally be led by the nomination committee and independent directors, rather than by the CEO. In addition, to help align with long-term interests of shareholders, we believe that the performance should be considered from a much longer term perspective, and that the performance of independent directors should also be assessed. The CEO concurred and explained that the roles of the CEO and independent directors would be redefined moving forward, with assessment criteria for both to be established by March 2025. We expressed our belief that as the Company is transitioning from a business model focused on drug discovery to one that provides healthcare as a service, such experience should be included as important factors in the new criteria.

Redesigning the Company structure is currently under consideration, as the Company continues to explore the ideal model. The CEO explained that he has engaged in discussions with investors and governance professionals and that the new model is expected to be proposed at the 2025 general meeting.

Outcome

Based on the Company's disclosures and feedback we provided, we will continuously review the progress of the Board structure reform, the experience and skill of Board directors, and the CEO succession plan.

Back to contents

Governance engagement and voting – 2024 continued

Supporting Strategic Board Refreshment for Shareholder Value

Concerns about the effectiveness of the board of directors reach their peak, particularly when a company fails to deliver the results expected by investors and does not generate the long-term value anticipated. When we strongly perceive that management is not running the company effectively, we may express our dissatisfaction through voting against them on appointment proposals.

However, merely casting votes for dismissal may be insufficient to bring about positive change within the company. In such cases, a more assertive stance can be taken by evaluating and supporting activist proposals. This is especially pertinent in the United States, where activist activities are prevalent and various activists engage in proxy contests.

As demonstrated in the following case study, if we determine that these actions can generate long-term corporate value, supporting them can be one of the means of advancing governance improvements. (see Norfolk Southern case study).

Case study

Norfolk Southern	U.S.	Equity

Issue

Norfolk Southern, one of the largest railroads in North America, has lagged peers on financial metrics and total shareholder return over the past five years. This underperformance attracted the interest of an activist investor. The activist wanted to take control of the Board, remove the CEO and COO, and institute a different operating strategy.

Action

We held several meetings to learn more about the Company and the activist's point of view. First, we met with the Company's Board of Directors and its management (including the Board Chair and the CEO). They highlighted that the railroad was in the midst of a turnaround that was stalled by a major accident in early 2023 (East Palestine, Ohio derailment). They further contended that their operating strategy would lead to both margin improvement and better performance if rail volumes improved. Next, we met with the activist investor. They contended that the Company needed new management and a new operating strategy to unlock significant margin improvement. They sought seven board seats on a 13-member Board.

Outcome

We chose to vote for five of the seven directors nominated by the activist. We believed the Company could benefit from fresh perspectives, tighter oversight of management, and a compensation plan better aligned to long-term interests of shareholders. We were disappointed in the compensation committee for excluding accident-related costs from management's long-term compensation – thus we chose to withhold our vote on all the members of the compensation committee. The election resulted in three activist-nominated candidates gaining board seats. We will continue to closely monitor this situation to determine whether we see the need for additional board change.

Back to contents

Governance engagement and voting – 2024 continued

Government initiatives on corporate governance reform in Asia

While investors prioritize securing investment returns as a cornerstone in evaluating the effectiveness of governance, many governments also focus on corporate value creation as a primary objective of governance reform. For instance, when the Japanese government initiated governance reform by implementing both the Stewardship Code and the Governance Code a decade ago, the fundamental aim was to encourage companies to create long-term value, benefiting the national wealth. Recognizing that merely formalizing governance structures is insufficient to achieve this goal, there has been a shift from form to substance. In this respect, the Japan Exchange Group has urged all listed companies to be managed with an awareness of capital costs, thereby influencing capital allocation in 2023. Over the past two years, shareholder returns have increased, and management teams that previously disregarded capital costs have been compelled to heed the Japan Exchange Group's educational initiatives, incentives, and mechanisms of encouragement and accountability, as well as engage in dialogue with various investors.

Japan's success has served as a reference for other Asian countries, with other Asian markets rolling out initiatives which could improve corporate governance. In 2023, China undertook significant amendments to its Company Law, with the changes set to take effect in July 2024. These reforms introduce several positive developments aimed at enhancing corporate governance. Notably, companies are now empowered to transition from a Supervisory Committee, which traditionally held limited authority, to an Audit Committee within the Board structure. This shift is expected to strengthen oversight and improve financial transparency. Additionally, the amendments grant minority shareholders, holding 1% or more of the company's shares, the right to nominate board directors, thereby promoting greater inclusivity and representation in corporate decision-making.

While not all measures are considered as beneficial to the minority shareholder, the amendments are seen as a step forward in enhancing China's corporate governance framework, balancing the need for improved oversight and shareholder rights.

In South Korea, the Financial Services Commission (FSC) has introduced measures aimed at enhancing shareholder rights and corporate transparency, though they are seen as only a partial step forward. In 2022, the FSC implemented regulations requiring more disclosure about corporate restructuring plans and granting shareholders the right to request companies to purchase their shares when a split-off resolution is reached. While these measures are welcomed for strengthening shareholder rights in split-off actions, they are viewed as insufficient in addressing broader governance challenges. The issue of treasury shares[5] remains a significant concern, as companies often use them in ways that may not align with minority shareholders' interests. In 2024, the FSC proposed regulatory changes to impose stricter restrictions on the use and disclosure of treasury shares, aiming to protect minority shareholders.

However, the Korea Value-up program,[6] initially met with optimism, has left investors disappointed due to a lack of concrete actions from government bodies. With guidelines encouraging voluntary compliance, there are doubts about the program's effectiveness without more robust enforcement. While the FSC's initiatives mark progress, their ultimate impact will depend on continued commitment and implementation.

In response to the challenges posed by the Korea Value-up program, we engaged with regulators in Seoul to address these issues. Our discussions focused on the program's shortcomings and explored potential improvements. These meetings were part of the Korea delegation event organized by the Asia Corporate Governance Association, in which we are an active member and co-lead the Korea Working Group.

5 In this context, a treasury share refers to shares that a company in South Korea has repurchased and holds in its own treasury. These shares are not considered when calculating earnings per share or dividends, as they are essentially stock that the company has brought back from the public. Treasury shares can be used for various purposes, such as reissuing them to raise funds, fulfilling employee stock options, or reducing the number of outstanding shares to increase the value of remaining shares.

6 The Korean Value-up Program supports SMEs and startups by enhancing competitiveness through financial aid, mentorship, and resources, fostering innovation and market expansion.

Governance engagement and voting – 2024 continued

Assessing the Board and senior executives through Annual General Meeting: Kiwoom Securities – South Korea, Equity

In many Western markets, it is common practice for companies to provide investors with access to their board of directors and chief executives, facilitating open communication and engagement. However, this level of access is not universally available, and in some Asian markets, minority shareholders often face significant challenges in securing meetings with company leadership. To address this issue and enhance our engagement opportunities, we have been actively attending Annual General Meetings (AGMs) over the past few years. These events have proven invaluable in fostering dialogue with the Board and C-suite executives. Notably, in 2024, we seized the opportunity to engage directly with Kiwoom Securities, a South Korean financial services company that provides a range of investment and brokerage services and is one of the leading online brokerage firms in the country, furthering our commitment to shareholder advocacy and effective communication.

Kiwoom Securities was involved in a share price manipulation scandal in 2023. Both the CEO and Chairman resigned. While a new CEO was appointed in January 2024, the Company has yet to provide a proper explanation about the scandals or offer a remedy for investors affected by the scandals. We are concerned about the Company’s governance.

In the March 2024 AGM, the Company sought shareholder approval to elect two executive directors onto the Board. We voted against the election of two executive directors to the Board as we would like to seek greater independence and oversight responsibility for the Board as part of promoting long-term value for the Company.

We attended the Company’s AGM in person to address our concerns. The CEO, a newly appointed executive director, and the Chair of the audit committee who is an independent director, were the only Board members at the meeting. At the meeting, we raised our concerns as shareholders of the Company. In particular, we noted the historical lack of communication with investors and the regulator’s investigation of the Chairman over the alleged stock manipulation.

The new CEO acknowledged our concerns and stated that Kiwoom Securities plans to improve its investor relationships this year. The newly appointed executive director further indicated that the Company aims to reach out to foreign investors. We welcomed the positive feedback from the Board and will remain engaged with the Board going forward. Also, as part of the Korea Value-up program, Kiwoom Securities has been proactive in supporting the program‘s objectives or advising companies on strategies to boost their market value and attract more investors. We will continue to monitor Kiwoom as part of our routine stewardship activities.

Governance engagement and voting – 2024 continued

Engaging companies on capital allocation

We seek to invest in companies that are allocating capital efficiently, generating long-term returns for shareholders and making timely interest and principal payments to bondholders. We believe companies should demonstrate financial discipline around investor returns relative to the cost of capital and long-term value creation.

Capital allocation decisions can be affected by traditional factors, such as interest rates, but also regulatory requirements, climate change, nature risks, social movements and other financially material ESG issues. We encourage companies to think ahead and implement capital allocation strategies that incorporate material risks and opportunities into their business models. Boards should disclose a clear policy on the company's approach to its capital structure, which could address the demands of different stakeholders.

Where the costs and return of capital are not adequately considered by corporate management, corporate value may stagnate or be destroyed. Companies may hold shares in other companies to strengthen business relationships. In some markets (e.g., Japan), these types of arrangements, known as 'cross-shareholdings', have been used to protect corporate management by creating a loyal shareholder base and diluting minority shareholder rights, leading to potential conflicts of interest among company and shareholders. We are concerned about poor corporate governance and lack of financial discipline at companies where their capital is allocated to equities, with returns far below their costs of capital.

In recent years, Japanese companies have implemented significant reforms to enhance corporate value over the medium to long term. However, the practice of "strategic shareholdings," or "allegiant shareholdings," remains deeply entrenched. These shareholdings, intended to foster business relationships, have been criticized for inefficient capital use, hindering corporate reforms, and sometimes promoting anti-competitive behavior. In such cases, we engage to encourage the company to develop capital allocation policies and encourage them to optimize capital by resolving cross-shareholding ownership to return to shareholders, or to invest for growth and to protect minority shareholder rights.

Despite some divestments and recent guidance from Japan's Financial Services Agency (FSA) for general insurance companies to divest these shares, progress in unwinding these investments has been slow. To emphasize the need for accelerated reduction of these shareholdings, we, along with other investors and the ACGA, issued an open letter urging faster strategic investment reductions. The letter, which includes governance recommendations, can be found **here**.

Rising Shareholder Activism in Asia: Aligning for Enhanced Capital Returns

As we delve into corporate governance reform in Asia with a focus on capital allocation, it is important to note the rise of shareholder activism. Activists have leveraged government reform initiatives, creating a growing movement that highlights the need for improved capital returns for shareholders. We find common ground with some of these activists' proposals, as they align with our commitment to enhancing shareholder value through more effective capital management. For example, in Japan, there has been an increase in shareholder proposals regarding capital allocation, leveraging these governmental intentions.

We have increasingly supported such proposals, as shown below. Looking ahead to next year, we intend to closely monitor activist trends as we analyze their proposals to see if they effectively contribute to long-term value creation. (see Kinden case study)

Back to contents

Governance engagement and voting – 2024 continued

Case study

Kinden Corporation | Japan | Equity

Kinden Corporation is a Japanese company specializing in integrated electrical systems and facilities engineering. At this year's annual shareholder meeting, an investor proposed a resolution requesting an additional dividend payment and the continuation of a fixed annual dividend for ten years as a strategy to achieve sustained improvement in return on equity (ROE).

The proposal specifically called for a total return ratio of 150%, with 75% to be distributed through dividends. The investor also requested that the Company provide a fixed-sum annual dividend over the next ten years to enhance ROE. In response, the Company adjusted its medium-term plan to reflect an annual dividend payout ratio of 40% and a total return ratio of 50%. After reviewing the resolution carefully with investors, we concluded that the shareholder proposal was not primarily focused on establishing a fixed dividend amount as a top priority, but rather aimed to support sustained ROE improvement and additional income allocation to shareholders.

As a result of our review of the shareholder proposal and analysis of the Company's position, we decided to support the shareholder resolution, which garnered 27% approval. We will continue to engage with the Company regarding the outcome of the shareholder resolution and will monitor their ongoing efforts to improve ROE, address the issue of an oversized Board, and unwind cross-shareholdings.

When engaging with companies on capital allocation, we frequently discuss key issues such as capital structure, dividends and share buybacks. These are fundamental aspects of how companies manage their resources. Although mergers and acquisitions (M&A) are less frequently addressed, they remain a critical area of focus. It's essential to understand how a company governs its capital use and that any transaction benefits all shareholders, including minority shareholders. In some instances, companies pursue acquisitions merely for growth, without clearly articulating the value and returns for shareholders. Conversely, some companies engage in M&A for strategic partnerships, where the strategy might be sound, but the structure may not align with the best interests of all shareholders. (see Lenovo case study).

Case study

Lenovo | China | Equity

Lenovo is a leading global technology company known for its innovative products in personal computing and smart devices, including the iconic ThinkPad laptops and Yoga series. In May 2024, Lenovo announced a strategic partnership with Alat, a subsidiary of Saudi Arabia's Public Investment Fund (PIF), which focuses on transforming global industries and aims to deliver sustainable manufacturing to help reduce global emissions.

While we think there may be benefits of this partnership, we have concerns about the financial arrangement proposed by Lenovo, which includes the issuance of convertible bonds and warrants. Given the structure and potential for dilution, we believe these financial arrangements are not in the best interests of shareholders and voted against the associated resolution tabled at Lenovo's AGM.

Our six investment stewardship priorities

Strategy alignment with the long term engagement and voting – 2024

Back to contents

Strategy alignment with the long term engagement and voting – 2024

Long-term thinking leads to enduring business models. We believe executive compensation plans should be structured to create long-term alignment between shareholders and the management of the companies in which we are invested. As long-term investors, we see the importance of incentive awards, designed to encourage management to perform at the highest levels. These programs need to align with appropriate performance criteria that are both challenging and reflective of the company's strategy and objectives over the long term. They should reward executives for long-term value creation rather than short-term gains.

Meeting these goals is easier in theory than in practice. Given the rising pace of innovation, disruption, and uncertainty, compensation committees face several challenges in designing plans that are in long-term alignment with shareholders. We are, therefore, not prescriptive in our evaluations and recognize that boards need flexibility when formulating a compensation plan. We also recognize that some discretion is needed when evaluating management performance towards realizing long-term outcomes.

Another challenge that board's face in designing compensation plans is the diversity of views and changing preferences of market participants, and the continuous assessment and reassessment of what constitutes a well-designed plan. Some changes in market preference have included an advocacy for performance share units versus restricted share units, a rejection of options, or a desire for inclusion of ESG metrics in the plan. Market participants have also advocated for a shift in PSU metrics away from measures of share price to operational and financial metrics. The choice of peer group has also been heavily debated, especially in international markets which have significant presence in or competition from the U.S..

While we acknowledge these challenges in creating a compensation plan that aligns executive compensation with shareholder experience, we frequently come across practices we find problematic. The specifics can change from year to year – for example, adjustments to plans following the onset of COVID-19 took center stage in 2020 and 2021 – but the general themes stay consistent.

In this chapter, we discuss some of those problematic practices that we encountered in 2024, along with some notable compensation programs that we did support. We discuss these in the context of the bigger picture trends we observed. In some cases, we also elaborate on the role engagement played in assessing compensation and seeking to bring about changes in plans we found were not in alignment with the interests of long-term shareholders.

Back to contents

Strategy alignment with the long term engagement and voting – 2024 continued

Engaging with companies on strategy alignment with the long-term

162
Number of issuers engaged on strategy alignment with the long-term

29
Number of markets engaged on strategy alignment with the long-term

Top markets engaged on strategy alignment with the long-term

Country	%
United States	50.8%
United Kingdom	9.8%
Japan	7.1%
Germany	6.0%
Australia	4.4%
France	2.7%
Netherlands	1.6%
Jersey	1.6%
S. Korea	1.1%
China	1.1%

Sectors engaged on strategy alignment with the long- term

Sector	%
Consumer Discretionary	18.0%
Industrials	17.5%
Financials	12.6%
Information Technology	11.5%
Health Care	8.7%
Communication Services	7.1%
Materials	6.6%
Consumer Staples	4.9%
Utilities	4.9%
Energy	4.4%
Real Estate	3.8%

Back to contents

Strategy alignment with the long term engagement and voting – 2024 continued

Challenges of Performance Shares

A long-term trend in executive compensation has been the adoption of performance-based metrics in equity grants. In the S&P 500, for example, the percentage of companies that include Performance Share Units (PSUs) in their compensation program has grown from 50% in 2009 to 95% in 2022.[7] The major proxy advisors have also been advocates for majority performance-based equity awards in executive compensation. While some view the preponderance of PSUs in a company's compensation plan as a panacea, we are more nuanced in our view, and take into account a host of factors in determining whether PSUs are indeed in the shareholders' best interest. These factors include whether the selected performance metrics and achievement of targets (or falling short of targets) are likely to be correlated with long-term shareholder returns, the vesting conditions, and the degree to which metrics and targets are a barometer of management performance relative to peers.

Advantages and disadvantages of using PSUs rather than than Restricted Stock Units (RSUs)

Advantages

- Structured properly PSUs can lead to strong pay for performance alignment, conferring on the recipient additional shares (relative to an equivalent RSU grant), thereby rewarding performance or forfeiting shares and thereby penalizing underperformance,
- Tracking towards big payouts (above target) can have motivational and retentive value.

Disadvantages

- May be difficult to select one or two metrics, with appropriate weightings that will correlate well with share price performance over the short term such as the three year performance cycle. Adding more metrics can also make the plan very complicated.
- Can be challenging to set targets as they can be highly affected by factors outside management's control.
- Can lead to short-term behavior inconsistent with long-term strategy if there are closing cycle PSUs every year.
- May lead to unwanted executive turnover if PSUs are tracking towards not paying out.

Recent research suggests that companies that do not use performance shares outperformed their sector peers that do.[8] Research also suggests that for the vast majority of industries, the average PSU has paid out meaningfully above target, calling to question the rigor of target setting. These findings have prompted a debate among investors, with many investors questioning the efficacy of PSUs and some advocating a return to RSUs.

While we would not advocate for companies to drop all use of PSUs, we strongly urge compensation committees to review their PSU plans and examine their payouts in context of long-term stock performance. By incorporating PSU's that correlate well with shareholder value, the Compensation Committee can design an long term incentive plan (LTIP) plan that leads to better pay for performance alignment by paying out more than target number of shares if the company performs well, or conversely below target if the company underperforms.

We also encourage compensation committees to evaluate whether alternative structures might be more appropriate for their managers. These are discussed in more detail later in this chapter.

Below, we highlight examples of companies where we believe the PSU metrics and targets are and are not contributing to creating shareholder value.

7 https://www.paygovernance.com/viewpoints/s-p-500-ceo-compensation-trends
8 https://onlinelibrary.wiley.com/doi/10.1111/jacf.12367

Back to contents

Strategy alignment with the long term engagement and voting – 2024 continued

CASE STUDY Middleby vs TransDigm[9]

- What do Middleby, a U.S. kitchen equipment company, and TransDigm, a U.S. aerospace and defense company, have in common? The answer is a reliance on the same metric for their long-term incentive compensation plan, which calculates an implied share price based on earnings before interest, taxes, depreciation and amortization (EBITDA), net debt, and share count.
- We believe, however, that the metric has been used much more successfully at TransDigm than at Middleby, where it has contributed to poor relative total shareholder return over the last few years.
- In this case study, we examine why we believe that to be the case.

Middleby	U.S.	Equity

Despite relative total share return at only the 12th percentile of Middleby's peer group over the five years ending in December 2023, performance shares tied to the implied share price metric paid out at 188% of target for the 2021-23 cycle, and 200% for 2021-22. This discrepancy led us to vote against the say-on-pay proposal at the 2024 annual meeting.

This is resulting in significant rewards for management despite deteriorating returns on capital (which is driving the poor performance). Middleby has actively sought to acquire other companies, and the long-term incentive is rewarding that, but the financial returns of its acquisitions have declined.

In an engagement with the Company, they acknowledged that acquisitions made 10-20 years ago were made at low multiples, with room to compress that multiple even further through raising prices or by other operational improvements. In that context, a metric that incentivized M&A worked well. But more recent deals have not been as successful.

Meanwhile, the proxy contained no disclosure about how they calculate the metric (what EBITDA multiple they use) and what the targets are. Thus it is hard for investors to assess the rigor.

We encouraged Middleby to use metrics that properly account for the balance sheet growth, such as return on capital invested. But even beyond that, we encouraged them to modify their strategy and adopt a more explicit financial framework for their M&A strategy and to communicate it to investors.

Given the more challenging M&A environment, adopting such a framework becomes even more important. And should they improve or even stabilize the return on capital invested trend, it would likely help them trade at a higher multiple and drive significant stock appreciation.

[9] While this case study discusses two companies that were engaged on similar topics, they are considered separately for engagement and investment purposes.

Back to contents

Strategy alignment with the long term engagement and voting – 2024 continued

TransDigm[10]	U.S.	Equity

TransDigm's relative total share return vs its peer group, on the other hand, is at the 96th percentile of its peer group over the last five years, and is tops in the peer group over longer time periods.

The Company is transparent about the required achievement of the metric, which they call "Annual Operating Performance." While they do not disclose the multiple they use, they disclose that grants require 10% compounded annual growth over five years, a longer performance period than the typical three we see. A 17.5% compound annual growth rate is required for the maximum vesting.

Much more significantly, these grants are in the form of options, not full shares. Executives may earn large amounts of options, but unless the stock appreciates above the grant date value, the realized value will be zero. The option structure creates an extra safeguard of alignment with shareholders.

In addition, the Company has consistently articulated a shareholder-friendly framework for M&A that prioritizes shareholder value over "strategic" purposes like market share or diversification. They have stressed in our engagements that the M&A framework is not changing.

Because of the alignment with the compensation plan and the strategy, which we consider sound, we have voted in favor of the say-on-pay proposals at the Company. In our engagements we articulate support for the plan.

[10] https://transdigmgroupinc.gcs-web.com/static-files/fffbf488-76c2-40d5-a18d-160b3a24eb03

Back to contents

Strategy alignment with the long term engagement and voting – 2024 continued

Case study

IQVIA Holdings	U.S.	Equity

Issue

In assessing the say-on-pay vote for the U.S. healthcare services company IQVIA Holdings, we noticed that pay was in the 90th percentile versus peers whereas five-year total shareholder return was in the 40th percentile. The pay percentile was notable, given the inclusion of several significantly larger mega-cap companies in its chosen peer group, while IQVIA is only a mid-cap company.

We further noted that the three most recent PSU cycles had paid out at 180% of target, 187% of target and 200% of target, respectively, which meant that realized pay was significantly higher than the pay figures in the Summary Compensation Table. PSUs were based upon EPS growth (75% of the grant) and TSR versus the S&P 500 (25% of the grant).

We had concerns about whether EPS growth was the right measure for this company. We also believe it would be more appropriate to compare TSR versus a healthcare or pharmaceuticals index, instead of the total S&P 500. A sector or industry specific index would more accurately capture the companies against which IQVIA was competing and against whom IQVIA's performance was judged.

Action

We engaged with members of the Company's management team, who justified the payouts by saying that the CEO was a flight risk to another company in the industry or to a company in another sector in which he had previously worked. We hear this justification frequently, which is discussed in further detail in the next section. In this case, we had difficulty accepting the justification when the Company had slightly underperformed its peer group. We believe that makes the flight risk less likely to materialize, and/or less impactful if it does.

Outcome

After discussion with JPMAM investors, we chose to vote AGAINST this pay package. We did not like the misalignment of pay versus performance, the PSUs paying out well above target despite below peer group stock performance, or the choice of a peer group that had the effect of inflating pay. The say-on-pay proposal received 84% support overall.

Strategy alignment with the long term engagement and voting – 2024 continued

Alternatives to Annual Cycle Performance Shares

We have seen some companies explore approaches different from the three-year majority-PSU annual equity grant that has become market norm. These can include the use of options as well as upfront restricted share grants. In the latter case, because the number of shares is spelled out upfront, the ultimate value of the grant will be much more aligned with share price performance than it would be for an annual dollar-denominated grant.

In our 2023 Investment Stewardship Report, we highlighted three companies that we believe have used these types of structures successfully:

1. U.S. auto-parts retailer AutoZone, which uses options as the sole form of equity
2. U.S. online car auction company Copart, which grants upfront options awards meant to cover four years of equity pay
3. U.S. retailer and technology company Amazon, which granted new CEO Andy Jassy an upfront $225 million time-based RSU award in 2021, with 80% of the shares vesting in years five through ten.

We continue to support these companies' approaches to executive compensation. This year, we would like to highlight another unique structure we have seen to promote long-term alignment.

W.R. Berkeley: The U.S. insurance company grants its executives annual cycle performance shares with performance periods covering five years, divided into three tranches measured over years 1-3, years 2-4, and years 3-5. The five-year measurement period for these grants is longer than the typical three years.

However, the Company also has a mandatory deferral policy where earned shares are not actually delivered to executives until after they are no longer working for the Company. That means that executives cannot immediately monetize their shares, but rather that the realized value is ultimately tied to the performance of the stock over their entire career. This deferral policy was first disclosed in the 2004 proxy, related to grants made on April 4, 2003. Since that date, WRB's stock has compounded at 14.0% per year, assuming reinvested dividends. That compares to 11.4% for the S&P 500.

We believe this compensation feature has contributed to the Company's long-term outperformance. Accordingly, we have expressed our support for this structure in our engagements with the Company.

Country		30 June 2024	30 June 2025	30 June 2026	30 June 2027	30 June 2028	
Tranche 1 Performance Period		Year 1	Year 2	Year 3	⇦ Vests if Earned, Mandatory Deferral		
Tranche 2 Performance Period	**2023 Grant Date**		Year 1	Year 2	Year 3	⇦ Vests if Earned, Mandatory Deferral	
Tranche 1 Performance Period				Year 1	Year 2	Year 3	⇦ Vests if Earned, Mandatory Deferral

Back to contents

Strategy alignment with the long term engagement and voting – 2024 continued

"Superstar" CEOs

While the "pay for performance" mission of executive compensation gets most of the attention, the role it plays in retention should not be ignored. The value created by strong executives, or destroyed by poor ones, is many multiples of the executive's compensation.

As an example, consider Starbucks, which hired very well-regarded CEO Brian Niccol away from Chipotle, whose stock price had increased by almost 800% during his tenure. The day the hire was announced, Starbucks's stock price increased from ~$77 to $96, which corresponded to a $21 billionn increase in market cap. That pales in comparison to the special compensation package the Company offered him to take the role, which was $85 million (a $75 million equity award, and a $10 million cash bonus).

In that context, a board may be justified in either dramatically increasing an executive's target compensation or granting a supplemental package, if that executive is critical to the company's success and there is a credible retention threat. That can apply either to a competitor or to retirement before the company's succession plan is ready. Boards need to have the flexibility to make judgments on who constitutes critical talent and how to retain them.

We will not automatically support or oppose these compensation decisions but will use our own judgment regarding the value of the specific CEO and the quantum/structure of the compensation package. Below, we present case studies demonstrating how we view this issue.

Back to contents

Strategy alignment with the long term engagement and voting – 2024 continued

Case study

Broadcom	U.S.	Equity

Issue

In 2023, we voted against compensation at U.S. semiconductor company Broadcom (AVGO) because of concerns over the terms/disclosures around a $160 million grant which the CEO received in the Company's fiscal year 2023, which was previewed in that year's proxy.

The grant, intended to be $32 million per year over five years, vests in three tranches based on the achievement of absolute stock price goals.

Our concerns with the grant included: 1) the lack of a disclosure in the proxy statement about whether the grant was intended to be the CEO's only equity for the ensuing five years and 2) the stock price having to be sustained for only 20 days for the shares of each tranche to be earned.

Action

We engaged with the AVGO Compensation Committee Chairman to discuss compensation and succession planning. In that engagement, we communicated the concerns that had led us to vote against compensation last year.

This year, the proxy included language about how the Board does not intend to grant the CEO any more equity. In addition, the stock grant goals, judged at the time of the grant, were sufficiently challenging, requiring stock price CAGRs of 12%, 15%, and 19% for the shares to vest. Since then, all three stock price goals have been achieved following the acquisition of VMWare and strong operational performance. But there are terms in the grant structure such that the shares can only be earned in Years 4 and 5 of the period, so no shares have actually been earned yet. In addition, any shares that are earned do not actually vest until the end of the five-year performance period.

It was also clear from our engagement that the grant is intended to incentivize the CEO to stay in the role long enough for the Company to finalize its CEO succession plan. The Compensation Committee Chairman noted how other executives who are being considered for CEO received grants with the same terms.

Outcome

We supported the executive compensation at the 2024 annual meeting. The updated disclosures in the proxy statement, including details about the terms of the grant, showed improved alignment with long-term shareholder value creation.

Meanwhile, we believe managing succession planning has become one of the Board's top priorities. In another engagement with the Compensation Committee Chairman, he discussed how the Chairman and Lead Director serve as the primary liaisons between the Board and the CEO on this issue, though the full Board is involved. The Board has directed the CEO to invest more time in developing succession planning.

The say-on-pay proposal at the 2024 annual meeting received 62% support overall, indicating that a significant minority of shareholders disagreed with our view of the package.

Back to contents

Strategy alignment with the long term engagement and voting – 2024 continued

Case study

Palo Alto Networks | U.S. | Equity

Issue

In 2023, U.S. cybersecurity company Palo Alto Networks (PANW) made two compensation decisions designed to retain the CEO:

1. They increased his annual equity award, from $17 million to $40 million, which brought his total target compensation to the 92nd percentile of the peer group, by the Company's own reckoning
2. They granted him a special $114 million performance share award that would pay out based on the Company's relative total share return vs the S&P 500 over the ensuing five years.

Action

We engaged with the PANW Lead Independent Director several times, both before and after the vote, to discuss compensation and retention. The Board discussed their retention concerns, and the need to make it more expensive for another company to poach the CEO.

We expressed our concern that the special award only required 55th percentile performance to pay out at target. We would have liked to see something higher to promote strategic alignment in the long term. The Board acknowledged that feedback, while also noting that the award also required 40th percentile performance for any payout, and 90th percentile payout for max payout. Both of those numbers are much higher than is typical for relative TSR-based grants.

Outcome

Ultimately, we voted against compensation at the 2023 annual meeting due to the combination of both decisions being made in a relatively short period of time. We acknowledged the strong performance of the Company during the CEO's tenure (~30% stock price CAGR from when he started up to the most recent fiscal year-end in October 2024). But we were unable to look past the dramatic increase in annualized compensation value, which went up by ~$46 million after accounting for the annualized value of the special grant.

Meanwhile, we have continued to engage with the Board on compensation, retention and succession planning. They believe that their CEO is largely irreplaceable, especially during a critical time for the Company given the increasing complication of the business and the changes that are coming from the emergence of artificial intelligence. That said, they also acknowledge the need for the Board to be firm in negotiations over pay.

Back to contents

Strategy alignment with the long term engagement and voting – 2024 continued

Compensation plans in a globally competitive environment

A continuing trend in Europe has been the competitiveness of executive compensation packages of European companies in a globally competitive environment for talent. Companies prioritize addressing the perceived growing gap between European executive pay with their counterparts in other markets and particularly the U.S.. Feedback from these companies, typically those which had a more global operational footprint or whose executives and employees were predominantly situated in the U.S., often centered around the risk of retention stemming from the difficulty to compete on pay with their North American peers. Similarly, companies cited challenges attracting key staff from the global talent pool, which they outlined was impacting their succession planning.

As a result, we saw several companies seeking to amend their remuneration policies to align more closely with the pay levels and plan structures that more commonly exist in the U.S.. This included proposals to increase a combination of base salary, annual bonus, and a long-term incentive plan target and maximum amounts, as well as the introduction of some form of restricted shares into long-term incentive plans. While restricted share plans are more common practice in the U.S., they are increasingly being seen as a measure to close the compensation and competitiveness gap with U.S. peers to retain key talent.

Where companies have sought to introduce restricted share plans in replacement of performance share plans, we have generally expected companies to make a corresponding reduction to the overall award, offsetting the reduction in at-risk pay.

Back to contents

Strategy alignment with the long term engagement and voting – 2024 continued

Case study

AstraZeneca	UK	Equity

Issue

At its 2024 AGM, AstraZeneca, the UK-listed global pharmaceutical company, proposed increasing the level of executive remuneration as part of its updated remuneration policy framework. The company operates in a highly competitive pay environment and competes for key staff in global markets. Robust remuneration plans that promote pay for performance are integral to supporting the attraction, retention, and motivation of key staff.

Action

We met with representatives from AstraZeneca, including the Chair of the Remuneration Committee, a number of times ahead of their annual meeting to discuss the proposed amendments to its executive remuneration policy. The main changes included an increase in the CEO's maximum annual bonus award and an increase in the maximum opportunity of the Performance Share Plan from 650% to 850% of the CEO's base pay. In our discussion, AstraZeneca drew attention to the Company's strong shareholder return and relative outperformance versus peers in recent years. The Company's global expansion and M&A activity had also contributed to an increase in the scope and complexity of the business, furthering the need to be able to adequately incentivize management to deliver on its ambitious 2030 growth strategy.

In the context of competing globally, in particular with comparable U.S. peers, AstraZeneca highlighted the need to be able to retain key staff as well as secure future talent and successors through a more attractive and competitive pay package. They also cited the challenge of offering competitive packages to senior employees within business units and the resulting increased compression on CEO pay. Notwithstanding these factors, we noted the significant size of the proposed pay increases, and asked how the new target levels would position them against peers. AstraZeneca advised that the CEO's pay would still be positioned towards the lower end of its international peers, emphasizing that failure to secure the additional headroom would pose significant retention and recruitment risks. it was also highlighted that the new remuneration policy would increase the shareholding requirement for the CEO. We also noted that the majority of pay would be at risk, subject to the satisfaction of performance conditions, which served to further align pay with performance.

Outcome

Following extensive engagement, JPMAM voted in support of AstraZeneca's remuneration proposals cognizant of the need to provide the Company with the flexibility to attract and retain key talent in a competitively remunerated global environment.

The remuneration policy ultimately received 63% overall. While it was approved, the significant minority opposition speaks to a lack of investor consensus on the issue.

In a follow-up discussion with the Company after the conclusion of its AGM, we provided additional feedback that we encourage variable pay linked to stretching performance targets and have concern regarding increases to pay before the end of the new policy cycle in 2027.

Back to contents

Strategy alignment with the long term engagement and voting – 2024 continued

Case study

PureTech Health Plc | UK | Equity

Issue

PureTech Health Plc is a UK-listed biotechnology company. At its 2024 annual meeting, the Company sought approval for its new remuneration policy which included several key amendments to the structure of the executive pay plan.

Action

One of the key amendments was the Company's proposal to introduce restricted shares into its long-term incentive plan. This would result in a hybrid variable pay plan, with half of the CEO's long-term incentive opportunity being allocated in restricted shares and the other half in the form of performance shares. As restricted shares are not subject to predetermined quantifiable targets, the introduction of the shares would have reduced the overall level of at-risk pay, without the Company proposing any reduction to the overall compensation opportunity, thereby substantially increasing the Plan's expected outcome.

In discussing the proposed change, the Company highlighted the need to compete with the pay practices of U.S. peers where restricted shares are more common practice. However, the Company provided very limited disclosure around benchmarking exercises, the precise peer group and where the proposed pay increases would ultimately position them against these peers. The lack of detail meant it was difficult to appropriately review the proposed increases.

Outcome

At the Company's annual meeting, we voted against the remuneration policy resolution, given our concerns with the introduction of restricted shares into the long-term incentive plan without an accompanying reduction in the maximum opportunity and the lack of detailed disclosures.

The remuneration policy, however, was ultimately approved with 65% support overall. That said, the filing announcing the results acknowledged the middling support level and noted that the Board will continue to engage with shareholders on the issue.

Our six investment stewardship priorities

Climate change engagement and voting – 2024

Back to contents

Climate change engagement and voting - 2024

In 2024, almost half of the world's population participated in elections in over 60 countries, reshaping the global political landscape and altering the trajectories of climate change policy. Concurrently, inflationary pressures have persisted in 2024, challenging both consumers and businesses as they navigate rising costs, posing a challenge to national and company-level decarbonization plans. As we approach 2030, many companies are moving beyond target setting to tackle the implementation of transition plans, but we are increasingly seeing companies adjust climate goals in the face of challenges to decarbonization. The dependence on a supportive policy environment continues to dominate our discussions with companies on climate change, but while countries covering 88% of global GHG emissions have pledged net zero targets,[11] policies have not been uniformly effective in enabling emission reductions.[12]

Even as we continue to encourage companies to address transition risks, the materiality of the physical impacts of climate change is increasing and poses a fundamental challenge to business resilience. 2024 was the hottest year on record and the first to breach 1.5 degrees warming.[13] This global warming favors increased incidence of extreme weather events, exemplified this year by intense flooding in Europe and hurricanes in the U.S.[14] In addition to the tragic loss of life and livelihoods, these events damage assets, disrupt supply chains, which can hinder the ability of companies to function. The increasing incidence of such events may have far-reaching and financially material consequences for investments and society.

In 2024, we engaged with 343 issuers on climate change. Engagement plays an important role in managing risks and opportunities in our client portfolios by understanding if companies are considering the latest climate science and likely policy shifts, building agility into their planning, and recognizing uncertainties which could impact the speed of the transition. We also express our views through our voting activity, holding boards accountable through routine votes as well as supporting resolutions that we feel will support companies toward addressing financially material risks and opportunities.

[11] https://www.oecd.org/en/publications/2024/11/the-climate-action-monitor-2024_f0f16874.html

[12] https://www.ox.ac.uk/news/2024-08-23-effectiveness-1500-global-climate-policies-ranked-first-time

[13] Financial Times, 'World breaches 1.5C global warming target for first time in 2024' Attracta Mooney, Jana Tauschinski and Steven Bernard, January 2025, https://on.ft.com/3C6y9KD

[14] https://www.swissre.com/press-release/Hurricanes-severe-thunderstorms-and-floods-drive-insured-losses-above-USD-100-billion-for-5th-consecutive-year-says-Swiss-Re-Institute/f8424512-e46b-4db7-a1b1-ad6034306352

Back to contents

Climate change engagement and voting - 2024 continued

Engaging with companies on climate change

343
Number of companies engaged on climate change

40
Number of markets engaged on climate change

Top markets engaged on climate change

Country	%
United States	21.3%
Japan	14.7%
United Kingdom	9.8%
France	4.9%
Germany	4.7%
India	4.0%
Cayman Islands	3.3%
China	3.3%
Australia	2.8%
Spain	2.3%

Top sectors engaged on climate change

Sector	%
Industrials	20.3%
Materials	17.3%
Energy	13.1%
Utilities	12.9%
Consumer Discretionary	10.7%
Financials	9.8%
Information Technology	4.9%
Consumer Staples	2.8%
Other (incl. Sovereign)	2.8%
Health Care	2.1%
Communication Services	1.9%
Real Estate	1.4%

Back to contents

Climate change engagement and voting - 2024 continued

Prioritizing companies for engagement

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.

In prioritizing companies for climate engagement, we consider indicators such as the company's GHG emissions 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.

