

# 2022 Investment Stewardship Report

Investor-led, expert-driven

April 2023

This report is as of December 31, 2022 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 or 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.



## Contents

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<b>4</b>	Foreword	<b>103</b>	Engaging for Sustainable Outcomes
<b>5</b>	J.P. Morgan Asset Management – Who we are	<b>105</b>	Stewardship in Alternative Markets
<b>11</b>	Governance of stewardship	<b>109</b>	Proxy voting – How we utilized our voting rights in 2022
<b>16</b>	People and resources	<b>116</b>	ESG integration at J.P. Morgan Asset Management
<b>21</b>	Our approach to engagement	<b>133</b>	Client and beneficiary needs
<b>36</b>	Engagement in 2022 - A year in review	<b>138</b>	Structures, process, policies, and procedures supporting stewardship
<b>41</b>	Climate change engagement and voting – 2022	<b>153</b>	Our approach to promoting diversity, equity, and inclusion
<b>59</b>	Natural capital and ecosystems engagement - 2022	<b>156</b>	Appendix 1 – J.P. Morgan Asset Management industry group memberships related to stewardship
<b>64</b>	Human capital management engagement and voting – 2022	<b>157</b>	Appendix 2 – Biographies
<b>71</b>	Social stakeholder engagement and voting – 2022	<b>160</b>	Appendix 3 – Sustainable Investing research publication - 2022
<b>81</b>	Governance engagement and voting – 2022	<b>162</b>	Appendix 4 – Stewardship code mappings
<b>91</b>	Strategy alignment with the long term engagement and voting – 2022	<b>165</b>	Disclaimers

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# Foreword

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**George Gatch**

Chief Executive Officer,  
J.P. Morgan Asset Management

By nearly any measure, the early 2020s have been a period of extraordinary challenge – pandemic, war, humanitarian crisis, aggressive monetary policy, inflation, and volatile markets to name a few. At J.P. Morgan Asset Management, we seek to deliver superior investment capabilities, performance, and insights to help our clients achieve their financial objectives, no matter the environment. As we navigate countless opportunities and challenges, investment stewardship remains important to our value proposition and ability to deliver returns and value over the long term.

We are an active investment manager and a fiduciary. This means 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 stewardship is aligned with this vision, and we consider active engagement as an important tool to maximize shareholder returns through industry participation and proxy voting across asset classes. We leverage 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 financial outcomes, including by focusing on the most financially material environmental, social and governance (ESG) 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 financially material ESG factors 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.

Every year, we challenge ourselves to consider how we can better steward our clients’ capital, both in terms of how we invest and how we operate. During the reporting period, we engaged with hundreds of companies globally to better understand and encourage them to develop and adopt practices to manage their risk and create long-term shareholder value. This included understanding the impact of the war in Ukraine on energy security and a heightened focus on managing risks in supply chains. Our dialogue continues to be shaped by important medium- and longer-term material financial risks and opportunities faced by investee companies around environmental issues such as climate change and natural capital, social issues such as labor standards and diversity in the workplace, and governance issues such as board effectiveness and executive compensation plans aligned with shareholders’ interests.

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.

# J.P. Morgan Asset Management

## – Who we are

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### 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. JPMorgan Chase & Co. had \$3.7 trillion in assets and \$292 billion in stockholders’ equity as of December 31, 2022. 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 & Co. brands, the Firm serves millions of customers in the U.S. and globally including many of the world’s most prominent corporate, institutional and government clients.<sup>1</sup>

### 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 \$4 trillion and assets under management of \$2.8 trillion as of December 31, 2022, 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.

It 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 \$2.36 trillion in client assets under management globally as of December 31st, 2022.

### 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”), 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 to 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.

### What is 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 resource use, human capital management, diversity, business conduct, governance practices, shareholder rights and executive compensation.

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<sup>1</sup> 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.

# 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.<sup>2</sup>
- Through empowering our clients to make informed choices coupled with a relentless focus on helping them achieve their financial objectives.

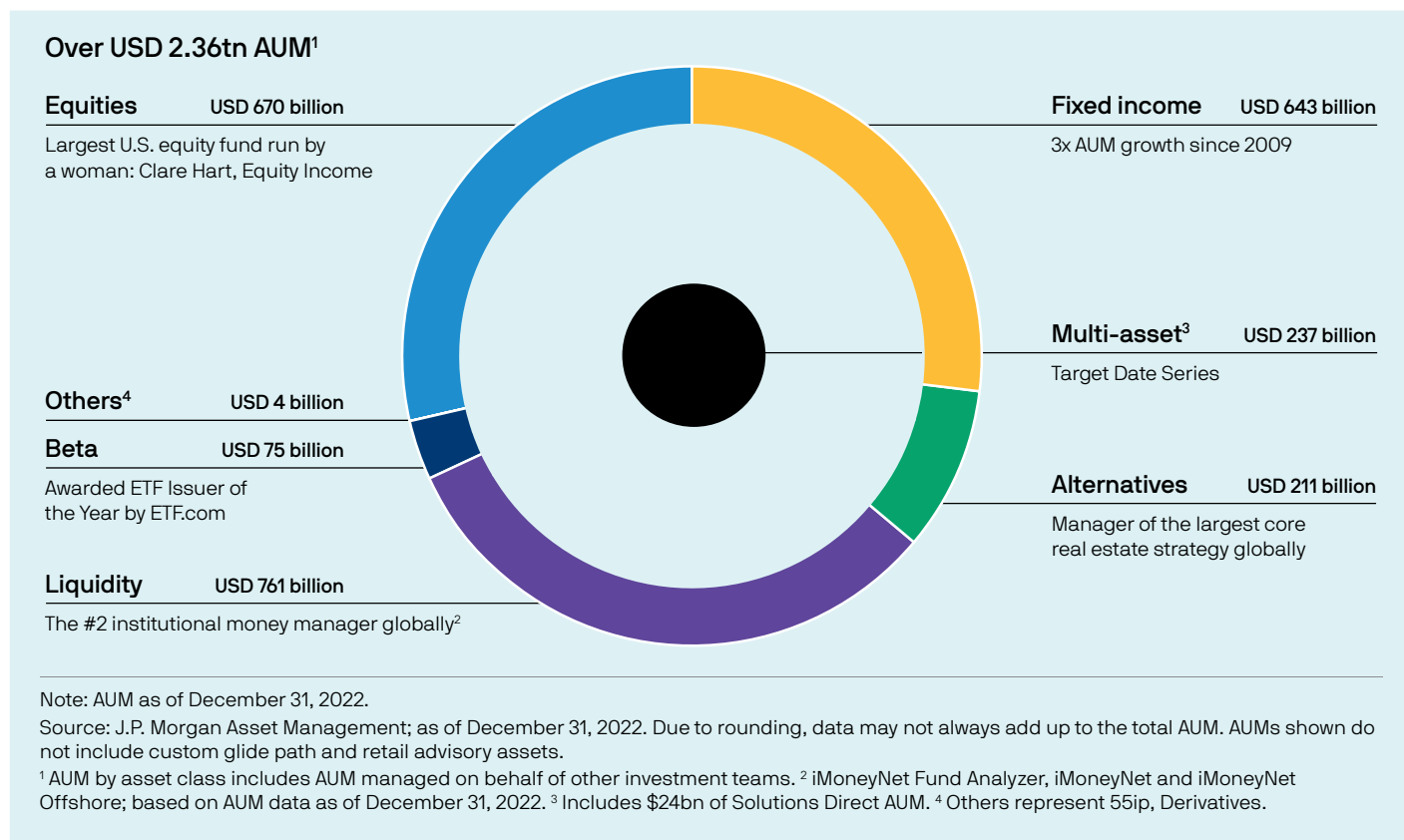
### Our business model and strategy

As a global asset manager, we provide investment services for institutions, intermediaries, and individuals alike, including doing business with 60% of the world's largest pension funds, sovereign wealth funds and central banks.<sup>3</sup>

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



<sup>2</sup> 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 amongst other factors 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.

<sup>3</sup> JPMorgan Chase & Co., CEO letter to Shareholders, 2021 Annual Report

# J.P. Morgan Asset Management

## – Who we are continued

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### Our culture and values

We believe clients choose J.P. Morgan Asset Management as a partner because we have withstood the test of time and are well positioned for the decades to come. Our management shares these values in constantly investing in the strength and resilience of our business to facilitate client relationships that span time.

We also 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, as well as doing first-class business in a first-class way, decade after decade.

We uphold a culture that reinforces integrity, fairness and responsibility and we are committed to creating an environment of respect and inclusion where our employees, clients and partners feel welcomed and valued.

As part of this, we constantly work to advance an inclusive workplace culture, consistent with our expectations of the investee companies with whom we engage as part of our stewardship commitments.

Specifically within Asset & Wealth Management (AWM), we are proud to say that we are one of the few asset managers in the industry, globally, run by a woman – Mary Erdoes, Chief Executive Officer (CEO), AWM, who was recognized as the Most Powerful Woman in Finance.<sup>4</sup> In addition, 23% of our fund managers globally are women and they manage or co-manage 36% of our total global assets.<sup>5</sup> While there is more work to be done, we are committed to becoming the most diverse and inclusive asset manager, to remain a first-class, sustainable business. Directly linked to our role as investors, we believe this commitment reflects the opportunity we must lead by example in encouraging practices that support diversity, equity and inclusion across our investee companies. For more information, please refer to the section on *Our approach to promoting diversity, equity, and inclusion*.