We believe that global emissions reductions will ultimately be driven by users of energy and the introduction of policies to limit fossil fuel demand and incentivize the use of lower-carbon alternative sources of energy in certain regions such as Europe. We have therefore prioritized demand-side companies (users of fossil fuels) for engagement, as we deem engagement more likely to be effective at mitigating climate-related transition risks and ensuring investment returns in these cases.

However, our engagements in 2024 have demonstrated that for a number of sectors, significant hurdles exist for companies seeking to decarbonize today, ranging from a lack of proven technologies to help reduce emissions, an uncertain policy environment and high costs. Companies should clearly disclose these challenges and the actions being taken to address them, such as partnerships with academic institutions and government entities as well as how they are managing risks around investments. Our approach of prioritizing engagement with the demand side is designed to help manage investment risk for those companies. As these companies decarbonize, global emissions may fall.

It is important to also engage energy sector companies around the material risks the sector faces in regard to the low-carbon transition. However, we believe engagement strategies that focus on limiting the supply of fossil fuels will only push supply to producers in other geographies with potentially lower environmental standards, or cause demand-supply imbalances that will increase price volatility and the need for expensive or unreliable energy imports.[15] Such an approach would not only delay global energy transition by increasing uncertainty, it would lead to worse environmental outcomes for all.

Engaging with fossil fuel suppliers

The focus of our engagements with the energy sector is to enable us to assess the companies most likely to deliver returns in a low-carbon future when fossil fuel demand is potentially significantly lower than it is today. Engagement focuses on demonstrating low-cost operational excellence and emission reductions, the use of the latest methane emissions measurement and management practices and demonstrating how future changes in demand are being incorporated into scenario risk analysis and disclosures around Asset Retirement Obligations (see ExxonMobil and Chevron Corp case studies below).

Energy companies face significant future liabilities for asset decommissioning and cleanup, which are known as asset retirement obligations (AROs). AROs are legal responsibilities that require owners and operators of fossil fuel assets, such as wells, pipelines, and refineries, to safely decommission these assets at the end of their useful life. These obligations may include activities like plugging wells, closing pipelines and disposing of hazardous materials. These obligations are mandated in many jurisdictions by regulations aimed at environmental remediation. Given the risks and uncertainties facing energy companies around the pace of the energy transition, it is important for investors to understand the potential costs associated with these obligations and the financial impacts if these assets need to be retired early. Promoting transparency around the accounting of these liabilities and the assumptions underlying them is key to ensuring reliability of financial statements and to assessing companies' resilience to different future demand scenarios.

15 https://www.brookings.edu/articles/reducing-us-oil-demand-not-production-is-the-way-forward-for-the-climate/

Back to contents

Climate change engagement and voting - 2024 continued

Case study

ExxonMobil and Chevron Corp[16] | U.S. | Equity

Issue

In 2023, we voted in favor of a shareholder proposal at multiple energy companies including ExxonMobil, asking for a report on asset retirement obligations under the International Energy Agency's Net Zero Emissions (NZE) Scenario. We assessed that these disclosures would be useful to investors, as the current disclosures into the balance sheet liability around useful life and a discount rate made it very difficult for investors to understand what the potential liabilities may be. Although the proposal only received 16% support, we believed the issue was important and sought to engage with energy companies on the issue.

Action

We engaged with both ExxonMobil and Chevron, asking for improved disclosures about asset retirement obligations. In both cases, we cited Shell plc. as an example of a company that had improved transparency by disclosing a time series of expected AROs by year.

In an engagement with a Chevron Board member, we explained our view on understanding the risk if assets need to be shut down ahead of schedule. We cited U.S. exploration and production company APA Corporation's announcement of ending operations in 2029 due to the UK's new tax regime as an example of unexpected regulation changing the life of an asset. Similarly, while APA had taken measures to protect itself from decommissioning costs associated with the offshore assets it sold in 2013, the buyer's 2020 bankruptcy created additional AROs for APA under the Gulf of Mexico chain of title liability obligations. We also shared the example of a Phillips SixtySix refinery in California that will now be shut down, and the considerable uncertainty around the residual value of that asset after remediation.

The Board member acknowledged the basis for the engagement ask, noting that these liabilities can surprise the companies themselves even if they thought they had sold the asset. They see this issue as more of an "unknown unknown." That said, they agree asset site remediation is important.

In our engagement with ExxonMobil, we communicated our interest in learning more about the Company's approach to managing AROs and requested this as a future topic for engagement. We tried to emphasize that the issue is important because the dollar amounts for asset retirement can be significant, but when added to the balance sheet on a discounted basis it can appear less significant. We further emphasized that providing disclosures about the liabilities, if the useful life of assets were to end due to assets being non-competitive, would be beneficial for investors. While Exxon may have a stated strategy to repurpose these assets, the future may play out differently and it would be valuable for investors to be able to evaluate AROs for downside risks.

Outcome

Our engagements with Chevron and ExxonMobil emphasized that both companies acknowledge both the difficulty of gleaning decision-useful insight from the ARO disclosures from their 10-Ks as well as the unpredictability of asset competitiveness over time. We will continue to engage, encouraging them to provide more transparency on what the potential liabilities from AROs might be if assets do not remain competitive as long as companies expect.

[16] While this case study discusses two companies that were engaged on similar topics, they are considered separately for engagement and investment purposes.

Back to contents

Climate change engagement and voting - 2024 continued

Engaging with users of fossil fuels

In 2024, we continued to prioritize engagement with demand-side companies (users of fossil fuels) and encouraged such companies to set their own scientifically credible emissions-reduction targets and transition plans, where necessary, to mitigate financially material risks. Our engagements in 2024 have highlighted that significant challenges remain for companies when implementing these decarbonization plans. Companies have discussed barriers such as a lack of proven technologies at an economically viable cost, high energy costs and inadequate policy incentives. This is exemplified by automakers rolling back electric vehicle adoption targets[17] while key enabling technologies such as carbon capture, utilization and storage (CCUS) still face questions on scalability and cost. The steel sector highlights many of these issues (see ArcelorMittal case study below), but in the face of these challenges we are encouraging companies to clearly disclose these barriers, given the financially material risks and opportunities in this area and the actions being taken to address them, which may include transparency on public partnerships and policy advocacy.

Case study

ArcelorMittal	Luxembourg	Equities, Bonds

Issue

The steel industry accounts for 5% of CO_2 emissions in the EU and 7% globally.[18] In the EU, the industry is regulated by the Emissions Trading System (ETS) and the Carbon Border Adjustment Mechanism (CBAM), along with broader initiatives like Fit for 55 and the EU Green Deal, which aim for climate neutrality by 2050. The ETS is a cap-and-trade system to reduce emissions, while CBAM prevents 'carbon leakage' by imposing costs on imports from countries outside the EU. As regulations evolve, EU steel producers may face less competition from foreign products due to CBAM, but could incur higher costs as free allowances[19] under the ETS are phased out.[20]

ArcelorMittal is a steel and mining company which operates iron ore mining, ironmaking, scrap recovery and steel-making operations and employs over 126,000 employees in over 15 countries. Approximately 49% of ArcelorMittal's steel production is in Europe,[21] exposing the Company to climate transition risks due to the EU regulatory landscape and emission-intensive nature of operations, in line with the wider steel industry. In 2023, there was a tragically high number of fatalities at the Company following an explosion at the Kostenko coal mine in Kazakhstan, where 46 people died.

continued →

[17] https://www.cnbc.com/2024/03/13/ev-euphoria-is-dead-automakers-trumpet-consumer-choice-in-us.html
[18] https://www.iea.org/reports/iron-and-steel-technology-roadmap
[19] Under the EU Emissions Trading System (ETS), 'free allowances' refers to a certain number of emission permits that are allocated to companies at no cost. These allowances give companies the right to emit a specific amount of greenhouse gases without having to purchase additional permits.
[20] Wood Mackenzie, Implications of CBAM for the iron and steel sector, 2023.
[21] https://corporate.arcelormittal.com/media/shgb4sw5/arcelor-mittal-fact-book-2023.pdf

Back to contents

Climate change engagement and voting - 2024 continued

Case study continued

ArcelorMittal | Luxembourg | Equities, Bonds

Action

We engaged with ArcelorMittal on employee safety and climate transition risks in 2024. On decarbonization, we discussed the Company's plans with respect to target setting and the reasons for ArcelorMittal's withdrawal of a commitment to set an SBTi-validated target, as well as its initiatives to lower emissions across operations. Decarbonizing steel production requires switching steelmaking from the BF-BOF (blast furnace and basic oxygen furnace) route to the lower-emission methods such as the DRI-EAF (direct reduced iron to electric arc furnace) route. We discussed the challenges to decarbonization, which the Company identified as insufficient policy support, high costs and low customer demand for lower-carbon steel. We encouraged transparency and target setting where feasible and material, including targets which cover joint ventures, as well as continued transparency on policy advocacy, given the importance of further policy support needed to facilitate the EU legislative goals on climate.

We visited ArcelorMittal's Sestao plant in Spain to gain insight into how electric arc furnace (EAF) technology is being used for lower-emission steel production. The site visit focused on the XCarb product, which can offer an approximate 75% emission reduction (product dependent) and is produced using 100% renewable energy and at least 75% recycled scrap input. While noting progress, ArcelorMittal emphasized the necessity for policy support to drive demand for lower-emission steel such as XCarb, and that steps to further lower emissions – such as use of direct reduced iron with hydrogen – are not being implemented due to lack of economic viability, low customer demand and insufficient infrastructure. We noted that the Company has publicly disclosed their own requests to policy-makers regarding strengthening the EU's Carbon Border Adjustment Mechanism (CBAM), reducing energy costs and establishing lead markets to drive demand for lower-carbon steel. The Company also signed a letter from Eurofer, the European steel industry association, which highlights these asks.[22]

On health and safety, our engagement focused on driving improved safety standards at entities controlled by ArcelorMittal, noting that the Company had divested coal mining assets in Kazakhstan as of December 2023. We discussed the Company's focus on leading indicators, such as Potential Serious Injury and Fatality event, and a possible shift in focus to prevention, rather than solely reactive indicators. The Company asked dss+ (a consulting company specializing in workplace safety), to undertake an independent audit on safety practices in 2024, which highlighted that implementation of safety standards varied across the group and recommended a focus on contractor safety management standards and integration of safety into supporting business processes.

continued →

[22] https://www.eurofer.eu/assets/publications/position-papers/call-for-urgent-action-to-save-the-european-steel-industry-and-the-livelihood-of-our-workers/20241014-Letter-to-the-Heads-of-State-and-Government_European-Council-17-18-October-2024-002.pdf

Back to contents

Climate change engagement and voting - 2024 continued

Case study continued

ArcelorMittal | Luxembourg | Equities, Bonds

Outcome

We will continue to monitor developments in health and safety as the Company implements the recommendations of the third-party safety audit. Our engagement also underscored the challenges of decarbonizing the steel sector. The transition to low-emission steel production faces technical, economic and policy-related barriers, including the development of new production methods, securing renewable energy sources, and low demand for low-emission steel. ArcelorMittal has subsequently delayed decarbonization plans for EU operations due to lack of policy visibility and insufficient demand for low-carbon steel, as it awaits clarity on policy developments in 2025.[23] We will continue to engage with ArcelorMittal to understand how the Company's stated long-term decarbonization targets will be met in this challenging context.

In focus: Engaging with AI data center operators around the implications of increasing power and water demands

Today, data centers consume 1-1.5% of global power demand, but this is projected to rise by the end of the decade due to the growing use of AI driving power demand.[24] High growth scenarios in the U.S. expect 10% annual growth, with data centers accounting for almost 7% of power consumption in the country by 2030.[25] Power demand is already geographically concentrated; for example, North Virginia is the hub for data center growth in the U.S. and 15 states account for 80% of the national data center load.[26]

The rise of AI and data centers needs to be accompanied by an increase in renewable energy such that rising energy demand does not lead to significant increases in GHG emissions that undercut the credibility of such companies' stated energy targets. In 2024, a number of the 'Hyperscaler' tech companies reported increasing GHG emissions over 2023 due to data center construction and energy consumption.[27,28] Almost all of the Hyperscalers have ambitious decarbonization, renewable energy and water usage targets which could be at risk given this growth. At the same time, cognizant of the demands that AI will put on local infrastructure and resources, a number of jurisdictions are also mandating specific targets for data centers around energy usage.

Meeting the demands of end-user Hyperscalers and the growing concerns of regional authorities exposes data center operators to potential risks where they are not able to provide affordable, reliable, low carbon facilities which do not come at the expense of resource provision for local communities. Data center operators need to address the interrelated climate and natural capital risks that they face presented by this growth in demand.

23 https://corporate.arcelormittal.com/media/press-releases/arcelormittal-provides-update-on-its-european-decarbonization-plans
24 https://www.iea.org/energy-system/buildings/data-centres-and-data-transmission-networks
25 https://www.epri.com/research/products/000000003002028905?secureweb=POWERPNT
26 https://www.epri.com/research/products/000000003002028905?secureweb=POWERPNT
27 https://www.microsoft.com/en-us/corporate-responsibility/sustainability/report
28 https://sustainability.google/reports/google-2024-environmental-report/

Back to contents

Climate change engagement and voting - 2024 continued

The ability of data center companies to manage these risks will depend on the availability and deployment of low-carbon electricity and water in the regions in which they operate, and advancements in the efficiency of facilities. The companies that are best positioned to manage these variables are likely to be best placed to meet customer demands and to capitalize on the AI opportunity. In 2024, we conducted engagements with data center operators and AI beneficiaries to understand how they are managing the risks associated with resource availability in the regions in which they operate. We sought to understand how competing priorities associated with energy and water availability, along with low carbon credentials were being managed to make strategies that are resilient for future growth and consistent with these companies' stated decarbonization and water usage targets.

Our engagements

We engaged with 12 companies operating different business models and at slightly different points within the AI value chain.

Companies engaged in 2024 around energy and water risks

Company	Country	Company type
Microsoft	United States	Technology multinational and Hyperscaler.
Equinix	United States	Global data center and colocation provider for enterprise network and cloud computing.
Digital Realty	United States	Real estate investment trust that owns, operates and invests in data centers across the world.
Nvidia	United States	Leading designer of chips used in artificial intelligence
Merlin Properties	Spain	Real estate company expanding its data center business in the Iberian Peninsula.
SEGRO	United Kingdom	Real Estate Investment Trust (REIT) expanding its data center business in the UK.
Relx	United Kingdom	Information and analytics company operating a small number of data centers and using third party cloud services.
Naver	South Korea	Internet conglomerate that operates the search engine Naver.
Keppel DC	Singapore	Data center real estate investment trust in Asia.
Next DC	Australia	Data center developer and operator in Australia.
Infosys	India	Technology multinational that offers business consulting, information technology and outsourcing services.
Nippon Telegraph & Telephone	Japan	Telecommunications company operating data centers around the world.

Climate change engagement and voting - 2024 continued

Engagements overwhelmingly reflected companies' acknowledgement that managing these risks is critical due to resource scarcity challenges, as well as meeting expectations from customers, and, in some regions, policy-makers. Key findings include:

1. **Efficiency of data center sites is a competitive differentiator, but leading efficiency metrics have plateaued in recent years and metrics require standardization**. Lowering power usage efficiency (PUE[29]) through site design and equipment use lowers operational costs (energy typically accounts for between 20% and 65% of data center running costs). It is also a key factor in lease negotiation, with some companies including it in executive compensation metrics for this reason. Progress on PUE has plateaued in recent years at around 1.5;[30] however, given the competitive edge it provides, it is likely innovation will drive further progress.[31] There are currently differences in how companies are calculating PUE. Global standardization would help to enable operators to anticipate local regulatory changes.[32]

2. **Hyperscaler customers are demanding low carbon facilities as a non-negotiable, often building this into requests for proposals (RFPs) and lease extensions**. Power costs are passed on to data center customers, who understand that there can be cost implications of renewable energy demands, but are generally accepting if these are small or in more renewable power constrained locations.

3. **Data center companies are prioritizing renewable energy provision through the use of Power Purchase Agreements (PPAs)**. Data center companies are securing renewable energy provision for Hyperscaler clients by securing PPA agreements, however PPA market readiness varies regionally (see point 4). They increasingly favor these over Energy Attribute Certificates (EACs),[33] given their ability to enhance the traceability of electricity purchases while providing a natural hedge against electricity price spikes. However, the insufficient electricity grid capacity is emerging as one of the biggest looming bottlenecks.

4. **Hyperscalers are making substantial investments in nuclear generation and Small Modular Reactors (SMRs), but these are likely to be a medium-term option**. Some smaller data center companies are moving into developing their own on-site power provisions (typically using solar in the short term), but this remains limited given capital intensity. In the long term, it is access to cheap energy that links to financial materiality.

5. **Risks are regionally specific and local knowledge is essential to managing them effectively when planning data center growth strategies**. Specific regional circumstances are leading policymakers to tailor strategies to local needs. For example, Hyperscaler companies are attracted by data center opportunities in Spain, given affordable renewable energy provision, but increasing droughts mean water-based cooling options are less acceptable to local authorities. Similarly, Singapore and Japan have extremely constrained power supplies that are closely controlled by their respective governments. Data center companies must understand and plan in accordance with these local constraints.

6. **Social risks around power consumption are top-of-mind for companies**. Both real and perceived rising power prices for retail customers are already causing concerns in key data center hubs like Northern Virginia in the United States and in Ireland, where data centers are responsible for 25% and 20% of electricity use respectively. Unfavorable views of data centers are being managed by companies via public policy teams and communications efforts explaining the societal value of services and transparency around tariffs being secured. Companies note that failing to manage these risks could lead to the development of local regulation that could adversely impact them.

[29] PUE is the ratio of the total power used by the data center to the power used by the IT equipment

[30] https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/investing-in-the-rising-data-center-economy#/download/%2F~%2Fmedia%2Fmckinsey%2Findustries%2Ftechnology%20media%20and%20telecommunications%2Fhigh%20tech%2Four%20insights%2Finvesting%20in%20the%20rising%20data%20center%20economy%2Finvesting-in-the-rising-data-center-economy_final.pdf%3FshouldIndex%3Dfalse

[31] Efficiency is also a function of servers (not included under PUE), for which data center operators are reliant on chip manufacturers. Optical fibre networks are also key for reducing power needs over time, which some operators are hopeful of in the medium term.

[32] The European Efficiency Directive's regulation targets data centers and may influence regulatory practices globally.

[33] An energy attribute certificate (EAC) is a contractual instrument that conveys information (attributes) about a unit of energy, including the resource used to create the energy and the emissions associated with its production and use. https://www.epa.gov/green-power-markets/energy-attribute-certificates-eacs

Back to contents

Climate change engagement and voting - 2024 continued

7. **Companies are less clear on pathways for tackling embodied emissions from data center construction**. Embodied carbon in construction makes up 70% of the data center's carbon footprint in the first year on average. While a number of companies have commitments to reduce emissions from embodied carbon as part of their wider targets, many are less clear on plans for mitigating these emissions and are reliant on innovations in the building materials sector, particularly regarding the decarbonization of cement.

8. **Data centers can be large users of water, and disclosure remains mixed; however, innovation may reduce water risks in the long-term**. Companies are cognizant of water usage in locations with water stress, but efficiency trade-offs between power and water may mean companies are making location-based choices regarding water and power availability. Increasing widespread disclosure on water consumption is also paramount, as current disclosure of Water Usage Efficiency (WUE) metrics is patchy, as well as the volumes discharged and consumed. Innovation in cooling methods like direct-to-chip (DTC) solutions or alternative liquids may resolve some of these trade-offs and innovation is likely to be rapid, potentially lowering water risks for data centers in the medium term.

Next steps

In the nearer term, as AI technologies become more widespread, prioritizing renewable energy provision, efficiency and responsible water use is going to become increasingly important for companies to meet customer demands and regulatory requirements while maintaining a social license to operate. We will continue to engage data center companies and companies in the wider AI value chain around their management of these risks in 2025.

Climate Policy Engagement

Nearly 60% of the world's 2000 largest companies[34] have set some form of net zero emissions reduction targets. Strategies and efforts to meet these targets often come with an increasing marginal cost of abatement. Many companies assess these costs as important investments in ensuring their longer-term strategic positioning for the low-carbon transition, i.e., reducing the impact of future policies and regulations aimed at internalizing carbon costs. However, in order for companies to improve the shorter- to medium-term profitability of their low-carbon investments, it is important that companies engage with governments in the regions where they operate, so that the regulatory environment is supportive of their strategy and the investments they will be required to make to meet their goals and, often, national climate targets.

However, in certain industries, we have identified potential material risks where certain companies undertake lobbying activities, either directly or through trade associations, that significantly depart from the company's stated goals. Where companies lobby adversely to their stated positions, they expose themselves to increased risks, such as brand and reputation, and external scrutiny and fines by regulators. In light of this, we engage with companies to promote the transparent disclosure of climate-related lobbying activities and companies' policy positions

[34] https://www.barrons.com/news/net-zero-pledges-growing-but-integrity-lacking-study-142af63f

Back to contents

Climate change engagement and voting - 2024 continued

Case study – Engagement with companies on climate lobbying

Rio Tinto	UK	Equities

Issue

In July, it came to light that Rio Tinto, a dual-listed UK and Australian mining company, had signed a letter to the Australian Prime Minister requesting changes to the government's Nature Positive plan and proposed reforms to the 1999 Environment Protection and Biodiversity Conservation Act (EPBC Act). The letter[35] was released following a freedom of information request from Greenpeace and notably requested the removal of climate change requirements of the reform. The letter also included criticisms of the reform consultation process and other requests related to critical protection areas, offsets and approvals. This lobbying activity was seemingly at odds with Rio Tinto's public position on climate-related policy advocacy,[36] exposing the Company to potential reputational risk, and so we engaged with the Company to better understand Rio Tinto's position on this topic.

Action

We joined a group investor call with the Rio Tinto Chief Executive, Australia and General Manager of State Agreements and Approvals, Iron Ore. We subsequently organized a one-to-one meeting with the Chief Advisor on Climate Change at Rio Tinto. We asked Rio Tinto to publish a statement clarifying the Company position on the Australian government's Nature Positive plan and explain how this position is consistent with the Company's publicly stated climate commitments. We noted the Company's letter was at odds with the high level of transparency from Rio Tinto on policy advocacy to date, as the Company usually publishes Rio Tinto's policy positions and engagements on its website. The letter itself had expressed that the inclusion of climate considerations within this reform would be duplicative with existing policy, but the Company did not provide more detail on how these reforms were duplicative or problematic.

Outcome

Rio Tinto's Chief Adviser on Climate Change confirmed the Company was drafting a public statement addressing our concerns and those of other investors. In October, Rio Tinto released a public statement on the EPBC Act[37] clarifying the Company's position, outlining support for EPBC reforms and acknowledging the interdependencies between nature and climate, as well as climate policy aligned with the Paris goals and net zero, while noting that policy must balance the need for permitting efficiency.[38] We appreciate this transparency, which is more consistent with previous public statements on climate advocacy. We will continue to engage with Rio Tinto on governance of climate-related policy advocacy.

[35] https://www.pmc.gov.au/sites/default/files/foi-logs/foi-2024-109.pdf?secureweb=WINWORD
[36] https://www.riotinto.com/en/news/releases/2023/rio-tinto-engages-with-investor-and-civil-society-organisations-on-enhanced-advocacy-approach?secureweb=WINWORD
[37] https://www.riotinto.com/en/news/trending-topics/epbc-act-statement
[38] https://www.riotinto.com/en/news/trending-topics/epbc-act-statement#:~:text=Rio%20Tinto%20supports%20the%20Australian,the%20impact%20of%20climate%20change.

Back to contents

Climate change engagement and voting - 2024 continued

Our engagement with policymakers in Japan

Japan's 7th Strategic Energy Plan, released at the end of fiscal year 2024 is important for investors in the region as it will outline how the Japanese government plans to balance the energy transition with a stable and affordable energy supply. This year, as policy-makers in Japan worked on formulating the plan, we participated in a roundtable with policymakers organized by the Asia Investors Group on Climate Change (AIGCC).

The roundtable brought together AIGCC member investors and Japanese policymakers to discuss investor perspectives on the forthcoming Strategic Energy Plan. The discussion emphasized the need for a transparent and reliable transition plan and energy mix targets by 2040. Participants also highlighted the importance of ensuring the economic viability of transition-related projects to boost investments in this area.

Following the roundtable, AIGCC published a policy paper summarizing members' views on the upcoming Strategic Energy Plan. The paper advocates for inviting a wider range of stakeholders, including investors, into the policy formulation process. It also calls for establishing a clear path to decarbonize Japan's energy supply, strengthening the grid and improving transparency regarding the economic viability of transition plans.

Sovereigns

As investors in sovereign debt, we believe that integrating climate change risk indicators (as well as other financially material ESG factors) helps promote better investment outcomes. Sovereigns with better ESG performance generally trade at lower spreads in both developed and emerging markets.[39]

We meet regularly with central bankers, Treasury officials, state-owned companies, ratings agencies and other relevant market agents. We use these engagements to obtain insights which feed into our fundamental analysis of sovereign creditworthiness and debt dynamics and to encourage better disclosure. These analyses incorporate many indicators, including ESG factors, where they are material and relevant.

The disclosure of climate change risk data by sovereigns and state-owned entities has improved in recent years, and we continue to engage with issuers to advocate for better disclosure.

[39] https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/portfolio-insights/fixed%20income-sovereigns-and-esg-full-whitepaper.pdf

Back to contents

Climate change engagement and voting - 2024 continued

Case study

Comisión Federal de Electricidad | Mexico | Sovereign bonds

Issue

The Government of Mexico has committed to reducing GHG emissions by 35% by 2030. The General Climate Change Law and the Energy Transition Law also states that Mexico must generate 35% of its electricity from renewable sources by 2024. As the country's largest integrated utility, 100% state owned Comisión Federal de Electricidad (CFE) will have an important role to play in enabling Mexico to meet this commitment. As the Company did not disclose a comprehensive transition plan, we sought to engage with the Company to understand how they are managing potential transition risks arising from national level emissions reduction targets and related policies.

Action

We met with the Company in March 2024 and asked about the Company's transition plan, which is not yet clearly included in disclosures. They explained that of CFE's power generation capacity in 2024, 32% is from clean technologies, 40% from combined cycle gas generation and 8% from coal. The Company explained plans to increase total generation capacity to 100 GW by 2035, and to increase renewable energy capacity to 35% of the total by 2028. They also explained that they plan to close their coal power generation facilities by 2035. The Company shared information on the investments they are making in transmission and distribution over the next five years.

We asked if the Company has considered setting an emissions reduction target in line with that of the national government. The Company said they have a target to reduce emissions by similar levels but this was not disclosed in its public reporting to date. We welcomed the Company's plan to release its first non-financial report later in 2024 and encouraged reporting of KPIs and targets to help investors understand how the Company was managing risks. We also provided feedback that TCFD aligned reporting is helpful to investors assessing climate risks, as well as data on health and safety.

We met the Company again in September 2024 following national elections in Mexico. The Company explained that the new administration is supportive of the energy transition with large investments planned, and with specific national target revisions likely to follow later in the coming months. CFE indicated that it will present its 2025 business plan to the new federal government in December 2024.

Outcome

Prior to our meeting in September, CFE published its green bond allocation report which provided enhanced disclosure concerning the Company's new target to reduce CO_2 emissions intensity in electricity generation by 30% by 2028, compared to 2023 levels. The Company said it would consider our recommendation to disclose these and their other renewable capacity targets in the next annual iteration of its business plan to help investors understand how they are addressing the government's emissions expectations.

Back to contents

Climate change engagement and voting - 2024 continued

Climate Opportunities

The transition to a low-carbon economy offers significant opportunities for companies that are actively developing innovative solutions to enable industrial decarbonization. As many companies move from target setting to implementation of decarbonization strategies, key decarbonization technology providers may be well-positioned to benefit.

As industries worldwide seek to reduce their operational emissions, the demand for technologies such as carbon capture, utilization, and storage (CCUS) is increasing, but questions remain over scalability and affordability. Companies that lead in providing cost-effective solutions may be best positioned for growth.

In this context, it is important to assess whether a company's products and services can effectively achieve their intended climate outcomes. In view of varying disclosure standards across emerging technologies and regions, understanding how these solutions deliver on their promises is essential for evaluating their potential impact, success and economic viability.

Back to contents

Climate change engagement and voting - 2024 continued

Case study

Air Liquide	France	Equities, Bonds

Issue

Carbon Capture, Utilization, and Storage (CCUS) involves capturing CO_2 and, if not being used on-site, the CO_2 is compressed and transported for use in a range of applications or stored underground. CCUS is seen as vital for reducing CO_2 emissions in hard-to-abate sectors, but it faces high costs and questions about scalability and economic viability.[40]

Air Liquide, a leader in industrial and medical gases, leverages carbon capture technology for both customer solutions and its own decarbonization strategy. The Company reports on avoided greenhouse gas (GHG) emissions, which seek to measure the emission reductions for customers that use Air Liquide products.

Action

We engaged with Air Liquide to better understand the economic viability and materiality of CCUS to Air Liquide (the "Company"). The Company indicated that it believes itself to be strategically positioned to aid industrial decarbonization and it utilizes its Cryocap™ technology for CO_2 capture (first introduced in 2015). However, the Company indicated that storage challenges persist, necessitating economies of scale and policy support, such as subsidies and favorable carbon pricing. Air Liquide indicated that it had been successful in securing grants for CCUS projects, benefiting from initiatives like the EU Innovation Fund. Rising carbon prices are likely to encourage Air Liquide customers to seek to reduce their emissions, potentially increasing demand for Air Liquide products. The Company indicated that it targets cost-effective decarbonization in high-emitting sectors like cement, with new CCUS projects planned for Northern France and Rotterdam in the Netherlands by 2027/28, contingent on policy support. The Company also discussed its approach to measuring avoided GHG emissions with the aim of ensuring transparency and avoiding greenwashing. We encouraged further disclosure of methodology and adherence to emerging industry standards.

In terms of Air Liquide's decarbonization roadmap, the Company reports that approximately 25% of Air Liquide's own emission reductions by 2035 are expected to come from CCUS. While CCUS is subject to some of the factors and uncertainties described above, Air Liquide reports that its decarbonization progress is ahead of schedule in other areas of the decarbonization plan, such as management of their own assets and renewable electricity sourcing.

Outcome

Air Liquide's commitment to supporting customer decarbonization goals strengthens its competitive edge in the evolving regulatory landscape that may incentivize customers to invest in decarbonization technologies. We will continue to monitor the scalability of Air Liquide's CCUS portfolio, and implications for the Company's decarbonization strategy, considering the potential financial risks and opportunities.

[40] https://www.iea.org/reports/ccus-in-clean-energy-transitions/a-new-era-for-ccus

Back to contents

Climate change engagement and voting - 2024 continued

Climate Change Voting

Considering climate change in routine votes

Our voting policies are designed to promote the best 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 we are not satisfied with the steps taken by the company to address the financially material risks it faces because of climate change, the quality of the engagement discussion or its progress in oversight or management of financially material risks.

Effective April 1, 2024, we implemented a new section in our Global Proxy-Voting Guidelines, addressing our voting policies related to the management of financially material climate risks. This reflects 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.

These criteria include:

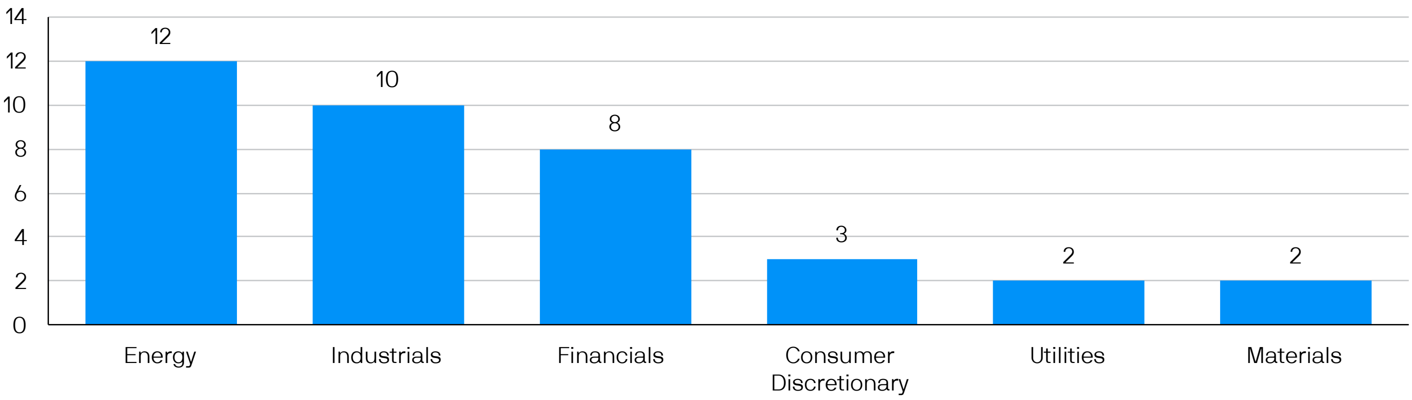
- We encourage disclosures aligned with the reporting framework developed by the Task Force on Climate related Financial Disclosures (TCFD) addressing all the four pillars of the TCFD – (i) governance, (ii) strategy, (iii) risk management and (iv) metrics and targets related to any performance indicators used to manage such risks.
- For industries where we believe climate change risks pose material financial risks, we encourage comprehensive TCFD reporting (or equivalent) including scenario analysis, to help us understand the resilience of a company's strategy.
- We encourage disclosures of Scope 1 and 2 GHG emission targets, where the decarbonization of a company's operations and purchased energy has been identified by the company as a key part of the company's strategy to manage climate change risks.
- We note many companies have chosen to set long term net zero targets. In order for us to evaluate the long-term credibility of transition plans, where such long-term targets are set, we encourage the company to disclose the scope of emissions included in such targets. We recognize the many challenges associated with reporting Scope 3 emissions. While we understand the limitations associated with reporting Scope 3 emissions, we would expect companies that have included such emissions in their net zero targets to disclose their Scope 3 emissions. We also encourage disclosures of interim emission reduction targets where the company has set long-term net zero targets.
- We encourage disclosure on past performance against emission reduction goals, and forward-looking strategy to achieve emission reduction goals, including the use of offsets and corporate transactions. We believe that providing meaningful disclosure is important to help investors evaluate whether companies are managing material climate risks that could impact returns over time. For more information, see our Global Proxy Voting Guidelines here.

Back to contents

Climate change engagement and voting - 2024 continued

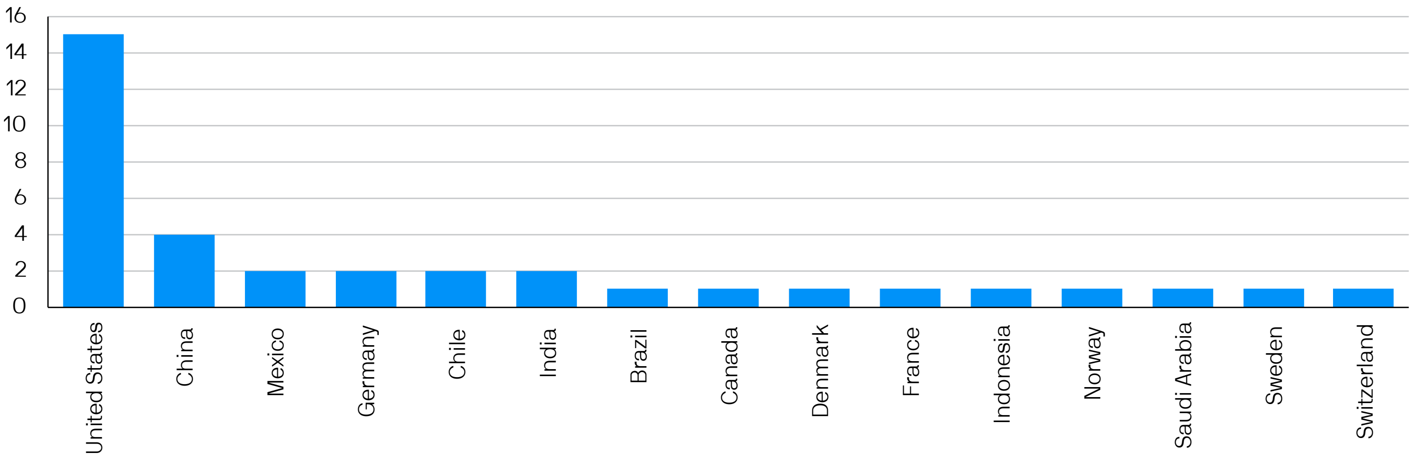
In 2024 we voted against directors[41] at 37 companies globally for financially material climate change related concerns.

Routine climate votes against directors in 2024, by sector



Source: J.P. Morgan Asset Management, as of December 31, 2024.

Routine climate votes against directors in 2024, by country



Source: J.P. Morgan Asset Management, as of December 31, 2024.

Climate-related shareholder resolutions

Voting on climate change shareholder proposals is another important way of expressing our views, where we think management could better manage climate-related financial risk. In 2024, we saw a continued increase in the overall number of resolutions being filed, as well as an increase in overly-prescriptive shareholder proposals dictating specific actions by the company and creating the potential for unintended consequences for long-term shareholders. We have also seen many companies making improvements in disclosures, which has meant that the escalation of concerns via support of shareholder resolutions has not been necessary (see Toyota example).

[41] Votes were cast against board directors or in some cases against financial reports where directors were not standing for reelection.

Back to contents

Climate change engagement and voting - 2024 continued

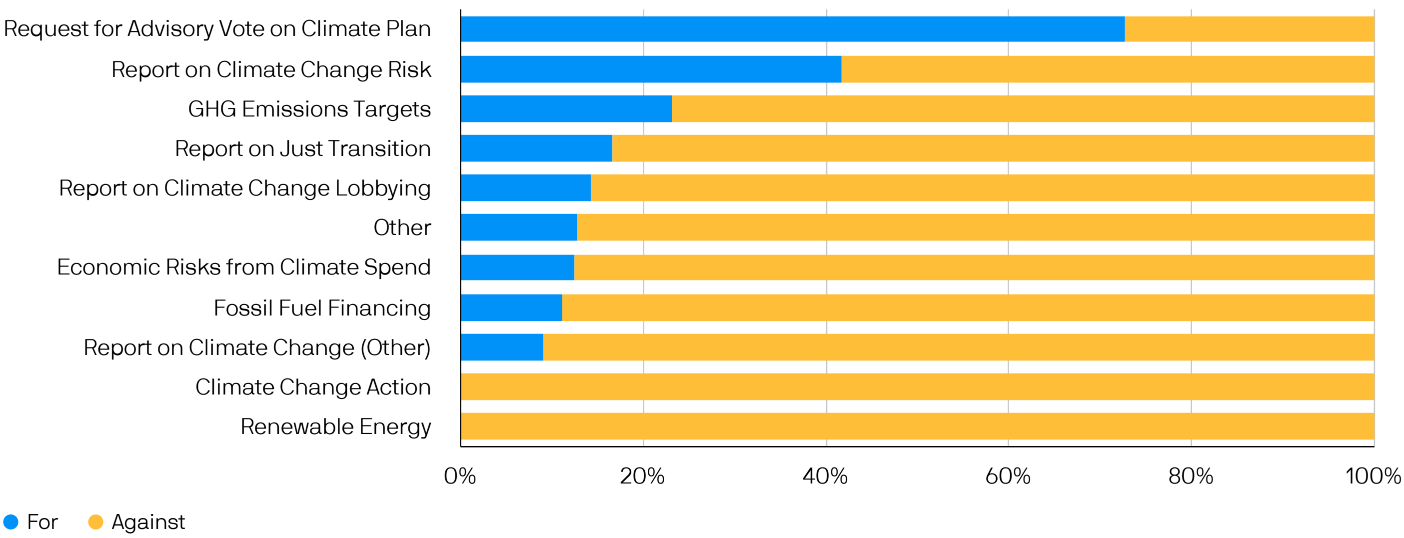
We noted that many shareholder proposals in previous years focused on enhanced reporting. We tended to support these proposals as we believed such reporting provided meaningful information to shareholders to enable them to evaluate risks and opportunities at a particular company. As a result, in 2024, we voted in favor of 28 climate-related shareholder resolutions, reflecting a decrease in overall percentage support for these resolutions. Our starting consideration is whether the resolution is focused on an issue that is material to the long-term financial interests of our clients. In many cases, successfully managing climate change risk is important for the future success of the company and resolutions around it merit our in-depth attention. 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 it considers will most effectively achieve the resolution's intended outcome and are tailored to the company's specific risks. Increasingly, we see climate-related resolutions which are overly prescriptive, and/or not tailored to the company's specific risks.

For example, we continue to see similar resolutions asking energy companies to set absolute Scope 3 emissions targets or to voluntarily cease oil and gas production, which would lead to unintended negative consequences. As outlined in our engagement prioritization strategy earlier in this chapter, we believe that these resolutions do not reflect a complete understanding of the energy system.

We tend to support shareholder resolutions on climate risk disclosure (see Berkshire Hathaway example), requests for reporting on climate lobbying if we believe reporting is important for investors to evaluate reputational and other financially material risks to the company. Where we believe that climate change poses financially material implications to the business, we support shareholder resolutions which call for greater details or interim goals from companies that have set their own long term aspirational goals. We may also vote for shareholder proposals or against directors at companies that have set long term net zero goals but have not provided shareholders with any details or interim milestones to which current management can be held accountable and so that shareholders can be aware of progress.

Where through our engagement we understand how companies make progress on these issues which gives us comfort that risks are being managed, we will not continue to support such shareholder resolutions (see Toyota example).

JPMAM voting on climate-related proposals in 2024[42]



Source: J.P. Morgan Asset Management, as of December 31, 2024.

[42] In the context of this table climate change action relates to company specific resolutions calling for the company to strengthen their energy transition plans or become a leader of renewable energy

Back to contents

Climate change engagement and voting - 2024 continued

Case study – Climate voting – Shareholder proposals & Routine votes

Valero	U.S.	Equities

Issue

While evaluating a 2022 shareholder proposal which asked U.S. refiner and renewable fuel producer Valero Energy to set net zero targets across Scopes 1, 2, and 3 by 2050, we noted a concern with the Company's presentation of its climate strategy. At the time, Valero had presented a waterfall chart showing how 65% of the Company's 2011 Scope 1 and 2 emissions would be reduced/offset by 2025, and 100% by 2035. The labeling of ethanol/renewable diesel/biofuels productions as "offsets" was unclear, and we believed that exposed the Company to reputational risks and risks of greenwashing.

Action

During an engagement with the Company ahead of the 2022 annual meeting, the Company explained its strategy of 1) maximizing the resiliency of existing refining assets and 2) investing in low-carbon fuels primarily through ethanol and renewable diesel. The Company acknowledged that while the use of "offsets" could be misunderstood, their intent had been to communicate that the emissions would be avoided through the displacement of higher carbon-intensity fossil fuels with lower carbon intensity fuels.

While we voted against that shareholder proposal due to our comfort with overall company strategy, we continued to engage with Valero on the presentation of emissions reduction plans. In the 2023 ESG report, Valero no longer referred to emissions "offset" by renewable diesel and ethanol, instead using the word "displaced." The presentation still suggested, however, that fuel displacement would result in reducing their reported Scope 1 and 2 emissions and, the Company's own operational emissions, instead of emissions avoided as a result of drivers using fuels less emissions-intensive than traditional gasoline and diesel. Due to our concerns, we voted against the re-election of the Chair of the Public Policy Committee, who is responsible for oversight of ESG risks and disclosures, at the 2023 annual meeting. We continued to engage in 2023 and 2024, explaining our vote and encouraging the Company to change the presentation of this information. In 2024, the Company updated the waterfall chart on the website with clear separation between categories of actions (i.e. emissions reductions, fuel displacements, and carbon capture/storage), and the Company asked a third party to evaluate the presentation prior to publication.

Outcome

Valero's change represents a significant improvement in disclosure. We voted in favor of all directors at the 2024 annual meeting.

Back to contents

Climate change engagement and voting - 2024 continued

Case study – Climate Related Shareholder Resolution

Toyota Motor	Japan	Equities

Issue

Toyota Motor is the world's top carmaker and the largest company in Japan in terms of market capitalization. In 2023, Toyota received a shareholder resolution to amend the Articles to add a clause requiring a report on corporate climate lobbying aligned with the Paris Agreement for the first time by a group of investors. This resolution was proposed once again in 2024 by a Danish investor.

Action

In 2023, we voted in favor of the shareholder proposal after discussions with the Company, as we believed its public policy report did not provide a clear methodology for assessing and escalating climate change-related issues. In the 2024 company policy report we saw progress made in terms of breadth and quality of the information provided in the report. We also met the company and Toyota provided additional context.

Outcome

in response to the progress made, we voted AGAINST the shareholder proposal in 2024: the proposal received 9% support in 2024, a decline from 15% in 2023. Our decision was based on the assessment that the Company has improved its response to this issue through ongoing dialogue.

Back to contents

Climate change engagement and voting - 2024 continued

Case study – Climate voting-Shareholder proposals & Routine votes

Berkshire Hathaway | U.S. | Equities

Issue

The American large cap holding company, Berkshire Hathaway, received a shareholder proposal requesting that the Company “Report on Efforts to Measure, Disclose and Reduce GHG Emissions Associated with Underwriting, Insuring, and Investing in alignment with the Paris Agreement’s 1.5 °C” goal. The proponent, in their supporting statement, focused on the Company’s insurance underwriting and investment in fossil fuel companies. Meanwhile, a separate proposal asked the Company to disclose utility subsidiary Berkshire Hathaway Energy’s (BHE) emissions and progress towards its stated Net Zero goals.

Action

We voted against the first proposal as we believed it would effectively require the Company to set underwritten emissions reductions targets. We are cautious regarding the methodology for insurance-associated emissions, which is driven by various factors and may not offer a holistic view of climate risk for an insurance business, nor reflect the ways an insurance company may address climate risk with clients.

However, we supported the proposal asking for disclosures related to BHE specifically, in light of BHE’s high exposure to climate change risk. As the Company had already set emission targets including a 2050 Net Zero goal, we believe disclosures more closely aligned with TCFD or similar would provide investors with meaningful information to help assess climate change risk at the Company and the credibility of targets the Company has set. More generally, the lack of disclosures on how the Company managed material climate risks led us to continue voting against the Lead Independent Director, in line with our climate related voting guidelines.

Outcome

The proposal asking for a report on efforts to measure, disclose and reduce underwritten emissions received ~21% support, while the proposal focused on Berkshire Hathaway Energy received ~18% support.

Our six investment stewardship priorities

Natural capital and ecosystems engagement – 2024

Back to contents

Natural capital and ecosystems engagement – 2024

Our Natural Capital Engagement Strategy

According to the World Economic Forum, over half of global Gross Domestic Product (GDP) is dependent on natural capital assets for the production and consumption of products and services.[43] This means that the depletion or loss of ecosystem resources – including clean air and water, fertile soil, pollination, natural carbon sinks - due to overconsumption, environmental degradation and pollution presents a systemic risk and economic impact to businesses and the global economy.

Global momentum on nature-related regulation intended to halt nature loss is trending upwards. Landmark policy actions such as the adoption of the Kunming-Montreal Global Biodiversity Framework, EU regulation such as the Regulation on Deforestation-free Products, as well as economic instruments adopted in the form of taxes on virgin plastic represent just a few of the policy levers being adopted at a national and supernational level. While we recognize many of these levers are fragmented, and early signs show the challenges and costs of implementing policy, transition risks pose financial and reputational risks for companies which are slow to adapt and innovate to manage their nature-related financial risks. This is compounded by physical risks from the growing scarcity of assets or degradation of nature, such as through droughts, flooding or deforestation. In turn, these risks may lead to operational disruption and impact a business's access to financing, leading to a higher cost of capital and, over the long-term, stranded asset risk.

A significant challenge we recognize for investee companies to mitigate nature-related financial risks relates to the breadth, depth, and complexity of issues of nature loss. These can range from land use change and deforestation to water scarcity, waste and pollution, and biodiversity loss. Despite the dependency of many companies on nature, the challenge in assessing risk and evaluating impact means that many of these nature-related risks are not effectively priced into company valuations.[44] While still nascent, and not widely adopted, voluntary frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) may help with standardizing assessment and disclosure for companies and investors alike.

In our second full year of engagement on natural capital, we engaged with 188 issuers. We recognize natural capital is a complex topic for our investee companies and investors alike. As such, we have chosen to focus engagement on specific sub-themes where we can encourage companies to adopt their own practices to maximize value for our clients. This year, we have focused our efforts on the theme of single-use plastic with consumer companies. Having introduced the focus area in last year's report, the bulk of engagements this year has been to learn how companies are managing their plastic risks in the context of increased regulation and reputational risks. We have also continued our theme of evaluating water scarcity risks. We provide an early view into our work to evaluate water risks with two beverage companies. We have also engaged data center operators connected with the growth of AI and demands for water and energy; further information on this can be found in the chapter on climate change in which we discuss a joint engagement between the two priorities, highlighting the interconnectedness between these two themes. Lastly, voting is another important way with which we express our views, and we also include a section on emerging nature-related shareholder proposals.

[43] World Economic Forum, New Nature Economy Report 2020.
[44] OECD, Watered down? Investigating the financial materiality of water-related risks in the financial system, September 2023.

Back to contents

Natural capital and ecosystems engagement – 2024 continued

Engaging with companies on natural capital

188
Number of issuers engaged on natural capital and ecosytems

34
Number of markets engaged on natural capital and ecosytems

Top markets engaged on natural capital

Country	%
United Kingdom	16.1%
United States	13.5%
Japan	10.9%
China	4.3%
France	4.3%
Taiwan	4.3%
Netherlands	3.9%
Brazil	3.5%
Germany	3.5%
India	3.0%

Top sectors engaged on natural capital

Sector	%
Consumer Staples	24.8%
Industrials	17.8%
Materials	17.8%
Consumer Discretionary	10.9%
Information Technology	9.6%
Utilities	7.0%
Energy	5.7%
Real Estate	2.6%
Health Care	2.2%
Other (incl. Sovereign)	0.9%
Communication Services	0.4%
Financials	0.4%

Natural capital and ecosystems engagement – 2024 continued

Engaging with plastic waste producers

With its multiple applications, flexibility and low cost, the use of plastic has become ubiquitous and synonymous with the growth of many consumer industries. Nearly one third of all plastic is used for packaging, and expected to double in the next 20 years, yet most is single-use and only 8% recycled, increasing pollution.[45] Air and water pollution as well as ocean litter are becoming issues for consumers in developing and developed markets.[46] Plastic waste abatement is also leading to the adoption of emerging regulations. For instance, extended producer responsibility (EPR) is a policy approach which holds producers responsible throughout the plastic lifecycle, including at end-of-life and disposal, and has already been adopted or is under development in over 70 countries, including 26 EU member states, the UK and four U.S. states (Maine, Oregon, Colorado, California).[47] It has been suggested that companies could face a global cost of up to USD 100 billion if the full cost of plastic waste management is passed through to industry through EPR frameworks by 2040.[48] A landmark treaty on plastics is also being negotiated with 175 UN nation states. At the time of writing, progress has stalled around potential plastic production cuts, but provisions related to aspects such as waste management infrastructure, harmful chemicals and the financial mechanism underscores both the complexity and potential far-reaching implications of this treaty for companies and their supply chains.[49]

As investors, we recognize that increasing regulatory enforcement and changing consumer preferences due to waste and pollution introduces costs and uncertainties for portfolio companies and their supply chains. Many of these regulations are nascent and requirements differ across markets. However, with the increasing trend in public policy developments, there is a need for companies that heavily depend on plastic to be more proactive about managing plastic-related risks. Companies which are adept at navigating these risks may benefit from commercial tailwinds. Research estimates that transitioning from a take-make-waste economy could be worth up to USD 10 billion for companies that can identify innovative ways to deliver products and services, offering a competitive advantage.[50]

Within this backdrop, we embarked on an engagement initiative to learn how companies are assessing risks related to single-use plastics and exploring opportunities. We focused our engagement on supermarkets, household, personal care, food and beverage and other consumer companies that are heavy users of plastic.

[45] World Economic Forum, The New Plastics Economy: Rethinking the future of plastics (2016);
[46] https://www.mckinsey.com/industries/packaging-and-paper/our-insights/sustainability-in-packaging-2023-inside-the-minds-of-global-consumers
[47] https://www.circular.co/articles/plastic-legislative-landscape-epr-schemes-in-the-united-states
[48] https://www.pewtrusts.org/en/research-and-analysis/articles/2020/07/23/breaking-the-plastic-wave-top-findings
[49] https://www.circular.co/articles/plastic-legislative-landscape-epr-schemes-in-the-united-states
[50] World Economic Forum, Ellen MacArthur Foundation and McKinsey & Company, The New Plastics Economy: Rethinking the future of plastics (2016)

Back to contents

Natural capital and ecosystems engagement – 2024 continued

Key findings from engagements with consumer companies on single-use plastic

Finding 1: Quick wins have been achieved but momentum is slowing.

Through our engagements, it was indicated that companies have reduced some dependencies related to single-use plastic, much of which we encounter in our daily lives. For instance, companies are increasing recycled content, reducing the weight of plastic packaging, moving to alternative packaging (such as paper or glass) or removing unnecessary plastic (like plastic straws or bags). However, momentum is slowing as many of these quick wins have been achieved. Three key challenges stood out from our engagements:

(1) **Need for collaborative solutions**. A major barrier to further scaling solutions is that many companies feel these issues are beyond their control as a single actor. Companies cited the need for significant public-private collaboration, for instance, to develop the infrastructure required to collect and recycle plastic or implement reverse supply chains for reusable packaging.

(2) **Cost challenges and uncertainties**. A second issue is the cost of transition. Coupled with consumer reluctance to pay for improved sustainability, many companies do not have long-term visibility to invest, or they must absorb higher costs in the short-term. We heard similar feedback from companies waiting for clarity on the outcome of the UN Global Plastics Treaty, which they believe would level the playing field for companies on the cost of transition and thus reduce uncertainties.

(3) **Conflicts in plastic reduction**. A third major challenge is increasing trade-offs in levers to reduce plastic. This creates conflicts for companies in considering how to prioritize between meeting decarbonization goals, reducing waste and customer health and safety. Many companies explained that using plastic packaging is often lower in carbon emissions than alternatives like glass. There is also research suggesting that recycled plastic increases the toxicity of plastic creating complexity for companies to assess the efficacy of levers which address human health and environmental issues.[51]

While we recognize this presents significant constraints to progress for investee companies, one of the biggest risks is that companies in which we invest, and which have high exposure to plastic, do not assess opportunities fast enough to stay ahead of regulation and consumer behavior. We believe the better performing companies will be those that are not only demonstrating that they are assessing risks, but also that they can adapt and innovate in a cost-effective manner that delivers value for our clients. We had some interesting engagements with companies in which they provided examples indicating that they are able to unlock new business channels, improve the consumer experience or minimize costs. Companies in sub-sectors like cosmetics, beauty and skincare described the commercial opportunities from premiumization of packaging. In our view, these companies may be better positioned to benefit from the reduction in plastic usage than their consumer staples peers or food producers, where the value of packaging is generally low cost and there are increasing trade-offs related to food waste, health and safety or emissions.

Finding 2: Targets are a mixed bag.

Many targets to date have been set voluntarily by companies. Our key observations are two-fold:

(1) **Difficulty assessing credibility of targets**. There have already been some notable adjustments to targets set by companies. This is especially representative of those companies which set targets due for 2025, inspired by the voluntary disclosure of the Ellen MacArthur Foundation Global Plastic Commitment. Yet while we observed that many near-dated targets appear to be ambitious, we also raise concerns about favoring companies with longer-dated targets, as it may be more difficult to assess their performance.

[51] https://www.greenpeace.org/usa/news/new-greenpeace-report-calls-out-toxic-hazards-of-recycled-plastic-as-global-plastics-treaty-negotiations-resume-in-paris/

Back to contents

Natural capital and ecosystems engagement – 2024 continued

(2) **Limited comparability between companies.** The lack of standardized methodology for setting targets, and differences in disclosures of a company's plastic footprint makes it difficult to draw direct comparisons between companies and assess their risks. It also means there is increasing potential for companies to hide behind targets, which may lead to potential greenwashing concerns. Increasing litigation against some of the largest plastic producers are notable examples of the risks to companies and our portfolios.

As investors, we encourage portfolio companies to be transparent. If a company sets an ambitious target, it should be achievable and credible. We want to hear from companies as early as possible on any challenges and how this may impact the company's strategy to avoid future reputational risks, potential litigation and greenwashing, and importantly, to avoid missing out on capturing key commercial tailwinds. Companies should employ annual reporting which is clear, fair and non-misleading, to reduce risks of greenwashing related to consumer marketing. This is certainly important with the reported rise in the plastic credit market, which could lead to increasing purchasing of offsets and may be linked with additional risks of greenwashing related to marketing and corporate commitments to reduce plastic.[52]

Next steps

Following our engagement with consumer companies, we identified key learnings and focus areas that are important for disclosure by companies with high exposure to plastics. We acknowledge that not all of these aspects will be relevant for every company, as they may be at different stages in their journey to reduce plastic-related risks. We encourage companies to adopt these learnings in a way which is relevant to their situation.

Engagement theme 1: Assess risks and opportunities and close the gap on exposure relative to peers

1. Establish a framework to monitor, assess and respond to increasingly stringent regulatory, financial and reputational risks related to exposure to single-use plastic.
2. Explore packaging innovations that can enhance revenue, brand equity and company differentiation.
3. Evaluate costs of replacement of virgin plastic, and where relevant, set appropriate time-bound targets in line with risks and cost assessment.
4. Engage with industry bodies and policymakers to develop practical market guidance that clarifies regulatory compliance and the associated costs for companies and their supply chains.

Engagement theme 2: Disclose transparently against stated plastic commitments

1. Establish clear methodology for scope, coverage and reporting for targets related to plastic, enabling, where relevant, investors to assess the year-on-year impact on their plastic footprint, in absolute terms and relative to total packaging or sales.
2. Promote transparent, fair, and non-misleading reporting on packaging and plastics related to consumer marketing to reduce the risk of potential greenwashing.
3. Disclose a cost-effective and scalable roadmap to achieve plastic goals addressing environmental and human health risks. Acknowledge potential trade-offs and discuss related challenges and opportunities.
4. Articulate the governance/oversight structure related to company's stated plastic goals and disclose the extent to which targets are tied to management incentives, as applicable.

52 https://verra.org/plastic-credits-can-help-global-plastic-treaty-deliver-impact-at-scale/?secureweb=POWERPNT

Back to contents

Natural capital and ecosystems engagement – 2024 continued

Case study

Tesco Plc | UK | Equities, Bonds

Issue

The British Retail Consortium estimates that the implementation of the extended producer responsibility in the UK, regulation which holds producers responsible throughout the plastic lifecycle including the associated costs at end-of-life and disposal, will cost the retail sector £2 billion.[53] With mid-single digit margins, supermarkets cannot easily absorb these costs. Acting swiftly to reduce plastic in line with consumer expectations and regulation will be important for retailers like Tesco to retain its market positioning.

Action

We met with the dedicated Sustainable Packaging team at British supermarket retailer, Tesco, to understand the Company's strategy and target-setting rationale to identify how they are aligned with peers and regulation. Since 2019, Tesco reported they have removed two billion pieces of plastic and either reduced or removed 4,500 ton of packaging.[54] The Company indicated this has been achieved through removing unnecessary surplus plastic, like the plastic rings in bulk buy items or on fresh fruit and vegetables. However, the Company cautioned that there are headwinds in moving further with reducing plastic risks. One major issue is that plastic can typically have one of the lower carbon footprints of available materials, leading to conflicts with meeting both corporate decarbonization targets and minimizing waste. The company shared that they had to take a holistic approach to packaging materials as a result. A second issue is regulatory uncertainty and increased costs. The company highlighted continued delays in the implementation of relevant legislation and the challenges of devolved curbside waste collection, which they indicate is crucial for promoting recycling and to reduce costs of transitioning to recycled content.

Unlike many global consumer peers, we noted that Tesco has not set a headline plastic reduction target. Tesco indicated that within the backdrop of the constraints they described, the Company is cautious about setting a headline target which they indicated they would not be able to meet without effective policy action. The company indicated that they are an active member of the UK government's Advisory Council for Packaging helping to promote effective recycling through relevant legislation. Tesco is also consulting on improved packaging design and reuse.

Outcome

Continued dialogue with Tesco has strengthened our understanding of the Company's commitment to managing its plastic risks, and the credibility of the Company's strategy related to target-setting. During 2025, we plan to monitor the Company's engagement with industry and government actors and progress towards market guidance which may remove uncertainties and costs for Tesco and its supply chain.

[53] https://brc.org.uk/media/0dzjbpii/brc-submission-to-autumn-budget-2024.pdf
[54] https://www.tescoplc.com/media/lfzau10w/tesco-4rs-report-120523.pdf

Back to contents

Natural capital and ecosystems engagement – 2024 continued

Case study

L'Oréal | France | Equitiy

Issue

It is reported that the beauty and cosmetic industry is responsible for the production of over 120 billion units of plastic packaging waste annually.[55] While legislation like the ban on microbeads - tiny pieces of plastic often added to products - have existed for nearly a decade in the U.S., UK, Canada and New Zealand, new EU legislation on recycled content, recyclability, and reusability may significantly impact the beauty industry, both from an operational and financial aspect.[56]

Action

As it is a major beauty and skincare company, we met with L'Oréal to learn more about cost-effective methods to reduce plastic exposure in line with regulation and its peers. The Company indicated that there are some commercial benefits from transitioning to more sustainable packaging, such as using glass instead of plastic, which meets their plastic goals whilst also creating a "premium feel," and offering refillable fragrances which they can market at a 30% discount. These new packaging initiatives, which emphasize premiumization as well as reuse, have received positive feedback from customers.

The Company also indicated, however, that there are headwinds which may impact their ability to meet existing plastic targets. One issue the Company signaled is the need for effective solutions to reduce packaging, where packaging cannot be easily removed, nor can it be significantly reduced in weight. The Company reported 3% progress in 2022 and 4% progress in 2023 towards its 2030 target of reducing the quantity of packaging in intensity used for it products by 20%.[57] JPMAM recognizes the need for effective solutions to reduce packaging is an industry-wide issue. It needs to be seen how the Company progresses towards the targets given the steep progress required.

A second issue is the cost of transition. The Company indicated that this makes it particularly challenging to move towards alternative packaging in lower-value categories like shampoo due to lower margins. On the other hand, L'Oréal indicated their optimism that the emerging regulatory environment will help to promote recycling and reduce costs of recycled plastic. They expect this will be supportive for meeting their target for 100% recycled or bio-based plastic by 2030. The Company also indicated that it is collaborating with start-ups to improve the quality of plastics for recycling and to secure additional volume of recycled plastic.

Outcome

JPMAM is encouraged by the examples indicated by the Company with unlocking new commercial opportunities, such as delivering refillable products for premium categories at a discount. JPMAM recognizes some of the challenges described by the Company seem to be an industry-wide issue with meeting corporate plastic targets. With the Company's longer-dated targets, continued transparency will be important to understand credible progress.

55 https://www.forbes.com/sites/oliviaobryon/2022/10/27/why-is-eliminating-plastics-from-beauty-products-so-critical-superzero-founder-explains/
56 Bans in place on microbeads: UK, US, Canada, New Zealand. New EU Packaging rules
57 https://www.loreal-finance.com/system/files/2024-03/LOREAL_2023_Universal_Registration_Document_en.pdf

Back to contents

Natural capital and ecosystems engagement – 2024 continued

Case study

Hindustan Unilever (HUL) | India | Equity

Issue

Plastic production in Asia has grown by 5% annually over the past decade with only 12% being recycled.[58] A major challenge is the use of low cost, flexible single-use sachets for certain personal care items, a significant source of plastic pollution.[59] With India's extended producer responsibility regulation potentially shifting waste disposal costs to companies, businesses in this region face growing consumer and regulatory pressures regarding plastic waste.[60]

Action

As one of the largest health and personal care providers in India, and with around 30% of its footprint in flexible sachets, we met with HUL to understand the Company's strategy "better plastic, less plastic, no plastic" to mitigate plastic-related risks aligned with regulation in a cost-effective way.

The company reiterated their commitment to reduce plastic risks in a way which prioritizes the consumer – either through better value for consumers or improved innovation in terms of delivery or design (like capsules). They indicated this is critical given the challenges of absorbing increased costs and the continued reluctance of consumers to pay for improved sustainability credentials. An example is the discounted refillable liquid handwash offered to customers. They are also exploring upsizing sachets to reduce plastic intensity per product and offering a price differential to incentivize consumers in products where single-use sachets have been more prevalent.

The Company has made strides in increasing recycled content for rigid plastic and expressed confidence in meeting their target for 15% recycled plastic by 2025 (currently at 4.4% for FY23-24). For flexible single-use sachets, management indicated they are committed to investing in material recovery centers through third-party collaboration. They indicated this will reduce long-term operating costs and provide a competitive advantage for the Company. They also cited an ongoing program of education in schools to promote improved waste segregation.

As a subsidiary of parent company, Unilever Plc, we asked HUL to describe their governance structure in sustainability strategy and target-setting. HUL indicated that it has adopted a three-tier governance structure for executing its plastic reduction and other sustainability initiatives. Target-setting is independent of its parent but will involve active consultation. HUL acknowledged they do not currently have a target to reduce single-use plastic and shared that this is being actively discussed with management for 2030.

Outcome

We are encouraged that the Board is actively evaluating new plastic targets for 2030 and will continue to monitor any commitment the Company makes.

58 Alliance to End Plastic Waste, The Plastic Waste Management Framework
59 https://emf.thirdlight.com/file/24/SWAXKg3SWOeL_4OSWZn0SWsy8Dw/The%20Global%20Commitment%20Five%20Years%20In%3A%20Learnings%20to%20Accelerate%20towards%20a%20Future%20without%20Plastic%20Waste%20or%20Pollution.pdf
60 Alliance to End Plastic Waste, The Plastic Waste Management Framework

Back to contents

Natural capital and ecosystems engagement – 2024 continued

Engaging demand-side on Water-scarcity Risks

Freshwater resources use is pushing up against the limits of global renewable water supply, creating widespread instances of water scarcity and posing challenges for economic growth and well-being.[61] Since 1960, global freshwater use has doubled, while the per capita supply of water resources has remained fixed.[62, 63, 64] For business, water scarcity poses significant risk. In the short term, changes in the availability of water can cause business disruption and changes in the price of key inputs across a value chain. In the long term, water scarcity can influence capital allocation, motivate changes in production, and even trigger the closure or relocation of vulnerable facilities or operations.[65] Recent examples of water challenges harming profitability abound. In 2021, drought conditions in Taiwan forced TSMC, a Taiwanese semiconductor manufacturing company, to use trucks to supply water to semiconductor fabrication plants.[66, 67] The 2022 European drought made parts of the Rhine River unnavigable, temporarily closing a major logistical route for German heavy industry.[68]

Water scarcity, water related hazards such as riverine flooding, and water quality can pose a suite of risks to investors and investee companies. We have focused specifically on water-scarcity related challenges. While a given company's exposure to water risk may vary, water stress is a global concern; at least half of the world's population currently live under high water-stressed conditions for at least one month a year.[69] It is important for companies, and their investors, to understand their underlying water risks.

Deepening research into corporate water risks

This year, working with our Sustainable Investing and Stewardship Research team, we embarked on a data-driven project using research insights to define and assess companies which are highly exposed to water-scarcity risks. Investors, similar to businesses, need to parse multiple dimensions of water risk. This analysis seeks to assess exposure to water-scarcity risk using company data disclosures and third-party frameworks to present a bottom-up assessment of water risk. We identified four key principles:

- **Dependency**: Sectors like consumer staples, utilities, metals and mining and chemicals are highly dependent on water as an input into business processes, such as cooling or thermal power generation, or as an ingredient within the finished product. Other sectors have a significant indirect dependency on water intensive activities like agriculture via supply chains. We use company disclosures from the Carbon Disclosure Project (CDP) as well as third-party tools like ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) which can give insight into direct and indirect dependency.
- **Exposure**: The extraction of water is local, and so too are the associated risks. Certain companies may be more exposed to water risks due to their location in water-stressed areas, or due to sourcing from water stressed regions. We use company disclosures using the World Resources Institute's Aqueduct tool to identify geographic exposure to water-scarce regions.
- **Water intensity**: A measure of how much water is used per unit of product or per sales is an important metric to assess and compare water efficiency across companies. Using company disclosures from CDP, we derive intensity for water consumption and water withdrawal.

[61] https://pubs.giss.nasa.gov/abs/ro06010m.html
[62] https://www.nature.com/articles/srep38495
[63] WRI: 25 Countries, Housing One-quarter of the Population, Face Extremely High Water Stress, 16 Aug 2023
[64] BofA Global Research. H20…no! Water Primer, 01 Nov 2023
[65] https://www.nature.com/articles/s41467-021-22194-0#Fig1
[66] https://www.forbes.com/sites/emanuelabarbiroglio/2021/05/31/no-water-no-microchips-what-is-happening-in-taiwan/?sh=29ef0d0722af
[67] https://earth.org/the-taiwan-water-shortage-dilemma/
[68] https://www.abnamro.com/research/en/our-research/ripple-effects-exploring-the-impact-of-low-rhine-water-levels-on-the-dutch
[69] WRI: 25 Countries, Housing One-quarter of the Population, Face Extremely High Water Stress, 16 Aug 2023

Back to contents

Natural capital and ecosystems engagement – 2024 continued

- **Management**: Finally, assessing corporate risk management and mitigation is essential to evaluate the effectiveness of company strategy to mitigate water-related risks. We use company disclosures in CDP to identify whether companies have water targets in place and whether they have completed a supply chain assessment for water. We view these two variables as important data-driven considerations in evaluating the strategy, ambition and effectiveness of corporate risk management for water.

Considering these water risk principles allows us to organize and prioritize our engagements with sectors and companies that are most exposed to financially material water risks. We provide a case study of the beer sector in this report. We plan to increase these engagements in 2025.

Back to contents

Natural capital and ecosystems engagement – 2024 continued

Case study

Heineken and Carlsberg	Netherlands and Denmark	Equities, Bonds[70]

Issue

Beer accounts for around 75% of total alcoholic beverages consumed by volume and 40% of total consumer spend on alcohol.[71] Water is a key input in the production of beer, including cleaning, steam generation, cooling and a main ingredient of the product itself. This significant dependency means brewers are increasingly exposed to water-related risks. The 2022 drought in Monterrey, northern Mexico, reportedly led the government to halt beer production, affecting an industry that contributes 1.5% to the country's GDP. This event highlights the potential for significant impacts on companies due to physical water shortages and reputational risks, as local communities protested corporate water use.[72, 73]

Action

Against this backdrop of the increasing frequency and unpredictability of water availability for brewers, we met with European brewers, Carlsberg, based in Denmark, and Dutch brewer Heineken, to understand their strategy in high-risk regions. Heineken operates one of its sites in Monterrey, northern Mexico, and was directly impacted by the 2022 drought.

The Chief Sustainability Officers for both companies acknowledged the systemic risk posed by water stress for their businesses. Both companies conduct a water risk assessment to identify brewery locations in high water-stressed sites. This considers physical risks, regulation and local stakeholder water use. It also takes into account the growth and business projections for each individual brewing site. Carlsberg identifies 17 breweries as located in highly water-stressed sites (including one associate brewery) while Heineken identified 32 sites.[74]

Within their own operations, a core focus for both companies is to improve water efficiency. Carlsberg has set its own target to achieve an average efficiency of 1.7 hectoliters of water for every hectoliter of beer produced in water-stressed areas by 2030. Heineken's target is to improve efficiency to 2.6hl/hl in high-risk areas by 2030. We note both companies have at least one high risk site that already meets 1.7hl/hl (the Meoqui brewery in Mexico for Heineken, and one brewery in China for Carlsberg). These more efficient breweries have improved circularity of water, for instance by installing advanced wastewater treatment to reuse for cleaning, or for reuse in other key processes like evaporative condensers.

There exist constraints, however, to faster adoption of efficiency practices for both companies. These include whether the site produces mixed beverages which may impact water intensity, the scale of the site (e.g. commercial or micro-brewery), as well as other corporate activities such as M&A or meeting other sustainability priorities. We are supportive of both companies' adoption of a "shadow" water price which considers the full value of water, including the utilities' price of water, but also additional costs required to pump the water, cost of treatment for water quality, and impact of regulation. Pricing water inclusive of external costs enables capital allocation to be directed towards sites where improving water efficiency is both cost-effective and improves water-risk management.

continued →

[70] While this case study discusses two companies that were engaged on similar topics, they are considered separately for engagement and investment purposes.
[71] HSBC, ESG Summer Series 2024, Brewed awakening: The bitter future of beer (30 July 2024)
[72] https://mexicobusiness.news/agribusiness/news/mexican-beer-industry-driving-economic-growth
[73] https://www.nytimes.com/2022/11/13/world/americas/mexico-beer-climate.html
[74] 2023 ESG reports.

Back to contents

Natural capital and ecosystems engagement – 2024 continued

Case study continued

Heineken and Carlsberg | Netherlands and Denmark | Equities, Bonds[75]

Action continued

As visible consumers of water in stressed water basins, another action taken by both companies is to replenish the water they consume in operations back into the same watershed in high water-stress areas. Activities include restoring local water basins or providing access to safe and clean water for local communities. The companies indicated this is essential to reduce reputational risks and maintain their social license to operate. Heineken noted that there was some reputational risk following the drought in Monterrey with local communities, but this was short-term, which they indicated was due to their long-standing water stewardship activities in Monterrey since 2013.[76] They explained that proactive engagement with the local government also enabled the Company to strategically increase production capacity in the southern regions in Mexico, where water availability is not a concern.

We noted to the companies that it is not entirely clear how their water stewardship actions, which depend on water basins, effectively reduce the physical risks of operating in water-stressed river basins. The companies recognize that simply replenishing the water they consume may not fully address the overall basin-level water stress risks. Emerging frameworks, such as Science-Based Targets for Nature, could help make companies' water targets scientifically grounded, though these frameworks are still in early stages. In addition, such companies will need to engage in collaborative efforts with their local communities, other basin users, and local governments to achieve sustainable water abstraction at the basin level.

Outcome

Our engagements were positive and constructive, and demonstrated both companies' management is taking steps to address risks associated with their dependence on water. We will continue to monitor both companies' progress towards the targets they have set, as well as wider stakeholder engagement to reduce both reputational and physical risks related to their water dependency.

[75] While this case study discusses two companies that were engaged on similar topics, they are considered separately for engagement and investment purposes.

[76] As noted in the Company's 2023 CDP disclosures, disruption was minimal as the Company sources from a private well, but they contributed close to €2 million to support local government (unplanned capex) and temporarily transferred part of their water rights to public utilities.

Back to contents

Natural capital and ecosystems engagement – 2024 continued

Next steps

From our initial engagements with companies, including water utilities and other beverage companies, we have identified some core findings. These will be an important part of our engagements for 2025 as we expand the sectors and companies we will engage on water risks.

- **Exposure to water risks is not linear with corporate risk management.** This may mean companies have similar risk management approaches, but exposure is dependent on geographic location. This may make it difficult to compare progress between companies.
- **Oversight, accountability, and management of water-related risks.** For companies which are highly dependent on water within their own operations and their supply chain, we encourage a commitment to manage water-related risks and explore opportunities with a clear roadmap set from the top. In our view, this must include exploring ways to reduce water consumption and improve efficiency, and, in the long-term, replenishing the water companies consume, balancing the needs of local stakeholders including other resource users and policymakers. Innovation will be critical to safeguard sustainable corporate access to water in the face of long-term physical risks from growing scarcity. Companies adept at navigating these risks and opportunities may benefit from commercial tailwinds through access to new markets or lines of credit, and build long-term resiliency.
- **Water replenishment is essential for maintaining a company's social license to operate.** As visible users of a water basin, replenishment may be an intangible asset for companies, helping to protect their goodwill and maintain their social license to operate. Further still, companies which work effectively with local water users may lead to improved reputational outcomes with customers. We acknowledge it is difficult for companies as single actors to reduce physical risks of operating in a water basin, given the complexity and volume of water abstraction by other basin users. We encourage companies to collaborate with other basin-users, third parties and local government to maintain sustainable access to water.
- **Adoption of a "shadow" water price to account for the full cost of water in capital allocation.** Professor Dasgupta of Cambridge University wrote that nature's assets are not priced; this is certainly true for many water resources globally. Generally, the price we pay for water does not account for the full value of ecological services and does not reflect the true environmental and financial costs of water use, especially in areas experiencing water stress and water pollution.[77] For businesses which are highly dependent on water, pricing water inclusive of external costs may have significant implications. Similar to a carbon price, we remain concerned that if the full value of water was passed through to businesses, it would lead to a significant investment risk. The adoption of a "shadow" price for water is critical for businesses to make cost- and opportunity-based decisions reflective of the broader set of environmental costs associated with water use.

Natural capital voting

Our voting policies are designed to promote the best long-term interests of our client accounts. In recent years there has been steady momentum in shareholder proposals on natural capital issues such as plastic and the circular economy, as well as nature-related financial disclosures. Voting on nature-related issues is an important way of expressing our views where we think management could better manage their company's specific nature-related financial risk. As natural capital issues are emerging, we tend to vote on these shareholder proposals on a case-by-case basis. We may consider voting in favor of a shareholder proposal where we feel risk mitigation efforts are lagging peers and disclosure is limited on challenges moving at a faster pace (for instance cost, availability, and nature of product compared with others). We may also support enhanced reporting on nature-related financial disclosures which we view as meaningful information to investors to evaluate nature-related risks and opportunities for a particular company.

In 2024, we voted in favor of six nature-related shareholder resolutions.

[77] https://assets.publishing.service.gov.uk/media/602e92b2e90e07660f807b47/The_Economics_of_Biodiversity_The_Dasgupta_Review_Full_Report.pdf

Back to contents

Natural capital and ecosystems engagement – 2024 continued

Case study - Nature-related Shareholder Resolution

General Mills, U.S. Food Manufacturer	U.S.	Equities

Issue

A shareholder proposal at American food manufacturer/marketer General Mills (GIS) asked the Company to report on how it could increase the scale, pace and rigor of its sustainable packaging efforts, including by reducing the use of plastic packaging. A similar proposal had received ~57% support in 2022. We view a company's management of plastic risks as increasingly material as more U.S. states have implemented or are considering implementing extended producer responsibility frameworks.[78]

Action

We noted that the Company appeared to be taking some steps in this area. GIS had established a 2030 goal for 100% of its packaging being recyclable or reusable, and it reported that 93% of its packaging by weight currently meets this goal. GIS also reported that 11% of its packaging by weight comes from plastic, down significantly from prior years.