### Investment beliefs

As an active manager investing for the long-term future, sustainability is an important consideration, among many, in our investment decisions as part of our commitment to delivering investment performance. Inherent in our fundamental investment process is the consideration of the full economic cycle; generally, 3-6 years investment time horizon, although this can vary depending on the underlying asset class or market. While our long-term valuation approach also incorporates short-term point forecasts and market technical analysis, it remains driven by long-term sustainable earnings or credit relative value.

Our investment teams globally are committed to focusing on understanding and prudently managing risks and identifying financially attractive opportunities. To do this, we rely on deeply resourced global fundamental research expertise, including extensive engagement with investee companies and incorporation of our stewardship responsibilities to our research process.

Our approach to sustainable investing<sup>6</sup>, including our commitment to ESG integration (see section *ESG integration at J.P. Morgan Asset Management* for more details), has been formalized across our governance processes.

For actively managed strategies that we have determined are ESG integrated under our governance processes, we consider financially material ESG issues in investment analysis and decision-making and are active owners incorporating ESG issues into ownership policies and practices. While our process has evolved over the years, we have been signatories to the United Nations-supported Principles for Responsible Investment (UNPRI) since 2007.

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<sup>4</sup> American Banker Magazine, October 2022.

<sup>5</sup> Data as of 2021.

<sup>6</sup> J.P. Morgan Asset Management takes a global approach to sustainable investing, and the solutions offered through our sustainable investing platform meet our internally defined criteria for a sustainable investment. The evolving nature of sustainable finance regulations and the development of jurisdiction-specific legislation setting out the regulatory criteria for a "sustainable investment" or "ESG" investment mean that there is likely to be a degree of divergence as to the regulatory meaning of such terms. This is already the case in the European Union where, for example, under the Sustainable Finance Disclosure Regulation (EU) (2019/2088) certain criteria must be satisfied for a product to be classified as a "sustainable investment." Any references to "sustainable investing," "SI" or "ESG" in this document are intended as references to our internally defined criteria only and not to any jurisdiction-specific regulatory definition.

# J.P. Morgan Asset Management

## – Who we are continued

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### Principles for responsible investing

We believe our overall investment approach demonstrates how our commitment to stewardship informs our company strategy. In 2022, J.P. Morgan Asset Management received Five Stars rating on its response to the “Investment and Stewardship Policy” module of the UNPRI survey, based on responses provided in 2021. We were amongst the top 8% of the Global UNPRI signatories which received this highest rating category. 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 ESG issues into asset allocation.<sup>7</sup>

In direct alignment with our dedication to delivering better outcomes through building stronger portfolios, we work as an active owner to continually improve our engagement with investee companies to enhance long-term value. This includes, for example, harnessing our voice and influence rooted in our extensive fundamental research efforts to drive positive corporate change outcomes that manage risks and contribute to benefits for our client accounts. These engagement efforts are discussed at greater length throughout this report.

### Actions taken to ensure our investment beliefs, strategy and culture enable effective stewardship

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 as part of our investment decision making, as well as by utilizing our voice as active owners in our investee companies to strive to encourage positive changes that we believe manage risks and create long-term value for our clients.

Throughout 2022 we have taken several steps to further embed these considerations across our business.

In concert with these efforts, as a reflection of our broader, ongoing commitment to take actions that support effective stewardship across our approaches, to how we invest on behalf of our clients as a fiduciary, and to how we foster our corporate culture, we continue to take several key steps based on opportunities that we have identified to improve, such as the following activities:

- We expanded our Investment Stewardship team, including adding 2 new hires to the team during the 2022 reporting period. The total team is now 15 specialists.
- We have continued to enhance internal governance to create greater oversight and accountability of our sustainable investing activities, 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.
- During the reporting period, we upgraded the tools and technology that support systematic recording and tracking of our engagement activities. This allows JPMAM investors to have a more detailed and analytical view of the engagement activities globally. It also enables our client facing teams to better report activities, on a granular basis, to our clients.

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<sup>7</sup> UNPRI grades are not reliable indicators of past, current and/or future results of performance of underlying assets. The UNPRI survey includes modules that solicit information from signatories, including J.P. Morgan Asset Management, on topics including an overall Investment Stewardship & Policy 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 UNPRI. The UNPRI survey includes modules that solicit information from signatories, including J.P. Morgan Asset Management, on topics including an overall Investment Stewardship & Policy 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 UNPRI. Information on the UNPRI 2021 assessment methodology is available [here](#), along with FAQs on the 2021 reporting cycle [here](#).



# J.P. Morgan Asset Management

## – Who we are continued

- We have taken steps to deepen our climate research and the development of climate scenario analysis tools and reporting. In 2022, we published JPMAM's first report under the Task Force on Climate-related Financial Disclosures (TCFD) framework.
- We updated and published our global Investment Stewardship Priorities. This included adding a sixth priority theme – Natural capital and ecosystems. We made the changes after an in-depth review process which included analyzing financially material ESG issues to pinpoint areas of additional focus, conducting extensive discussion with investment analysts and portfolio managers, and surveyed and spoke with our clients on their own key issues and priorities.

These are detailed further in the report in the relevant sections.

Alongside these changes, we conducted a strategy implementation review in the summer into the effectiveness of our stewardship practices to identify specific areas of improvements to facilitate continuous improvement. This process included feedback from a wide range of stakeholders, including clients, and external consultants, alongside regulators and relevant oversight bodies such as the UK Financial Reporting Council. The most material areas where we improved our practices are highlighted in the table below. It also shows areas for continuous improvement and potential further review in 2023. Full details can be found in the relevant sections of this report.

Key Areas of Reform	2022 Improvement Outcomes	2023 Next Steps
<b>Governance</b>	Evaluated effectiveness of new governance framework through SIOC member survey and identified areas for improvement	Ensure ongoing education and training of SIOC members on new trends as well as regulatory and industry developments in sustainable investing and stewardship
<b>People and resources</b>	Started the development of sector-specific analytical tools to assess scientific credibility of corporate decarbonization plans. The output of these tools will shape our climate change investment analysis and stewardship activities	Conduct research and develop expertise in two areas – 1) natural capital and ecosystems; and 2) sustainability outcomes and impact assessment for our dedicated range of outcome driven investment strategies
<b>Client needs</b>	Hosted a series of Stewardship focused events, webinars and workshops in Europe and UK in response to client feedback for more education. Clients also sought discussion forums for latest insights into engaging and voting on issues such as climate change risk and natural capital	Expand Stewardship-themed events and workshops to other markets. Exploring opportunities in other regions including Asia where we seek to build on feedback from client surveys conducted in 2022
<b>Engagement approach</b>	Updated and published our Investment Stewardship Priorities. Following extensive discussion with investment teams and clients, we added Natural capital and ecosystems as a new priority	Continue enhancing our approach to engaging sovereign issuers on financially material ESG issues
<b>Reporting</b>	Conducted a review of our Investment Stewardship reporting practices against industry best practice	Identify areas to strengthen external reporting of non-corporate issuer engagement
<b>Proxy voting</b>	Developed and implemented a more detailed JPMAM voting policy in EMEA and Asia ex Japan markets. Established an online proxy vote disclosure service for Europe and UK domiciled fund holdings	Integrate regional JPMAM policies into a Global JPMAM Voting Policy for operational efficiency and develop a global sustainability focused voting policy for relevant funds and mandates. Implement online vote disclosure system for holdings in more fund locations

# J.P. Morgan Asset Management

## – Who we are continued

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### Outcomes

The actions we have taken during the 2022 reporting period build on the significant uplift to our Stewardship practices in 2021. We have taken stock of the broad reforms implemented and reflected on the effectiveness of our practices as well as extensive feedback from external stakeholders such as regulators, clients, and consultants.

A particular focus has been to strengthen our interaction with our clients on Stewardship matters. We have sought to further understand their views and priorities on Stewardship. This has been done through events, meetings, webinars, and educational sessions targeted at specific client types to meet their needs. The key outcome has been to use the insights to establish our medium-term thematic priorities for 2023 and onwards which will play a major role in shaping our Investment Stewardship agenda. We also believe that the regular communication with our clients positions us to better deal with newly emerging trends and challenges, shifts in client needs and evolutions in regulations around the world in particular around climate change risks. For more details, please refer to *Our approach to engagement* and the *Client and beneficiary needs* section.

The initiatives detailed above and our ongoing efforts to assess their effectiveness are discussed in greater detail throughout the report. As we continue to further incorporate stewardship within our business, we look forward to providing ongoing transparency into our efforts as we further enhance our practices.

Our ambition is to continue to build a leading role in stewardship, as well as to regularly assess how we can improve on the journey.

# Governance of stewardship

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**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 must be enabled for all of our investments - globally across all asset classes, investment styles, client types and regulatory regimes.

In reflection of the size, scope, and complexity of our company, in 2021 we established governance practices at J.P. Morgan Asset Management around stewardship and sustainable investing that were global and across asset classes in remit, spanning the material sustainability and corporate governance issues in our investments.

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. Additionally, J.P. Morgan Asset Management's Sustainable Investing Oversight Committee (SIOC), chaired by the Global Head of Sustainable Investing, has the remit of directly overseeing stewardship and sustainable investing activities. It is the central group which is accountable on ESG related matters.