That said, the Company did not have a forward-facing target regarding reducing the use of virgin plastic. We noted that several of GIS's major peers, including Kellogg, Conagra, Mondelez and Kraft Heinz, had set targets to reduce absolute virgin plastic use as part of risk management and to maintain competitiveness.

Outcome

As a result of our belief that GIS was not addressing this material risk, we voted for the shareholder proposal, as we had in 2022.

The shareholder proposal received 40% support this year. While the lower support level compared with 2022 may be indicative of steps the Company has taken, the fairly high absolute support level reveals continued investor interest in this topic.

[78] https://productstewardship.us/products/packaging/?secureweb=Teams

Our six investment stewardship priorities

Social stakeholder engagement and voting – 2024

Back to contents

Social stakeholder engagement and voting – 2024

Generating long-term returns requires managing the interests of stakeholders. To be sustainable over the long term, a company's leadership needs to take into account the broader network of relationships in which it operates. This includes shareholders, suppliers, customers and surrounding communities. For example, the failure of a mining company to manage its impact on local communities could result in unrest and result in reputational risk issues. Similarly, a consumer electronic company's failure to exercise responsible sourcing could result in reputational risk and boycotts from customers.

Engaging with companies on their stakeholder engagement

174
Number of issuers engaged on social stakeholder

30
Number of markets engaged on social stakeholder

Top markets engaged on social stakeholder engagement

Country	%
United States	20.0%
Japan	15.2%
United Kingdom	9.0%
Cayman Islands	8.6%
China	8.6%
S. Korea	5.7%
India	4.3%
Taiwan	3.3%
Germany	2.9%
Australia	2.9%

Top sectors engaged on social stakeholder engagement

Sector	%
Consumer Discretionary	24.3%
Information Technology	14.8%
Financials	13.8%
Industrials	10.5%
Materials	9.1%
Communication Services	8.6%
Consumer Staples	6.7%
Health Care	6.7%
Other (incl. Sovereign)	2.4%
Energy	1.9%
Utilities	1.4%

We take an active ownership approach to our investee companies' management of stakeholders' interests and human rights in general. This year, we continued our company engagements on material human rights issues faced by our investee companies, and we prioritized our engagement on social and human rights risks along the value chain that arise from key long-term trends. With the ongoing momentum on climate transition and digitalization, responsible minerals sourcing and responsible use of technology are two key themes in focus.

Back to contents

Social stakeholder engagement and voting – 2024 continued

Engagement on Human Rights and Supply Chain: Update on Responsible Minerals Sourcing

In our 2023 stewardship report and the paper "Child Labor in Cobalt Mining" published in March 2024, we outlined our thematic engagement project on cobalt and human rights. This project involved 14 listed investee companies along the cobalt battery-making and semiconductor value chain. Cobalt is a crucial mineral for the transition to a low-carbon economy, with 60%-70% sourced from the Democratic Republic of the Congo (DRC), where child labor and human rights abuses are prevalent. The evolving global legal requirements for human rights due diligence in mineral sourcing pose significant financial and reputational risks for companies failing to source cobalt responsibly. The European Union's proposed Corporate Sustainability Due Diligence Directive (CSDDD) exemplifies this shift, mandating due diligence measures to address human rights and environmental impacts in value chains.

In 2024, we expanded our engagement program to 22 new companies, including battery makers, carmakers, semiconductor companies, consumer electronics and mining companies. We also broadened our focus beyond cobalt to other critical minerals like copper. Our engagement centered on two key questions: how companies assess human rights and child labor risks in their supply chains, and what actions they take to mitigate these risks.

Engagement on responsible minerals sourcing is important to understanding financial materiality for investors because such sourcing may impact a company's risk profile and long-term return. As global regulations increasingly mandate human rights due diligence in supply chains, companies that fail to responsibly source minerals like cobalt face significant financial, regulatory, and reputational risks. These risks can manifest as legal penalties, supply chain disruptions, and damage to brand reputation, all of which can adversely affect a company's financial performance and shareholder value. Moreover, responsible sourcing practices can enhance operational efficiency, foster innovation, and open up new market opportunities, thereby contributing to a company's competitive advantage. For investors, understanding how companies manage these risks and opportunities is essential to safeguarding and potentially enhancing the value of their investments.

Key Engagement Findings in 2024

Assessment of Human Rights and Child Labor Risks:

- More companies (21% in 2024 vs. 14% in 2023) are disclosing salient human rights risks by materials, including cobalt. However, there remains a disclosure gap, as the percentage reverts to 14% when including new companies.
- Companies are expanding due diligence beyond cobalt, with all engaged companies covering cobalt and some extending to other minerals like mica, nickel, and lithium.
- There is a lack of evidence showing meaningful engagement with rights-holders to manage human rights risks. While companies participate in multi-stakeholder approaches, details on rights-holders' perspectives and their impact on risk management are scarce.
- About 36% of companies discussed their supply chain audit progress, indicating a higher priority on audit communication compared to other practices like disclosing human rights risks.

Industry Practices and OECD Framework

The The Industry practice where improvement is needed table below outlines the emerging industry practices to address human rights risks. This analysis is based on the OECD Five-Step Framework for Risk-based Due Diligence, which is a tool designed to help companies evaluate and address human rights issues within their supply chains. The framework is widely recognized in international regulations and highlights key indicators such as the disclosure of significant human rights risks, engagement with rights-holders, assessment of due diligence robustness and articulation of contributions to industry initiatives.

Back to contents

Social stakeholder engagement and voting – 2024 continued

Industry practice where improvement is needed

Industry practice	% of companies following industry practice in 2024 compared to 2023
Disclosure of Human Rights Risks	14% in 2023, 21% in 2024 (+7), 14% in 2024 including new companies.
Engagement with Rights-Holders	29% in 2023 and 2024 (like-for-like), 23% in 2024 including new companies.
Assessment of Due Diligence Robustness	29% in 2023, 36% in 2024 (+7), 23% in 2024 including new companies.
Contribution to Industry Initiatives	29% in 2023 and 2024 (like-for-like), 27% in 2024 including new companies.

Source: J.P. Morgan Asset Management, as of December 31, 2024.

Back to contents

Social stakeholder engagement and voting – 2024 continued

Case study

Samsung Electronics | South Korea | Equity

Issue

Samsung Electronics, the global leading consumer electronics and technology company, uses cobalt in its electronics. Samsung was among international companies that was reportedly associated with the use child labor in its cobalt supply chain. We therefore reached out to the Company to raise the importance of responsible cobalt and minerals sourcing and understand the Company's approach to addressing these issues.

Action

When we met with the Company, the Company clarified its cobalt traceability work and its position on sourcing artisanal and small-scale mining (ASM) cobalt. The company explained that it did not have an outright ban on ASM sourced cobalt due to the difficulty in identifying ASM cobalt miners and the lack of industry guidance. To remediate the child labor and human rights risks in the Demoncratic Republic of Congo (DRC), the Company indicated that it was participating in multi-stakeholder initiatives such as Cobalt for Development.

We put forward suggestions related to responsible minerals sourcing. They include disclosing the percentage of Responsible Minerals Assurance Process (RMAP) certified cobalt smelters used, discussing lessons learned from participation in multi-stakeholder initiatives in the Company's human rights due diligence reporting, and disclosing the identified human rights risks of not only cobalt but also other critical minerals.

At our recent meeting with the Company's corporate sustainability center this year, we further sought insights into the Company's decision-making process for participating in multi-stakeholder initiatives to address systemic child labor and human rights risks. It discussed various platforms that are available in the market to address human rights risks and the respective limitations of each. We appreciated the in-depth discussion and honest feedback the Company provided.

Outcome

We note and welcome the significant improvement in disclosure in the Company's latest sustainability and responsible minerals report released in 2024:

- Explicit disclosure of the identified human rights risks of cobalt and other critical minerals. For cobalt sourcing, it lists out labor issues, environmental destruction and child labor arising from cobalt mining in some regions of the Democratic Republic of the Congo as key human rights issues.
- Extension of the due diligence coverage of critical minerals sourcing to copper & nickel (2022), and aluminum and silver (2023). The company is focusing on chromium and zinc in 2024.
- Disclosure of the percentage of its cobalt smelters which are RMAP certified, which is 100% as of 2023. In addition, it also discloses the percentage of RMAP certification of smelters for other minerals including lithium, copper, nickel, aluminum and silver.
- Articulation of its human rights risk mitigation method through external partnerships. As we discuss in our cobalt and child labor paper, we find this practice more proactive than other alternatives (e.g. de-risking) to address the identified human rights issues.

Back to contents

Social stakeholder engagement and voting – 2024 continued

Child labor in the agricultural sector

Child labor is also prevalent in other sectors such as agriculture. According to the European Union, more than 70% child labor or 108 million children work in the agricultural sector. This year, we engaged with L'Oréal and Mondelez International to understand their human rights due diligence approaches to commodities sourcing. Both companies acknowledge the importance of tackling the root cause of the issues and taking a holistic approach to tackle child labor issues, along the both the jasmine and cocoa supply chain. See details in the table below:

L'oreal and Modelez CASE Studies

	L'Oréal	Mondelez International
Issue	L'Oréal, the French multinational personal care company, was allegedly associated with child la-bor along the jasmine supply chain for its perfume product line. It was reported that children as young as five were found working in hazardous and unsafe working conditions on smallholder farms during the harvest seasons June-November.[79]	Mondelez International the American multinational snack food company has chocolate as one of its core product categories. Close to 65% of cocoa a key raw material of chocolate, is sourced from the Ivory Coast and Ghana, where there have been child labor allegations and poverty pre-vails.
Action	We reached out to the Company to understand its child labor oversight in its perfume supply chain this year. Through their risk mapping framework for human rights, L'Oréal first identified potential child labor in their jasmine supply chain in October 2023, after the last harvest. The Company views remedi-ation through two lenses: a short-term tactical plan with field officers patrolling at night, and a longer-term plan through the coalition "Harvest-ing the Future" to tackle systemic issues of child labor. L'Oréal noted two challenges: (i) cultural, and (ii) level of influence. In terms of culture, Egypt does not count child labor if within the family. The government also only focuses on labor inspection in industry, and not in agricul-ture/the field. L'Oréal's focus therefore has been to train families on the negative consequences on child development from a social and legal point of view. In terms of level of influence, the Company sources a small percentage of ingredients for perfume from Egypt but L'Oréal is not one of the largest purchasers of jasmine. The Company stressed the importance of being part of the coalition Harvesting the Future to address the root causes of child labor and partnering with other industries, like the essential oils industry in the case of jasmine, to build leverage and move suppliers.	Last year and this year, we discussed the cocoa supply chain with the Company. They explained their approach to tackling systemic child labor issues through their Cocoa Life program[80], which has been in place since 2012. The Company acknowledged that cocoa farmers and their communities face complex challenges, including climate change, deforestation affecting crop yields, poverty, and child labor. Mondelez has committed to investing USD1 billion by 2030 to make cocoa sourcing more sustainable in key cocoa-producing countries. Their goal is to implement a Child Labor Monitoring and Remediation System in 100% of Cocoa Life communities in West Africa by 2025, having achieved 75% of this target as of 2023. The Company emphasized its commitment to uplifting cocoa communities and helping farmers increase their earnings from cocoa trees and other crops. They are collaborating with suppliers to provide farmers with training on best practices. We inquired whether the Company offers any platform to connect its suppliers and share knowledge. They responded that they track the effectiveness of these efforts and maintain consistency.
Outcome	We noted the Company's efforts to address hu-man rights along its supply chain. This year, it published its inaugural human rights report which acknowledges child labor in the upstream value chain as one of its seven salient human rights risks.	The Company is making progress in meeting its plan to monitor and remediate child labor via Cocoa Life. We will continue to engage with the Company on financially material topics.

[79] https://www.bbc.com/news/world-middle-east-68172560

[80] Cocoa Life is a sustainability program initiated by Mondelez International, aimed at creating a sustainable cocoa supply chain. The program focuses on improving the livelihoods of cocoa farmers and their communities, while also addressing environmental and social challenges associated with cocoa farming. A Cocoa Life community refers to a community of cocoa farmers and their families who are part of the Cocoa Life program. These communities benefit from various initiatives and support provided by the program.

Back to contents

Social stakeholder engagement and voting – 2024 continued

Voting on human rights

This year we supported 13 human rights-related shareholder proposals, which range from child labor and other human rights issues along the supply chain to human rights due diligence or impact assessments. In particular, we note the increasing focus on trusted artificial intelligence. See our Alphabet voting case study for details.

Theme in focus – Trusted Artificial Intelligence

Trusted artificial intelligence remains a theme in focus this year, given the importance of technology and the continuous scrutiny by regulators. For example, the EU Artificial Intelligence Act, which came in force in August this year, aims to foster responsible AI development and deployment, and noncompliance with certain AI practices can result in fines up to EUR 35 million or 7% of a company's annual turnover. In addition, there are ongoing controversies related to the data integrity of AI, particularly generative AI, as well as the technology platform's impact on minors and other users.

Case study

Alphabet	U.S.	Equity

Issue

One of the world's largest social media companies, Alphabet has faced controversies related to its platforms' harmful impact on children. In 2019, YouTube received a USD 170 million fine from the Federal Trade Commission for alleged violations of children's privacy law, in particular collecting personal information from children without parents' consent.[81] This year, the Company received a shareholder proposal asking for reporting on child safety and harm reduction.

Action

We acknowledge the initiatives the Company put in place in an attempt to address its platform's impact on children. For example, we note YouTube has put in place parental control features such as time limits and the ability to turn off search feature and block content. There is also a YouTube for Kids. However, it is unclear the extent to which parents actually utilize those controls. Considering the materiality and complexity of the issue, we believe that disclosing quantitative metrics to assess whether YouTube/Alphabet has improved its performance globally regarding child safety and actual harm reduction to children on its platforms would be beneficial for shareholders. We supported the shareholder proposal this year.

Outcome

The shareholder proposal received ~14% support overall. We will continue to monitor the Company's action to address the issue.

[81] https://www.ftc.gov/news-events/news/press-releases/2019/09/google-youtube-will-pay-record-170-million-alleged-violations-childrens-privacy-law

Back to contents

Social stakeholder engagement and voting – 2024 continued

What actions are companies taking to help prevent or mitigate cobalt human rights risks?

Active participation in the remediation of adverse human rights impacts is a key requirement of Principle 22 of the United Nations Guiding Principles on Business and Human Rights. As such, our engagement discussions included understanding the different methods that companies are using to prevent human rights abuses in the DRC.

The findings of our engagement reveal that companies use four main mitigation or remediation methods. First, they can seek to avoid cobalt altogether. Second, they can seek to source cobalt directly from industrial mines. Third, they can seek to ban the use of artisanal cobalt. And fourth, they can seek to address human rights concerns through multi-stakeholder initiatives.

Nevertheless, when it comes to the assessment of these complex issues, there are several important areas where our engagement suggests downstream companies are falling short of emerging industry practice. The main issues include gaps in the disclosure of human rights risks, the failure to consult meaningfully with rights-holders as part of their due diligence process, the failure to understand the process used by external auditors to assess their mineral sourcing, and the inability to show clearly how their support for industry initiatives is contributing to progress on these issues. The claim by some companies to be able to address human rights risks by tracing the source of cobalt to specific mines also requires further investigation.

Back to contents

Social stakeholder engagement and voting – 2024 continued

Engagement on digital rights and cybersecurity

Theme in focus – trusted Artificial Intelligence (AI) and cybersecurity

Digitalization and technological advancement play a key role in enhancing standards of living and generating positive business impacts. Innovations of the 'Fourth Industrial Revolution', such as the Internet of Things (IoT), 5G and artificial intelligence (AI), may improve operational efficiency and productivity, increase access to information and enable more efficient decision-making. However, companies must deploy and use technology with prudence and care to gain the trust of end-users and regulators. Controversies related to the handling of sensitive personal data, content algorithms and content moderation have already drawn increased scrutiny from regulators globally. This is particularly topical in 2023 due to the development of generative AI and the respective discussions around regulations of AI applications.

We take both proactive (see Lenovo case study) and reactive (Medibank Private case study) approaches on this topic.

Case study

Lenovo Group Ltd	China	Equities, Bonds

Issue

We engaged with the multinational technology company Lenovo on trusted AI. This is a key engagement topic for the company due to its continued investment and the growing portfolio of AI technologies, even as the handling of sensitive personal data, content algorithms and content moderation is drawing increased scrutiny from regulators globally. Financial impacts from non-compliance with the evolving regulations can include significant fines and losses in market capitalization.

Action

We first raised this issue with the company in March 2022, to understand its public commitment to accountable and gender-fair AI practices through its joining the 'Women and AI' Charter from Cercle InterElles, a French-based network across scientific and technological industries. In February 2023, we met with its senior AI data scientist and senior manager of global AI business. We asked about its AI governance principles, the oversight structure and the current practice Lenovo is using to mitigate risks arising from these emerging technologies. We asked for specific examples of whether Lenovo rejected any AI solutions because it deviated from its responsible AI principles and asked the company to disclose its AI governance practices.

Outcome

In November, Lenovo discussed its approach to responsible AI on its website, indicating that it has established a responsible AI committee to develop and oversee AI principles, comprized of a group of 20 people with diverse backgrounds. Lenovo further indicated that it has created six pillars for its responsible AI practice, which include diversity and inclusion, privacy and security, accountability and reliability, explainability, transparency and environmental and social impact. We welcome the company's acknowledgement of the importance of trusted AI in driving business value for customers and are encouraged by the progress Lenovo has made on this emerging issue.

Our six investment stewardship priorities

Human capital management engagement and voting – 2024

Back to contents

Human capital management engagement and voting – 2024

We believe that an engaged, diverse workforce is integral to a company's ability to deliver strong shareholder returns, by enabling innovation and the ability to more effectively address customer demand across the diverse communities in which the company operates.

At the same time, failure to manage human capital risks can negatively impact a company's stock price as well as its relationship with the workforce, local communities, and other stakeholders. As an example, many companies have openly discussed how their businesses have been impacted by the loss of key personnel and union-related pressures.

The competitive war for talent, also shines a spotlight on the importance of effective human capital management. Companies clearly demonstrate their commitment to the workforce – and attract and retain the strongest talent – through their approach to compensation and benefits, opportunities for advancement, workplace safety, equal employment opportunities and inclusion, and a fair and positive work culture.

Human capital management issues are particularly pertinent in certain sectors and markets. This section demonstrates how we have targeted engagements to address material challenges. In 2024, we engaged with 658 issuers on human capital.

Engaging with companies on human capital management

658
Number of companies engaged on human capital management

48
Number of markets engaged on human capital management

Top markets engaged on Human capital management

Country	%
Japan	14.5%
United Kingdom	14.2%
United States	14.1%
India	7.1%
S. Korea	4.5%
Cayman Islands	4.5%
Brazil	4.2%
China	3.7%
Saudi Arabia	2.5%
France	2.1%

Top sectors engaged on Human capital management

Sector	%
Industrials	19.2%
Consumer Discretionary	15.5%
Information Technology	15.3%
Financials	13.2%
Consumer Staples	10.0%
Materials	9.5%
Communication Services	5.1%
Health Care	5.1%
Utilities	2.1%
Energy	1.9%
Real Estate	1.8%
Other (incl. Sovereign)	1.3%

Back to contents

Human capital management engagement and voting – 2024 continued

Engaging on Employee Talent, Engagement, and Retention

Emerging Issues in Equal Employment Opportunities and Inclusion

In 2022, we further developed our engagements with companies on human capital management topics related to diversity, equity and inclusion to include engagements on, among other factors, whether a company had established board and/or senior executive-level oversight of setting a diversity, equity and inclusion strategy, process and programs to attract and retain employees that aligns with the firm's DEI objectives, and reporting.

Since 2022, we have observed significant progress in company efforts to enhance their approaches across the workforce, senior management, and the board. We also have learned that efforts to enhance equity and inclusion are more effective when they are assessed through employee engagement and satisfaction indicators. These employee engagement and satisfaction metrics can reflect a company's attractiveness as an employer and its ability to retain key talent and enhance innovation and productivity – all of which foster long-term value creation.[82, 83] With these learnings, in 2024 we continued to engage and to encourage companies to proactively create a more inclusive and equitable workplace, as well as to enhance employee engagement and satisfaction (see Kyushu Railway case study).

In 2024, we also engaged with companies in the U.S. to understand how they are managing the risks associated with changing government views on DEI programs. We note that while DEI programs face potential challenges and regulatory scrutiny, we believe that many of the tenets of DEI programs, including lawful recruitment and retention of a diverse workforce, prevention of discrimination and harassment, and pay structures that serve to incentivize employee engagement and retention are important to a company's long-term success. In 2024, we sought to understand how U.S. companies are navigating the risks addressing changing U.S. government policy while addressing the human capital risks that DEI programs were designed to address. We anticipate continuing to engage on these topics in 2025, including board oversight of employment strategies to attract, retain and develop talent, the establishment of anti-discrimination and anti-harassment policy, management performance and compensation programs that take into account corporate employee retention and recruitment strategies, appropriate reporting of employee metrics where consistent with the laws where the company is located, and review of policies and programs for confirmation that employment decisions are being made based on permissible factors.[84]

Voting on human capital management

J.P. Morgan Asset Management directly engages with companies on human capital management and expresses its views by voting proxies in the best interests of our clients. This year we supported six shareholder proposals related to human capital.

[82] Gallup's studies show that companies with high employee engagement experience lower turnover, higher productivity, and better customer satisfaction, all of which contribute to improved financial performance and shareholder value.

[83] Glassdoor research (2015) highlights a positive correlation between employee satisfaction and long-term stock returns. https://www.glassdoor.com/blog/does-company-culture-pay-off-analyzing-stock-performance-of-best-places-to-work-companies/

[84] International frameworks examples: the International Organization for Standardization (ISO) 30414, Sustainability Accounting Standards Boards (SASB), Global Reporting Initiative (GRI), the Investment Association

Back to contents

Human capital management engagement and voting – 2024 continued

Case study

Kyushu Railway | Japan | Equity

Issue

Kyushu Railway Company offers passenger railway and freight services, and offers other services such as bus transportation and real estate development. Post-COVID, the Company has observed an increase in the attrition rate of younger employees, suggesting the Company may struggle to retain experienced employees and experience higher recruitment costs. There has been a concern that the Company's pay and benefits, which are less competitive than peers, may have led to declining employee satisfaction. The company has also introduced medium-term and long-term targets to increase female representation in the workforce in line with government requirements.[85] However, one of the major goals, the target ratio of women in managerial positions, was set too low at 10% for FY2030, given that the current level is 16%. In addition, the target – and related disclosure – was based on a headquarters-specific, non-consolidated basis, highlighting that the Company's efforts to achieve equity and inclusion between the headquarters and subsidiaries remain incomplete and may negatively impact employee satisfaction and therefore retention.

Action

We engaged with Kyushu Railway and learned that they view the 10% target as a stretch goal, and believe that it takes time for the increased hiring of female employees to lead to that many more women in managerial roles. We suggested aiming for more ambitious goals given 10% had already been met.

With respect to employee motivation and retention, the Company acknowledged that the sharp decline in employee satisfaction in recent years correlated with the lower base salaries, which were set post-COVID. The company also acknowledged that pay and benefits might be less attractive, particularly for employees in non-railway sectors such as real estate and digital transformation. We encouraged a revision of the personnel system to include a more rewarding salary framework and suggested reforming the structure of long-term incentives as part of retirement benefit system reforms.

Outcome

In 2023, Kyushu Railway changed its personnel and wage system, and increased base salaries for all new entry-level hires. Under the new system, the two-tier employment categories (general and professional) were abolished to enable more effective evaluation of employees with highly specialized skills. The new system also facilitated promotion opportunities based on an individual's ability and efforts, regardless of educational background and employment category. Since 2024, the Company has expanded its support for child-care and introduced a new subsidy for infertility treatment for employees. These initiatives contributed to creating a more flexible and attractive workplace where employees can balance work and child-raising.

In 2024, the employee retention rate reached 97%, meeting one of the Company's medium-term targets. In addition, a recent employee survey found that employee satisfaction scores reached a record high, with significant improvements in the areas of employee satisfaction and loyalty. We will continue to encourage the use of more ambitious medium- and long-term goals for increasing female representation in the workforce In line with local government expectations. Also, we will continue to encourage enhanced disclosure of employee-related data on a consolidated basis, as well as in terms of demographics and job function to further increase transparency regarding diversity, equity and inclusion across multiple dimensions.

[85] The Japan government has set a target to increase the percentage of women in leadership positions to 30% by 2030. This target applies to various sectors, including business, politics, and academia. While this is a national target, individual companies are encouraged to set their own specific goals and action plans to contribute to this broader objective. In 2023, the Tokyo Stock Exchange (TSE) has revised its Securities Listing Regulations to promote gender diversity and the empowerment of women within listed companies. The revised regulations include: 1) Requirement for companies listed on its Prime Market to aim for at least 30% female representation on their boards of directors by 2030, 2) Requirement for providing information on the current status of female representation in leadership roles and outlining specific measures being taken to improve gender balance, and 3) encouragement for companies to actively engage in initiatives that promote gender equality and empower women such as leadership trainings, career development programs for women, etc.

Back to contents

Human capital management engagement and voting – 2024 continued

Labor practices and decent work

The importance of building healthy relationships between management, employees and labor unions becomes more pronounced when there are labor shortages. Good engagement and human capital management can improve employee well-being, reduce absenteeism and turnover, and enhance operational efficiency. Conversely, mismanagement can lead to poor health and safety records, low employee satisfaction, and significant reputational and legal risks, which ultimately lowers productivity and operational profitability. This year, we observed company efforts to provide safer, more secure work environments (see ArcelorMittal in the climate chapter and the following Cranswick Plc and Chipotle case studies).

Case study – Engaging on Labor practices and decent work

Cranswick Plc	UK	Equity

Issue

Cranswick Plc is a FTSE-listed producer and supplier of food products with operations in the UK. Labor supply and skills shortages pose a significant risk to Cranswick's operations through increasing costs and decreasing productivity.

Action

We sought to better understand Cranswick's labor supply challenges and the effectiveness of its risk mitigation efforts by visiting the Company's Preston operations, site of the UK's largest pork processing plant.

We learned that the Company and others in the meat processing industry have been struggling to attract workers, and that there is a long-term strategy underway to change the public perception. This includes the use of education programs, apprenticeships, and placements. Automation has also helped to attract and incentivize workers by enabling higher pay and limiting physical requirements. The resulting diversification of skills in the workforce, in turn, helped to provide for a more stable workforce.

We learned that worker retention is another key challenge and that this appears to be driven in part by the remoteness of job sites and wage pressures. Shifting from agency workers to permanent employees has improved retention somewhat, and over 90% of Cranswick's workforce is now permanent with associated benefits, such as health-care and mental health support.

While welcome, these developments are long-term in orientation, and the Company remains vulnerable to short-term labor shortages. For example, during the post-Brexit, pandemic period, Cranswick had to hire several hundred skilled butchers from the Philippines to maintain production levels. Potential changes in government visa policies, however, may make it more difficult to hire foreign workers, further underscoring the importance of workforce retention.

Outcome

We gained a deeper understanding of Cranswick's challenges and the effectiveness of its risk mitigation efforts. Given the long-term implications of the Company's labor strategy, we will continue to monitor developments at the Preston site. We also will seek to better understand the effectiveness of Cranswick's approach at other key operational sites, particularly other meat processing sites.

Back to contents

Human capital management engagement and voting – 2024 continued

Case study

Chipotle Mexican Grill Inc | U.S. | Equity

Issue

The fast-casual restaurant chain Chipotle employs over 110,000 people in the U.S. and is exposed to potential human capital risks associated with employee recruitment and retention. We therefore reached out to the Company to understand its employee engagement and practices and assess the risk level.

Action

We met with the Company twice this year to discuss its human capital strategy. The company emphasized the importance of employee engagement and internal mobility. Beyond compensation and benefits, the Company indicated that understanding workforce sentiment and maintaining open lines of communication are key elements of its corporate culture and talent management strategy. The company indicated they aim to create an environment where employees feel valued and heard, which they believe could reduce the need for unionization amongst employees while fostering long-term workforce stability. The company indicates they regularly check in with their restaurant leaders and field leaders.

The Company confirmed that adjusted hourly rates and benefits do not vary meaningfully across the restaurant industry but also said its focus on promoting internal career progression is a differentiator with regards to industry peers. With the Company opening ~300 new locations annually, there are consistent opportunities for both hiring and internal promotions. It actively tracks promotion rates, training participation and career development, offering employees opportunities to advance from crew level roles to management positions. The company indicates that they monitor career mobility metrics and continually refine training materials to support growth pathways.

The Company acknowledged labor scheduling as a significant issue in the fast-food industry in general and noted, in particular, challenges such as employee preference for consistent shifts and last-minute no-shows. In response, the Company indicated that they are developing initiatives, including shift specific job descriptions, targeted recruitment strategies and enhanced general manager engagement with employees.

Outcome

We acknowledge the Company's efforts to increase the level of transparency around employee mobility opportunities, as well as the disclosure of certain key performance indicators, which many of their industry peers do not currently provide. In light of efforts to enhance internal mobility and labor scheduling, we noted that the Company has experienced improved employee engagement survey results in addition to falling employee turnover rates. Based on the Company's Restaurant Leader and Field Leader Pulse Survey, 90% of respondents were positive about their work and have confidence in the future of the Company. With respect to turnover, Chipotle reported a fall in restaurant staff (apprentice, general manager, restauranteur) turnover from 44% in 2022 to 33% in 2023. The company has implemented a number of initiatives to enhance labor practices and address employee engagement.

Stewardship in Alternative Markets

Stewardship in Alternative Markets

JPMAM's Global Alternatives team includes investment solutions in private equity, private debt, real assets (such as infrastructure and transport) and hedge funds. The level of influence over our investments in alternatives differs based on our ownership structure, enabling differing levers for our stewardship of these assets. Stewardship in these examples may take a different form to our listed equity and debt strategies. Nevertheless, one principle remains the same across JPMAM, which is our commitment to the responsible allocation, management, and oversight of capital to maximize the value of our investments for our clients and beneficiaries.

Within private markets, our assets may be directly owned by our portfolios, and they may exercise significant influence. In our commercial forestry investments where we directly control assets, stewardship involves driving higher sustainability standards as part of responsible forestry management and afforestation practices. Similarly, where we tend to hold majority stakes in infrastructure assets, we will hold a board seat and exercise responsible ownership by holding the board accountable for sustainability performance where financially material and encouraging the adoption of higher standards to address financial risks and opportunities. In those assets where we hold a minority stake and may not manage the company day-to-day, we still exercise our influence by engaging with investee companies to facilitate positive outcomes for our clients. For instance, we may partner with property managers in our real estate properties to help buildings meet the high-efficiency standards for resource use including energy, water and waste.

While maintaining the highest integrity and confidentiality between our public and private assets, the Global Head of Private Markets and Customized Solutions is a member of JPMAM's Sustainable Investing Oversight Committee (SIOC). This helps promote the consistent understanding, assessment and application of sustainable investing and stewardship across JPMAM. Nevertheless, stewardship for global alternatives is managed directly by the portfolio management teams in light of the sensitivity of material, non-public information. As a result, the approach to stewardship across the alternatives business is unique to the underlying circumstances of the portfolio assets, as determined by the aims of the individual portfolio management teams. The Sustainable Investing team may offer support on the approach to alternative sustainable investing solutions and products, ESG integration and stewardship, but this will never include asset-specific information.

Standards of transparency and reporting within alternative investments are low, especially when compared to public markets. This is widely recognized across the industry, and much of our engagement within alternatives is geared towards procuring uniform data from our investments. When we exert more influence due to majority ownership structures, data availability is higher, and our challenge involves standardizing and driving the data quality through assurance. Where we do not have access to this data, our engagement relies on working in partnership to increase transparency on metrics we deem financially material. Tracking these KPIs over time will allow us to better manage risks within our investments.

Real Estate

As stewards of our clients' capital, our focus in real estate is on investments that add value to the portfolio and that enhance long-term risk-adjusted returns. Through active ownership, we seek to maximize the value and resiliency of the assets that we manage on behalf of our clients.

Financially material environmental and social issues are a significant consideration within the real estate market, influencing property values, operational costs, and investment risk. We seek to integrate financially material ESG risks into our real estate decision making processes. From an environmental standpoint, our focus includes resource conservation, performance improvement, and the pursuit of green building certifications, which we believe add value to the investments we hold in our portfolios. We seek ways to mitigate climate change risks by identifying physical risks, developing resilience strategies for high-risk assets and assessing climate-related transition risks and opportunities.

Consistent engagement with stakeholders, including investors, joint venture partners, employees, property managers, tenants, community members, and suppliers facilitates our ability to identify ways to improve performance of assets held in our client portfolios. We also look to collaborate with stakeholders regarding performance monitoring and data collection, aiming to enhance transparency in the context of an evolving regulatory environment. Ensuring property meets the needs of local communities and stakeholders is also paramount to the long-term resilience of these investments.

Back to contents

Stewardship in Alternative Markets continued

Case study

City of London | UK | Real Estate

Issue/opportunity

The team embarked on a major repositioning project involving a substantial 300,000 square foot office building located in the City of London. With the introduction of the Biodiversity Net Gain (BDG) framework under the Environment Act 2021 in early 2024, developments are now required to submit plans to local planning authorities to achieve at least a 10% biodiversity gain. This new statutory framework presented both a challenge and an opportunity to enhance the asset's resilience from a biodiversity perspective, making it a key consideration for the project.

Action

To align with the BDG framework, the refurbishment project emphasizes the responsible re-use of on-site materials rather than opting for demolition and redevelopment. This approach includes the on-site recycling of steel beams and targeting 40% of new steels from recycled stock, allowing for the retention of a significant portion of the building's existing structure, including its façade. The project plans are designed to address medium risks of heat stress and drought, while incorporating sustainable urban drainage systems, all of which contribute to the climate resilience of the asset. Additionally, the project integrates extensive planting, including small trees, green roofs, and native plantings, to support biodiversity in the heart of the city. These features provide habitats for local wildlife and contribute to achieving the biodiversity net gain targets.

Outcomes

Upon completion of the repositioning project, the building is set to achieve several industry accreditations, including:

- BREEAM certification Outstanding
- Energy Performance Certificate A-rating
- WELL Platinum
- Wired Score Platinum

These accreditations not only verify the asset's strength from a long-term perspective but also enhance its marketability, as failure to achieve certain certification levels can impact the ability to sell or lease property in some European markets. In terms of biodiversity, the extensive planting has contributed to the forecasts that indicate the project will have a biodiversity net gain of over 50%, significantly surpassing the UK government's biodiversity net gain target of 10%. This achievement may aid in future-proofing the asset against longer-term regulatory developments in this domain. The Urban Greening Factor[86] ratio also exceeds the 0.3 target outlined as part of the Green Infrastructure Standards.[87] Furthermore, the decarbonization of MEP (Mechanical, Electrical, and Plumbing) systems will result in over 70% saving on CO_2 per annum. We believe that, in addition to the project's direct impact on emission reductions, enhancing the asset's environmental credentials contributes to market differentiation, resource savings, climate resilience credibility and tenant retention, which all contribute to long-term profitability.

[86] The Urban Green Factor is a planning tool developed by Natural England that aims to improve the provision of Green Infrastructure particularly in urban areas. https://publications.naturalengland.org.uk/publication/5846537451339776
[87] https://designatedsites.naturalengland.org.uk/GreenInfrastructure/GIStandards.aspx

Stewardship in Alternative Markets continued

Campbell Global

In 2021, JPMAM acquired Campbell Global, LLC, a timberland investment and management company, as part of providing investment opportunities related to climate, conservation, and biodiversity for clients who are looking for such opportunities. Within Campbell Global, we provide investment advisory services to longstanding commercial forestry businesses in the U.S. and globally. Campbell Global aims to have harvested trees replanted, open managed forests for recreational purposes, and report on our activities with precision and transparency. Campbell Global also tracks and discloses key performance indicators across many facets including GHG (greenhouse gas) accounting metrics and nature-based KPIs. This helps to monitor and manage ESG considerations over the active management phase of the investment horizon and helps the long-term sustainability of our clients' and beneficiaries' assets. Third-party verification highlights Campbell Global's dedication to responsible investing, with 100% of our managed investments certified by an independent forest certification provider.

Case study

Campbell Global

Issue

Timberland as an asset class may provide investors with a hedge against inflation, diversification, and steady income. Nature-based investment solutions may also offer environmental, social and climate co-benefits.

The ability of trees to efficiently sequester carbon means that actively managed timberland investments have the potential to deliver decarbonization benefits. This may enable clients with climate goals to reduce the carbon footprint of their overall portfolio by reallocating capital to a less greenhouse gas intensive asset class, or to generate verified carbon credits which they can retire to further offset their footprint or sell to generate yield.

In 2024, Campbell Global identified the need to enhance modeling so that we could more accurately build and manage portfolios of timberland assets that would support the financial goals and climate goals of our clients.

continued →

Stewardship in Alternative Markets continued

Case study continued

Campbell Global

Action

Forest inventory management allows us to understand how much standing wood, i.e., volume of biomass, is present in the forest. Standing volume is central to modeling various parts of the investment and management process, which include, but is not limited to: pre-acquisition due diligence, valuations, financial returns, and timings of operational activities. Subsequently, measuring, monitoring, and reporting standing biomass and year-over-year change has been part of Campbell Global's practice for years.

This past year, Campbell Global enhanced this modeling to add carbon sequestration performance as an attribute. This enables us to understand how planned activities such as thinnings and harvests, which we model to forecast financial performance, may impact carbon sequestration performance. Campbell Global continues to develop this tool to visualize how economic goals and investment management decisions influence and impact the carbon sequestration outcome. Utilization of this new feature can start at the acquisition due diligence stage to understand how an asset will fit into the overall portfolio's carbon performance, up until operations where Campbell Global could identify the need to adjust forest management activities if a change in carbon performance is desired. For clients or funds that are targeting decarbonization or carbon credit generation strategies, Campbell Global can apply constraints such as fund life, target carbon credit generation, sequestration performance, etc., to assist in the acquisition and then management of an asset to its full potential in line with client goals.

Outcome

By improving our capacity to model alternative forest management regimes and carbon sequestration performance, Campbell Global has enhanced its ability to better assess the acquisition, management, or sale of assets to meet a client's decarbonization goals. This may facilitate more informed decision making and bring new insights important for portfolio construction and management.

Back to contents

Proxy voting – how we utilized our rights in 2024

2024 highlighted the continued importance of using voting as an important lever of dispensing our stewardship responsibilities. High-profile topics including climate transition plans, succession planning processes, artificial intelligence, and appropriate compensation programs continued to remain at the forefront of investor minds.

These topics, along with others including sustainability of supply chains, appropriate capital allocation, and board effectiveness, and recruitment, retention and engagement of employees, remained top of mind. In 2024, we also saw a continued increase in the number of resolutions requiring companies to stop undertaking particular actions or policies with respect to environmental, social, or governance issues. While these types of resolutions are not new, the nature of the themes is changing and increasingly encompasses company climate action plans, diversity programs, and other environmental and social topics.