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

The committee includes Heads of investment teams and Chief Investment Officers (CIOs), the Global Head of Sustainable Investing, the Global Head of Investment Stewardship, JPMAM's General Counsel and heads of control functions such as risk and compliance. A direct line of senior responsibility derives from two aspects so that SIOC is accountable, credible, and representative of sustainable investing activities within investment teams and senior management:

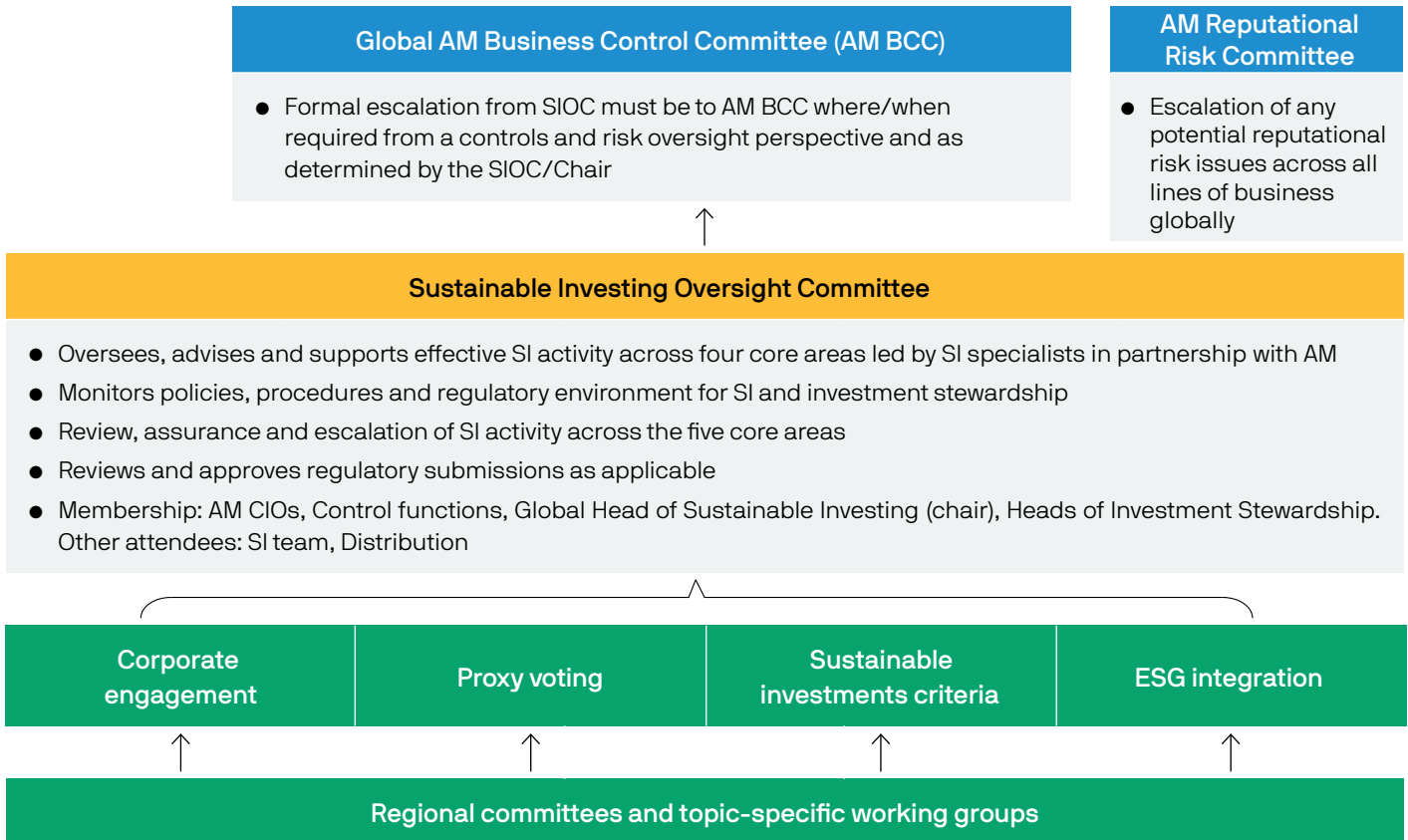
- Strategic oversight of sustainable investing activities provided to SIOC by the Heads of investment teams and the Global Head of Sustainable Investing through their participation in day-to-day management meetings across their asset classes and with senior management. This enables monitoring of stewardship effectiveness and key performance indicators and establishes a clear line of escalation and accountability as invitees provide updates to SIOC, where applicable. More information on the responsibilities of the Heads of investment teams/CIOs can be found within the section on *People and resources*.
- Where and when required from a controls and risk oversight perspective, formal escalation from SIOC 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 AM 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.

SIOC's original meeting schedule contemplated regular quarterly meetings with additional meetings as needed. The SIOC met seven times in 2022 to accommodate the growing focus within our business on these issues. Currently, SIOC is scheduled to meet eight times in 2023, and at least once per quarter.

# Governance of stewardship continued

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



Source: J.P. Morgan Asset Management, as at December 31, 2022.

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 challenge to our processes as part of our goal to improve. Ongoing oversight is an important remit of the SIOC alongside other key committees and working groups (further described in the following pages). It is their responsibility to review process, 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 defense.

In 2022, the SIOC reviewed and approved the publication of a series of important publications for Sustainable Investing and Investment Stewardship including our 2021 Investment Stewardship report. This was to promote a higher standard of reporting. We were able to attain 2020 UK Stewardship Code signatory status from the Financial Reporting Council based on this report. Also, some sections of the report were translated into Chinese<sup>8</sup> and included as part of our Taiwan Investment Stewardship report. We were pleased to have received a higher rating from the Taiwan Stock Exchange for our 2021 Taiwan Investment Stewardship report, compared to the year before. We were also shortlisted for International Corporate Governance Network’s Global Stewardship Disclosure Awards in 2022 for the large Asset Manager category.

<sup>8</sup> Our Chinese language Investment Stewardship Report from 2021 can be found at: <https://am.jpmorgan.com/content/dam/jpm-am-aem/asiapacific/tw/zh/supplemental/stewardshipreport2021.pdf>

# Governance of stewardship continued

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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 the *Appendix*.

Also, the SIOC reviewed and approved JPMAM's inaugural Taskforce for Climate-related Financial Disclosures (TCFD) report.<sup>9</sup> In this report, we disclosed how we 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 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.

## Review and evaluation of Committee effectiveness

As this is a relatively new governance structure, in late 2022, we conducted a committee evaluation to assess the SIOC's effectiveness as part of our ongoing evolution and enhancements to Investment Stewardship and Sustainable Investing. SIOC committee members were surveyed with the objective of identifying current obstacles to better performance and highlighting additional good governance practices.

Summary of the evaluation's findings and action points are:

- Overall, positive feedback from committee members on the effectiveness and running of the committee in the first full year.
- Each of the four key areas evaluated of knowledge, expertise, effectiveness, and culture had generally positive committee feedback with no one specific area highlighted as a concern.

- Action points for 2023 include seeking to ensure adequate training and knowledge development for committee members reflecting the breadth of issues covered and the rapid pace of evolution of these topics in the industry and refining the process for what matters should be escalated from supporting working groups and committees.
- Ongoing annual review highlighted as an important way to ensure continued effectiveness of the committee and highlight areas of concern.

Following this assessment, we were able to broadly conclude that the current governance structure and processes is appropriate 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. This was due to the broad range of internal committees and working groups which provide regional and/or topic specific decision making, knowledge sharing and oversight (see next section).

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

Supporting the J.P. Morgan Asset Management **Sustainable Investing Oversight Committee** (SIOC) is a network of regional committees and topic-specific working groups. This is to ensure that there are clear forums for regular information sharing, discussion and decision making on region or topic-specific issues. The members of these are typically investment research analysts, portfolio managers, stewardship and sustainable investing experts and client-facing professionals. We consider that these are important aspects of enabling the SIOC-led governance structure at JPMAM and this seeks to manage the global, large, and complex nature of our business.

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<sup>9</sup> J.P. Morgan Asset Management TCFD Report 2022

# Governance of stewardship continued

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## The key stewardship-related groups include:

- **Regional Proxy Voting Committees** are long established in our four key investing regions – North America; Europe, Middle East and Africa (EMEA); Asia excluding Japan; and Japan. These meet on a quarterly basis and are composed of senior equity investment analysts, equity portfolio managers, Investment Stewardship team members, legal, compliance and risk specialists. These committees are responsible for formulating regional proxy voting guidelines. They also provide an escalation point for voting and wider corporate governance issues. These committees in turn escalate into SIOC, which receives periodic updates from these committees and monitors effectiveness.
- **Corporate Engagement working groups** serve the purpose of facilitating active discussion, information sharing, and coordination of engagement activities across asset classes at JPMAM. Members are heads of investment research, analysts, portfolio managers and Investment Stewardship team members with representation from across asset classes and investment styles, including 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 group also facilitates assessment of ESG controversies and norms breaches, such as United Nations Global Compact (UNGC), with investment analysts with a view to conducting reactive engagements with investee companies for accounts where such controversies are financially material and/or accounts that have norms based exclusions. Like the Proxy Oversight Committees, there are engagement working groups in each of the four major investing regions.

## ESG Regulatory Change Working Group

New and evolving ESG-related regulations continue to accelerate the shift towards integrating 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 ESG perspectives; or the development of new ESG products and portfolio construction.

In partnership with the Sustainable Investing team, the global ESG Regulatory Change working group focuses on helping internal business groups and functions transform their operating models, practices, and processes to meet emerging regulatory requirements, including operationalizing and implementing new and evolving sustainable investing regulatory standards. The program is governed by a steering committee comprised of senior cross functional leaders and meets regularly to oversee various workstreams, including groups dedicated to the implementation of (including but not limited to) the European Union’s Sustainable Finance Disclosure Regulation (EU SFDR) and Taxonomy Regulation (EU TR); TCFD related initiatives; and preparing for future developments (e.g. the UK Sustainable Disclosure Requirements).

This has been one of the most active implementation focused groups within JPMAM in 2022, successfully implementing the required ESG related policies, frameworks, approaches and disclosures for compliance with those regulations directly and indirectly (e.g., European Commission Delegated Regulation (EU) 2021/1253 introducing the EU MiFID Sustainable Preferences). These regulatory initiatives have been supported by other internal programs designed to evolve our risk and oversight models, internal training, and related 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 peer advisory 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. 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:

# Governance of stewardship continued

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- **The ESG & Climate Research Working Group** is composed of senior investment professionals, across all investment classes, such as the Heads of Research, portfolio managers, analysts, and Sustainable Investing team delegates. In 2022, the Head of Sustainable Investing Research, who joined the firm early in the year, took over as co-chair of the working group. The ESG & Climate Research Group advises on the development of ESG-related research methodologies such as the JPMAM Quantitative ESG Score.<sup>10</sup> During 2022, the Working Group added climate change-related research questions to its agenda. The main topics were the development of a Climate Insights toolkit and analytical tools to help assess scientifically credibility of corporate decarbonization plans. Furthermore, the working group exercised its control function by providing formal review and feedback on the ESG-integrated status of investment groups, vetting new investment groups based on our proprietary 10-point scoring criteria as well as periodic recertifications. Those recommendations are then formally reviewed and approved by SIOC. For further details, please see the section on *ESG integration*.
- Our **sustainable investing client strategy working groups**, organized into three regional chapters, across the Americas, EMEA and Asia Pacific, are composed of investment specialists, distribution delegates and cross-functional business partners.

They seek to propose and develop commercialization strategies, including prioritization through the identification of key clients, development of effective marketing efforts, and advancement of key initiatives such as ESG educational and thought leadership efforts.

- The **climate leadership working groups** reflect our deepening commitments to manage climate change risks and opportunities in our client accounts, including strengthening our climate research and climate-scenario analysis capabilities and actively engaging in industry actions, closely coordinated with our Investment Stewardship Priorities related to climate change engagement. These groups include:
  - **Climate Research:** This sub-working group of our ESG & Climate Research Working Group focuses on reviewing and making recommendations for climate-related data and scenarios to be included in the development and advancement of our firm-wide proprietary climate analytics, as well as models for portfolio management and reporting.

Members include investment professionals from across assets classes, functions such as Risk and Business Strategy and Sustainable Investing team delegates.

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<sup>10</sup> 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 qualitative assessments of individual companies. The purpose of the score is to provide portfolio managers and research analysts with useful 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.

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# People and resources

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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.

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## J.P. Morgan Asset Management Investment Centers

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



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

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**Paul Quinsee**  
Global Head of Equities

The equities division consists of US equities, International equities and Emerging Market equities.

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**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.

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# People and resources continued

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**Anton Pil**  
Global Head of Alternatives

The division covers a diverse range of investments including Private Equity, Infrastructure & Transport, Real Estate, Private Credit and Hedge Funds.

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**Jed Laskowitz**  
Global Head of Asset Management Solutions (AMS)

The team manages assets across the multi-asset and quantitative investment strategies. AMS is also responsible for J.P. Morgan's global ETF business and 55ip, a technology platform for multi-asset portfolio model management and tax-smart index and active separate account strategies.

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**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.

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**Jennifer Wu**  
Global Head of Sustainable Investing

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

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**James Barnett**  
Global Head of Sustainable Investing Integration

This division is responsible for leading the firmwide strategic efforts in sustainable investing with a focus on ESG integration across Asset Management.

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**Yo Takatsuki**  
Global Head of Investment Stewardship

The Investment Stewardship team is responsible for driving the firm's 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 comprised of 15 Stewardship specialists.

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

Our global Investment Stewardship team bring with them a variety of skills and experience in helping to deliver effective stewardship at JPMAM. Biographies of the team members and their experiences can be found in the *Appendix*.

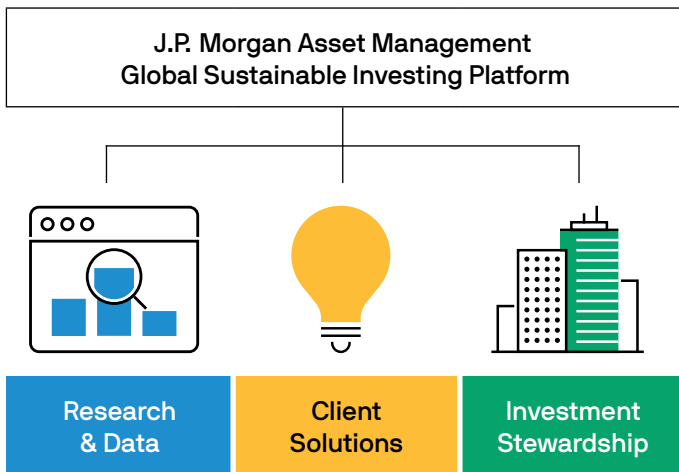
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# People and resources continued

## Sustainable Investing Division

Our strategy for sustainable investing is led by Jennifer Wu, Global Head of Sustainable Investing. She heads the efforts across sustainability-focused investment research, solutions development, and investment stewardship with a dedicated division of Sustainable Investing specialists. As of March 1, 2023, the Sustainable Investing Division has 41 personnel.

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, and Tokyo.



The Sustainable Investing Division is structured into three distinct teams:

- The **ESG Research & Data** 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. In 2022, we also hired a new Head of Sustainable Investing Research to lead this team.
- The **Client Solutions** pillar partners with our investment and distribution teams to provide expertise and to develop ESG solutions to meet our clients' requests. In 2022 we named a new Global Head of Client Solutions to lead this team.
- 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 firm's engagement and voting program and works in close conjunction with our investment team colleagues in different asset classes.

# People and resources continued

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## In focus: Investment Stewardship team

J.P. Morgan Asset Management's Global Investment Stewardship team consists of 15 members. Each member has a specific thematic expertise in one or two of our six Investment Stewardship Priorities. The team members are based in four regions: North America (New York), EMEA (London), Asia excluding Japan (Hong Kong) and Japan (Tokyo).

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. We consider the diversity of our team as a key enabler of success in many markets as we believe there is no substitute for being able to engage investee companies in their own language with the full understanding of local business norms. 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 or diversity, 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 expectation, and Stewardship Codes (see Appendix for how we meet the expectations of various Stewardship Codes which we are signatory to). For example, in 2022, our Asia ex Japan team translated sections of the investment stewardship report to facilitate assessment of our stewardship practices by the Taiwanese stock exchange. As a result, we received a higher rating from the Taiwan Stock Exchange for our 2021 Taiwan Investment Stewardship report compared to the year before.

While Investment Stewardship is a long-running activity the single global team structure was established in 2021 and had its first full year of implementation in 2022. 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 new stewardship priorities theme-focused sub-teams (called pods led by global theme leads),
- effective coordination of stewardship activities globally across asset classes on key priority themes, between the Investment Stewardship team and the investment teams,
- engagement and voting advocating sound global (or as appropriate best) practice with investee companies regardless of region, size or maturity, 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.

In early 2022, we assessed our people and resource needs. We identified new areas for our engagement which required additional expertise which was not currently represented in the Investment Stewardship team. These were natural capital and ecosystems (which was added in 2022 as a new investment stewardship priority – for more details please refer to the next section on *Our approach to engagement*), alongside engaging for sustainable outcomes and impacts for sustainable strategies (for more details please refer to the *Engaging for sustainable outcomes* section). As a result, the stewardship team hired two additional members with expertise and focus on these areas in mid-2022.

We consider the diversity of our team to be important and note over the past two years we've added 11 new hires, the majority of whom are women. Team members bring diverse 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 to 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.

# People and resources continued

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Please see *Our approach to promoting diversity, equity, and inclusion* section to understand our approach to this topic.

Full bios of the Investment Stewardship team members are in the *Appendix*.

## 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*.

In 2022, there were three areas of particular focus for ESG-related research, data and analytical tools which have relevance to investment stewardship.

Firstly, we developed and introduced a new approach for recording and capturing enhanced engagement activities with investee companies in our Research system. This was a significant enhancement of the previous system and allowed for better linking of engagement data to corporate bond-only issuers and tagging engagement on granular ESG sub themes especially around climate change risk engagement.

Secondly, we incorporated new types of climate data for forward looking scenario analysis tools from a range of third-party research providers including S&P Tru Cost, CDP and MSCI ESG.<sup>11</sup> We also started to utilize Science Based Targets Initiative-related data for companies and published a research paper on the topic.<sup>12</sup> We also use insights from this data to develop our in-house analytics capabilities for research and portfolio analysis, which in turn informs our engagement and proxy voting.