These topics, among others, have shaped a large part of the governance and related proxy voting work carried out by our investment and stewardship teams in 2024. We believe that the need to effectively use voting rights is important to encourage corporate practices that deliver long-term sustainable returns to shareholders.

An increase was seen again in 2024, from previous years, in the number of resolutions globally on environmental and social issues. We take seriously our responsibility to review all of these issues and carry out voting in a considered manner, using insights from our research and engagement with companies. Over 2024, we reviewed these environmental and social-related resolutions and supported those that aligned with our Investment Stewardship Priorities, where we believed voting in favor of such resolutions was in the best interests of our clients. However, if we found that the prescriptive nature of the resolution, particularly on some environmental issues, sought to micromanage companies and was not in our clients' best interests, we refrained from supporting these.

2024 saw a continued decline in support for environmental and social shareholder proposals at both JPMAM (percentage of proposals supported) and in the overall market. A Morningstar analysis of 2024 proxy season outcomes in the United States suggested that E&S shareholder support was 16% in 2024, compared to 19% in 2023, 28% in 2022, and 33% in 2021.

We believe this trend is due to several factors:

1. Most of the shareholder proposals with the clearest link to shareholder value, such as those asking for an analysis of climate risks and opportunities at companies in climate-sensitive sectors, were submitted in prior years. Those companies have since responded by improving disclosure.
2. Shareholder proposals are getting more action-based and more prescriptive: instead of asking for a risk analysis, the proposals are instead asking for emissions reductions targets across the full value chain. Or they may focus on areas that should be management's purview, such as how to invest cash on the balance sheet. A case study of a proposal asking for emissions targets at Old Dominion Freight Line is presented below.
3. Shareholder proposals are becoming more bundled: there may be one ask with a clear link to shareholder value, but other asks that do not have such a link. In those cases, it is difficult for JPMAM to support the proposal when that will be interpreted as an endorsement of all of the asks.

Our primary concern at all times is striving for the best economic interests of our clients and, as such, we vote in a manner that is intended to be beneficial to delivering the long-term value of the companies in which we invest. To facilitate this, we have established proxy voting guidelines covering global markets that are overseen by a network of regional proxy committees.

We strive to vote proxies at every meeting. However, we may not vote proxies for which we have voting discretion in certain instances including without limitation when we identify a material conflict of interest, when securities are out on loan and have not been recalled, in certain markets that have share blocking or other regulatory restrictions, when the proxy materials are not available in time for us to make a voting decision or cast a vote, or for certain non-U.S. securities positions if, in our judgement, the expense and administrative inconvenience or other burdens outweigh the benefits to clients of voting the securities.

Back to contents

Proxy voting – how we utilized our rights in 2024 continued

2024 voting[88]

In 2024, J.P. Morgan Asset Management voted on 97,739 proposals across 10,079 meetings and opposed management (either voting against or abstaining) approximately 9.5% of the time.

JPMAM voted with management on 88,448 proposals and voted against management on 9,291 proposals. An analysis of our voting activity shows the most common reasons for voting against management include directors not meeting our independence criteria, executive compensation plans that are either poorly aligned or inadequately disclosed and capital issuances that are either overly dilutive or not justified to shareholders. We also supported 1,753 shareholder proposals, including those related to social and environmental issues, such as climate risk, gender pay gaps and human rights. We abstained or withheld votes on 1,882 proposals.

Voting Statistics Table

Number of Votable Meetings	10,177
Number of Meetings Voted	10,079
Number of Proposals Voted	97,739
Number of Shareholder Proposals voted FOR	1,753
Votes with management	88,448
Votes against management	9,291
Abstains	1,193
Withholds	689

Some key voting trends from the year include:

- Investors continue to press companies on the implementation of their climate transition plans, and 2024 was no different. However, investors are increasingly using voting on other AGM-related resolutions to highlight discontent on this issue beyond the company 'say on climate' resolutions or climate-related shareholder resolutions. We have seen investors target the election/re-election of board directors including the chair, require climate and/or other ESG-related metrics be included in compensation programs, and also target capital-related resolutions over company capex concerns.
- A return to some core governance issues including board effectiveness, background and experiences, and succession planning. As diversity topics continue to occupy boardroom agendas, investors continued to use voting as a tool to address concerns about inclusiveness across management teams and board directors. Given the rapidly changing environment, which includes new developments like the rise of artificial intelligence, investors want to know that companies are not only appropriately resourced with the right skills and expertise to address these risks but also to take advantage of the opportunities that arise from the changing landscape. 2024 also saw a rise in shareholder activism, in particular in the United States, aided by the adoption of the Universal Proxy Card. That allows investors to pick and choose between management and shareholder director nominees, which may make it more likely for an activist to win at least one board seat.

88 Split votes are reflected in the statistics once based on the instruction for which the majority of votable shares was applied. There were 934 proposals with split votes globally, broken down as 135 in EMEA, 685 in Americas, 8 in Japan and 106 in Asia-Pacific ex-Japan. That includes 251 split votes on shareholder proposals, broken down as 2 in EMEA, 246 in Americas, 1 in Japan and 2 in Asia-Pacific ex-Japan. Management and shareholder proposal tables are broken down based on ISS classifications, with some aggregations. Proposals for contested proxies are reflected once based on which proxy card was voted. Meetings are assigned to regions based on the country location of the issuer. This section includes a summary of voting data taken from our proxy adviser. Such information has not been audited.

Back to contents

Proxy voting – how we utilized our rights in 2024 continued

- Shareholder proposals regarding environmental, social and governance issues remained elevated in 2024, requesting companies implement certain policies and take a particular action or provide particular disclosures. However, 2024 also saw an increase in the number of resolutions requiring companies to stop undertaking particular actions or policies with respect to environmental, social or governance issues. As noted earlier, while these types of resolutions are not new, the nature of the themes is changing and increasingly encompasses company climate action plans, diversity programs, and other environmental and social topics. While support for these resolutions remained low in 2024, we expect to see similar resolutions tabled throughout the 2025 voting season.

Companies highlighted to investors the increasingly global market from which they draw talent and the need for their remuneration programs to be competitive to recruit and retain executive management. However, investors highlighted the need for companies to be responsive to shareholder concerns, such as aligning compensation with long-term performance or wider employee workforce pay and conditions. Where this balance was not met, investors used their voting to highlight their dissent.

All of the trends mentioned link to our six Investment Stewardship Priorities: climate change, natural capital and ecosystems, human capital management, social stakeholder engagement, governance, and strategy alignment with the long term.

Please see the relevant sections for further engagement and specific voting examples.

As we look to 2025, we will continue to monitor how companies continue to address key themes, including climate change risks and opportunities, executive pay and wider financially material ESG considerations, effective board oversight, and robust succession planning.

Back to contents

Proxy voting – how we utilized our rights in 2024 continued

Case study

Old Dominion Freight Line	U.S.	Equity

Issue

We have been engaging with Old Dominion Freight Line, a U.S. road transportation company specializing in less-than-truckload (LTL), about the challenges associated with their compliance with state regulations and investor expectations related to emissions reductions since 2022. Due to our understanding of these challenges, which relate to both the technological viability and the financial impact to the company, we voted against a shareholder proposal, asking the company to set near and long-term emissions reductions targets aligned with the Paris Agreement's goal of net zero emissions by 2050. The shareholder proposal still received 24% support overall, which indicated a significant minority of shareholders disagreed with our view. We therefore sought to engage with the company on how they could better communicate their approach to decarbonization.

Action

In our engagement, the Company noted that all of their major shareholders understood the difficulties of decarbonization for the trucking space. But some shareholders believe that if the Company were to set these emissions targets, it would put more pressure on original equipment manufacturers, which would in turn move the technology forward. The Company's own view is that they would need to understand how they are going to achieve any such targets before announcing them. Currently they do not see a roadmap to achieving such targets.

That said, they continue to explore ways to reduce their emissions. These include increasing the use of renewable fuels, which comes with the additional benefit of a reduction in engine maintenance expense due to running cleaner in engines. The Company noted that their usage of renewable fuels is limited to states that have a financial incentive, as there is up to a $2/gallon price difference in states without government support. The Company indicated that they are also evaluating new tire technology, automatic transition technology and improved route planning. The Company indicated that they continue to invest in EV switchers. Similarly, they are switching from propane forklifts to EV forklifts.

continued →

Back to contents

Proxy voting – how we utilized our rights in 2024 continued

Case study continued

Old Dominion Freight Line | U.S. | Equity

Action continued

We encouraged the Company to say more about these initiatives in their next ESG Report, in order to help demonstrate the steps the Company is taking to reduce emissions even without significant technological breakthroughs. The Company indicated that next year's ESG Report would have significantly enhanced disclosure.

We also discussed the specific implications of California's Advanced Clean Fleets rule, which would require zero emission vehicles (ZEVs) under order by 1/1/27 in an amount equal to 10% of the total number of vehicles which touch the state. The company noted that it is facing challenges in complying with California's law, as the current technology for electric trucks does not support the typical route lengths, as such vehicles can only travel 80 miles compared to the usual truck routes of 225 miles. They also noted that current utility support is insufficient, prompting the company to consider constructing their own microgrids, which requires a significant investment. The Company indicated that they are exploring partnerships with providers who can build these grids, despite the higher electricity rates, as a way to mitigate the risk and compliance concerns.

Outcome

We agree that the Company should not be announcing targets unless they are credible but believe the Company should provide more transparency concerning the steps they are taking to address emissions requirements. The Company acknowledged that it could do more to publicly share how it is working to reduce its emissions along with the challenges of different technologies like electric vehicles. They said to expect more disclosure in next year's ESG report.

Full Voting Statistics Table

	Global	%	EMEA	%	Americas	%	Japan	%	Asia ex-Japan	%
Number of Votable Meetings	10,177	-	2,039	-	3,644	-	464	-	4,030	-
Number of Meetings Voted	10,079	99.04%	1,962	96.22%	3,632	99.67%	464	100%	4,021	99.78%
Number of Votable Proposals	99,003	-	30,482	-	33,808	-	5,531	-	29,182	-
Number of Proposals Voted	97,739	98.72%	29,575	97.02%	33,523	99.16%	5,531	100%	29,110	99.75%
Number of Shareholder Proposals voted FOR	1,753	-	105	-	265	-	31		1,352	-
Votes with management	88,448	90.49%	27,896	94.32%	31,220	93.13%	4,263	77.07%	25,069	86.12%
Votes against management	9,291	9.51%	1,679	5.68%	2,303	6.87%	1,268	22.93%	4,041	13.88%
Abstains	1,193	1.22%	633	2.14%	435	1.30%	-	0.00%	125	0.43%
Withholds	689	0.70%	-	0.00%	673	2.01%	-	0.00%	16	0.05%
Abstain and withholds aggregated	1,882	1.93%	633	2.14%	1,108	3.31%	-	0.00%	141	0.48%

Back to contents

Proxy voting – how we utilized our rights in 2024 continued

Management proposals

		Global	EMEA	Americas	Japan	Asia ex Japan
Director Elections	Support	36,072	7,244	20,736	3,229	4,863
	Not Support	3,389	464	1,045	1,050	830
	Abstain	898	625	252	-	21
Director-related	Support	5,703	3,361	586	428	1,328
	Not Support	1,081	130	396	60	495
	Abstain	242	2	141	-	99
Compensation	Support	9,157	3,406	3,290	218	2,243
	Not Support	1,725	617	576	8	524
	Abstain	3	2	1	-	-
Capitalization	Support	7,166	3,717	397	1	3,051
	Not Support	688	152	32	2	502
	Abstain	2	2	-	-	-
Mergers & Transactions	Support	4,722	1,288	574	9	2,851
	Not Support	760	72	15	5	668
	Abstain	5	2	2	-	1
Company Articles	Support	2,171	593	265	89	1,224
	Not Support	473	65	27	13	368
	Abstain	1	-	-	-	1
Routine Business/ Miscellaneous	Support	18,907	6,745	3,883	204	8,075
	Not Support	748	156	64	99	429
	Abstain	1	-	-	-	1
Environmental & Social	Support	407	367	12	-	28
	Not Support	44	37	-	-	7
	Abstain	-	-	-	-	-
Other	Support	197	156	38	-	3
	Not Support	63	53	10	-	-
	Abstain	2	-	2	-	-
Total	Support	84,502	26,877	29,781	4,178	23,666
	Not Support	8,971	1,746	2,165	1,237	3,823
	Abstain	1,154	633	398	-	123

Proxy voting – how we utilized our rights in 2024 continued

Shareholder proposals

		Global	EMEA	Americas	Japan	APAC ex Japan
Environmental	Support	34	-	26	6	2
	Not Support	180	21	113	40	6
	Abstain	-	-	-	-	-
Social	Support	32	2	29	1	-
	Not Support	265	7	258	-	-
	Abstain	-	-	-	-	-
Director Elections	Support	901	30	71	1	799
	Not Support	220	75	29	10	106
	Abstain	33	-	33	-	-
Director-related	Support	69	39	16	1	13
	Not Support	68	10	53	3	2
	Abstain	-	-	-	-	-
Governance excluding Directors	Support	96	4	55	5	32
	Not Support	132	6	105	4	17
	Abstain	2	-	-	-	2
Other Proposals	Support	621	30	68	17	506
	Not Support	177	94	43	28	12
	Abstain	4	-	4	-	-

Proxy voting – how we utilized our rights in 2024 continued

Proxy voting process in detail

We vote shares held in our clients' portfolios based on our reasonable judgment of what will best serve the long-term interests of our clients in accordance with the legal standards applicable to the particular client account.

Globally, we have the ability to flag certain shareholder meetings in our proxy voting system to allow extra scrutiny in certain cases. These include where we have material investment positions where there are contentious resolutions, where engagement is ongoing following a controversy or where there are corporate actions being decided, such as mergers and acquisitions or major disposals. We also consider for additional analysis, voting resolutions at companies where our in-house research has identified financially material ESG-related issues. We also assess companies where engagement has not progressed sufficiently and voting action is used to escalate the engagement (please see the section on Our approach to engagement).

As part of the review process and to assess whether we are voting the fullest position we are able to do so, we reconcile our internal record of holdings with voting rights available to us for company general meetings. Where we vote against management, we may write to the companies after the vote or engage prior to voting to inform them of the reasons behind our actions. We feel this is an effective engagement approach to share our views with the board on key issues where wehave concerns. This helps encourage further dialogue with directors on important corporate governance matters.

In 2024, JPMAM voted at 10,079 meetings, representing 99.0% of meetings where we had a legal right to do so. Unvoted meetings related primarily to markets that have share-blocking requirements in place or where other onerous administrative requirements make it difficult for JPMAM to exercise its votes.

Many of the resolutions at company general meetings relate to routine business at companies where we have not identified any material corporate governance concerns. We have identified certain votes that we deem significant. We define significant votes as those where we are a major shareholder in our portfolios, where the vote is likely to be close or contentious or where there may be potential material consequences for our clients. We would also include certain categories of shareholder proposals and votes in relation to companies or issues identified on our Focus List for engagement as potentially significant votes. Some examples of these votes are presented in each of the six Investment Stewardship Priorities sections of this report.

JPMAM publicly discloses its voting for certain accounts. In 2024, we continued to provide transparency of our voting through a vote disclosure service via Institutional Shareholder Services. The vote disclosure is updated on a quarterly basis and contains the voting record, at company level, for all meetings voted on for global companies held in our European fund range in the preceding quarter. The voting reports are available **here**. The proxy voting record for J.P. Morgan U.S. mutual funds and ETF is filed publicly on Form N-PX and is available **here**.

Proxy voting rules and oversight

We have comprehensive proxy voting guidelines in each region, covering 1) North America; 2) Europe, the Middle East, Africa, Central America and South America; 3) Asia ex-Japan; and 4) Japan. These are informed by good practice recommendations along with local market best practice guidelines, among others.

Overall responsibility for the formulation of proxy voting guidelines rests with the regional Proxy Committees, whose role is to review J.P. Morgan Asset Management's proxy voting guidelines with respect to investee companies and to provide an escalation point for voting and corporate governance issues. The committees are composed of senior research analysts, portfolio managers, and members of the Investment Stewardship team, as well as legal, compliance, operations and risk specialists. The committees escalate to the J.P. Morgan Asset Management Investment Stewardship Oversight Committee (ISOC).

Our Global Proxy Voting Guidelines document can be found **here**.

We have developed Sustainable Strategy Proxy Voting Guidelines that are designed to align proxy voting decisions with the objectives and strategies of certain of our sustainable strategies. While we had Sustainable Guidelines in North America for several years, in 2024 we added sustainable guidelines for the other regions as well. The guidelines can be found **here**.

Back to contents

Proxy voting – how we utilized our rights in 2024 continued

Sustainability-Related Shareholder Proposals

There has been an increase in shareholder proposals related to environmental and social issues. These proposals vary in quality and nature, and we outline our approach below, using climate change as an example.

We generally support climate-related shareholder resolutions on:

- Strategy and governance: companies having senior-level oversight of climate risks and opportunities, establishing a stated position on climate change, or being transparent on relevant capital allocation and corporate expenditures.
- Climate risk disclosure: companies reporting regularly on climate risks, such as following recommendations from the Task Force for Climate-related Financial Disclosures.
- Lobbying: we expect companies to lobby in a manner that is consistent with their publicly stated position, given the potential reputation risk.

Apart from shareholder proposals, we also have proxy voting guidelines related to how we vote with respect to director elections when we do not believe there has been adequate oversight or disclosure related to material climate risk (effective April 1, 2024).

Many economies are responding to climate change with regulations as well as policies to drive decarbonization. In our view, climate change has become a material risk to the strategy and financial performance of many companies.

JPMAM may vote ‘against’ directors serving on relevant committees of companies that, in our opinion, face material climate-related transition or asset risks, where such disclosures are not available or where we believe such disclosures are not meaningful. JPMAM may also vote ‘for’ shareholder resolutions requesting such information where the company has not provided such disclosure.

To provide shareholders with meaningful disclosures on how the company is addressing risks related to climate change:

- We encourage disclosures aligned with the reporting framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) addressing all the four pillars of the TCFD – (i) governance, (ii) strategy, (iii) risk management and (iv) metrics and targets related to any performance indicators used to manage such risks.
- For industries where we believe climate change risks pose material financial risks, we encourage comprehensive TCFD reporting (or equivalent), including scenario analysis to help us understand the resilience of a company’s strategy.
- We encourage disclosures of Scope 1 and 2 GHG emission targets, where decarbonization of a company’s operations and purchased energy has been identified by the company as a key part of the company’s strategy to manage climate change risks.
- We note many companies have chosen to set long-term net zero targets. In order for us to evaluate the long-term credibility of transition plans, where such long-term targets are set, we encourage the company to disclose the scope of emissions included in such targets. We recognize the many challenges associated with reporting Scope 3 emissions. While we understand the limitations associated with reporting Scope 3 emissions, we would encourage companies that have included such emissions in their net zero targets to disclose their Scope 3 emissions. We also encourage disclosures of interim emission reduction targets where the company has set long-term net zero targets.
- We encourage disclosure on past performance against emission reduction goals, and forward- looking strategies to achieve emission reduction goals, including use of offsets and corporate transactions.

Back to contents

Proxy voting – how we utilized our rights in 2024 continued

The board of directors is critical in formulating and executing company strategy. While we do not support the use of shareholder proposals to diminish the authority of the board, if the board recommends a vote against a climate-related shareholder proposal, we expect boards to clearly articulate the rationale supporting their recommendation. The board's response should clearly explain why the implementation of disclosures or actions requested by the shareholder proposal would be detrimental to shareholder value.

For shareholder proposals that require companies to stop undertaking certain actions, we evaluate proposals case-by-case. We do not believe that supporting all climate resolutions as a matter of policy will benefit the portfolio and may lead to poorer outcomes for clients. In order for a policy-based approach to these resolutions to be positive for a client portfolio, all public companies in a sector would need to receive similar shareholder proposals and respond similarly, and private companies, state-owned enterprises or private companies would not fill any output gaps created by publicly owned companies.[89] We believe that these conditions are unlikely to hold true. Therefore, a policy-based approach may lead to a transfer of value from our clients' portfolios to other parties, and the beneficiaries of such policies would be companies that are not subject to the same high operating standards, leading to worse environmental outcomes.

Next steps on climate action are becoming increasingly complex, as reflected by increasingly complex and stringent shareholder proposals. Therefore, a rules-based approach is not sophisticated enough for these resolutions. However, JPMAM has standard principles that it utilizes to evaluate such proposals, and our Voting Guidelines have a section dedicated to voting related to climate risks. Our case-by-case decisions on shareholder resolutions are research-driven and informed by long-term, in-depth knowledge of the companies and their business environment.

Split voting and administrative support for client voting

JPMAM's voting policy and guidelines are developed and enhanced based on the principles of good corporate governance and the deliberations of senior research analysts, portfolio managers and the Investment Stewardship team, as well as legal, compliance and risk specialists as members of the Proxy Committees. As part of these deliberations, portfolio manager views, including considerations of what is in the best interest of our clients, will form a significant part of the review process in determining how we continue to evolve our policy and how we vote at company general meetings. We typically vote in a consistent manner given that what is in the best interests of our clients does not differ based on differences in investment strategies. However, we recognize that there are occasions where it may not be in the best interest of our clients to vote our entire holdings, across all strategies, in a consistent manner. We have built into our proxy process the ability of each portfolio management team to vote the proxies of shares held in their clients' accounts in the manner they deem consistent with their proprietary views of what is in the best interest of their client accounts. Each portfolio management team is permitted to vote in a manner that is contrary to the decisions of other portfolio management teams. An example of this in 2024 can be found in the Tesla case study below.

Over the year we have seen increased requests from a small number of institutional clients to be provided with enhanced voting choices and administrative support to clients for them to vote their proxies. For such clients who have retained proxy voting decision making authority, this optionality may allow them to align their voting with their own governance policies and positions.

As a result of these requests, we have established a process for institutional segregated clients in separately managed accounts to be able to implement their own choice of voting policy through the existing JPMAM proxy voting infrastructure and operational platform. However, as the client votes and makes the voting decision according to their own policies or the policies of a third party and since we do not have proxy voting discretion, such proxy voting decisions will not be informed by the active insights of our investors and stewardship teams.

[89] https://www.brookings.edu/articles/reducing-us-oil-demand-not-production-is-the-way-forward-for-the-climate/

Back to contents

Proxy voting – how we utilized our rights in 2024 continued

Case study

Tesla, Inc	U.S.	Equity

Issue

The U.S. automotive company had two contentious votes at its 2024 annual meeting. First was a vote to re-ratify the CEO's 2018 compensation package, which was valued at approximately $2.2 billion in 2018 and around $56 billion at the time of the proxy. The re-ratification came after the Delaware Chancery Court invalidated the original pay plan, which had been ratified by shareholders with an overall support level of 73%. The court ruled the plan was invalid because the Board did not properly disclose details of the package including Board member conflicts / relationships and did not adequately negotiate the package on behalf of outside shareholders.

The second significant item was a management proposal to reincorporate in Texas. This desire was in part based on the Company's expressed frustration with the Delaware court.

Action

We engaged with Tesla management, as well as Board members including the Board Chair. The company articulated that the CEO's compensation package, while potentially very lucrative for him, was well aligned with shareholder outcomes. They also argued that at the time the package was agreed to, the targets were considered extraordinarily hard to achieve. The CEO would only do well if the shareholders also did so. The company asserted that it was important to ratify the package to adequately incentivize the CEO to focus his efforts towards creating value at Tesla (as compared to other companies he is invested in / managing).

On reincorporation, the Company argued that Texas was where its corporate headquarters is now located and that it made sense to be incorporated there. They also expressed concern that if they remained in Delaware, they would continue to come before the same judge, whom they viewed as biased against the Company. Finally, they indicated that while Texas corporate law for controlled companies was not as well developed as Delaware law, they expected the Texas court to use Delaware legal precedents as Texas law continued to evolve.

Outcome

After extensive discussion, we chose to vote in favor of the pay package, aligning with our initial support for the plan back in 2018. Although we felt that the Board did not adhere to best practices in terms of disclosures initially, we were supportive this time due to improved transparency and the strong alignment between the compensation package and the interests of shareholders.

Our portfolio managers had split views on the reincorporation in Texas, with some believing that Texas law had less potential to interfere with the Company's business judgment. Others voted against, as they believed that there was little benefit to outside shareholders to reincorporating in Texas and leaving behind Delaware's deeply developed case law precedents. They also believed that this issue could be re-visited in the future if Delaware law proved problematic for maximizing value for all shareholders.

Both the ratification of the compensation plan and the reincorporation in Texas were approved by shareholders, with 77% and 87% respective support.

In December 2024, the same Delaware judge upheld the prior ruling that voided the pay plan, saying that the vote did not have a ratifying effect.

Back to contents

Proxy voting – how we utilized our rights in 2024 continued

Use of proxy advisors and voting guidelines

To assist in the filing of proxies, J.P. Morgan Asset Management retains the services of Institutional Shareholder Services Inc. (ISS), a proxy voting services advisor. As part of this service, ISS assists with functions, such as coordinating with client custodians on the timely processing of proxy materials, recordkeeping, acting as an agent to execute JPMAM's Proxy Voting Guidelines, providing proxy research and analysis, and providing certain conflict of interest-related services. To assist with our voting research on a broad range of related sustainability and governance issues, we also retain the services of Morgan Stanley Capital International's ESG research service (MSCI ESG), Sustainalytics, CDP, Glass Lewis and ISS. While JPMAM recognizes the contribution of proxy advisors and uses the research of certain proxy advisors as one of several inputs into the voting process, JPMAM has developed its own proxy voting guidelines and determines in-house how JPMAM will vote on any particular proxy voting issue. Importantly, proxy advisors do not determine how JPMAM votes proxies except in certain limited situations such as to manage material conflicts of interest.[90]

More information on this can be found in the Monitoring Service Provider's section.

Stewardship and fixed income investments

In EMEA, as a bondholder we may, on occasion, have the right to vote proxies on issues that affect our bond investments. We do not have specific guidelines for these types of meetings as we consider each case on its own merits in terms of investment outcome for our clients and beneficiaries.

More broadly, we conduct extensive engagements through ongoing dialogue with issuers including at the time of new issuance with bond issuers on bondholder-related governance, transparency of covenants, review of transaction documents and other issues such as use of proceeds. These include discussions with bond-only issuers that do not have public equities issued.

We also are active in industry dialogue on fixed income investor issues. We have participated in a number of bond market-focused groups. This has included a working group studying the high-yield bond market characteristics alongside the Green and Social Bond Principles.[91] For more details, please refer to the Collaborative Initiatives and Managing Risks section.

Stock or securities lending

Certain clients participate in a securities lending program. As title passes in a securities lending transaction, client accounts are not permitted to vote proxies where the securities are out on loan over the record date. Unless JPMAM is directly involved in a client's securities lending arrangement because it is a party to the client's securities lending agreement and/or JPMAM, as investment adviser, makes the decision to lend the client's securities, JPMAM is not responsible for recalling securities to vote proxies for securities that have been lent from the client's account. Please note that JPMAM will not be deemed to be directly involved in a securities lending arrangement simply because an affiliate of JPMAM serves as lending agent for a client.

For accounts where JPMAM is directly involved in the securities lending arrangement either because it is a party to the securities lending agreement and/or it makes the decision to lend securities for the client's portfolios, JPMAM has adopted procedures to determine if it should recall securities on loans to vote proxies when it believes a vote is material with respect to an investment, such as when JPMAM believes its participation in a vote is necessary to preserve the long-term value of an investment or when highly contested -lend vote is necessary to preserve the long-term value of an investment or in a highly contested issue in which JPMAM believes its vote is important to the account's strategy.

In determining whether a vote is material, JPMAM's determination is informed by its responsibility to act in the account's best interest. In most cases, JPMAM anticipates that the potential long-term value to a client of voting shares would not be material and therefore would not justify foregoing the potential revenue the loan may provide the account.

[90] A conflict is deemed to exist, for example, when the proxy is for JPMC or for J.P. Morgan Funds, or when the proxy administrator has actual knowledge indicating that an affiliate is an investment banker or rendered a fairness opinion with respect to the matter that is the subject of the proxy vote. When such conflicts are identified, the proxy ordinarily should be voted as determined by the independent third party.

[91] Developed by the International Capital Markets Association.

Proxy voting – how we utilized our rights in 2024 continued

Proxy voting review and assurance

The J.P. Morgan Asset Management Investment Stewardship team annually reviews all global proxy voting guidelines, which are made available on our website. These are approved on an annual basis by the applicable J.P. Morgan Asset Management Regional Proxy Committee, which is composed of investors, stewardship specialists and control function partners. It acts as an oversight function.

Regular reviews are conducted by internal control partners on committee materials to support consistency across each region and to track attendance of the committee members. Additionally, our Control Management function performs periodic evaluations over the design and effectiveness of our proxy voting controls. We also conduct periodic internal audits of our stewardship activities, which include proxy voting, and have committed to auditing our proxy voting process in line with ISAE3402 standards.

In Japan, our proxy voting activity is required to abide by the guidelines of the Investment Trusts Association, Japan (JITA), as well as the Japan Investment Advisers Association (JIAA), and to comply with Japan's Stewardship Code as a signatory to the code. Further details are described in the Internal and External assurance sections.

Part 2

Structures and practices supporting stewardship

Back to contents

J.P. Morgan Asset Management – Who we are

JPMorgan Chase & Co.

JPMorgan Chase & Co. (the "Firm") is a leading financial services firm based in the United States of America ("U.S."), with operations worldwide. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing and asset management. Under the JPMorgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients globally.[92]

J.P. Morgan Asset & Wealth Management

J.P. Morgan Asset & Wealth Management is a global leader in asset and wealth management services. The Asset & Wealth Management line of business serves institutional, ultra-high net worth, high net worth and individual clients. With combined overall client assets of USD 5.9 trillion and assets under management of USD 4 trillion as of December 31, 2024, we are one of the largest asset and wealth managers in the world.

J.P. Morgan Asset Management (JPMAM) is the marketing name for the investment management businesses of JPMorgan Chase & Co. and its affiliates worldwide. Unless otherwise noted, the focus of this report throughout is on J.P. Morgan Asset Management.

JPMAM is a leading investment manager of choice for institutions, financial intermediaries, and individual investors, offering a broad range of core and alternative strategies, with investment professionals operating in every major world market providing investment expertise and insights to clients. J.P. Morgan Asset Management oversees more than USD 3.4 trillion in client assets under management globally as of December 31, 2024.

Our purpose

At J.P. Morgan Asset Management, we strive to deliver superior investment capabilities and insights to help our clients achieve their most important financial objectives.

This aligns with our fiduciary duty to act in the best interest of our clients. We are passionate about offering a global depth and breadth of investment solutions supported by dedicated market experts and continual reinvestment in tools, technology, and operational excellence. Our aim is to empower better investment decisions by providing investment insights that tap into over 150 years of investment experience.

We believe that robust investment stewardship practices are important to delivering on our fiduciary duty. As defined by the Financial Reporting Council ('FRC'),[93] "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." The key tenets of this definition of stewardship align with the spirit and purpose of our fiduciary approach, grounded in enhancing and protecting investment returns to produce better client outcomes through an expectation of high standards for corporate responsibility in companies in which we invest.

[92] This report describes J.P. Morgan Asset Management's approach to investment stewardship. Please note that J.P. Morgan Asset Management's approaches are separate from JPMorgan Chase & Co. References to "we" or "our" in this document refer to J.P. Morgan Asset Management and not JPMorgan Chase & Co.

[93] The FRC is a UK executive non-departmental public body sponsored by the Department for Business and Trade. The FRC promotes transparency and integrity in business. It regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes.

Back to contents

J.P. Morgan Asset Management – Who we are continued

In this report, we strive to outline the activities, as well as the outcomes, that we believe point to how we contribute to driving long-term value creation:

- Through our ongoing policy advocacy efforts to support the integrity of capital markets.
- By incorporating financially material ESG considerations in active investment capabilities.[94]
- Through empowering our clients to make informed choices coupled with a relentless focus on helping them achieve their financial objectives.

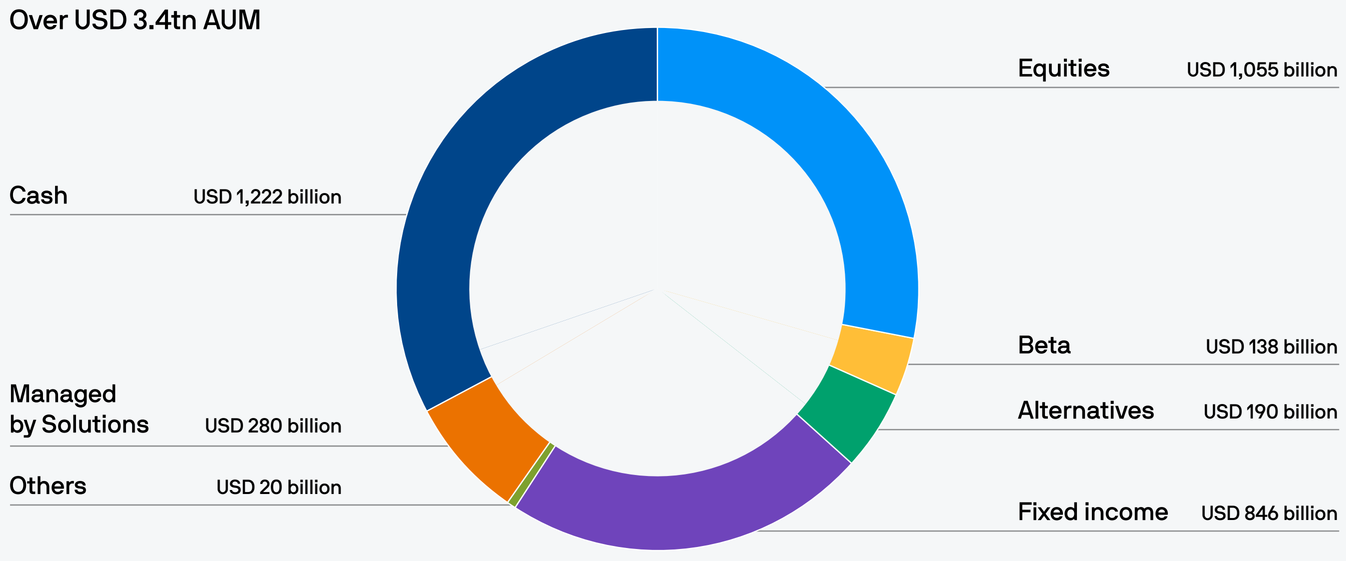
Our business model and strategy

As a global asset manager, we provide investment services for institutions, intermediaries, and individuals alike, including doing business with some of the world's largest pension funds, sovereign wealth funds and central banks.

Our fiduciary commitment to client outcomes extends across the investment services that we provide to all key client segments that we serve, including, but not limited to, the following client types: Defined Benefit, Defined Contribution, Insurance, Endowments & Foundations, Sovereigns, Intermediaries & Fund Management, Healthcare Providers and Corporate Treasury.

To help these clients build stronger portfolios to meet their needs, we offer a global breadth and depth of investment solutions across equities, fixed income, alternatives, solutions, global liquidity and beta.

Our investment platforms



Note: This view shows assets maanged by portfolio management teams within J.P. Morgan Asset Management by asset type. Please note that assets may be include in multiple categories. For example, certain asset classes such as Equities and Fixed Income AUM may include sub-accounts of asset allocation accounts of Multi Asset Solutions.

Source: J.P. Morgan Asset Management as of 31 December 2024. Due to rounding, data may not always add up to the total AUM. AUM s shown do not include custom glide path and retain advisory assets.

94 In actively managed assets deemed by J.P. Morgan Asset Management to be ESG-integrated under our governance process, we systematically assess financially material ESG factors including sustainability risks in our investment decisions with the goals of managing risk and improving long-term returns. ESG integration does not change a strategy's investment objective, exclude specific types of companies or constrain a strategy's investable universe unless the offering document or investment policies for the strategy provide otherwise.

Back to contents

J.P. Morgan Asset Management – Who we are

How J.P. Morgan Asset Management considers ESG

J.P. Morgan Asset Management considers financially material environmental, social and governance (ESG) factors as important considerations for investors when assessing an investee company's performance. Consideration of financially material ESG factors can be used both to mitigate risk and unlock opportunities in an investment portfolio. ESG factors encompass a wide range of issues that can be important for investors, including, but not limited to, climate risk, natural resources use, human capital management, business conduct, governance practices, shareholder rights and executive compensation.

Our culture and values

We believe clients choose J.P. Morgan Asset Management to manage their assets because we have withstood the test of time and positioned ourselves to be market leaders for decades to come. Our management demonstrates these values by consistently investing in the strength and resilience of our business and fostering solid, long-lasting client relationships. We encourage this long-term focus as a foundational aspect of our Firm-wide business principles, which call on all our employees to act and think like long-term owners and partners.

At the heart of J.P. Morgan Asset Management's values is a relentless focus on long-term performance, guided by our business principles[95] and complemented by our purpose[96] to "Make dreams possible for everyone, everywhere, every day."

We believe our success and the success of our clients are directly linked to our culture of respect, equal opportunity and inclusion, which promotes innovation and stronger decision making within portfolio management.

Actions taken to promote effective stewardship reflecting our investment beliefs, strategy and culture

As part of our broader, overall focus on meeting specific client needs by delivering strong investment performance across a range of global investment solutions, our stewardship efforts seek to contribute to long-term value creation by facilitating responsible capital allocation.

We do this through the incorporation of financially material ESG factors in investment processes for actively managed accounts that have gone through our governance process as part of our investment decision making. We also utilize our voice, as active owners, in our investee companies to strive to encourage changes that we believe manage risks and create long-term value for our clients.

Throughout 2024, we have taken several steps to further embed these considerations across our business.

[95] https://www.jpmorganchase.com/about/business-principles
[96] https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/documents/how-we-do-business.pdf

Back to contents

J.P. Morgan Asset Management – Who we are continued

In concert with these efforts, we continue to take several key steps that reflect our ongoing commitment to taking actions that support effective stewardship across our approaches, to investing on behalf of our clients as a fiduciary and fostering our corporate culture. These steps are based on specific opportunities that we have identified as areas for improvement, such as the following activities:

- We have continued to enhance our internal governance to create greater oversight and accountability of our sustainable investing activities, including by assessing the effectiveness of the Sustainable Investing Oversight Committee (SIOC) during the reporting period. Further information is detailed in the Governance of Stewardship section.
- Following an in-depth review of our proxy voting practices in 2023, we implemented a series of enhancements which included developing and rolling out an improved version of our proprietary in-house voting interface in our Spectrum technology Suite. This has streamlined our proxy voting workflow, including the integration of our voting decision-making practices with our research and investment decision-making approach. It also helps reduce the perception of undue reliance on external, third-party proxy voting recommendations. We further enhanced our processes to amplify the role of portfolio managers in proxy voting decision-making.
- We have made changes to provide clients with greater choice in proxy voting outcomes, in particular, for environmental and social shareholder proposals, without the need to utilize a third party's sustainable proxy voting guidelines. For instance, we established our global sustainable voting guidelines which apply to certain sustainable funds and now offer eligible clients the ability to select these guidelines for their separately managed accounts.
- We have taken steps to deepen our research and stewardship capabilities on the theme of natural capital and ecosystems. As an example, this year we assessed the impact of water usage in the operational practices of companies in selected resource-intensive sectors. The capabilities we are developing help us to better analyze whether a company's approach to addressing the financially material natural capital-related risks and opportunities are credible and in the long-term interests of its stakeholders.