Thirdly, in response to increasing European regulation on sustainable finance we started to use newly available company data with regards to EU taxonomy on sustainable activities. We see the breadth and depth of information in this area is still improving and continue to monitor developments.

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<sup>11</sup> Limitations of Data Disclosure: 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 (including, without limitation, the JPMAM Quantitative ESG Score) or third-party data. Under certain of 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 differs 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.

<sup>12</sup> "Climate scenarios" – What are they, why are they important, and how are they applied to investment portfolios - Nov 2022, J.P. Morgan Asset Management

# Our approach to engagement

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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 environmental, social and governance practices 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 ESG 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 involvement in order to deliver better long-term return 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 of investee companies.

It is also worth highlighting that alongside the ongoing dialogue 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 for driving change across our Investment Stewardship Priorities.

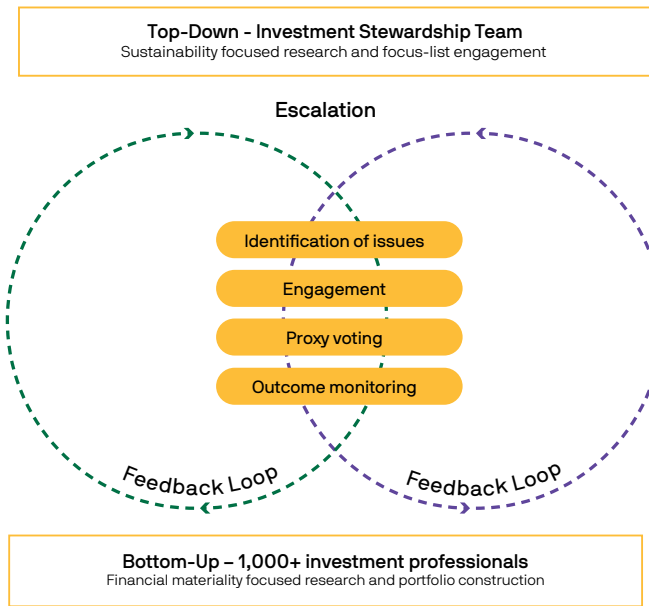
## Investor-led, expert-driven engagement

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 drive long-term sustainable outcomes in investee companies. Ultimately, the objective is to build stronger and more resilient portfolios for our clients.

# Our approach to engagement continued

## J.P. Morgan Asset Management Engagement Model



Source: J.P. Morgan Asset Management, as of December 31, 2021.

## 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.

In 2022, we went through a review process with our investment teams and clients to discuss what we believe to be the most financially material ESG themes. This was conducted through the regional Engagement Working Groups and in a series of client surveys and polls (for more detail on how we collected the views of our clients and reflected them in our Investment Stewardship Priorities – please refer to the *Client and Beneficiary Needs* section). This process resulted in adding one new priority: Natural capital and ecosystems. This far-reaching topic looks at economic activity and its relationship with the natural world. Issues include the extraction of natural resources and their use in industrial production and other business activity, waste and recycling, the concept of circular economy and sustainable systems of production. Like climate risk over the past decade, we believe that natural capital and ecosystems will continue to emerge as an important investment and stewardship consideration in the coming decade because of the financial impact on the long-term value of companies. We also updated the underlying sub-themes for each priority.

Within each priority area, we have identified related sub-themes that we are seeking to address over a shorter timeframe (18-24 months). These sub-themes will evolve over time as we engage with investee companies to understand issues and promote best practices.

This combination of priorities and evolving themes provide a structured and targeted framework for engagement for our investors and Investment Stewardship team globally.



# Our approach to engagement continued

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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 drive at our investee companies to manage risk and improve investor value. We also provide examples of how these issues are influenced through our proxy voting activity.

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 controversies at media and technology companies; in Asia the focus has been on 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 given the position of US and Canada as a large oil and gas producer and the existing and proposed methane regulation by environmental agencies. 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 US 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 investment stewardship program

Last year, 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. 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 began systematically tracking and monitoring these interactions in 2022 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 creating value by capitalizing on opportunities. We assess companies' response to engagement and monitor over time the progress being made, 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 that our research and analysis has identified to be of need. Our **Enhanced Engagement Program** was established in 2021 to meet the evolving 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. In 2022, we expanded the scope of companies under this program.

## 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 where our research has identified an area or two of financially material ESG risks and opportunities. This list is agreed 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 acknowledgment of the issue and broader regulatory factors shaping the circumstance. We then establish clear objectives up front and seek to encourage companies to consider changes over the course of 18-36 months, depending on the complexity of change required. Key focus issues are largely around

# Our approach to engagement continued

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our six Investment Stewardship Priorities where we have in-house expertise, but we are not limited to such topics, as the issues can be quite company-specific in nature. The Focus List in 2022 consisted of 138 companies which is an increase from 2021 when it was 114 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 through the lifetime of a particular project.

For example, in 2022, we started a thematic project with regards to the inclusion of environmental and social key performance indicators and targets in executive compensation plans. This covered companies in Europe and North America. We sought to identify circumstances where these key performance indicators (KPIs) and targets were relevant to strategic outcomes, financially material to investors, and appropriately applied in scope and size. More details on this project are to be found in the *Strategy alignment with the long term engagement* section.

**Reactive engagements:** While we endeavor to ensure that our proactive engagement can encourage our investee companies to be more resilient to 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 regards to controversial corporate practices, products and services. In 2022, an area of Stewardship focus was on issues which arose from Russia's invasion of Ukraine. For more details on this, please refer to the *Reactive Engagement* section of this report.

Additionally, some of our funds and client mandates may be subject to criteria and investment restrictions based on ESG considerations. In such cases, we also engage on behalf of the specific ESG engagement objectives of these funds with the goal of advancing the strategy specific sustainability ambitions and addressing material harm that these companies may be causing. In these instances, we are transparent

with investee companies on the nature of these funds and mandates' objectives. For more on this, please refer to the section on *Engaging for Sustainable Outcomes* section.

## 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 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 1:1 basis, but we work in collaboration with other asset managers, where permitted, and 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, operational specialists from the company who have subject matter expertise, such as heads of compensation, heads of diversity, equity and inclusion or investor relations.

Increasingly, our ESG interactions with companies in the Core Stewardship Program 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



# Our approach to engagement continued

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by the Investment Stewardship team. The team also provide engagement training to investment teams. In 2022, there were three in-depth training sessions for engagement teams around the world on high quality engagement which were led by our Global Head of Investment Stewardship. They were done in person in New York and London and online for investment teams elsewhere. The team followed this up with specific training sessions on certain themes such as climate change and how it is material to financial risk and investment outcomes.

We consider it to be a key part of our approach to ESG integration that the investors should play the 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 push for clear outcomes in a time-bound fashion. We often seek engagements to result in tangible outcomes and reforms within three years from the start of the engagement.

Our view is that for most material ESG issues, our JPMAM equity and fixed income investors generally have the same view as to what is in the best long-term interest of the company. This is now backed up by experience where there is growing collaborations 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.

## Escalation

Engagements with targeted companies are documented, allowing us to monitor the stage of engagement. There will be times where, despite prolonged engagement, our concerns around managing risks and increasing and preserving 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 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 while these engagements may be unsuccessful, securities of companies may be purchased and retained for reasons other than financially material ESG factors.

We will escalate concerns having reviewed the potential benefits of such action on our objectives, while ensuring we are always 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 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 invasion of Ukraine or certain votes specific to sustainable strategies).

# Our approach to engagement continued

## Case study – escalation



Saudi Aramco



Saudi Arabia



Equity, Bonds

### Issue

Saudi Arabia through its majority state-owned Aramco oil company is the world's biggest explorer of oil. Unlike some of its international peers, Aramco historically has not publicly clearly acknowledged the risks to its business including risks associated with climate change and the transition to lower carbon fuels. In discussions with the Saudi Arabia government through its advisors on its sustainability strategy in 2021, JPMAM highlighted that Aramco needed a clearer position on how it intended to navigate risks it faced associated with transition to a lower carbon economy as part of furthering credibility for the state and company. In late 2021, JPMAM wrote a letter to the Chairman of the Aramco Board requesting additional information concerning the company's management of material climate risks, to which we did not receive a response.

### Action

Following discussions we had with the company in Q2 2022, the company published its first ever Sustainability report. The report showed a rhetorical shift from its past position on the issue, acknowledging the Paris agreement and details the company's need to respond to the impact on its business from the low carbon transition. It included detail on the company's medium- and long-term operational decarbonization commitments to achieve net zero operational (Scope 1 and 2) emissions by 2050 and efforts the company intends to take to reach them, e.g., using Carbon Capture Utilization and Storage (CCUS) and reduction of methane emissions.

We joined the group investor meeting with the company following the report publication. Executives explained the future vision of the company as the lowest cost, lowest carbon intensity producer of oil; meeting the likely shrinking long-term global demand for oil and gas in any future potential transition scenario. It stressed the unique nature of the company's asset base compared to other international oil companies whose transition narratives are different and generally include a reduction in oil and gas production. Aramco explained how they are seeking to achieve a carbon intensity lower per barrel of oil than any other industry peer. It stressed its role in providing energy access and security to the developing world, through a 'just transition'.

The company committed to continue the dialogue via further meetings where aspects of the company's decarbonization strategy could be discussed in more detail.