In 2024, we published JPMAM's third report under the Task Force on the Climate-related Financial Disclosures (TCFD) framework as part of our own climate disclosures.

Alongside these changes, in the summer we once again conducted what has now become an annual review into the effectiveness of our stewardship practices and implementation of our stewardship strategy. This enables us to identify specific areas where we can facilitate continuous improvements. This process includes considering insights on industry stewardship practices from a wide range of stakeholders, including clients, regulators and relevant oversight bodies, such as the UK Financial Reporting Council and the Taiwan Stock Exchange.

Back to contents

J.P. Morgan Asset Management – Who we are continued

Key areas of reform

Key areas of reform	2024 Improvement outcomes	2025 Next steps
Governance	Further strengthened governance and developed oversight processes related to strategies that employ values and norms-based exclusions. This enhanced process included the establishment of a new investor-led forum to analyze companies that appear on third-party values and norms-based exclusions lists.	Establish an independent Investment Stewardship Oversight Committee, to further strengthen our oversight processes.
Engagement approach	Strengthened our engagement and proxy voting capabilities by growing the Global Investment Stewardship team from 15 to 24 in 2024. This included the establishment of a new team based in Mumbai in part due to the recognition of India and the wider region as fast-growing investment markets. Further increased engagement activities by our mainland China business JPMorgan Asset Management (China) Company Limited. This also included training the local investment teams on our engagement approach and launching new investment strategies such as the Common Ground Taxonomy Green Bond strategy.	Strengthen in-house global governance research and proxy voting analysis utilizing a newly established research template within our Spectrum technology suite. Expand engagement activities in India and China where we have strengthened our Investment Stewardship capabilities in our Mumbai and Shanghai offices.
Client needs	Organized a series of client education events on climate investment and stewardship for institutional clients who are implementing their own decarbonization strategies. These covered topics related to research, investment and engagement, and were hosted by analysts, portfolio managers and sustainable investing and stewardship specialists across Europe and in Canada.	Expand client education events and workshops to other countries and regions such as ones in Asia Pacific, in response to client demand for on-the-ground engagement and the chance to discuss insights and approaches in-person with JPMAM professionals.
Proxy voting	Implemented new climate change voting guidelines for the 2024 voting season. Adopted regional Sustainable Voting Guidelines in EMEA, Japan, and Asia (ex-Japan) in addition to the existing North American Sustainable Voting Guidelines for use with certain sustainable guidelines. Reviewed proxy voting practice and implemented changes to increase the involvement of portfolio management teams in proxy voting and reduce the perception of undue reliance on third-party proxy advisors. We also established new research processes to analyze the governance practices of investee companies and implemented new technology to cast our votes.	

Back to contents

J.P. Morgan Asset Management – Who we are continued

Outcomes

The actions we have taken during the 2024 reporting period build on the significant investment the business has made in our Investment Stewardship team over the past year. Notably, we have expanded our team from 15 to 23 in 2024, with further team growth expected in early 2025. This is in reflection of feedback from investors, clients, regulators and broader stakeholders, which has led us to conclude that Investment Stewardship is an important part of our investment process across asset classes. It requires extensive in-house capabilities with members on the ground meeting investee companies alongside our investment team colleagues on a day-to-day basis.

We placed particular focus in 2024 on our research, data tools and technology in three key areas related to our stewardship practice:

1. Assessment of a company's own decarbonization plans, through developing a tool that allows us to better analyze a company's stated decarbonization plans;
2. Research around natural capital and ecosystems, especially on the issue of water use in resource-intensive sectors operating in water-scarce areas; and
3. Proxy voting processes and governance research, which have been enhanced to help reduce the perception of undue reliance on external, third-party proxy voting recommendations.

All of these projects and initiatives have contributed to improving our ability to conduct more in-depth research-driven engagement and voting, and to better understand the effectiveness of our stewardship program over time. The initiatives detailed above and our ongoing efforts to assess their effectiveness are discussed in greater detail throughout this report. As we continue to further integrate stewardship within our business, we look forward to providing ongoing transparency into our efforts to further enhance our practices.

Our ambition is to continue to build a market-leading stewardship practice, underpinned by and to regular assessment of opportunities for improving our ability to support the long-term objectives of our clients and stakeholders.

Back to contents

Governance of stewardship

We believe investment stewardship creates value for our clients around the world, across asset classes. Our governance practices in stewardship and sustainable investing are structured to meet the constantly evolving challenges faced by a large, global, and complex asset management company.

We are one of the world's largest investment managers by assets under management, with investment teams across multiple asset classes based in locations around the world and clients globally across different segment types with evolving needs (for further details on our investment teams and clients please refer to the ESG Integration and Meeting Client Needs sections respectively). Our starting philosophy is that stewardship should be enabled for investments globally across all asset classes, investment styles, client types and regulatory regimes.

In reflection of the size, scope, and complexity of our company, J.P. Morgan Asset Management has established governance practices around stewardship and sustainable investing that are global and across asset classes in remit, spanning the material sustainability and corporate governance issues in our investments. Throughout 2024, we continued to formalize and embed these practices as a standard part of our investment decision-making and oversight. This section contains further details about the actions taken this year.

Our governance framework for effective stewardship is designed with oversight from the top of JPMAM, led by the Chief Executive Officer (CEO) of Asset Management and fellow senior executives. The Global Head of Sustainable Investing and Stewardship has the remit of directly overseeing stewardship and sustainable investing activities. This oversight is exercised through the Sustainable Investing Oversight Committee (SIOC) and Investment Stewardship Oversight Committee (ISOC). The ISOC was formed in March 2025 to provide a central, specialized group for oversight of stewardship and proxy voting activities. Prior to March 2025 the SIOC was responsible for oversight of proxy voting and engagement.

The SIOC provides ongoing strategic oversight, effective decision making, review, and assurance across the key components of sustainable investing. This includes engagement, sustainable investment criteria, and oversight of ESG integration, as well as regulatory developments. Related policies, programs, targets and performance are overseen by this group.

The ISOC provides ongoing strategic oversight, review and assurance of engagement and proxy voting activities.

Both committees are chaired by the Global Head of Sustainable Investing and Stewardship. Members include Chief Investment Officers (CIOs) and heads of control functions such as Risk and Compliance, as well as JPMAM's internal legal counsel. The Global Head and regional heads of Investment Stewardship are members of the ISOC.

A direct line of senior responsibility derives from three aspects so that the SIOC and ISOC are accountable, credible, and representative of sustainable investing or investment stewardship activities, respectively, within investment teams and senior management:

- Strategic oversight of sustainable investing activities provided to the SIOC by the heads of investment teams and the Global Head of Sustainable Investing and Stewardship through their participation in day-to-day management meetings across their asset classes and with senior management.
- Strategic oversight of investment stewardship provided to the ISOC by the regional proxy voting committees, who provide regional specific oversight and decision making of proxy voting related activities, and by the heads of investment teams, whose teams also conduct engagement activity. This enables the monitoring of stewardship effectiveness and key performance indicators and establishes a clear line of escalation and accountability as invitees provide updates to the ISOC, where applicable.

Back to contents

Governance of stewardship continued

- Where and when required from a control and risk oversight perspective, formal escalation from SIOC and/or ISOC is to the Global Asset Management Business Control Committee (AM BCC) and the AM Bank Fiduciary Committee (for specific fiduciary responsibilities). The AM BCC Committee provides oversight of the operational risks and control environment across the entire asset management business, with respect to proper identification, management and monitoring of existing and emerging operational risks, control issues and trends. This committee, which is co-chaired by the AM CEO and AM Business Control manager, includes decision-making members comprising all heads of controls functions, CIOs across all asset classes/product groups and heads of all major business areas.
- The SIOC met eight times in 2024 as part of its continuing oversight. Of the issues of increasing importance to our business.
- The ISOC met for the first time in March 2025 as part of its continuing oversight. Of the issues of increasing importance to our business

Below is an overview of J.P. Morgan Asset Management's governance structure on Stewardship and Sustainable Investing.

J.P. Morgan Asset Management's Sustainable Investing Governance Structure

Global AM Business Control Committee (*AM BCC*)

- AM BCC provides oversight of the operational risks and control environment across the entire AM Business, to ensure proper identification, management and monitoring of existing and emerging operational risks, control issues and trends.
- Co-chaired by the AM CEO and AM Business Control manager, includes decision making members comprising all heads of controls functions, CIOs across all asset classes/product groups and heads of all major business areas.

Global AM Sustainable Investing Oversight Committee

- Single point of ongoing strategic oversight, effective decision making, review and assurance across the key components of sustainable investing. Related policies, programs, targets and performance are overseen by this group.
- Chaired by the Global Head of Sustainable Investing and Stewardship. Members include Chief Investment Officers (CIOs), heads of control functions such as the AM Chief Risk Officer, and the AM Global Head of Compliance.

Global AM Investment Stewardship Oversight Committee*

- Single point of strategic oversight, review and assurance across the key components of investment stewardship.
- Chaired by the Global Head of Sustainable Investing and Stewardship. Members include Chief Investment Officers (CIOs), Global Head of Investment Stewardship, regional heads of investment stewardship, heads of control functions such as the AM Chief Risk Officer, and the AM Global Head of Compliance.

Sustainable investments criteria | ESG integration | Proxy Voting | Corporate Engagement

Regional committees and topic-specific working groups

Source: J.P. Morgan Asset Management, as of March 2025.
* Established March 2025. Prior to March 2025, SIOC was responsible for oversight of proxy voting and engagement.

Back to contents

Governance of stewardship continued

This governance structure seeks to provide assurance over our stewardship activities by reviewing our policies, resources, priorities, engagement and voting activities, as well as our reporting. The SIOC serves as a resource to provide review and credible challenges to our processes as part of our goal to improve. Ongoing oversight is an important remit of both the SIOC and ISOC, alongside other key committees and working groups (further described in the following pages). It is the responsibility of both committees to to review processes, raise important issues for discussion and evaluate the need to further amend policies and procedures with key stakeholders, including what we refer to as the lines of defence.

In 2024, the SIOC reviewed and approved the publication of a series of important publications for sustainable investing and investment stewardship, including our 2023 Investment Stewardship Report. We were able to attain 2020 UK Stewardship Code signatory status from the Financial Reporting Council for the third year running based on this report. Also, some sections of the report were included as part of our Taiwan Investment Stewardship Report.

In 2025, the ISOC took over responsibility for reviewing and approving the publication of this 2024 Investment Stewardship Report. This was part of our ongoing efforts to promote a higher standard of reporting.

For more details on how this year's report strives to meet the expectations set in the world's various Stewardship Codes which we support and sign on to, please refer to Appendix 2.

Also, the SIOC reviewed and approved JPMAM's 2024 Taskforce on Climate-related Financial Disclosures (TCFD) Report.[97] In this report, we disclosed how we continue to consider climate-related risks and opportunities in the assets we manage on behalf of our clients. 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 strategy: ESG integration and research, our sustainable product offering and investment stewardship. It explores how we identify and manage climate risks and discusses governance and controls through our risk management and compliance functions. It also includes the disclosure of the data and metrics we currently use to assess and manage climate risk for the assets we manage. This year's report highlighted how we expanded offerings across investment strategies for clients with specific climate goals, continued to develop tools and methodologies to improve our insights on climate-related risks, and engaged with portfolio companies on climate change risks and opportunities specific to such companies.

Review and evaluation of committee effectiveness

Over the course of 2024, we made further changes to the committee's governance structure and operational function with the aim of further improving the SIOC's credibility and effectiveness with regard to its oversight duties. New committee members were added as both voting and non-voting members; this is a reflection of the evolving nature of the business.

The SIOC will continue to be responsible for certifying new investment strategies as ESG integrated against JPMAM's multi-factor ESG integration framework. Ongoing monitoring and review are the responsibility of the applicable investment group's investment directors.

We continue to assess the appropriateness of the current sustainable investing governance structure and its ability to provide oversight of key sustainable investing areas, including investment stewardship. We consider it important to oversee and support effective stewardship within an organization which is large in assets under management, broad in the range of asset classes and investment styles offered, and global in our investments, operations, and clients. The committee once again demonstrated in 2024 that its structure is flexible and dynamic enough to modify its remit where it is deemed necessary while continuing to fulfil its designated oversight responsibilities.

In March 2025, we established the Investment Stewardship Oversight Committee (ISOC). The role of this committee is to provide oversight of proxy voting and engagement activities. We will continue to review and refine our structure and processes as needed, including an annual review of both the SIOC and ISOC to identify opportunities for improvement.

97 https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/sustainable-investing/tcfd-report.pdf. In 2025 the report will be renamed the JPMAM Global Climate Report.

Back to contents

Governance of stewardship continued

Key stewardship-related regional committees and topic-specific working groups

Supporting the SIOC and ISOC are a network of regional committees and topic-specific working groups. These groups serve as forums for regular information sharing, discussion, and decision-making on region or topic-specific issues. Members typically include investment research analysts, portfolio managers, stewardship and sustainable investing experts, and client-facing professionals. We believe these groups are crucial for enabling the governance structure at JPMAM, helping to manage the global, large, and complex nature of our business. The key stewardship-related groups include:

- Regional Proxy Voting Committees have long been established in our four key investing regions: North America; Europe, Middle East, and Africa (EMEA); Asia excluding Japan; and Japan. Meeting quarterly, these committees consist of senior equity investment analysts, equity portfolio managers, investment stewardship team members, and legal, compliance, and risk specialists. They are tasked with formulating regional proxy voting guidelines and serve as an escalation point for voting and broader corporate governance issues. These committees previously reported to the SIOC, which received periodic updates and monitored their effectiveness. Beginning in March 2025, the ISOC took over oversight and monitoring of the proxy committees.
- Corporate Engagement working groups, established in each of the four major investing regions, are designed to facilitate active discussion, information sharing, and coordination of engagement activities across asset classes at JPMAM. These groups include heads of investment research, analysts, portfolio managers, and investment stewardship team members, representing a range of asset classes and investment styles, such as large-cap equity, small-cap equity, emerging market equity, investment-grade corporate fixed income, high-yield corporate fixed income, emerging market debt, and multi-asset investments. The groups also assess ESG controversies and norms breaches, like those related to the United Nations Global Compact (UNGC), working with investment analysts to conduct reactive engagements with investee companies for accounts where such issues are financially material or have norms-based exclusions.

Oversight of ESG regulatory and industry-led change

New and evolving ESG-related regulations and industry standards (e.g. codes, guidelines, best practice recommendations) continue to support the integration of sustainability into our investment management ecosystems, be that the baseline ‘consideration’ of financially material factors within the investment decision-making process; the uplift of existing asset management and governance frameworks to account for evolving ESG perspectives; and/or the development of new products and portfolio construction.

The Sustainable Investing and Stewardship team is an integral component of the JPMAM global ESG regulatory change governance and implementation structure which is designed to support internal business groups and functions to transform their operating models, practices, and processes to meet emerging regulatory and industry developments. Related projects and initiatives are governed by steering forums comprised of senior cross-functional leaders, which meet regularly to oversee their relevant workstreams.

ESG regulatory- and industry-led change remained one of the most active areas of work within JPMAM in 2024, successfully calibrating and implementing the required or existing ESG-related policies, frameworks, approaches and related disclosures to further address those developments that are directly and/or indirectly applicable to JPMAM. These initiatives have been supported by other parallel internal programs designed to evolve our ESG-related risk and oversight models, internal training, and awareness.

Sustainable Investing leadership working groups with relevance to stewardship

To further collaborate on supporting and advancing J.P. Morgan Asset Management’s global leadership, a network of internal JPMAM working groups exists to connect expertise across our extensive platform of subject-matter experts. To bring together the relevant expertise to help our clients achieve their objectives, these working groups focus on a variety of goals. These range from achieving commercial objectives to contributing to developing innovative investment capabilities, to promoting a well-controlled approach to internal ESG policies, processes, and procedures.

Governance of stewardship continued

The membership of these groups consists of senior investment professionals, fundamental and quantitative investment research analysts, sustainable investing team members, investment risk specialists and client-facing team members. The working groups include:

- The **ESG and Climate Research Group** which is led by the Global Head of Sustainable Investing Research. It comprises senior investment professionals from various investment classes, including the head of research, portfolio managers, analysts, and delegates from the sustainable investing team. The group advises on the development of ESG-related research methodologies, such as the proprietary JPMAM Quantitative ESG Score,[98] and the application of ESG and climate change metrics and solutions. Additionally, it provides guidance on the development of the proprietary SIE Framework.[99]
- Our **APAC Sustainable Investing Client Strategy Working Group**. The groups consist of investment specialists, distribution delegates, and cross-functional business partners. Its goal is to propose and develop commercialization strategies by identifying key clients, prioritizing efforts, creating effective marketing strategies, and advancing key initiatives like ESG education and thought leadership.

Alongside the Sustainable Investing leadership working groups, JPMAM has established a Global ESG Disclosure working group. This group includes representatives from AM Legal, Control Management, Sustainable Investing, the Communication Control Group, AM Marketing, Compliance, and Risk. They meet regularly to discuss disclosure topics related to ESG integration and sustainable investing.

[98] The JPMAM Quantitative ESG score refers to the internal score developed by JPMAM's Sustainable Investing team to support the investment groups' quantitative ESG analysis and also to help inform assessments of individual companies. The purpose of the score is to provide portfolio managers and research analysts with useful information they might otherwise not have access to in order to facilitate ESG integration and investment stewardship. The score provides another reference point to enhance the consideration of material ESG risks and opportunities in active investment processes.

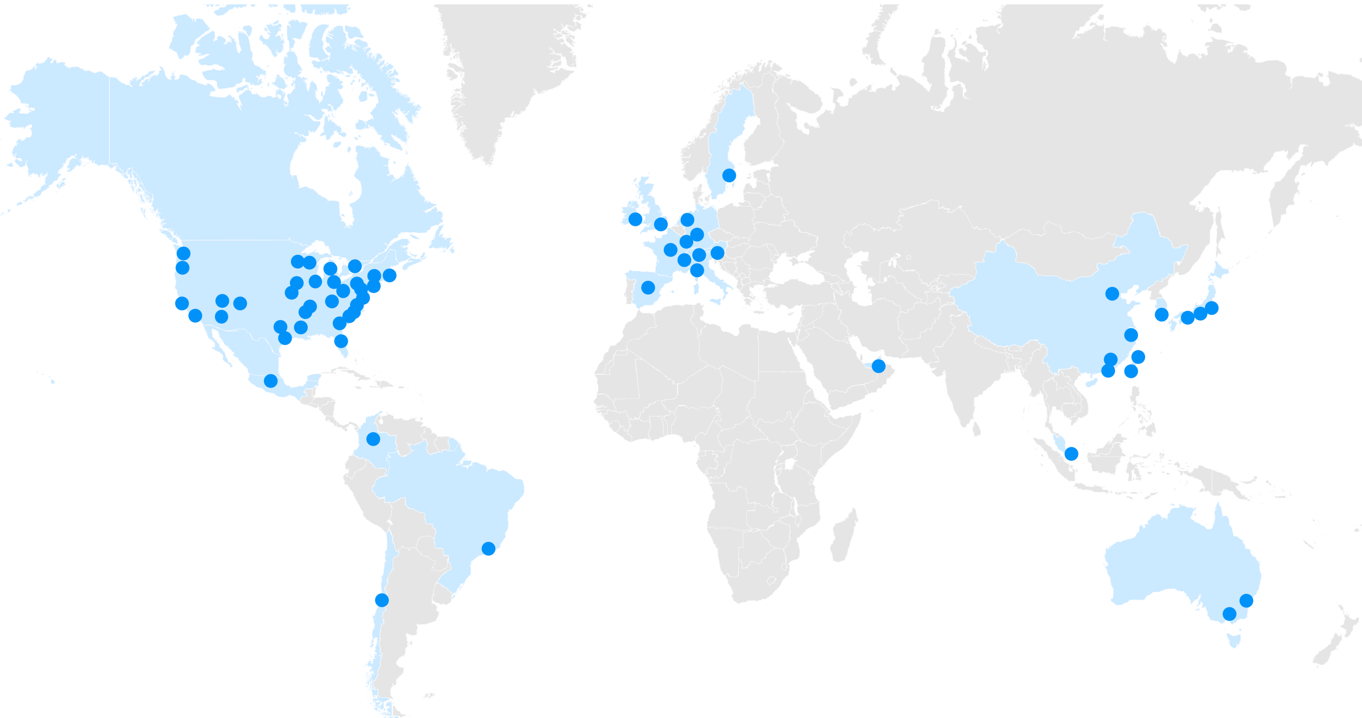
[99] https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/sustainable-investing/sustainable-investing-statement.pdf

People and resources

We believe that stewardship is a J.P. Morgan Asset Management-wide effort and that engaging investee companies on financially material ESG issues is a responsibility across our investment teams around the world. They are supported by a growing team of sustainability and governance specialists within the Sustainable Investing team.

J.P. Morgan Asset Management Investment Centers

We have more than 1,100 investment professionals around the world



The key leaders in JPMAM who drive forward the spirit and culture of stewardship are:

Paul Quinsee
Global Head of Equities

The equities division consists of U.S. equities, International equities and Emerging Market equities

Robert Michele
Chief Investment Officer and Head of the Global Fixed Income, Currency & Commodities group

The group covers investments into Corporate Credit (Investment Grade, High Yield, and Emerging Markets), Municipals, Securitized and Sovereigns.

People and resources continued

Anton Pil
Global Head of Alternative Solutions

The division manages assets across Asset & Wealth Management in private equity, private credit, real estate, real assets, hedge funds and liquid alternatives.

Jed Laskowitz
Global Head of Private Markets and Customized Solutions

This team develops Exchange Traded Funds (ETFs) across asset classes and market-cap passive, strategic beta and active investment styles.

The Customized Managed Account Solutions is responsible for the Separately Managed Account and Multi-Asset Model Portfolios platforms. The 55ip investment engine and platform allows advisors to deliver tax-smart, tailored investment strategies at scale.

Jamie Kramer
Global Head of Multi-Asset Solutions

This division works with institutional investors and investment platforms to comprehensively address their investment challenges.

John Donohue
Head of Global Liquidity

This division oversees short-term cash management and fixed income solutions. John also serves as the CEO of Asset Management in the Americas.

Christian Preussner
Global Head of Sustainable Investing and Stewardship

This division is responsible for leading JPMAM's strategic efforts in sustainable investing, ESG integration, research and thought leadership, investment stewardship and the development of broader offerings of investment strategies.

Yo Takatsuki
Global Head of Investment Stewardship

The Investment Stewardship team is responsible for driving worldwide efforts on engagement and proxy voting in close collaboration with investors across asset classes. The team is part of the wider Sustainable Investing division. It is comprized of 23 stewardship specialists.

These investment platforms are represented on the **Global Asset Management Sustainable Investing Oversight Committee** and the **Investment Stewardship Oversight Committee**.

Our global Investment Stewardship team bring with them a variety of skills and experience in helping to deliver effective stewardship at JPMAM.

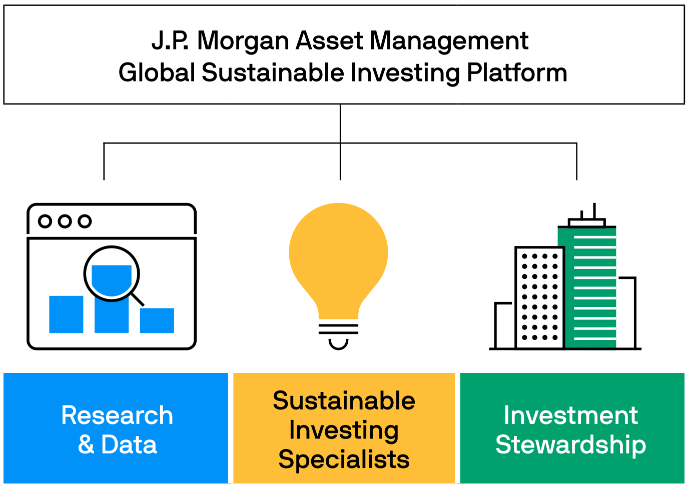
Back to contents

People and resources continued

Sustainable Investing Division

Our strategy for sustainable investing and stewardship is led by Christian Preussner, Global Head of Sustainable Investing and Stewardship. He heads the efforts across sustainability-focused investment research, solutions development, and investment stewardship with a dedicated division of sustainable investing specialists.

This team drives ESG-related research across asset classes, seeks to develop and publish sustainable investing thought leadership pieces, and works with clients to build and implement sustainable investing solutions. The division has members based in London, New York, Hong Kong, Mumbai and Tokyo.



The Sustainable Investing Division is structured into three distinct teams:

- The ESG Research team is focused on developing dedicated ESG research by partnering with our investors across asset classes and data scientists. Within this team, there is a dedicated Climate Research team.
- Our Sustainable Investing Specialists partner with our investment and distribution teams to provide expertise and to develop ESG solutions to meet our clients' requests.
- The Investment Stewardship team is responsible for our investment-led, expert-driven stewardship approach, engaging with companies and voting proxies on behalf of clients. The team runs the JPMAM engagement and voting program and works in close conjunction with our investment team colleagues in different asset classes.

People and resources continued

In focus: Investment Stewardship team

J.P. Morgan Asset Management's Global Investment Stewardship team consists of 23 members. Each member has a specific thematic expertise in one or two of our six Investment Stewardship Priorities. The team members are based in five regions: North America (New York), EMEA (London), Asia excluding Japan (Hong Kong), Japan (Tokyo) and India (Mumbai).

We believe that a key aspect of promoting effective stewardship for a large and global asset manager is by having regional stewardship teams of local market experts located on the ground, working on a day-to-day basis with our investors and engaging with companies. Our team members include a breadth of nationalities and languages. Alongside English, our team members speak Spanish, Japanese, Korean, and Mandarin amongst others. We see that traction on engagements on complex, often technical issues such as climate change risks, is better when the discussion is taking place in a language which is native to the company. We also consider that this regional presence is crucial for understanding the evolution of local client needs, regulatory expectations, and Stewardship Codes (see Appendix for how we meet the expectations of various Stewardship Codes, which we are signatories to).

We also consider that this regional presence is crucial for understanding the evolution of local client needs, regulatory expectations, and Stewardship Codes (see Appendix for how we meet the expectations of various Stewardship Codes, which we are signatories to). For example, since 2022, our Asia ex Japan team translated sections of the investment stewardship reports to facilitate the assessment of our stewardship practices by the Taiwanese Stock Exchange.

While Investment Stewardship is a long-running activity, the single global team structure was established in 2021 and we have continued to implement and build on this structure since. The outcome of this organizational change was broadly positive. It resulted in:

- clear leadership and management structure;
- a strategy based on global thematic expertise;
- resource needs assessed and recruitment conducted globally;
- efficient sharing of latest research insights and industry developments through sub-teams focused on thematic areas aligned with our stewardship priorities. These sub-teams (called Pods) facilitate knowledge sharing across the global team;
- effective coordination of stewardship activities globally across asset classes on key priority themes, between the Investment Stewardship team and the investment teams; and
- pooling of resources to better strengthen our stewardship-related operational practices such as for engagement activity recording in our research system, client reporting, managing service providers and proxy voting reform implementation.

Team members bring a range of backgrounds, qualifications, and experiences. These include equity research, commercial banking, ESG research, climate consulting, corporate sustainability reporting, public policy, financial journalism, auditing, proxy research and advisory, impact investment, and stewardship specialist roles at other asset managers. This range of backgrounds is a crucial aspect of being able to credibly provide a breadth of ESG insights to investment teams. This is particularly important now, as the level of scrutiny from clients and regulators on asset managers' expertise on financially relevant sustainability and governance issues has risen markedly. Against this backdrop, stewardship continues as a pillar of managing assets in our clients' best interests.

Other resources

Investment and Stewardship teams are supported by a wide range of internally developed and externally sourced sustainability and governance-related research, data, and analytical tools. Alongside sell-side broker research, we utilize third-party research providers for ESG information.

For more information on our service providers please refer to the section on Monitoring Service Providers.

ESG integration at J.P. Morgan Asset Management

As an asset manager, we are guided by our duty to act in the best interests of our clients. Certain actively managed strategies deemed by JPMAM to be ESG-integrated under our governance process systematically assess financially material ESG factors (alongside other relevant factors) in our investment decisions with the goals of managing risk and improving long-term returns. This is known as ESG integration. Except for certain strategies that use ESG integration as part of their investment process in addition to other sustainable investing strategies, ESG integration by itself does not change a strategy's investment objective, exclude specific types of companies or constrain a strategy's investable universe. ESG integration is dependent upon the availability of sufficient ESG information relevant to the applicable investment universe. ESG factors are not considered for every investment decision.

In order for a strategy to be considered ESG integrated, JPMAM requires:

1. Portfolio management teams to consider proprietary research on the financial materiality of ESG issues on the strategy's investments;
2. documentation of the research views and methodology throughout the investment process; and
3. appropriate monitoring of ESG considerations in ongoing risk management and portfolio monitoring.

The impact of ESG integration on performance is not specifically measurable as investment decisions are discretionary regardless of ESG considerations. ESG integration does not happen in isolation and is one element alongside other factors considered in our investment processes.

By considering financially material ESG factors, we believe ESG integration can inform better long-term investment decision making and can help build stronger portfolios for our clients.

We view ESG integration and stewardship as complementary practices working in tandem to encourage investing in a way that ultimately benefits clients.

Our approach to ESG integration focuses on financial materiality, with the understanding that not all ESG factors are relevant to a particular investment, asset class or strategy. Below you will find our approach to ESG integration for a variety of our asset classes. Note, the method by which an investment group performs ESG integration is consistent across geographies.

Active ownership is a key component of both our standard investment processes and our commitment to ESG integration. We use it to understand how companies or issuers consider issues related to ESG and encourage best practices, for the purpose of enhancing returns for our clients. We define engagement as active interaction with investee companies or issuers, exercising our voice as a long-term investor through engagement with individual companies, and proxy voting. Active ownership in the context of ESG integration allows us to manage ESG risks and to systematically incorporate insights gained from engagement into our investment decisions.

The practice of integrating financially material ESG metrics into investment processes aims to strengthen risk management and may contribute to long-term financial returns. Consequently, we believe ESG integration can help deliver enhanced risk-adjusted returns over the long run. It is important to note that the financial materiality of ESG metrics varies depending on the time horizons under consideration, as well as specific regional or macroeconomic influences. We believe it is important to align the consideration of ESG metrics to the specific investment style, such that the integration of ESG information contributes to investment performance.

Back to contents

ESG integration at J.P. Morgan Asset Management continued

As a global active manager using a variety of investment styles, we integrate financially material ESG metrics into the investment process of an investment group in a manner consistent with the underlying strategy, from the purely quantitative to those based on a combination of fundamental research and qualitative judgments. We define investment groups as investment teams which share a common investment process and ESG integration approach and common investment strategies. Because of the variety of actively managed investment strategies, types of investments and investment processes, financially material ESG metrics will differ across investment groups, and we do not mandate that each investment group implement ESG integration in the same way. For example, there may be differences in which equity and fixed income investors evaluate governance practices of a company. Instead, we apply key metrics that focus on the robustness of the ESG integration process to determine if an investment group can be considered as ESG integrated by J.P. Morgan Asset Management. We use a process-focused multi-factor framework to validate the approach applied by the investment groups for the respective strategy.

We also offer a growing range of products designed for clients who want to go beyond standard ESG integration and invest in products with more defined ESG characteristics or objectives. Nevertheless, we can make no assurance that the integration or security selection methodology used by our portfolio managers and analysts will align with the individual beliefs or values of a particular client, nor that ESG integration will apply to every security in a client's portfolio.[100]

Please note: ESG determinations may not be conclusive. Securities of companies or issuers may be purchased and retained that may be negatively impacted by such factors while the adviser may divest or not invest in securities of issuers that may be positively impacted by such factors. The effect of ESG integration on a financial product's performance is not specifically measurable as investment decisions are discretionary regardless of ESG considerations. Unless stated otherwise in a financial product's documentation and included within its investment objective and investment policy, ESG-integrated products are not designed for clients who wish to screen out particular types of companies or investments or are looking for products that meet specific ESG goals. In other words, ESG integration by itself does not change a product's investment objective or constrain the investment managers' investable universe, nor does it imply that a product is marketed or authorized as an ESG product in any jurisdiction where such authorization is required.

The assessment of environmental, social and governance information and events requires subjective judgments, which may include consideration of third-party data that may be incomplete or inaccurate. There can be no guarantee we will correctly assess such impact.

[100] For further details on strategies that are ESG integrated, please reach out to your local JPMAM representative.

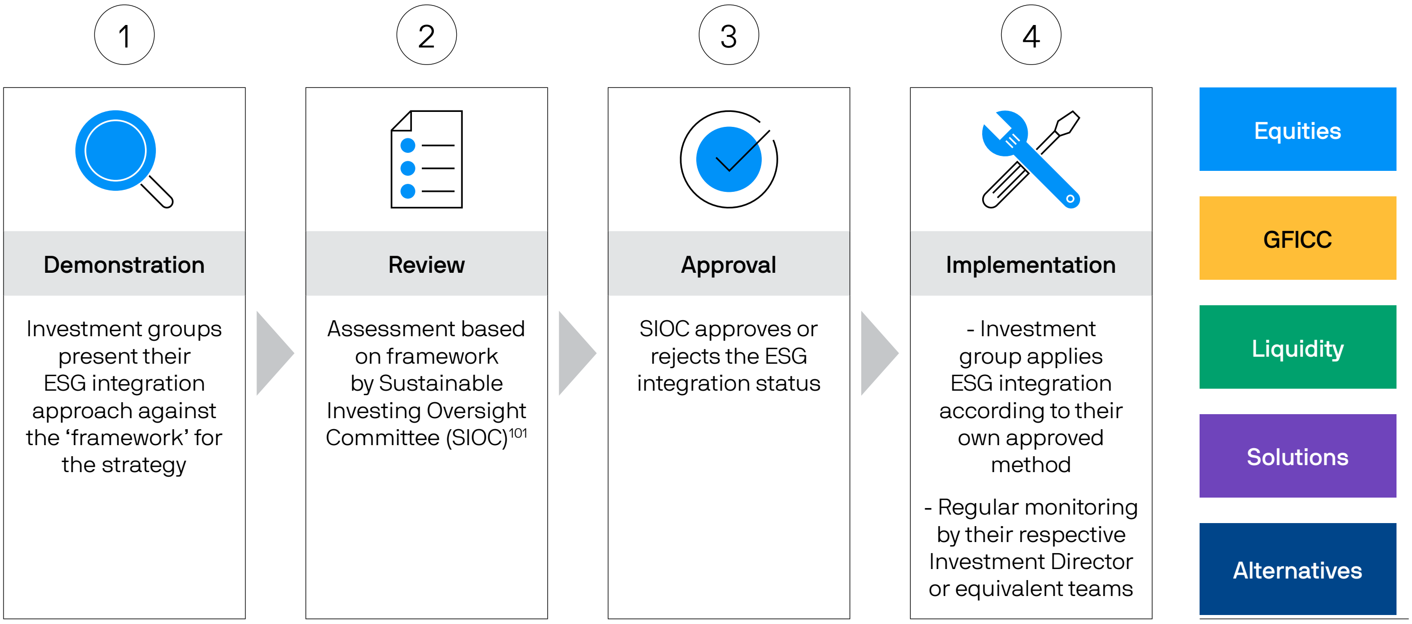
Back to contents

ESG integration at J.P. Morgan Asset Management continued

Our ESG integration process

The following describes J.P. Morgan Asset Management's current process for determining whether an investment strategy has integrated ESG into its investment processes.

ESG integration validation process at J.P. Morgan Asset Management



Source: J.P. Morgan, as of December 31, 2024. Provided to illustrate the current governance process, not to be construed as research or investment advice. Not all investment strategies are ESG integrated.

[101] Prior to the fourth quarter of 2023, JPMAM's governance process contemplated a SIOC review of ESG integration at the investment group level and did not require review of individual strategies/products by SIOC. During the fourth quarter of 2023, JPMAM enhanced its ESG integration governance process to require all new strategies to be reviewed individually by SIOC prior to their presentation to JPMAM's product steering committee ("PSC") in order for such strategy's investment process to be considered ESG integrated. SIOC was established in 2021 as part of a comprehensive review of our SI governance practices, with a particular emphasis on structures for oversight of investment stewardship and ESG integration. Prior to 2021, a working group known as the Sustainable Investment Leadership Team determined ESG integration.

Back to contents

ESG integration at J.P. Morgan Asset Management continued

As described in the chart on the previous page, the Sustainable Investing Oversight Committee (SIOC) will review and if appropriate approve the ESG Integration status of the put forward strategy.

Our process for determining which investment groups are ESG-integrated has continued to evolve and improve with the development of the framework (see multi-factor framework for ESG integration).

J.P. Morgan Asset Management 6-metric framework for ESG integration[102]

	Metrics	Sub questions
Research and Investment Management	1. Access to ESG Metrics & Indicators as part of Research & Investment Process	• Are internal and/or external ESG metrics and indicators available to research and portfolio managers? If yes, please provide examples. • Please describe the mix of internal and/or external data sources and due diligence conducted and/or selection criteria used on external data sources?
	2. Research Analyst, Portfolio Management & Investment Decision Considerations	• Is ESG fundamental to the investment decision-making process? • Do ESG factors lead to a reweighting of the portfolio? • Do the portfolio managers and/or investment committee override or add insights to analysts' ESG analysis?
	3. Company Engagement	• Please describe the role of company engagement on financially material ESG factors as part of the research and investment due diligence process? • How is ongoing company engagement related to ESG topics documented, monitored and assessed, especially with respect to progress and success of the activities?
Documentation	4. Documentation of ESG Integration Information	• Are there desk procedures that outline how ESG is integrated across the Investment team? If so, please describe. • Are there other documents (e.g. investment process/prospectus) that discusses ESG integration process?
Monitoring	5. Monitoring	• Is the strategy subject to in-business first line risk review, including discussion of ESG metrics and indicators? If so, please outline the frequency and teams involved.
	6. Oversight	• What escalation oversight structure is in place? • Is evidence of escalation and discussion available?

Source: J.P. Morgan Asset Management Sustainable Investing team. The framework above replaced J.P. Morgan Asset Management's 10-point framework as part of enhancements to its governance process during the fourth quarter of 2023.

[102] Examples of ESG metrics include the Fundamental and Quantitative ESG Score.

Back to contents

ESG integration at J.P. Morgan Asset Management continued

Although JPMAM's ESG integration validation framework is led by the SIOC, the ownership of implementation and execution lies with investment teams. ESG determinations may not be conclusive, and securities of certain companies or issuers may be purchased, retained or sold by portfolio managers for reasons other than their ESG assessment.

Moreover, given the wide range of strategies we offer and the regional and sectoral diversity of our portfolio holdings, we emphasize that ESG integration does not mean investment in certain sectors or countries is prohibited. Please refer to the asset class level sections in the following pages for details about how ESG integration works in practice at various asset classes.

The systematic consideration of financially material ESG metrics in the investment process also informs our investment stewardship activity. Where an analyst identifies a financially material environmental, social or governance issue within a company, the investment team, in close collaboration with the Investment Stewardship team, may wish to trigger, or extend, an engagement or may inform a proxy voting decision. The results of this engagement can be tracked over time using Research Notes within our investment management tool, Spectrum™. This feedback loop, from both a bottom-up materiality-focused and top-down principle-based perspective, is designed to allow our views on the companies within our investable universes to remain current, as well as complemented by additional layers of insight as a result of direct engagement.