### Outcomes and next steps

We welcome the progress made by Saudi Aramco in regard to its acknowledgment of the climate change risks and its increased dialogue with investors on these issues. We note the engagement and the company's strategy is still in its earliest stages. We will continue the dialogue to dive further into the detail of the company's decarbonization strategy, associated risks, and future enhancements.

# Our approach to engagement continued

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## 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, but here 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 is not resulting in meaningful response and/or progress in the engagement over time.

The focus for us on collaborative engagement is no different to 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 such risks so it does 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 allow for effective communication of investor concerns to companies.

With recent media attention on collaborative engagements, it is important that clients understand what “collaborative engagement” means and does not mean. For example, while collaborative engagements involve multiple investors (such as other asset managers) with common concerns around risks and opportunities facing individual companies, each investor makes its own investment and proxy voting decisions. JPMAM does not share competitively sensitive information concerning 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.

In 2021, our review of stewardship activities highlighted collaborative engagement as an area of focus with clients expecting increased engagement to manage risk and improve the long term value of their accounts.

Risks and opportunities associated with climate change is a critical issue impacting companies around the world, making it one of our six Investment Stewardship Priorities. We have been collaborating with other investors and stakeholders to engage with issuers that we believe face the most significant climate change risks that threaten long-term value of our client accounts. We have engaged to understand how these companies are managing the physical and transition risks associated with climate change risks including any decarbonization strategies.

# Our approach to engagement continued

## Framing net zero stewardship

We believe that engagement with companies on how they are managing climate change, including the credibility of any net zero targets they set, is part of managing risks and contributing to long-term shareholder value. What has not always been clear is how to most effectively conduct stewardship in a way over time which can meaningfully encourage improvements in corporate climate-related practices. We seek to play a leading role on this issue and so, we have served as the co-chair of Institutional Investors Group on Climate Change's (IIGCC) Net Zero Stewardship Working Group. This is a group of approximately 70 investors who also share a common interest in more robust stewardship practice with relation to the transition to the net-zero economy. In 2022, the group contributed to the discussions which led to the development of and provided feedback to the publication of the IIGCC Net Zero Stewardship Toolkit. This document is aimed at providing investors with helpful ideas sourced from across the industry on a series of voluntary good practices to enhance their stewardship practices when such investors identify risks and opportunities in the portfolios they manage. The toolkit helps investors formulate and articulate their own objectives for engagement and improve interactions with their clients so that such clients' needs are well understood. J.P. Morgan Asset Management also hosted the launch event at our offices in London in the summer which was well attended by clients and other asset managers from across Europe.

Please refer to the *Climate change engagement and voting* section to read more about our climate-related initiatives.

## Human capital and Human rights initiatives

We believe 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. In 2022, we became signatories of the Workforce Disclosure Initiative (WDI). The WDI aims to close the gaps where data has not been presented by companies on human rights issues, improving provisions of decent work within the supply chain, labour rights issues and diversity, equity, and inclusion. To address the data gap issues, the WDI invites companies to respond to its data collection<sup>13</sup> (and have subsequently built a database available to its members to retrieve this data). See the *Human capital management engagement and voting* section for further details.

Separately, we became a participant of Advance,<sup>14</sup> a new investor-led initiative coordinated by the UN-supported Principles for Responsible Investment (PRI) with the objective to increase respect for human rights and drive positive outcomes for people through investment stewardship. The initiative has been endorsed by around 220 investors, amounting to over \$USD 30 trillion in assets under management, and around 120 investors will participate in the engagement. In 2023 we will lead a social and human rights engagement with

Korean steel maker POSCO and collaborate with other investors on an engagement with Nippon Steel. See the *Social stakeholder engagement and voting* section for additional details.

## Governance initiatives

**Governance** focused initiatives such as the UK 30% Club Investor Group, of which we have been a member since 2012, continued to be a key area of focus in 2022. We are also a member of Japan 30% Club Investor Group and its Best Practice Working Group and a member of 30% Club Hong Kong Investor Group (previously known as Board Diversity Hong Kong Initiative).

In 2022, we participated in a new diversity engagement through our membership of the 30% Club Hong Kong Investor Group. Alongside four other members, we reached out to 23 Hong Kong-listed companies with single-gender boards to better understand their board nomination process, their approach to board diversity as well as their wider diversity and inclusion strategy. As described in our *Governance engagement and voting* section, we believe there is a strong positive correlation between high governance standards and shareholder returns, which includes seeking diverse perspectives on the board.

<sup>13</sup> Workforce Disclosure Initiative (WDI) data survey: 2022-WDI-Survey.xlsx (live.com)

<sup>14</sup> <http://www.unpri.org/advance>

# Our approach to engagement continued

## Engaging with executive search firms for positive changes in recruitment

In addition to the importance of diverse perspectives on boards, we believe that a diverse executive leadership and employee base leads to better decision making, access to greater experience and talent and long-term shareholder value. As a long-standing member of the UK 30% Club Investor group, we have been advocating on gender diversity for nearly a decade. In 2021, one of the initiatives we participated in was a project to engage executive search firms to gather insight about their practices on the appointment process for executive management and board members for their clients. We also wanted to learn about these firms' commitment to the Voluntary Code of Conduct for Executive Search Firms, and any challenges that are faced by executive search firms.

In 2020, we were a signatory of engagement letters to four executive search firms. We continued our engagement in 2021. These engagement activities highlight that the female candidate pool is still developing for certain executive management appointments. Thus, they often see the same candidates in similar applications. Another point raised was the idea of fostering more female board members to serve as the chair of the remuneration committees where there were currently only a few women in this role.

In 2022, we continued our engagement with a smaller search firm, and managed to engage with a large executive search company we had written to in 2020, when our campaign originally started. In order to obtain a summary on progress, we engaged with FTSE Women Leaders Review, who noted that executive search firms are not tied to becoming signatories to the Voluntary Code of Conduct for Executive Search Firms, but good progress has been made. Additionally, in order to bolster diversity, equity and inclusion programs, certain executive search companies have created programs on working with clients in producing inclusive job descriptions and also helping with training individuals for the role, especially if they are not ready for Board or Management position. The discussion with Executive Search firms will continue beyond 2023, as greater focus has been placed by the UK Financial Conduct Authority and the UK Parker Review<sup>15</sup> regarding executive management /Board appointments, represented by female and ethnic minorities.w

In 2022, our Japan Head of Investment Stewardship participated as a panelist in a local educational session hosted by the Thought Leadership Working Group of the Japan 30% Club Investor Group. She also spoke at a workshop for the 2022 annual conference organized by the Asia Corporate Governance Association (ACGA). The conference was supported by ICGN and The Investor Forum and attended by more than 170 delegates across regions. The workshop discussed challenges of environmental, social, and corporate governance reforms in the post-Abe era.

ACGA is an important stakeholder we have been working with on corporate governance issues in Asia. As a member of its Korea Working Group, we joined the mini delegation to Seoul in October, meeting companies and policymakers to advance the governance agenda. We are also co-leading engagements with two Chinese companies with other investors in ACGA's China Working Group.

<sup>15</sup> UK Park Review - Set an expectation of the appointment of at least one director from an ethnic minority group by 2021 for FTSE 100 companies.

# Our approach to engagement continued

## More transparency required for proxy voting

To find ways to enhance disclosure, transparency and standardisation of vote reporting, the UK Financial Conduct Authority (FCA) convened a Vote Reporting Group in 2022 to which we are a member. The key objectives of the working group are to develop a recommendation on minimum vote reporting requirements for asset managers, to develop a recommendation on ownership of the vote disclosure framework and to develop a recommendation on storage and dissemination of vote reporting data. As a member of the working group the objectives are aligned with our stewardship commitments to help standardise and enhance voting disclosure by asset managers in the market and we aim to continue to contribute to this through 2023.

To learn more about our governance work, please refer to the *Governance engagement and voting* section.

## Climate change

- **Asia Investor Group on Climate Change** – member
- **Climate Action 100+** – participant and co-lead in engagements with Emerging Market and European companies
- **Institutional Investors Group on Climate Change** – Net Zero Stewardship Working Group (co-chair)
- **ICMA Green and Social Bond Principles** – Climate Transition Finance Working Group
- **London Stock Exchange** – Sustainable Bond Market Advisory Group
- **Net Zero Asset Managers initiative** – signatory
- **The Sustainable Markets Initiative** – previously referred to as The Prince of Wales' Sustainable Markets Initiative – Asset Manager and Asset Owner Task Force

## Human capital management and Diversity

- **UK 30% Club** – signatory of the letter to address systematic inequities and member of the Race Equity Working Group
- **Hong Kong 30% Club** – co-lead of diversity engagement with Hong Kong-listed companies with single-gender boards
- **Japan 30% Club** – signatory of the gender diversity letter to Japan Exchange Group and the Financial Services Agency in Japan
- **Principles of Responsible Investment** – participant in its new human rights initiative Advance
- **Workforce Disclosure Project** – signatory to engagement program asking companies to participate within the WDI survey

## Governance

- **Asian Corporate Governance Association** – active member of China, Japan and South Korea Investor Working Group
- **UK Investor Forum** – signatory of a letter to Unilever
- **UK Financial Conduct Authority** – member of Vote Reporting Group

## Other sustainability topics

- **Global Real Estate Sustainability Benchmarks** – signatory of the letters to Asian Pacific and EMEA property companies concerning additional disclosure
- **UK Investment Association** – our EMEA CEO Patrick Thomson was appointed as the Board Chair. We also sit on various groups including the Stewardship Reporting Working Group.

# Our approach to engagement continued

## 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.

In 2022, we continued to evolve and strengthen our approach to tracking engagement progress and recording milestones and engagement failures. Our newly established ESG engagement recording system in our Spectrum™ technology platform enables systematic tracking of engagement progress.

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 the board or management acknowledge an issue and start 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. 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.

## Our approach to engagement progress and milestone tracking

In order to check 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

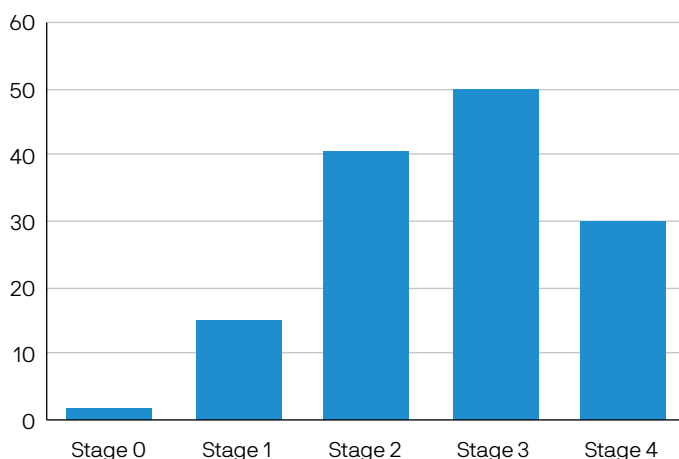
We have also identified scenarios where we have concluded that no positive outcomes can be expected in the given timeframe:

- 0 Engagement failed

## Our Focus List engagement progress in 2022

In 2022, the global Investment Stewardship team had 138 investee companies on the engagement Focus List, where we tracked progress, and we had a number of reactive engagements, which we also included in scope. The chart below shows the stage of different engagements at the end of 2022.

Number of companies engaged by milestone



Source: J.P. Morgan Asset Management, as of December 31, 2022.

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.

# Our approach to engagement continued

In 2022, we observed that most companies on the Focus list progressed from stages 2 to 3, and in over 20% of cases resulted in the desired outcome as shown in the chart above. We noticed success cases in each area of our priority across all regions (see table 2), and some of them are explained in more detail in the engagement case studies section.

We have observed successful engagements with investee companies taking steps to manage risks and promote long-term value tend to have concrete objectives with numerical targets, such as for diversity in the workplace or on the board, or for GHG emissions reductions. 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.

We also observed several cases where our engagement failed due to a reluctance on the side of the company management in addressing our concerns, or because our ask was deemed too challenging for the company to address (see Royal Mail case study).

## Table of 2022 engagement success examples

Company	Country	Priority	Milestone detail
HEALIOS KK	Japan	Governance	(Board diversity) Appointed the first female outside director in 2022 and four new directors with international backgrounds to improve the talent and experience of the Board. These actions illustrate the company's understanding of the significance of board and workplace diversity, and CEO takes leadership in initiatives to further progress in diversity, equity and inclusion practices. We received the appreciation letter from the CEO and are encouraged by this development and a strong sense of CEO's commitment.
OCP SA	Morocco	Social stakeholder engagement	Conducted an independent assessment of operational and community management practices in Western Sahara. Key summary of findings were disclosed to investors. This was in response to engagement request by us and other stakeholders with the Moroccan state-owned mining company on providing more information on how it is conducting phosphorous extraction operations within the disputed territory.
China Merchants Bank	China	Governance	(Business conduct) Extended its coverage of business ethics and compliance (including financial crime risk). In the 2021 report, it added business ethics and compliance management given expectations and demand from shareholders and investors and stated that the board is accountable for employee's violations. The company reported no money laundering cases or major violations in 2021. The company indicated its discipline inspection and supervision departments accepted and disposed of 142 cases in the anti-corruption section in the year.
NetEase Inc	China	Governance	Introduced NetEase to 30% Club HK Pipeline Program in April 2022. In July 2022, NetEase appointed a second seasoned female independent director with auditing background, raising female representation on the board to 33%.
Advantech Co Ltd	Taiwan	Climate change	Advantech includes a TCFD section in its CSR report 2021. Following our feedback regarding material climate risks, it also revised its renewable energy target from 20% by 2025 last year to 50% by 2026 and 100% by 2032.



## Our approach to engagement continued

Company	Country	Priority	Milestone detail
Samsung Electronics	South Korea	Climate change, Governance	<p>In September 2022, the company announced its new net zero strategy by 2050 across all of its operations globally, including its Device Solutions Division. It also joined RE100 and plans to match its electric power needs of all international markets (outside of Korea) within five years, and by 2050 for all operations globally including Korea.</p> <p>In AGM 2022, the company appointed a new male independent director who is a Singaporean by nationality, Korean by ethnicity, and has an investor background. In EGM 2022, the company proposed to elect two diverse board candidates (both in terms of experience and gender) to fill the vacant positions, increasing gender diversity to 18%.</p>
Biogen	United States	Strategy alignment with the long term	<p>(Executive compensation) The company improved the executive compensation noting: Equity will consist of 40% options that vest over three years and 60% performance shares that vest based on absolute stock price CAGR and relative TSR. There are no time-based RSUs, other than a matching program should the CEO buy \$2mil of stock with his own money. Strong performance will lead to realized pay around \$28mil, while underperformance will result in realized pay aligned with shareholders.</p>
Eastman Chemical	United States	Social stakeholder engagement	<p>Following our engagement, and EMN providing more details on the Community Advisory Panel, we believe EMN is acting responsibly in the region.</p>

# Our approach to engagement continued

## Case study – unsuccessful engagement



Royal Mail



United Kingdom



Equity

### Issue

Royal Mail has been scrutinized given labor management issues, with a difficult balance between efficiency and modernization versus supporting staff pay at a time of heightened living costs. The profitability of the Royal Mail had been pressured for some time, with low levels of automation, an outdated ‘Universal Service Obligation’<sup>16</sup> and uncompetitive labor contracts leading to poor productivity versus competitors. This changed through the Covid-19 pandemic as the business benefitted from a huge increase in parcel volumes and was able to reinvest some of these gains into making the business more efficient for the future, in partnership with the unions. However, this year a reversal of some of those Covid-19 tailwinds has weighed on growth while elevated inflation has pressured the living standards of its staff. This has led to restructuring, heated pay negotiations and ultimately, as communication between management and the unions has broken down, labor strikes.

### Action

We held meetings with the management team and sustainability experts at Royal Mail to understand actions being taken to remediate and harmonize relationships with both unions, Unite and Communications Working Union. We were advised Royal Mail indicated there was a disconnect between information being outlined in the media noting the strengths of their relationships with both unions. We engaged with the company again asking for updates on whether agreements and a resolution with the unions had been reached. It was noted that while the July industrial action had been called off, Royal Mail had not successfully completed negotiations with the unions.

### Outcome and next steps

Having considered the complexity of the situation and the sensitivity of profits reductions to pay increases, it was not clear to us that a successful compromise could be reached. As a result, expecting an outcome that would be negative both for shareholders and staff, we elected to divest Royal Mail stock. In our view, we deemed this as an unsuccessful outcome, as negotiations remain unresolved.

## Reactive engagements

Our engagement program is largely based on pro-active 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 when new information becomes uncovered about long running concerns with regards 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 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 the 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.

<sup>16</sup> Universal Service Obligation – The universal post service is essentially the ‘one price goes anywhere’ principle of affordable postal services to all UK addresses.

# Our approach to engagement continued

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 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 engagement, or cases ahead of a high-profile vote.

## Case study – reactive engagements



Russia and Ukraine conflict



Russia



Equity, Bonds

### Issue

Russia's invasion of Ukraine in late February 2022 had significant impacts on international investors. Significant financial sanctions against Russia were announced by major Western governments in response. The Russian stock market closed trading while the shares of Russian companies listed on foreign exchanges lost much of their value. Most trading in Russian bonds was also closed.

### Action

Prior to the invasion, we had engaged with Russian company management and voted at company meetings as we would have for any other market where we invest. However, this changed with the invasion as JPMAM had to take immediate steps to protect our client's investment value following the invasion in response to market and operational challenges of complying with multiple jurisdictional restrictions on Russian issuers as well as the Russian Federation's countermeasures against "unfriendly nations," which impeded ordinary business activities such as proxy voting. While we were able to exit the vast majority of positions – due to the chaotic nature of the immediate aftermaths of the invasion and markets closing, we were left with a small number of holdings in Russian equities where we could not exit. For these securities, JPMAM retained proxy voting rights. In most cases, we have determined to not vote at Russian company meetings due to the rapidly changing nature of the situation and the difficulty in making the right voting decision in our clients' best interests. We have followed the situation through 2022 as the war continued.

In late December, we cast our first votes with a Russian company meeting since the start of the invasion. This was at retailer Detsky Mir which called a special general meeting to restructure and delist. We voted against resolutions related to this transaction as this required investors to be part of a mandatory buy back from the company, and we deemed this to be in our clients' best financial interests.

### Outcome and next steps

The war continues and its future remains uncertain. We will continue to determine if voting in limited cases is in our clients' best interest and in compliance with all related regulations and sanctions. We are also monitoring for wider developments that impact our remaining exposure in Russia.