Moreover, stewardship also plays a role in helping our ESG integration process to remain effective and accountable. Investment stewardship and engagement sit explicitly within the 'Research and Investment Management, Investment Due Diligence' criteria within the 6-metric framework for ESG Integration, as depicted above.

In 2023, JPMAM received its PRI Rating for the 2023 reporting period (data as of the end of 2022). Further details on our PRI results can be found on our website.[103] The Principles for Responsible Investment are a set of voluntary and aspirational principles; signatories to the principles are required to report publicly on their responsible investment activities periodically. ESG integration is an explicit factor in this assessment. The module is designed to provide information concerning each signatory's overarching approach to responsible investment, including governance, responsible investment policies, objectives and targets, the resources that are allocated to responsible investment and the incorporation of financially material ESG issues into asset allocation.

Combining our ESG research capability with the diversified experience and skill of our investment teams, and the expertise of our investment stewardship specialists, gives us a deep understanding of the risks and opportunities facing different sectors, industries and geographies. We believe that this collaborative, well-resourced approach enables us to take an effective approach to both ESG integration and investment stewardship. While we follow an overarching process to determine whether an investment group is deemed to be ESG integrated, our ESG integration processes for investment groups are designed to allow investors and stewardship specialists to take into account specific risks and nuances as applicable.

For example, in the case of strategies investing in real assets, many of the risks surrounding these assets depends on physical location and regulatory jurisdiction.

[103] Our PRI results can be accessed here: https://am.jpmorgan.com/content/dam/jpm-am-aem/emea/regional/en/communications/lux-communication/jpm-pri-scorecard-per-ce-en.pdf. The PRI survey includes modules that solicit information from signatories, including J.P.Morgan Asset Management, on topics including an overall Policy Governance & Strategy module and a number of modules covering individual asset classes, such as Listed Equity, Fixed Income and Infrastructure. Information is self-reported by signatories, including J.P. Morgan Asset Management, and was not audited by any party, including J.P. Morgan Asset Management, independent public accounting firms or PRI. Information on the PRI 2023 assessment methodology along with FAQs on the 2023 reporting cycle are included in the following links: 2023 Reporting Framework: Overview and Structure Guide and FAQ Reporting 2023. PRI scores are not reliable indicators of current and/or future results or performance of underlying assets. PRI reporting is completed biennially, the next reporting year for JP Morgan Asset Management is 2025 covering 2024.

ESG integration at J.P. Morgan Asset Management continued

Resources we share across the JPMAM system

In addition to the portfolio management teams, who use ESG integration as part of their investment processes, we have a suite of technology and research systems to enable the sharing of resources and insights across JPMAM. Our extensive research capabilities allow us to conduct in-depth research into the ESG profile of many of the companies in which we invest. The ability to flag risks and opportunities early on through our research resources means that we can conduct timely and effective engagement on financially material ESG issues that arise. Research is therefore a key part of both ESG integration and stewardship, enabling us to maintain oversight of a company's activities and engage where we feel it would be beneficial to our clients.

J.P. Morgan Spectrum™ is J.P. Morgan Asset Management's common technology platform, built by combining our leading capabilities across the organization. The platform is designed to optimize internal communication by connecting sales, investment and client service functions.

The platform standardizes and enhances our extensive research, portfolio construction and risk management capabilities. Spectrum™ is a single centralized source for all critical data sets that helps provide consistency of portfolio information throughout the full lifecycle.

The Spectrum™ platform strengthens J.P. Morgan Asset Management's investors' collaboration and accelerates the inclusion of our best ideas into solutions for our clients. It also supports investment decision-making with integrated analytics, providing the ability to view and manage risks across multiple disciplines, enabling us to build stronger portfolios.

Spectrum™ combines multiple operational oversight tools into an integrated suite with higher automation, integrated workflows and timely alerts. It also enables our client-facing specialists to deliver a high-quality client experience – from onboarding through to portfolio management and reporting.

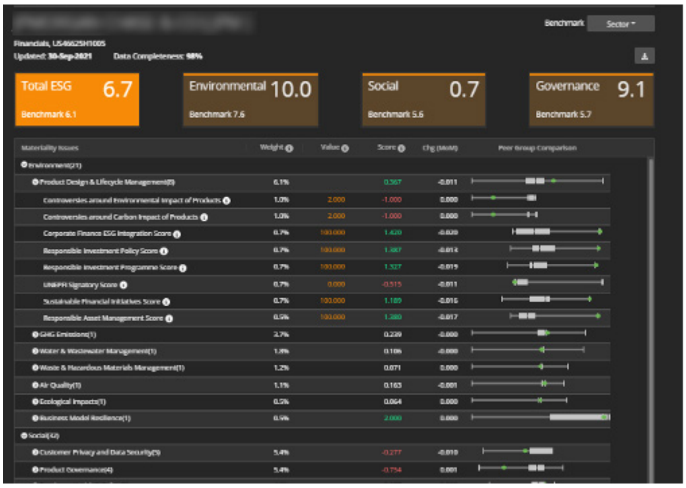
ESG analysis and research are embedded in Spectrum™ and shared across investment teams where appropriate. Spectrum™ thereby enables greater collaboration, as expertise can be leveraged across the J.P. Morgan Asset Management platform, subject to information barriers. For example:

- Qualitative Research Notes: We share qualitative ESG assessments of companies on Spectrum™ via an application called 'Research Notes.' Investors, as well as the Sustainable Investing team, are able to record relevant ESG information arising from a company meeting or research, while specific environmental, social and governance issues can be flagged through a tagging facility to alert other system users. For example, a sector research analyst within global equities can view the ESG research notes of a company that a Global Fixed Income, Currency and Commodities (GFICC) credit analyst wrote, and vice versa, allowing investment professionals to access the latest information and exchange views.
- In addition, the engagement notes written by the Investment Stewardship team can be viewed by the global equities and GFICC investment teams. ESG metrics that are deemed to be financially material are highlighted through the engagement process.
- Quantitative ESG data: Investment teams can view the JPMAM Quantitative ESG Score within Spectrum™, as well as the underlying metrics from which the score is derived subject to any required information barriers. Investors are also able to access a historical view of the overall JPMAM Quantitative ESG Score over the last five years.
- Portfolio management systems: Spectrum™ is also used as a portfolio management tool by many investment teams. Within the respective system, both the proprietary ESG assessment and third-party data are embedded so that the information can be referenced to inform investment decisions. For further details on this, please refer to individual asset class sections in the following pages.

Back to contents

ESG integration at J.P. Morgan Asset Management continued

Illustration of Spectrum™ "ESG Company Insights" dashboard



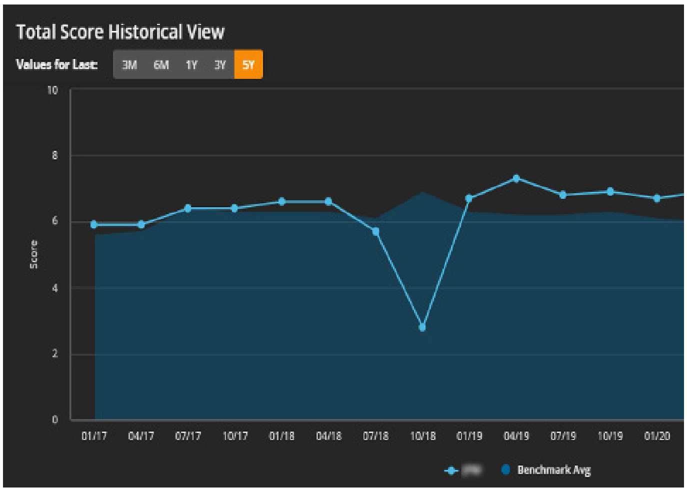


Image source: J.P. Morgan Asset Management Spectrum™.

People

J.P. Morgan Asset Management's approach to investing builds on our long heritage of active management and stewardship. A key strength of our investment process is our in-house research capabilities, on both a fundamental and a quantitative basis.

- Research capabilities of our investment teams: ESG information is integrated systematically into actively managed strategies leveraging the expertise of over 1,000 investors through proprietary research, engagement and portfolio construction. Subsequently, ESG metrics are monitored on an ongoing basis for risk management purposes.
- In particular, J.P. Morgan Asset Management has over 300 experienced career research analysts – situated globally and organized by sector – whose knowledge and experience provide an invaluable research resource. They offer in-depth specialist analysis of companies within their particular sector and region.
- Sustainable Investing team: As of December 31, 2024, we had 22 dedicated specialists supporting ESG integration from the perspectives of proprietary ESG and climate research, investment stewardship and products and solutions innovation.
- Dedicated Investment Stewardship team: As of December 31, 2024, we have 23 investment stewardship specialists globally who work in collaboration with our portfolio managers and research analysts to direct interactions with companies/issuers across our six Investment Stewardship Priorities and the specific research frameworks utilized by each asset class.

Back to contents

ESG integration at J.P. Morgan Asset Management continued

ESG data[104]

To the extent that J.P. Morgan Asset Management uses third-party providers, the criteria and rating systems used by third-party providers can differ significantly.

There is no standard ESG scoring system and the methodology and conclusions reached by third-party providers may differ significantly from those that would be reached by other third-party providers or J.P. Morgan Asset Management. In addition, evaluations by third-party providers may be based on data sets and assumptions that may, at times, be insufficient, of poor quality, or contain biased information.

At the same time, the ongoing improvement in the quantity and quality of ESG-related data available to investors has enabled us to introduce the next generation of proprietary ESG data – a globally consistent, JPMAM Quantitative ESG Score that is available to our portfolio management and research analyst teams through Spectrum™. The purpose of the score is to provide portfolio managers and research analysts with useful ESG information they might not otherwise have access to, in order to facilitate ESG integration and investment stewardship. The score provides another reference point to enhance the consideration of material ESG risks and opportunities in active investment processes.

The JPMAM Quantitative ESG Score assesses the extent to which companies face and manage financially material ESG risks and opportunities. This score is evolving from leveraging third-party ESG data to drawing on granular, outcomes-focused data instead, making increased use of the significant increase in ESG disclosures and data available over recent years. Please note that investment teams are not required to use the JPMAM Quantitative ESG Score as part of their investment process and not all JPMAM investment teams use the JPMAM Quantitative ESG Score as part of their ESG integration process.

The score provides additional insights that allow internal users to drill down into individual data points, such as greenhouse (GHG) emissions and supply chain-related metrics, in order to understand the specific risks and opportunities that individual companies face. This enhanced visibility means that analysts and our stewardship team are better able to pinpoint issues with greater accuracy and have an improved ability to monitor company behavior and performance.

Having been developed in collaboration with the Sustainable Investing team's Sustainable Investing Research Working Group, the score also leverages our data science capabilities, such as machine learning, algorithms and natural language processing, to enrich our understanding of ESG metrics beyond corporate disclosures and at scale.[105]

- The JPMAM Quantitative ESG Score capability aims to enhance our understanding of what ESG information is available for research and investment decision-making and provides a consistent view of the financially material ESG metrics within each sector. This helps J.P. Morgan Asset Management to manage the associated risks and opportunities.
- The score draws on granular data. This includes a company's management of natural resources and environmental impacts, effectiveness of its human capital development programs, supply-chain risks, customer welfare and risk management. For example, we leverage company disclosures, third-party estimates of environmental impact and data science signals, which make use of our in-house natural language processing tool, ThemeBot, and alternative data sets provided by external vendors.[105] We use a number of different data providers in order to obtain as comprehensive and varied a set of information as possible with which to measure ESG aspects. We assess companies using a wide range of data inputs, combined with fundamental analysis. While we look to data inputs that we believe to be reliable, we cannot guarantee the accuracy of our proprietary system or third-party data.

[104] While J.P. Morgan Asset Management looks to data inputs that it believes to be reliable, J.P. Morgan Asset Management cannot guarantee the accuracy, availability or completeness of its proprietary system or third-party data. Under certain J.P. Morgan Asset Management's investment processes, data inputs may include information self-reported by companies and third-party providers that may be based on criteria that differ significantly from the criteria used by J.P. Morgan Asset Management, which often include forward-looking statements of intent and are not necessarily fact-based or objectively measurable. In addition, the criteria used by third-party providers can differ significantly, and data can vary across providers and within the same industry for the same provider. Such data gaps could result in the incorrect, incomplete or inconsistent assessment of an ESG practice and/or related risks and opportunities.

Back to contents

ESG integration at J.P. Morgan Asset Management continued

- The score harnesses our expertise and experience in active asset management and ESG integration. For example, the weights we attach to different ESG issues reflect the insights of hundreds of sector analysts who have many years experience identifying financially material ESG metrics and who understand the specific challenges within different industries and regions.
- Our data science capabilities, such as machine learning algorithms and natural language processing, can generate useful insights by processing unstructured, alternative data to measure specific ESG issues and complement companies' self-reported and/or third-party ESG data.

A trend that has continued is the increasing availability and quality of ESG data, which is supported by governments and regulatory bodies. Globally, more organizations and governments are encouraging or mandating compliance with recommendations laid out by the Task Force on Climate-related Financial Disclosures (TCFD). In 2025, we expect to see some additional adoption of the International Sustainability Standards Board's (ISSB) sustainability and climate disclosure standards, with the TCFD recommendations having been fully integrated into the ISSB's standards.

However, corporate ESG disclosure remains a challenge. Companies across a wide sectoral and geographic spectrum are increasingly being scrutinized on data points, such as Scope 3 GHG emissions and employee satisfaction ratings, as well as the lack of disclosure of these data points. In particular, emerging markets are an area where notable progress on disclosure is being made. This is why engagement is an important element of ESG integration at J.P. Morgan Asset Management, as we encourage more companies to disclose on their ESG efforts. As visibility of companies' performance on key ESG indicators improves, it will become possible to make more informed and accurate forward-looking financial materiality assessments and investment decisions over time.

Ongoing Monitoring: ESG integration

J.P. Morgan Asset Management undertakes ongoing monitoring to review the ESG integration work of investment groups – specifically, the application of sustainability risks and financially material ESG metrics within their ESG-integrated strategies. Our Sustainability Risks Policy summarizes the integration of sustainability risks in the investment process. This forms part of an existing, regular investment review system.

For example, the Investment Director teams in equity, global fixed income, currency & commodities and multi-asset solutions oversee performance and risk oversight of portfolio management. They do this to maintain discipline around investment objectives and processes in the context of client objectives or fund guidelines, performance, risk position and ESG profiles. The Investment Director teams monitor ESG quantitatively and qualitatively, as part of their quarterly review meetings.

Any material findings from the ongoing monitoring process will be escalated to the CIOs of the relevant asset class using the existing investment oversight/escalation process. We have regular monitoring processes in the global liquidity and alternatives solutions, which are tailored to the nature of their asset class. For more details, please see the relevant asset class sections in the following pages.

In addition, Asset Management Independent Risk has the Sustainable Investing Risk Oversight framework to monitor the consideration of financially material ESG metrics in the investment process of our active strategies. This process has the objective of identifying investment strategies with ESG metrics scores that are materially different from their benchmark and understanding the rationale for such differences. The analysis will be shared with AM Risk and AM CIOs periodically. This process aims to increase the transparency of specific exposures or strategies with ESG ratios that may be inconsistent with the strategy's name, investment objective or disclosures. This process is not expected to limit an exposure identified as an outlier or to trigger changes in positions that would negatively impact portfolio returns.

Back to contents

ESG integration at J.P. Morgan Asset Management continued

Refining our process through review from multiple dimensions

Given the evolving nature of ESG data, technology and research capabilities, we encourage investment teams to continue to improve their ESG Integration process. Financially material ESG factors are integrated into investment processes in a manner consistent with the underlying investment style. However, JPMAM's governance process for oversight of ESG integration is uniform. We follow an approach of 'Demonstrate, Review, Approval and Implementation'.

Investment groups present their ESG integration approach against the 'framework' for the strategy to the SIOC. For consistency, this is done against a multi-factor framework. After the assessment, the SIOC approves or rejects the ESG integration status.

Prior to the fourth quarter of 2023, JPMAM's governance process contemplated the SIOC review of ESG integration at the investment group level but did not require a review of individual strategies by SIOC. During the fourth quarter of 2023, JPMAM enhanced its ESG integration governance process by requiring all new strategies to be reviewed individually by SIOC prior to their presentation to JPMAM's product steering committee (PSC) in order for such strategy's investment process to be considered ESG integrated. SIOC was established in 2021, as part of a comprehensive review of our sustainable investment governance practices, with a particular emphasis on structures for oversight of investment stewardship and ESG integration. Prior to 2021, a collection of working groups including the Sustainable Investing Research Working Group determined ESG integration status. Historically, such working groups were referred to collectively as the Sustainable Investment Leadership Team ('SILT').

As of the fourth quarter of 2023, ESG integration is monitored by the Investment Directors, or equivalent teams, as part of confirming that a strategy's investment process continues to be ESG-integrated in accordance with the strategy's disclosures and documentation.

Global Equities

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 interactions 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 are not the sole driver of decision-making. Our research framework uses several internally developed processes to assess the financially material ESG risks and opportunities of any business.

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

- An ESG Checklist applies the same detailed questions to the approximate 2,500 companies under coverage, globally. This generates the JPMAM Fundamental ESG Score. 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 ESG Checklist, with questions about governance tailored to reflect the investment angles of each asset class. The checklist includes both negative and positive questions, as well as a severity assessment. The use of the checklist and the JPMAM Fundamental ESG Score are 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.

The Investment Stewardship team works closely with research analysts to update the ESG Checklist periodically, with the aim of making it more suitable for the purpose of ongoing monitoring and targeted corporate engagement. This helps to identify leaders and laggards in the key ESG issues for each sub- sector and brings more depth to our ongoing ESG research, while serving as helpful guidance for more focused ESG engagement with companies.

Back to contents

ESG integration at J.P. Morgan Asset Management continued

In addition, analysts conduct deep-dive research into ESG topics identified as material to our investment process. Among the topics examined are flaring in U.S. oil fields, the environmental impact of fast fashion in Europe and AI governance and data privacy in online platforms in Asia.

- The JPMAM Quantitative ESG Score is a proprietary, data-driven ESG score. This score draws on granular, outcomes-focused data, making full use of the significant increase in ESG disclosures and available data over recent years. The score also leverages our data science capabilities, such as machine learning, algorithms and natural language processing to enrich our understanding of ESG factors beyond corporate disclosures, at scale. For further details, please see the section on *ESG data*.
- A fundamental materiality framework across 2,000+ companies. The basis of 'materiality' is to identify the ESG issues that are most likely to have a financially material negative impact on a company were it to be mismanaged, or conversely, the material positive impact in the case of good management. Across more than 50 different sub-industries, financially material issues are identified by research analysts within our 100+ strong global network, who come together to share perspectives with their sector group peers. Each company under coverage receives a score from 1 (best) to 5 (worst) on each of the material issues that have been identified. The implementation of this research framework has deepened our understanding of what best practices look 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.
- A strategic classification framework provides a rating (Premium, Quality, Standing and Challenged) for stocks, based on our judgment of the quality of the business, including financially material ESG issues.

Engagement

Active engagement with companies is 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 encourage companies to develop and adopt best practices, for the purpose of enhancing returns for our clients. Engagement is a collaboration between portfolio managers, research analysts and the Investment Stewardship team. Each brings a different perspective to our interactions with companies across our six Investment Stewardship Priorities and our research framework. Alongside the top-down guidance provided by the six 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 chair or other board members, formal letters to the chair and board or collaborative engagement.

Back to contents

ESG integration at J.P. Morgan Asset Management continued

Global Fixed Income, Currency and Commodities (GFICC)

Research/due diligence

We utilize a disciplined and systematic process to evaluate and identify attractive investment opportunities through the analysis of fundamental, quantitative and technical investment factors. Proprietary research forms the foundation of our approach to ESG integration, with over 70 career research analysts dedicated to thoroughly analyzing every aspect of investments, including financially material ESG factors. As part of this in-depth fundamental research, credit analysts assess the impact of ESG risks and opportunities on issuers' current and future cash flows. If the analysis of ESG factors shows that they are financially material and relevant, analysts will reflect this view in their assessments.

Our proprietary research process incorporates inputs such as company regulatory filings, annual reports, company websites, direct communication with companies and government issuers, media, third-party research and proprietary J.P. Morgan Asset Management research. Other inputs include sell-side investment research and reports from industry groups.

Our fixed income sector teams have developed quantitative ESG rating systems that capture the nuances within their specific markets and align with their existing investment processes. These include an ESG Checklist for the corporate bond market, country ESG rankings for both developed and emerging market sovereign bonds and systematic identification of ESG leaders and laggards in the securitized space. These scoring frameworks serve as useful tools for aggregating the numerous ESG metrics for each issuer and allow for comparison across issuers in the universe. Importantly, the scores are applied to portfolios in a judgmental, not formulaic, fashion and they are accompanied by analysts' qualitative research.

Within Spectrum™, our centralized technology platform, analysts also have access to third-party ESG data for each issuer. This data is displayed in various ways to track individual environmental, social and governance scores, as well as to observe changes over time. This third-party data serves as a supplement to our analysts' views. Our analysts form their own opinions based on their research and judgment, and this is articulated in written research reports, which contain specific sections for ESG comments when material and relevant.

ESG analysis and research are visible on Spectrum™ and shared across all investment teams, including fixed income and equities, enabling greater collaboration and leverage across the J.P. Morgan Asset Management platform.

Engagement

Although as bondholders, we do not typically carry voting rights, we believe our role in providing financing to issuers means we have the ability to advocate for and influence positive change. As such, we engage on a wide range of financially material ESG issues with a variety of market participants. Our large global scale and status within the asset management industry allow us significant representation across asset classes. We often conduct engagement in conjunction with members of the Investment Stewardship team; we also collaborate with our equity colleagues to engage with companies to which we have exposure in their bonds as well as their equity. We participate in many meetings with issuers from across the fixed income investment universe (companies and countries) every year.

The C-suite relationships that our research analysts have developed over their careers enable us to engage regularly with company management and representatives of government issuers on matters that are material to our credit assessment, including financially material ESG factors. We also regularly meet with originators of securitized products and regulators. During these engagements, research analysts raise issues they have identified as material and relevant, including ESG concerns, in an effort to positively influence issuers to adopt best practices.

We also aim to contribute to positive change by participating in industry forums and regularly consulting with third-party data providers. For instance, we have board representation on industry bodies, such as the European Leveraged Finance Association, allowing us to encourage closer cooperation among issuers on key ESG initiatives and to advocate for better disclosure and transparency across the industry. We also scrutinize the data from third-party ESG data providers, working closely with them to improve their coverage of the fixed income universe, data accuracy and timeliness.

ESG integration at J.P. Morgan Asset Management continued

In the sovereign space, we recognize that engagement is critical, but it can be more nuanced compared to the corporate market given the inherent politics involved. We seek to engage with the sovereign market in a variety of forms, including investing in sovereign debt to finance specific sustainable projects, meeting with government officials regularly to understand progress on their stated climate goals and participating in industry groups to encourage better disclosure and improved practices from state-owned companies.

The results of our ESG engagement are reflected in the research reports produced by analysts, and they feed back into the overall view of an issuer, thereby influencing investment decisions when financially material.

Global Liquidity

Research/due diligence

As part of our security selection strategy for our strategies with investment processes that are ESG integrated, we seek to assess the impact of financially material ESG factors on many issuers in the universe in which we invest. We utilize both top-down and bottom-up approaches to thoroughly analyze such 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 analyse companies across a range of inputs including company regulatory filings, annual reports, company websites, direct communication with issuers, media, and third-party and proprietary research.

Proprietary quantitative ESG rating systems have also been developed to capture the nuances across specific fixed income markets. These include a proprietary multi-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 securitised market. These ESG-related frameworks allow analysts to make informed decisions on the ESG profile of issuers within their respective sectors.

In addition, the JPMAM Quantitative ESG Score developed by the Sustainable Investing team 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 that 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.

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 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 ESG checklist 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.

Back to contents

ESG integration at J.P. Morgan Asset Management continued

- 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 alongside other factors.

Asset Management Solutions Multi-Asset Solutions

Research/due diligence:

The Multi-Asset Solutions team designs and manages multi-asset portfolios, integrating the breadth and depth of investment talent within J.P. Morgan Asset Management, drawing on its proprietary quantitative and qualitative research capabilities, strategy and security selection, asset allocation and risk-focused portfolio management expertise.

For our ESG research in Multi-Asset Solutions, we leverage the following teams: Multi-Asset Manager Research, Sustainable Investing and corresponding asset class research analysts.

Within the manager/strategy evaluation process, we focus on understanding how financially material ESG considerations influence the capabilities of the underlying manager/strategy and the investment process. The emphasis is on understanding how ESG metrics, where financially material, are considered and how the manager/strategy defines, evaluates and rationalizes inclusion of securities that may score poorly and/or contain perceived headline risk. Multi-Asset Solutions portfolio managers consider this information, among other variables, when reviewing managers/ strategies within the overall portfolio construction process. At Investment Director quarterly meetings, ESG characteristics can be challenged and discussed.

Engagement

Engagement functions are a collaboration between J.P. Morgan Asset Management portfolio managers, research analysts and the Investment Stewardship team. Each brings a different perspective to our interactions with companies across our six Investment Stewardship Priorities and our research framework.

From a Multi-Asset Solutions perspective, we leverage the expert insights of the Investment Stewardship team and underlying investment teams on issues related to proxy voting and engagement activities.

Quantitative Solutions

Research/due diligence

In order to integrate financially material ESG considerations into factor-based strategies (long-only and long/short) and thematic, utilize the JPMAM Quantitative ESG Score.

The JPMAM Quantitative ESG score covers ~99% of the market cap of the S&P broad market index (~14,000 companies). The Score ranges from 1-10 (10 being the best score). The score is not normalized by sector or region, so a step is taken to ensure the score is normalized to be made relative to any stock's sector and region peers.

This normalized score is then typically used for ESG integration by either reducing an investable universe or tilting a portfolio towards achieving a higher aggregated QESG score than its investable universe or benchmark.

Engagement and voting

- JPMAM votes according to J.P. Morgan Asset Management Global Proxy Voting Guidelines. The Stewardship team may engage with companies held in Quantitative Solutions' portfolios as part of its stewardship program.
- When there are significant proxy voting issues on companies without fundamental analyst coverage, the Stewardship team will engage with the Quantitative Solutions portfolio managers. The two groups will evaluate the resolution, discuss the issues and come to a decision.

Back to contents

ESG integration at J.P. Morgan Asset Management continued

Alternatives Macro Strategies

Research/due diligence

Our research process consists of an assessment of materiality and ESG scoring.

Assessment of materiality: Our proprietary analysis aims to capture key ESG topics pre-trade and on an ongoing basis for all long exposures in individual companies, bond and FX investments. We have determined distinct ESG materiality frameworks for corporates and sovereigns that facilitate a repeatable process for assessing ESG across industries and countries and identifying the most relevant ESG topics.

Our framework for corporates leverages multiple considerations. This includes inputs such as ISSB, and relevant data for the sub-industry. We also look at third-party research as appropriate. We may add as needed an additional ESG area for review that we believe could be material for a particular activity or company. For sovereigns, we assess debt and FX positions against the PRI ESG topics from its 'Practical guide to ESG integration in sovereign debt'[105] and have added 'central bank credibility' as an additional standalone governance topic.

The portfolio managers have the discretion to add further ESG topics they believe could be financially material to specific positions. Our materiality assessment draws on the managers' understanding of inherent ESG risks and opportunities across countries, sectors, industries and activities, and their knowledge of their sector of coverage and specific companies. We integrate proprietary, broker and ESG-specific third-party research and company disclosures into our assessment as well as insights from scoring and active ownership. The final analysis is documented as part of a security's investment thesis, which supports the ability to monitor exposures over time.

ESG scoring: Third-party scores provide a complement to our own assessment of materiality and are an objective quantitative framework for the consideration of ESG credentials. We leverage ESG scoring and the associated analysis from MSCI, using the All Country World Index (ACWI) scores for equity and credit, and the country scores for sovereign debt, which feed into Spectrum™. Within Spectrum™, we can view our portfolios' aggregate scores, the component parts and the scores for the broader universe. We also leverage the norm-based scoring assessment from ISS-ESG, referring to its red/amber/green flags. In addition, the JPMAM Quantitative ESG Score provides further insights of ESG data using JPMAM's proprietary methodology.

Engagement

To enhance our ESG analysis and facilitate active ownership on behalf of our clients, the Macro Strategies team leverages the expert insights of the Investment Stewardship team, specifically relating to proxy voting and engagement activities. Further, we engage directly with companies on certain issues where we believe additional discussion may be materially beneficial.

[105] https://www.unpri.org/fixed-income/a-practical-guide-to-esg-integration-in-sovereign-debt/4781.article

Back to contents

ESG integration at J.P. Morgan Asset Management continued

Alternatives

Research/due diligence

J.P. Morgan Alternative Asset Management (JPMAAM) defines ESG integration as the systematic inclusion of financially material ESG factors in investment analysis and decisions. ESG factors are considered within both our investment and operational due diligence on the managers we invest in. We use our three-pronged research process (investment, risk, and operational due diligence) to assess which financially material ESG factors may drive financial returns and use this analysis as part of our overall investment process to help build portfolios and manage risk.

Investment due diligence

As part of our investment due diligence, ESG is integrated via two stages:

1. Materiality Classification: Each sub-strategy is first assigned a materiality classification which considers the extent to which ESG factors are expected to be both relevant and meaningful to investment performance.

- More material: investment strategies for which ESG factors are expected to be both relevant and meaningful to investment performance
- Less material: Investment strategies for which ESG factors are not typically expected to be relevant and meaningful to investment performance

2. ESG Integration Classification

- Each manager is then further evaluated through five key characteristics (Relevant, Material, Additive, Empowered, and Process driven) to determine the extent they incorporate ESG considerations into their investment process and assigned a subsequent rating.

After determining which characteristics are exhibited by a manager’s investment program, there will be an assigned rank of low (two or fewer ESG evaluation characteristics apply), moderate (three or four of the ESG evaluation characteristics apply), or high (five of the ESG evaluation characteristics apply).

Risk and operational due diligence

ESG integration also plays a critical role in the operational due diligence of a manager. We have developed a proprietary list of 25 ESG factors to evaluate managers from an operational and business perspective. We adjust our evaluations accordingly to reflect materiality by manager jurisdiction, size, and strategy. This process is led and implemented by our operational due diligence team. Expertise across our business is leveraged to do a full assessment of the business and operational risk of managers we invest in.

Engagement

After evaluating managers on financially material ESG metrics throughout our due diligence process, we actively engage them on any identified financially material environmental, social or governance risks. We work closely with our managers to help them improve on financially material ESG metrics where we believe they are lacking, providing guidance and support to help them to improve practices. We believe this improves a company’s ability to operate successfully, both now and in the future, thereby enhancing the potential of our investment. The platform has helped many hedge fund and private credit managers to incorporate financially material ESG metrics into their businesses and investment processes.

Client and beneficiary needs

The primary aim of our investment stewardship approach is to generate long-term, risk-adjusted returns for our clients. We manage assets on behalf of a broad base of both institutional and retail clients, with more than 9,500 institutional accounts and over 700 funds in over 70 countries. On the institutional side, we serve corporate and public institutions, endowments, foundations, charities, insurers, consultants, financial advisors and governments worldwide. On the retail side, we offer our services through third-party and direct distribution, high-net-worth individuals, families and business owners. An overview of our total assets under management as of December 31, 2024 is available at Appendix 3.

At J.P. Morgan Asset Management, we seek to evolve and improve our approach to stewardship, and we consider our clients and stakeholders as vital sources of insight into how this can best be achieved. Throughout the year, we continued our efforts to obtain additional insight from external stakeholders through a number of formal and informal feedback mechanisms.

We seek to understand clients' views and positions on sustainable investing and stewardship from the start of the relationship. This can be via direct discussion, or through the request for proposal stage. We are seeing clients asking for more detailed qualitative information on a wide range of sustainable investing issues, including resourcing and commitments, ESG investment process and stewardship. We also receive increasing requests on quantitative elements, including the ESG rating characteristics of portfolios, carbon metrics, alignment to net-zero emissions reduction pathways, engagement activity breakdowns and voting records, among others. This provides significant insights into how clients are considering sustainable investing-related issues.

Client feedback is also sought on a more ad hoc basis, through industry events, training webinars and due diligence feedback. We have continued to work to strengthen the communication channel with our sales and distribution teams, which has allowed us to collect feedback more efficiently on how our stewardship practices correlate with clients' needs.

Soliciting client feedback

Building on client surveying activity carried out in previous years, JPMAM's Client Operating Committee wanted to gain a better understanding of the importance of a range of ESG issues to consultants and their clients. A series of calls was set up to collate feedback on market best practice and how we can improve our own approach to matters such as remuneration linked to ESG outcomes, consistent global messaging on ESG, and clear communication of JPMAM's approach to sustainability. Through the exercise, we were made aware of several areas where we could learn from industry peers, for example in relation to senior-level leadership on ESG, use of outside subject matter experts to bolster in-house knowledge and capabilities, more proactive sharing of expertise with clients and internal stakeholders, leadership on ESG, and use of best-available metrics and measurement tools while acknowledging current limitations around data quality and availability.

We have different working groups and committees such as Sustainable Investing Research Working Group and SI Client Strategy Working Group that have worked on several of the issues outlined above.

In 2024, we held dedicated sustainable investing sessions at the J.P. Morgan Asset Management Global Research Summit in Europe and Asia, which is our flagship annual regional client event for our investment fund clients in wholesale channels. At the Global Research Summit, our mainstage event focused on the future of sustainable investing and took place in Bangkok, Thailand. During this session, we highlighted the importance of clean and stable sources of energy on the back of increasing demand from population growth and technological innovations such as Generative AI. We also examined how our in-house research and technology capabilities combined with our sustainable investing efforts fit within this ecosystem. Stewardship continued to be a key theme as we also showcased a specific engagement on artificial intelligence and discussed how engagement on these themes can help drive client outcomes.

In the APAC region, we also spoke at external panels including the Responsible Investor Asia Forum in Singapore. One panel discussed physical climate risk while another centered on engagement trends in APAC. In the spring, we also spoke at the One Earth Summit (Hong Kong) on the evolution of sustainability against the backdrop if technological advancements and artificial intelligence, with a focus on how to support climate and nature-based solutions. We also spoke at the Sustainable Asian Finance Forum which focused

Back to contents

Client and beneficiary needs continued

on Hong Kong's journey with Sustainable Development Goals. Additionally, we participated in a panel organized by the U.S. Department of Commerce and Japan METI (Ministry of Economy, Trade, and Industry), discussing methods to enhance corporate value through sustainability.

As part of an ongoing effort to connect with our clients, share insights into our ESG-related investment and stewardship activity, and hear directly from them in order to better tailor our product offerings to their needs, in 2024 the Sustainable Investing team and colleagues continued to host net zero roundtables with large institutional clients, expanding from Europe to Canada. The roundtables aimed to provide a forum to share challenges and opportunities presented by net-zero target setting from different perspectives, as well as showcase the depth of climate expertise at JPMAM and collaboration across investment teams and the Sustainable Investing team on integrating net zero considerations into portfolios for clients who have adopted their own net-zero targets.

In addition, we participated in a range of events and roadshows for ETF clients around active insights and investment stewardship, discussing how both active management and engagement can benefit their portfolios to achieve long-term investment outcomes.

Client and stakeholder education

We view client and stakeholder education as a two-way and interactive process, taking the view that knowledge should be shared as far as possible. We offer a broad, internal education program to investment teams and client advisors, and this has gradually developed to encompass a comprehensive range of sustainable investing-related content.

This year we took part in a range of sustainable investing industry events, where we were able to engage with clients and stakeholders while also contributing to topical industry debates. JPMAM was a leading sponsor of PRI's annual conference in Toronto. There we were able to engage with clients from across the globe on the most pressing sustainable topics, from decarbonization to biodiversity to human capital. Here we hosted a dinner where 30 clients from eight different countries joined to share opportunities, challenges, and perspectives on the latest sustainable investing developments.

In 2024, we continued to produce sustainable investing-related content on a wide range of topics for our clients and end-beneficiaries. Our Sustainable Insights programme created 29 articles in 2024 across our client segments, which were distributed widely across regions. For example, we published two in-depth pieces of research; the first paper discusses 'Food systems: How investing in natural capital management can support food system sustainability'[106] and the second paper discusses physical climate risk in climate adaptation investing.[107] In addition to this, JPMAM's Market Insights team produced a range of materials as part of our sustainable investing insights program. Topics this year included the ESG implications of elections,[108] power generation[109, 110] and carbon markets.[111]

A full list of publications can be found in Appendix 1.

An important part of our Sustainable Investing team's remit is to work with clients and distribution teams to advise on the design and implementation of sustainable investing solutions. This involves understanding the needs of individual clients regarding their ESG approach, including discussions on sustainable investing policy development, investment strategy and stewardship. Over the last few years, we have been working to formulate strategies that both proactively anticipate market trends in sustainable investing, and which respond to specific client demands.

[106] https://am.jpmorgan.com/dk/en/asset-management/institutional/investment-strategies/sustainable-investing/food-systems/
[107] https://am.jpmorgan.com/hk/en/asset-management/institutional/investment-strategies/sustainable-investing/sustainable-insights/physical-climate-risk-in-climate-adaptation-investing/
[108] https://am.jpmorgan.com/gb/en/asset-management/adv/investment-themes/sustainable-investing/the-finance-cop/
[109] https://am.jpmorgan.com/gb/en/asset-management/adv/investment-themes/sustainable-investing/mining/
[110] https://am.jpmorgan.com/gb/en/asset-management/adv/investment-themes/sustainable-investing/hydrogen-and-the-energy-transition/
[111] https://am.jpmorgan.com/hk/en/asset-management/institutional/investment-strategies/sustainable-investing/getting-to-grips-with-carbon-credits/

Client and beneficiary needs continued

We have noted that some of our clients have climate objectives that focus on decarbonization, in connection with the transition to a low-carbon economy. This year we expanded our Paris aligned ETF suite.

Strategy specific exclusions

With regards to exclusions of specific securities/issuers due to ESG-related criteria, we consider the needs of specific clients and/or compliance with laws and regulations, including the European Union's Sustainable Finance Disclosure Regulation, and/or expectations set in sustainable investing-related fund-labelling regimes. Sustainable investing represents a broad set of approaches, and on top of our own firmwide minimum exclusions framework for EU SFDR Article 8/9 funds, we have recognized that clients have specific ways they need us to implement their sustainability objectives. This includes having their own custom exclusion list of companies. With that in mind, we seek to meet client needs by discussing exclusions and providing support to implement clients' tailored exclusion lists. Client exclusion lists can involve a range of areas including:

- Fossil fuels including thermal coal and (un) conventional oil and gas
- Electric power generation
- Tobacco
- Alcohol
- Controversial weapons
- Conventional weapons
- Nuclear weapons
- Gambling
- Adult entertainment
- International norms-based breaches (such as United Nations global compact).

Setting clear and measurable goals

The close working relationship we maintain with our clients means that we can offer them the opportunity to play a key role in defining their own ESG priorities. Like education, goal setting should be a two-way street, building off both our Investment Stewardship team's own insight and analysis and clients' responses when this is communicated to them.

We aim to clarify intentions and expectations at the beginning of any client relationship, to set clear and measurable deliverables for the companies in client portfolios and to articulate the time horizon within which these should be met. When considering companies' risks and opportunities, and how best they can be mitigated or maximized, we believe targets should be set for a time horizon based on consideration of the full economic cycle. The investment time horizon should be appropriate to the region or asset class in question and be set with the aim of driving accountability and transparency throughout the investment and engagement process.

For us, investment stewardship is not about adhering to one set of norms or limiting our scope to one collection of standards. Rather, we strive to understand how factors impacting sustainability are financially significant to companies over time, understanding that the regions, cultures and organizations in which we invest differ greatly from one another. Recognizing that the engagement issues are not the only reason we may invest in or continue to invest in a company, we may continue to hold an investment even if an engagement is unsuccessful when consistent with client guidelines and when we believe that the investment continues to be in the best interests of our clients. That said, we may sell out of a stock completely if the company is unresponsive within the established time horizon, or if we feel that it is in the best interests of our clients to do so.

Client and beneficiary needs continued

Voting on behalf of our clients

We vote shares held in our clients' portfolios in a prudent and diligent manner, based on our reasonable judgment of what will best serve the long-term interests of our clients. To help facilitate proxies being voted in the best interests of clients, J.P. Morgan Asset Management has adopted detailed, regional, proxy voting guidelines that incorporate comprehensive guidelines for voting proxies on specific types of issues, and these are publicly available on our websites.

We strive to vote proxies at every meeting. However, in certain instances, it may be in a client's best interests to intentionally refrain from voting and we may not vote proxies in certain instances including, without limitation, when we identify a material conflict of interest, when securities are out on loan and have not been recalled, in certain markets that have share blocking or other regulatory restrictions, when the proxy materials are not available in time for JPMAM to make a voting decision or cast a vote, or for certain non-U.S. securities positions, if in our judgement, the expense and administrative inconvenience or other burdens outweigh the benefits to clients of voting securities. We are also conscious of changing market trends and recognize the importance of a client-centric approach to proxy voting. While we are considering the interests of stakeholders in developing our stewardship/engagement program, we vote in the best interests of clients in accordance with the strategy and our view as an asset manager; we cannot always reconcile our view with the views of individual clients. However, we understand client needs are constantly evolving and remain flexible inour approaches as practices evolve.

Improving client reporting and information

Expectations from clients on communication and reporting on stewardship have rapidly evolved in recent years. We have provided clients with detailed reporting, especially in our equity investments for a number of years. The following documents are readily available on our website:

- Stewardship philosophy
- Investment stewardship report
- Voting policy and guidelines
- Voting record for funds
- Conflicts of interest policy
- Case studies on each of our six Investment Stewardship Priorities.
- ESG fund reports for certain funds

Action plan for 2025

- We will continue to strengthen our client reporting capabilities for engagement and proxy voting. We see the demand for increased transparency in stewardship activities growing.
- We will work to build on the momentum and follow up with clients with decarbonization goals, looking to host more roundtables and events to best support our clients.

Back to contents

Structures, processes, policies and procedures supporting stewardship

J.P. Morgan Asset Management has a control framework that incorporates, among other things, policies, and procedures.

Typically, policies set out the requirements for any given topic, e.g., Conflicts of Interest Policy - Firmwide, while procedures describe how we implement processes to meet policy objectives, e.g., Global proxy voting guidelines are a line of business specific document that include a section on how we handle conflicts.

Policies are reviewed at least annually and procedures periodically; however, reviews may happen more frequently as circumstances arise, for example, due to changes in regulation. Typically, JPMAM policies and procedures are for internal use only. However, under some circumstances, for example, if required by law, those documents may be made publicly available. The following describes the most relevant policies and/or procedures for the Investment Stewardship team and links for documents that are in the public domain.

Conflicts of Interest Policy[112] Firmwide: the objective of this policy is to outline how JPMorgan Chase & Co. handles actual, potential, and perceived conflicts of interest (collectively, 'Conflicts of Interest' or 'Conflicts.'). Types of conflicts identified can be firm versus client, workforce member versus client, client versus client and workforce member versus firm. Management of conflicts includes policies and procedures, training, management oversight, governance, and other controls, for example, separation of job functions and disclosure. Please see section on *Stewardship material conflicts of interest* for more details on corresponding mitigants and examples of how we've handled conflicts.

Global proxy voting guidelines[113] (Guidelines): JPMAM has comprehensive proxy voting guidelines for each global location where proxy voting decisions are made. The guidelines are consistent with law and expectations of good governance practices in these different locations, as standards of corporate governance vary widely and are based on local corporate governance codes and recognized standards and best practices. Updates to the proxy voting guidelines, as a result of discussions within the proxy committee meetings and equity investors around the world, are made public at least annually. As described in the section on *Proxy Voting*, overall responsibility for the review and approval of the proxy guidelines rests with the regional proxy voting committees.

External Policy on Engagement and Proxy Voting:[114] the objective of these documents is to outline the JPMAM global framework on engagement to be undertaken by the Investment Stewardship team and the investment teams across J.P. Morgan Asset Management sub-lines of businesses. The policy outlines minimum standards with regards to how JPMAM: 1) integrates engagement in its investment strategy; 2) monitors investee companies on relevant matters, including strategy, financial and non-financial performance
and risk, capital structure, social and environmental impact and corporate governance; 3) conducts dialogues with investee companies; 4) exercises voting rights; 5) cooperates with other shareholders and with relevant stakeholders of the investee companies; and 6) manages actual and potential Conflicts of Interests in relation to their engagement. The policy should be read in reference to the requirements of the EU Directive 2017/828 and its implementing measures (collectively, the 'EU Shareholder Rights Directive II'), and Article 4 of the EU Sustainable Disclosure Regulation (EU SFDR).

Stewardship material conflicts of interest

JPMAM has policies and procedures in place to address material conflicts of interest, in order to maintain the integrity and independence of JPMAM's investment processes and decisions, including proxy voting decisions, and to protect JPMAM decisions from influences that could lead to a vote other than in its clients' best interests. JPMorgan Chase & Co. (including JPMAM) has adopted several policies including the Conflicts of Interest Policy – Firmwide, Information Safeguarding and Barriers Policy – Firmwide and Information Safeguarding and Barriers Policy – MNPI Firmwide Supplement.

112 https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/documents/jpmc-coi-policy.pdf
113 https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/supplemental/proxy-information/global-procedures-and-guidelines.pdf
114 https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/investment-stewardship/Engagement-and-proxy-voting-statement.pdf

Back to contents

Structures, processes, policies and procedures supporting stewardship continued

J.P. Morgan Asset Management Conflicts of interest[115]

JPMAM also has a standalone Conflicts of Interest for corporate governance policy.

Material Conflicts of Interest are further avoided by voting in accordance with JPMAM's prescribed guidelines (Prescribed Guidelines), which can be downloaded on J.P. Morgan Asset Management's investment stewardship website.

Given the breadth of JPMAM's products and service offerings, it is not possible to enumerate every circumstance that could give rise to a material conflict. Examples of some material conflicts of interest that could arise include, without limitation, circumstances in which:

1. management of a JPMAM client or prospective client, distributor or prospective distributor of its investment management products or critical vendor is soliciting proxies and failure to vote in favor of management, which may harm J.P. Morgan Asset Management's relationship with such company and materially impact J.P. Morgan Asset Management's business.
2. a personal relationship between a JPMAM officer and management of a company or other proponent of a proxy proposal could impact JPMAM's voting decision.
3. the proxy being voted is for JPMorgan Chase & Co. stock or for J.P. Morgan Funds.
4. JPMAM affiliate is an investment banker or has rendered a fairness opinion with respect to the matter that is the subject of the proxy vote.

Please note that third party U.S. mutual funds and ETFs are voted by an independent voting service provider.

Depending on the nature of the conflict, JPMAM may elect to take one or more of the following measures, or other appropriate action:

1. removing certain Advisor personnel from the proxy voting process.
2. "walling off" personnel with knowledge of the conflict to prevent them from influencing the relevant proxy vote.
3. voting in accordance with Prescribed Guidelines if the application of the Prescribed Guidelines would objectively result in the casting of a proxy vote in a predetermined manner.
4. delegating the vote to an independent third party, if any, that will vote in accordance with its own determination. However, JPMAM may request an exception to this process to vote against a proposal rather than referring it to an independent third party 'Exception Request' where the proxy administrator, the one charged with oversight of the entire proxy voting process, has actual knowledge indicating that a JPMAM affiliate is disclosed in the public domain as an investment banker or rendered a fairness opinion with respect to the matter that is the subject of a proxy vote. The Proxy Committee shall review the Exception Request and shall determine whether JPMAM should vote against the proposal or whether such proxy should still be referred to an independent third party due to the potential for additional conflicts or otherwise

Potential conflicts

In the course of its proxy voting or engagement activities, the following circumstances may occur:

1. JPMAM may cast proxy votes consistent with client(s) investment strategies that may conflict with the investment strategies of other clients of ours, and notably, individual proxy votes may differ between clients.
2. JPMAM clients may invest in the same company, or a single client may invest in the same company but in multiple accounts. In those situations, two or more clients, or one client with different accounts, may be invested in strategies having different investment objectives, investment styles or portfolio managers. As a result, JPMAM may cast different votes on behalf of different clients or on behalf of the same client with different accounts.
3. JPMAM, or our clients, may participate in securities or stock lending programs or lend stock to third parties whose investment objectives may be different to ours and as a result the third parties may cast proxy votes that conflict with the investment strategies of our clients.

[115] https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/institutional/communications/lux-communication/stewardship-conflicts-of-interest-policy-ce.pdf

Back to contents

Structures, processes, policies and procedures supporting stewardship continued

4. JPMAM may engage with companies on behalf of impact and sustainable funds that have different objectives to other funds.
5. JPMAM may have a different position on environmental, social or corporate governance matters than its parent company (JPMC).
6. JPMAM clients may want us to engage or vote on corporate governance issues that further their interests but are not consistent with our policies.
7. JPMAM may participate in collaborative engagements with other industry participants, which may include joining a coalition, working with other asset managers/owners on issues relating to the Investment Stewardship priorities and/or signing of public statements and resolutions that may have conflicting or differing positions on corporate governance matters.

Escalation of material conflicts of interest

To the extent that the regional proxy administrator (Proxy Administrator), the individual charged with oversight of the JPMAM Proxy Voting Guidelines and the entire proxy voting process, determines that any of the above activities or any other activities give rise to the potential for a material conflict of interest for a particular proxy vote, the Proxy Administrator shall escalate to the relevant Proxy Committee to determine if the matter gives rise to a material conflict of interest and if so, what actions should be taken.

Sales and marketing professionals will be precluded from participating in the decision-making process. The resolution of all potential and actual material conflict issues will be documented in order to demonstrate that JPMAM acted in the best interest of its clients.

The resolution of all potential and actual material conflicts of interest will be documented in order to demonstrate that JPMAM acted in the best interests of its clients.

Material conflicts of interest in practice

A recurring Conflict of Interest relates to a JPMorgan Chase & Co employee being a director on the board of a public company for which we need to cast a proxy vote electing said Director.

Delegated conflicts of interest votes

In 2024, there were 136 meetings referred to an independent voting service due to conflicts of interest. We retain records of Conflicts for which voting was referred to an independent voting provider in our internal system.

Internal assurance

First, second and third lines of defense: JPMAM uses multiple lines of defense to assure adequate oversight over its activities, including investment stewardship. Our control environment can be thought of in terms of the lines of business or 'first line' including the ongoing management of embedded risk, independent risk management or 'second line' and Internal Audit or 'third line.' Given the size and complexity of JPMAM and diverse set of professionals working together, it was important to clearly establish specific roles and responsibilities to coordinate effectively and efficiently among the lines of defense. This enables a sound control framework by minimizing gaps in risk and control coverage, creating separation of duties and an oversight framework. The below lays out our lines of defense and include examples of how they relate to the Investment Stewardship team.

Lines of business: The lines of business each are responsible for developing and maintaining effective internal controls. They also are accountable for identifying and addressing the risks presented by their respective business and for operating within a sound control environment. Control management is in place within each line of business to maintain a strong and consistent control environment across the organization. The Investment Stewardship team facilitates a sound control environment by developing appropriate guidelines and procedures that incorporate risk mitigation practices, establishing governance to monitor and escalate risk or control matters, etc. For example, the formation of the JPMAM Sustainable Investing Oversight Committee (SIOC), as described in previous reports.

Structures, processes, policies and procedures supporting stewardship continued

Independent risk management: Independent risk management includes risk management and compliance. They each have their own set of responsibilities but work together to provide oversight of the business and set policies and standards. Risk Management and Compliance both participate in the relevant stewardship governance committees to provide credible challenge and may provide independent review, consult and advise on line of business responsibilities to comply with regulatory requirements and best practices and develop training. For example, compliance is part of the review of the proxy voting changes on an annual basis.

Internal audit: The Internal Audit function operates independently from other parts of the company, providing testing and evaluation of firm-wide processes and controls. The Internal Audit team assesses the effectiveness of our governance, risk management and internal controls; evaluates our compliance with laws and regulations; and identifies opportunities for improvement. Through this structure, we seek to subject business decisions and actions to rigorous consideration, testing and review for compliance with relevant laws and regulations, as well as consistency with our business principles.

Assurance of our proxy voting process: In addition to the regional JPMAM Proxy Committees, additional measures are in place to support the quality of the proxy voting process. This includes account setup and account reconciliations to confirm we are voting as required for client accounts, proxy vote end of day reviews and daily prioritization to tackle timely escalation, reconciliation of vote recommendations, for example as part of the annual Form N-PX filing process in the U.S. and other checks performed by our Operations teams. Additionally, given that proxy voting is identified as a key process for JPMAM, associated risks and controls are identified and evaluated as part of regular monitoring. The Investment Stewardship team in partnership with Control Management will periodically test relevant controls to assess control design and effectiveness, identify gaps or weaknesses and create corrective action plans to address weaknesses. Any weaknesses in control would be identified and escalated to the respective regional proxy committees.

Oversight of proxy advisors: JPMAM evaluates on a regular basis our third- party proxy advisor(s). The evaluation is intended to address several key areas including the vendor's general business matters, competency and capabilities and the handling of conflicts of interest. A summary of the results is shared at regional Proxy Committee meeting and disseminated to the global Investment Stewardship team for awareness. If deficiencies are identified, we may put additional processes in place to mitigate such issues until an effective resolution is reached.

Review of our Stewardship Report – 2025 marks the fifth year of publication of the Stewardship Report. We have incorporated updates to reflect initiatives undertaken in 2024. The Report is extensively reviewed prior to publication in accordance with internal procedures and final approval to publish is made by the ISOC who has oversight of investment stewardship and sustainable investing activities for JPMAM.

External assurance of stewardship activities

Sustainable fund label external assurance: Many European industry bodies have established their own sustainable finance labels. They serve as benchmarks for responsible investment practitioners and signal to clients the sustainable investing processes have been assured against their independent quality standards. Today, JPMAM has two funds that hold the Belgian 'Towards Sustainability' label'. At a fund level, the investment teams are subject to periodic external audits driven by the label issuer but conducted by a third-party. A number of these audits took place in 2024.

External audit: JPMAM has operations that span the globe and given that we operate across many jurisdictions, we are subject to the oversight of many regulatory regimes. Our proxy voting activities, when required by regulation, may be audited by an independent external auditor.

For a summary of key actions taken to promote our Investment Stewardship practices, please reference our section titled Actions taken to promote our investment beliefs, strategy and culture enable effective stewardship.

Back to contents

Structures, processes, policies and procedures supporting stewardship continued

Managing risk

At JPMAM, our overall objective is to manage the business and its associated risks in a manner that balances serving the interests of our clients with our fiduciary responsibilities, while protecting the organization's reputation. We believe that a well-functioning financial system is critical for our success as an organization and in fulfilling these objectives. As a responsible long-term investor, we aim to contribute to well-functioning financial markets and maintaining prudent risk management frameworks, as well as to participating, as appropriate, in regulatory and industry-wide bodies to achieve these outcomes.

At JPMAM, we employ a multilayer risk management governance framework that operates by means of the three lines of defense, described above.

The independent risk management (IRM) function, which forms part of the second line of defense, is responsible for providing independent oversight and effective challenge of the risk management process. The IRM team measures, monitors and manages risk thresholds to review the risk profile of the portfolio. The IRM team will also activate the stressed market protocol during periods of high market volatility when appropriate. As part of its responsibilities, the IRM function has the ability to escalate risk matters to portfolio managers, chief investment officers or the Asset Management CEO.

We have established robust governance frameworks to manage different types of risks, including:

- **Investment risk**: The risk of investments declining in value due to economic developments or other events impacting the entire market.
- **Liquidity risk**: The risk that a fund not meeting requests to redeem shares issued by the fund without significant dilution of remaining investors' interests in the fund.
- **Counterparty risk**: The risk of the other party in an investment, credit or trading transaction not fulfilling its part of the deal and defaulting on its contractual obligations.

Our investment and risk management processes have evolved over time, including the integration of environmental, social and governance (ESG) metrics with the objective to build stronger portfolios for our clients. A Sustainable Investing Risk Oversight Framework aims to monitor material ESG and carbon metrics and their consideration in the investment process of our strategies. The framework helps identify investment strategies with ESG and carbon metrics that are materially different from its benchmark and understand the rationale for such differences.

In addition to our extensive risk governance frameworks, we employ the Stressed Market Protocol to address periods of high market volatility and market crises, which enables us to focus on accounts that are under current stress, performance or flow concerns. The Asset Management Chief Risk Officer (AM CRO) and/or the Asset Management Chief Executive Officer (AM CEO) can initiate the Stressed Market Protocol, considering a number of quantitative and qualitative factors including but not limited to macroeconomic indicators with a direct impact on stress as well as idiosyncratic political events, climate events or other indicators. Once the protocol is enacted, AM leadership holds regular meetings to focus on key risk-related topics such as swing pricing, market re-pricing in response to volatility, market trends, bid-ask spreads, regulatory responses, fund valuation considerations and operational concerns in real-time.

We produce a Rapid Response Report for all asset classes included in Independent Risk Management's oversight, which highlights key metrics and areas of concern contributing to market-wide and systemic risks.

Structures, processes, policies and procedures supporting stewardship continued

Climate change

We view climate change as a core investment topic and a significant market-wide and systemic risk. We have an important role in identifying the risks of investing or remaining invested in companies unprepared to navigate the transition and investing in companies that will benefit from the opportunities that arise. You will see throughout this report the many steps we have taken to address climate change.

Further, we seek to understand how climate change may drive or influence risks and opportunities. We view climate risk as a driver that is being integrated into existing risk types and is not being treated as a new standalone risk type. Our Sustainable Investing Research Team includes team members with climate experience. One of the team's priorities is to extend existing ESG investment capabilities to provide an enhanced set of climate-related metrics and analytics. This includes providing the framework for calculating carbon exposure metrics, advancing portfolio-level climate scenario analysis capabilities and developing tools to measure portfolio alignment, as well as identifying companies that are better prepared for the transition to a low-carbon economy. We recognize that climate scenario analysis is becoming an increasingly important consideration for asset managers as a result of client and regulatory demand to understand their exposure to climate-related risks and opportunities.

As part of our advocacy and public policy work on climate, we support organizations that encourage voluntary disclosure, such as the Sustainability Accounting Standards Board and the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

More in-depth details of our work on climate change can be found in our Climate Engagement and Voting Report section.

Advocacy and public policy

A robust internal risk management framework can only be as strong as the wider financial system it sits within. As a global asset manager, we undertake policy engagement with regulators, governments, standard setters and non-governmental organizations, to advance effective disclosures and good governance by asset managers and other financial institutions. This includes engaging with policymakers and regulators directly and providing input to public consultations.

The Firm's political and regulatory engagement is coordinated by the Global Government Relations (GGR) team. The GGR team ultimately reports to the Firm's Head of Corporate Responsibility, who reports regularly to the Public Responsibility Committee of the Board of JPMorgan Chase & Co. This organization and leadership help focus the Firm's external engagement efforts on those public policy issues most relevant to the long-term interests of the Firm.

JPMAM belongs to a number of trade associations that advocate on financial services policy issues that are of importance to the organisation and our ability to manage assets on behalf of our clients. JPMAM's participation in these associations comes with the understanding that we may not always align with all their positions or those of its other members. Our decision-making is independent and we provide appropriate feedback on the efforts by these associations, including where there is misalignment between JPMAM's positions and trade association positions or activities. JPMAM maintains a prudent approach in selecting initiatives we will participate in or support, dedicating time and resources to areas where JPMAM can leverage its expertise to have a material influence and impact consistent with our fiduciary duties.

For example, JPMAM supports the goal of effective and consistent disclosure regarding ESG-related products and services by those asset managers that offer them. Investors that may be interested in strategies incorporating financially material ESG elements will benefit from such disclosures, which should help them understand the fundamental characteristics of an ESG fund and/or an adviser's ESG strategy, and make more informed investment decisions. Given the ongoing focus on ESG disclosures, we have engaged directly with both the Securities and Exchange Commission in the U.S. as well as the Financial Conduct Authority in the UK on this topic.

Structures, processes, policies and procedures supporting stewardship continued

Effectiveness in identifying and responding to market wide and systemic risks, and promoting well- functioning financial markets

JPMAM continues to play an important contributory role in a number of initiatives, whether driven by policymakers and regulators or industry associations and bodies to which we belong, to further promote well-functioning markets.

As part of a review into the effectiveness of our work in this regard and to further collaborate on supporting and advancing JPMAM's global leadership on sustainability, we strengthened our internal governance framework and monitored the effectiveness of some of these changes through feedback and surveys. Alongside this strengthened internal governance, greater co-ordination was also undertaken by risk teams with the Sustainable Investing team enhancing internal coordination across the organization on all aspects of sustainability.

Monitoring service providers

JPMAM uses multiple service providers to support our stewardship efforts including data collection and background research. They play a role in facilitating our stewardship activities and ESG research. Also, they help support efficiencies in data collection, reporting and operational matters.

We are also members of some industry organizations and collaborative initiatives to promote sustainable investing practices, increase the effectiveness of our engagements and improve the chance of successful outcomes.

We conduct careful due diligence before the decision is taken to onboard each service provider. When selecting and onboarding any new provider, we conduct an in-depth evaluation of its capabilities, resourcing, costs and controls of vendors/memberships in line with an oversight program established by the Firm's Corporate Third-Party Oversight (CTPO). We also assess alternative services and, as applicable, consider what an alternative provider would add beyond the current provision from existing providers. We evaluate service providers on an ongoing, periodic basis during the term of subscriptions to understand whether the provider is delivering what was initially expected or promised.

It is the responsibility of the Investment Stewardship team and other relevant divisions to evaluate the capabilities, objective and purpose of any stewardship- and research-related service provider. This may take into account the alignment of the vendor data and research to help drive our JPMAM commercial sustainable investing and stewardship priorities, as well as the quality and coverage of research to augment proprietary fundamental research and cost competitiveness. We also work as needed with our in-house technology partners to consider third-party technology providers that are stewardship related.

CTPO is responsible for defining and implementing the service provider oversight program across the Firm. This partnership helps to retain what we believe are competent, competitive and secure service providers and helps to mitigate potential financial, operational and performance risks.

Back to contents

Structures, processes, policies and procedures supporting stewardship continued

Service providers supporting stewardship and ESG research

The following table shows the list of service providers from third-party research and data vendors:

Type of data vendor	Data vendor	Type of service and provision
Market data	• Bloomberg • FactSet	Market data, financial information, ownership data and corporate ESG disclosures to inform views on companies and augment proprietary research for engagement and voting.
ESG and alternative data sets	• MSCI ESG • Sustainalytics • S&P Global • CDP • Miotech • Sigwatch • Equileap • PATSTAT • Revelio Lab • Science Based Targets Initiative • Urgewald[116]	Environmental, social and governance research and data on companies used, amongst other use cases, as part of the JPMAM Quantitative ESG Score to augment proprietary research for engagement and voting.
Proxy research	• Egan-Jones Proxy Services • Glass Lewis & Co • Institutional Shareholder Services (ISS)	Provision of voting-related services to mitigate conflicts of interest.
Proxy vote execution	• Institutional Shareholder Services (ISS)	Vote execution platform and administrative services including reporting
ESG exclusions, minimum safeguards	• Institutional Shareholder Services Platform (ISS-ESG) • MSCI ESG	Values and norms-based (United Nations Global Compact) exclusionary screening tools for portfolio construction in products (including EU SFDR Article 8 and 9 products) and informs research for engagement on norms values-based breaches.

[116] Will not be a data provider in 2025.

Back to contents

Structures, processes, policies and procedures supporting stewardship continued

Oversight supported by the Corporate Third-Party Oversight (CTPO) Program

The JPMorgan Chase & Co. (JPMC) Global Supplier Management Policy sets forth the requirements for the procurement of goods and/or services from service providers and establishes a risk-based framework for oversight of service providers. Service providers are required to adhere to a set of minimum control requirements and are evaluated according to predefined criteria depending on their inherent risk classification.

JPMorgan Chase & Co.'s Corporate Third-Party Oversight (CTPO) Program sets the framework for service provider engagements. The Firm-wide 3-phase CTPO lifecycle is designed to manage the selection, onboarding, performance and risk monitoring and disengagement of service providers.

Service providers are reviewed initially during onboarding and periodically thereafter, commensurate with the inherent risk of the engagement. As part of this assessment, service providers are required to provide evidence to show that they are prepared to deal with issues relating to business continuity, disaster recovery and pandemics. This includes formal documented recovery plans to identify the resources and specify actions required to help minimize losses in the event of a disruption to the business unit, support group unit, application or infrastructure component. Any issues identified during the assessment are tracked by the business until remediated.

Service providers used by the Investment Stewardship team are considered to carry negligible, or at most, low, financial, operational, legal and/or regulatory risk to our business activities and/or clients. JPMAM has a long, active research heritage, and service providers are used to supplement or inform proprietary research, rather than being central to the core functioning of our business, and consequently are considered to carry low risk to our business activities.

How we source, use and rate broker research

Research from third-party, sell-side brokers (both traditional brokers and independent research providers), sourced either through written reports or meetings with analysts, is a component of the research we use to understand shifts in ESG issues, market trends and sector dynamics. We also use company analysis, especially as brokers are increasingly incorporating ESG analysis.

This helps shape and inform engagement and voting on company-specific and thematically driven engagements. We also use research from certain technical specialist brokers for analysis relating to proxy contests or say-on-pay votes.

It is important to provide transparent feedback on the value specific broker's research provides in aiding and augmenting our stewardship activities. We have a dedicated team that manages our broker relationships and coordinates user assessment of brokers' research quality across JPMAM on a bi-annual basis. For ESG research, our assessment considers the quality and depth of issues, thematic priorities and company-level coverage. Our feedback will be shared with brokers, and ultimately, where research providers have provided benefit to our investors, stewardship specialists and clients, payment allocations are made accordingly.

Assessment and ongoing engagement with service providers

Beyond the in-depth due diligence and review conducted at the time of onboarding new providers or when renegotiating contracts on expiry, we consider it to be important to assess and communicate on an ongoing basis with our service providers.

As we consider the needs of our investment teams and stewardship specialists and grow our expertise in ESG data in our investment decision making, as well as the requirements for data for regulatory compliance, we actively seek to assess methodology, scope and credibility of assumptions and forecasts of ESG data and third-party research. One such example relates to climate metrics. With continued interest from investment teams, stewardship specialists and clients for high-quality and granular data to assess how companies are positioned for climate risk, and to meet client needs and regulatory compliance across our

Structures, processes, policies and procedures supporting stewardship continued

fund range, JPMAM plans to continue to engage with service providers on climate metrics. We also engage with service providers on changes to any methodology which may require adjustment to how we are utilizing the underlying data-points as we consider ESG risks and opportunities. This year we engaged with one particular service provider on the impact of changes to their methodology. Following continued engagement, the service provider agreed to provide six months' notice ahead of any major changes going forward. This demonstrates the importance of active engagement with service providers which will also benefit other users of the service provider's data. On a more regular basis, the Investment Stewardship team has regular relationship calls with proxy voting service providers to consider capabilities including data quality and methodology, client servicing, and operational support for vote execution. Where we feel that performance is below our expectations, or we wish to evaluate the methodology or consider data to be out of date or inaccurate, we engage directly with service providers to discuss specific cases.

For instance, with regards to proxy voting research, we continuously evaluate accuracy of information from service providers for their benchmark research. This is a part of our ongoing due diligence of the standard of research provided. Where we have identified material differences in interpretation of company disclosure, we may provide feedback to relevant proxy research providers so that they can make sure their research accurately reflects appropriate disclosure and practices. We ask that research be updated in our ongoing dialogue with our service providers. We also carefully evaluate research, especially in Asia-based markets where we believe that there can be differences with interpretation of company disclosure due to local languages.

Another area of focus with our proxy providers this year has been to improve the operational plumbing of our vote execution services. As we continue to refine voting operations across the globe, we initiated a large technology project in partnership with our operations, technology and stewardship teams to reduce the operational touchpoint from four regions to one centralized location. This will enable a more streamlined operational workflow and, importantly, will further enable our consistent application of applicable regional voting policies.

Performance and compensation practices

The Firm provides market-competitive compensation and benefits programs. JPMorganChase's compensation philosophy includes guiding principles that drive compensation-related decisions across the Firm, and includes: pay-for-performance practices designed to attract and retain top talent; responsiveness and alignment with shareholder interests; and reinforcement of the Firm's culture. The Firm follows a disciplined and balanced compensation framework, including the integration of risk, controls and conduct considerations. The Firm's compensation review processes promote fair and competitive pay practices for employees.

The Compensation framework for JPMAM's investment professionals (generally defined as portfolio managers, research analysts, traders and investment specialists, with a corporate title of VP and above) participating in public market investing activities is based on several factors that drive alignment with client objectives, the primary of which is investment performance, alongside of the firm-wide performance dimensions. The framework focuses on total compensation – base salary and variable compensation. Variable compensation is in the form of cash incentives, and/or long-term incentives in the form of fund-tracking incentives (referred to as the 'Mandatory Investment Plan' or 'MIP') and/or equity-based JPMorgan Chase Restricted Stock Units ('RSUs') with defined vesting schedules and corresponding terms and conditions. Long-term incentive awards may comprise up to 60% of overall incentive compensation, depending on an employee's pay level.

Back to contents

Structures, processes, policies and procedures supporting stewardship continued

The performance dimensions for investment professionals are evaluated annually based on several factors that drive investment outcomes and value – aligned with client objectives – including, but not limited to:

- Investment performance, generally weighted more to the long-term, with specific consideration for portfolio managers of investment performance relative to competitive indices or peers over one-, three-, five- and ten-year periods.
- The scale and complexity of their investment responsibilities.
- Individual contribution relative to the client's risk and return objectives.
- Business results, as informed by investment performance; risk, controls and conduct objectives; client/customer/stakeholder objectives, teamwork and leadership objectives; and
- Adherence to the Firm's compliance, risk, regulatory and client fiduciary responsibilities, including, as applicable, adherence to the JPMAM Sustainability Risk Integration Policy, which contains relevant financially material Environmental, Social and Corporate Governance factors that are intended to be assessed in investment decision-making, per investment objectives.

In addition to the above performance dimensions for investment professionals, the Firm-wide pay-for-performance framework, together with the overall performance of the relevant business unit and investment team, is integrated into the final assessment of incentive compensation for an individual investment professional. Feedback from JPMorgan's risk and control professionals is considered in assessing performance and compensation.

Investment professionals are subject to a mandatory deferral of long-term incentive compensation under J.P. Morgan's Mandatory Investor Plan (MIP). In general, the MIP provides for a rate of return equal to that of the particular fund(s), thereby aligning the investment professional's pay with that of the client's experience/return to provide a direct long-term link between how the investment professional performs and how they are paid.

For investment professionals participating in public market investing activities, 50% of their long-term incentives are subject to a mandatory deferral in the MIP, and the remaining 50% can be granted in the form of RSUs or additional participation in MIP at the election of the investment professional.

For the portion of long-term incentives subject to mandatory deferral in the MIP (50%), the incentives are allocated to the fund(s) the investment professional contributes to, as determined by the employee's respective manager and reviewed by senior management (e.g., in the case of a portfolio manager, the specific fund(s) a portfolio manager is named on).

In addition, named portfolio managers on dedicated sustainable fund(s) are required to allocate at least 25% of their mandatory deferral in at least one dedicated sustainable fund. Investment professionals, regardless of whether they are named on and/or contribute to a sustainable fund, also have the ability to allocate a portion of their mandatory deferral to a sustainable fund.

To hold individuals responsible for taking risks inconsistent with the Firm's risk appetite and to discourage future imprudent behavior, the Firm has policies and procedures that enable prompt and proportionate actions with respect to accountable individuals, including:

- Reducing or altogether eliminating annual incentive compensation.
- Canceling unvested awards (in full or in part).
- Claw back/recovery of previously paid compensation (cash and/or equity).
- Demotion, negative performance rating or other appropriate employment actions; and
- Termination of employment.

The precise actions we take with respect to accountable individuals are based on the relevant circumstances, including the nature of their involvement, the magnitude of the event, the impact on the Firm, and local laws.

Back to contents

Appendix 1: Thought leadership publications 2024

Below is a list of publications produced by the Sustainable Investing and Stewardship Team in 2024.

January

Investing in timberland: Accessing long-term returns from a nature-based portfolio

The case for green, social and sustainable bond investing

February

Sustainable investing in 2024: Pulling back or pushing forward

March

The UK Sustainability Disclosure Requirements (UK SDR) explained

Child labour in cobalt mining

May

Net zero targets: Streamlining portfolio decarbonisation

July

Physical climate risk in climate adaptation investing

September

Food systems: How investing in natural capital management can support food system sustainability

Gauging the growth in green, social and sustainability bonds

October

Electricity networks: The unsung heroes of the energy transition

November

The Finance COP: Unpacking the outcomes and implications of COP 29

Appendix 2: Stewardship code mappings

This report has been reviewed and approved for publication by the J.P. Morgan Asset Management Investment Stewardship Oversight Committee. It was also approved by the J.P Morgan Asset Management International Limited Board, which we considered to be the most appropriate oversight body and has external non-executive directors as members, for submission to the Financial Reporting Council for adherence to the UK Stewardship Code.
The mapping of this report's content to the 2020 UK Stewardship Code's Principles is outlined in the table below.

The UK Stewardship Code

Principle	Signatory actions	Pages
Principle 1	Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	115-120, 146-149, 116
Principle 2	Signatories' governance, resources and incentives support stewardship.	121-129, 130-145, 159-160
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	152-153
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	154-156
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	150, 152-153
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	146-149, 166
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfill their responsibilities.	9-19, 130-145
Principle 8	Signatories monitor and hold to account managers and/or service providers	156-159
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets.	6–19, 21-100
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers.	13–19
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers.	13
Principle 12	Signatories actively exercise their rights and responsibilities.	101-113

Source: https://media.frc.org.uk/documents/The_UK_Stewardship_Code_2020.pdf

Appendix 2: Stewardship code mappings continued

Taiwan Stewardship Principles for Institutional Investors

Principle	Signatory actions	Pages
Principle 1	Establish and disclose stewardship policies	9–19
Principle 2	Establish and disclose policies on managing conflicts of interest	159-160
Principle 3	Regularly monitor investee companies	21-100
Principle 4	Maintain an appropriate dialogue and interaction with investee companies	21-100
Principle 5	Establish and disclose clear voting policies and voting results	101-113
Principle 6	Periodically disclose the status of fulfilment of stewardship responsibilities	146-149, 116
Principle 7	Service providers should provide services for institutional investors to fulfill their stewardship responsibilities	156-159

Source: Taiwan Stock Exchange.

Hong Kong Principles of Responsible Ownership

Principle	Signatory actions	Pages
Principle 1	Investors should establish and report to their stakeholders their policies for discharging their ownership responsibilities	9–19
Principle 2	Investors should monitor and engage with their investee companies	21-100
Principle 3	Investors should consider and establish clear policies on when they will escalate their engagement activities	130-145
Principle 4	Investors should have clear policies on voting guidance	101-113
Principle 5	Investors should be willing to act collectively with other investors where appropriate	13–19
Principle 6	Investors should report to their stakeholders on how they have discharged their ownership responsibilities	146-149, 116
Principle 7	When investing on behalf of clients, investors should have policies on managing conflicts of interests	150-152

Source: https://www.sfc.hk/-/media/EN/files/ER/PDF/Principles-of-Responsible-Ownership_Eng.pdf

Appendix 2: Stewardship code mappings continued

Australia Principles of Internal Governance and Asset Stewardship

Principle	Signatory actions	Pages
Principle 1	Monitoring of company performance on financial and non-financial matters	21-100
Principle 2	Engagement with company management and the board (as appropriate) and escalation of issues in instances where initial engagements have not been adequately responded to	13–19
Principle 3	Approach to considering Environmental, Social and Governance factors (risks and opportunities) and whether these considerations influence investment decision-making and company engagement	9–19, 130-145
Principle 4	Proxy voting	101-113
Principle 5	Collaborative engagement with other investors including involvement with industry groups and associations	13–19
Principle 6	Principles used for policy advocacy including participation with industry groups and associations	13–19
Principle 7	The approach to client engagement, education and communication regarding asset stewardship	146-149, 116

Source: FSC Australia.

Singapore Stewardship Principles For Responsible Investors

Principle	Signatory actions	Pages
Principle 1	Develop and articulate stewardship responsibilities and governance structures.	9–19, 115-120
Principle 2	Monitor investments regularly	21-100
Principle 3	Stay active through constructive and purposeful engagement.	21-100
Principle 4	Uphold transparency in managing conflicts of interest.	150-152
Principle 5	Exercise rights and responsibilities on an informed basis	101-113
Principle 6	Report stewardship activities periodically	146-149, 116
Principle 7	Take a collaborative approach in exercising stewardship responsibilities where appropriate	13–19

Source: https://www.stewardshipasia.com.sg/docs/saclibraries/default-document-library/ssp_for-20responsible-20investor-202-0-1-.pdf?sfvrsn=82133969_3

Back to contents

Appendix 2: Stewardship code mappings continued

Japan Principles for Responsible Institutional Investors

Principle	Signatory actions	Pages
Principle 1	Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.	9–19, 115-120
Principle 2	Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it	150-152
Principle 3	Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies	21-100
Principle 4	Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies	21-100
Principle 5	Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprized only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies	101-113, 156-157
Principle 6	Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries	146-149, 116
Principle 7	To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies	13–15, 115-120

Source: https://www.fsa.go.jp/en/refer/councils/stewardship/20200324/01.pdf

Appendix 3: Assets Under Management

As of December 31, 2024, our total assets under management were USD 3.4 trillion. Break down as follows by client region and client type.

Client region

	Total assets under management (in USD millions)
Europe ex-UK	379,830.90
Japan	30,679.38
North America	2,636,114.11
Other	95,133.70
Pacific ex-Japan	179,491.67
UK	157,978.68
Total	**3,479,228.43**

Client type

	Total assets under management (in USD millions)
Institutional	1,713,683.92
Retail	1,765,544.51
Total	3,479,228.43

Assets

	Total assets under management (in USD millions)
Alternative Investments	221,845
Multi Asset Class	281,364
Equity	1,045,139
Fixed Income	1,930,880
Total	**3,479,228**

For more information on our approach to Investment Stewardship, contact your J.P. Morgan Asset Management representative.

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