# Engagement in 2022 – A year in review

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Two key issues emerged in 2022 which became an ongoing theme during the year in our engagement discussions with investee companies. These were namely, energy security and a heightened concern around human rights abuses.

As we report in the *Climate change engagement and voting* section, the immediate challenge of ensuring energy supply in Europe as Russia turned off the natural gas pipelines meant at times reopening coal-fired power stations which had been mothballed in response to decarbonization goals. At the same time, we saw the energy security issue open difficult debates about over-reliance on unreliable foreign suppliers of fossil fuels and other commodities. This in turn led to many countries adopting policy moves to shift quicker to renewables and at larger scale.

The purpose of this section is to explain the work we have done in 2022 on behalf of our clients. It is focused principally through the lens of our six Investment Stewardship Priorities. This year, we introduced a sixth theme – Natural capital and ecosystems. Like climate risk over the past decade, we believe that Natural capital and ecosystems will continue to emerge as an investment and stewardship consideration in the coming decade because of the potential impact on the long term value of companies.

This section is intended to be a sample of the breadth and depth of work conducted, including successes and shortcomings. In stewardship, victories are rarely guaranteed and stumbling blocks are to be expected. Our experience shows that driving positive change for the benefit of our clients takes time, determination, and persistence.

This year, we also provide more insights into a few new areas. We devoted additional resources to these areas in 2022 and are starting to see progress. While some activities in these areas are not fully mature, we recognize that an honest narrative of our efforts can contribute to the development of better practices.

- Firstly, we provide details of engagements we do with sovereign entities. ESG related dialogue with sovereign bond issuers (as well as state-owned/controlled enterprises) are still at a nascent stage in the industry compared with corporate issuers. We plan to work on engagement with sovereign bond issuers further in 2023.
- Secondly, we discuss case studies for specific sustainability-outcome focused investment strategies and client mandates where our engagement intends

to achieve sustainability-related outcomes aligned with the strategies' investment objective. We believe that engagement plays a powerful role in driving investor impact for sustainable outcomes.

- Thirdly, we also introduce how we conduct Investment Stewardship for asset classes within our Alternative Investments platform. The nature of stewardship with privately controlled assets is nuanced in comparison to publicly listed investments such as listed equity or corporate bonds although the goal is the same – promoting long-term value and managing risk in our client portfolios.
- Fourthly, in this report you will find several examples of how we have engaged across the global supply chain on different themes, whether they be methane emissions across liquid natural gas (LNG) supply chain or labor rights across the retail sector where we believe they present financially material risks to our investee companies.

## Engagement by the numbers - 2022<sup>17</sup>

The total engagement we conducted with investee companies was 1,371 across 56 countries across our entire Global Stewardship program. We recorded more than 2200 engagement activities with these investee companies over the year. This is broadly comparable with our figure from 2021 where we had engagements with 1,392 investee companies.

A major shift has been the increase in the in-depth engagements taking place in our **Enhanced Engagement Program** which included 138 companies on our global Focus List compared to 114 in the year before. This was part of an intentional shift to move our engagement from quantity and breadth of coverage to more of a focus on the depth of engagement and its progress and outcomes. We see this as a broader trend and expectation from regulators and clients in the industry. We plan to provide more detailed information on this in future reports – as we developed an upgraded engagement research system through 2022 which enables more intricate and detailed capture of stewardship activity.

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<sup>17</sup> This section includes summary of ESG engagement data taken from Research Notes application in Spectrum™. Such information has not been audited.

# Engagement in 2022 – A year in review continued

While our engagement continued to be driven by our discussions with investee companies in major markets such as North America, Europe and the UK, Japan and East Asia – we also extended our efforts to smaller and emerging markets, as well as companies in countries which were more in the news such as Qatar, given they hosted the FIFA World Cup. We saw notable increases in our engagements with companies in India in 2022 where the stock market hit all-time highs, while there was a significant reduction in our interactions with Russian companies this year compared to last year as we exited our equity and bond holdings due to the fallout related to the invasion of Ukraine.

From a thematic perspective – the top three areas of engagement by issues were human capital, climate change and governance. 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.

## Engagement by ESG area



**1,371**  
Number of companies engaged  
**138**  
of which were 2022 Focus List companies



**56**  
Number of markets engaged



**26**  
Number of sectors engaged



**5%**  
Engagements with board directors



**73%**  
Engagements with senior executives

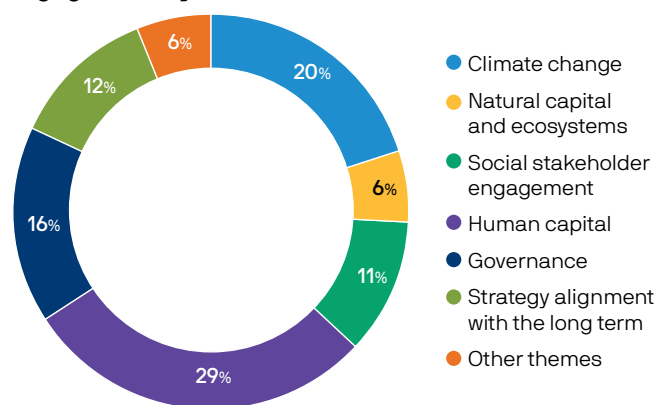


**22%**  
Engagements with other company representatives including operational specialists and investor relations

## Engagement by ESG area

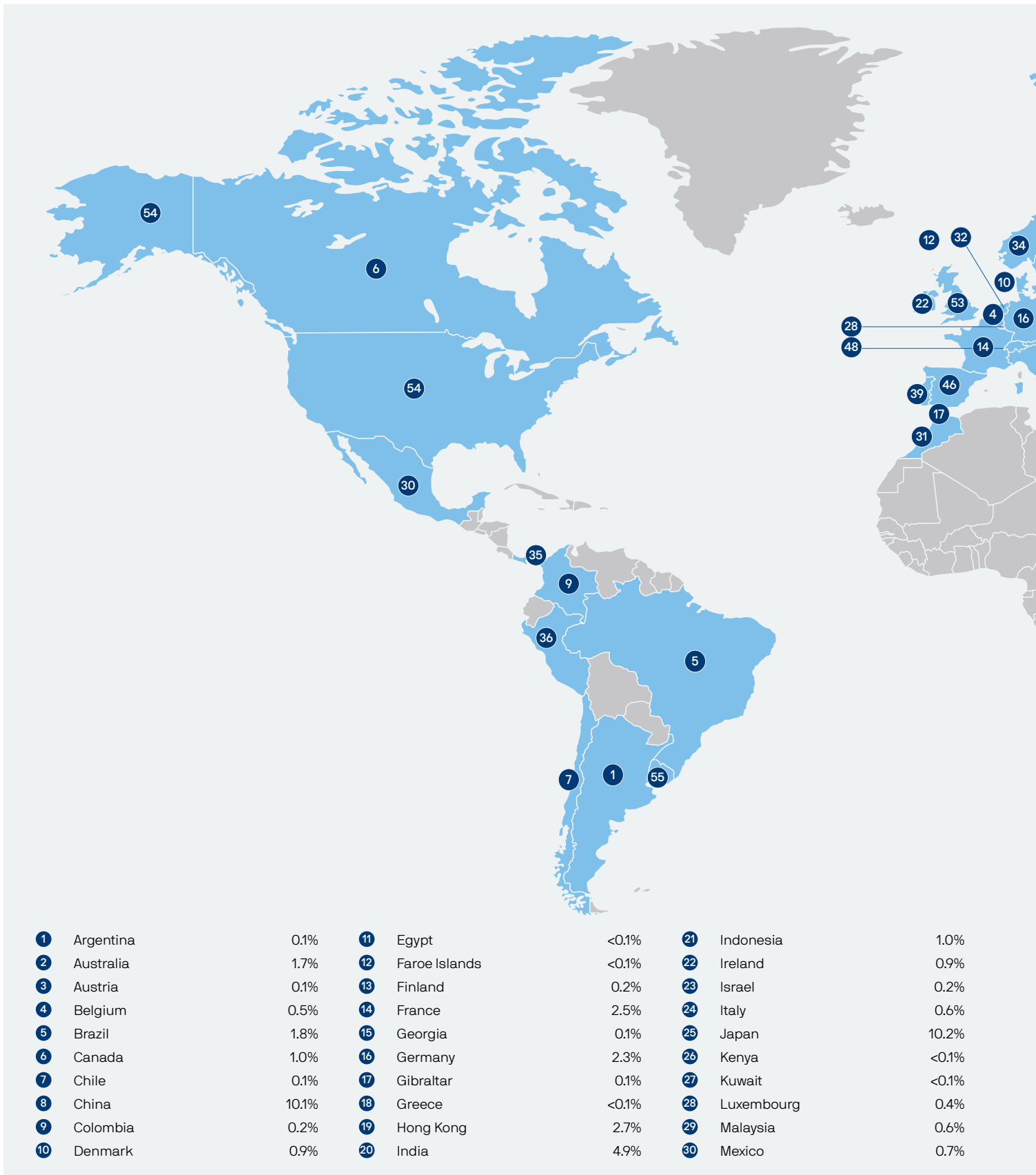
ESG area	%
Environmental	27
Social	45
Governance	28

## Engagement by ESG theme

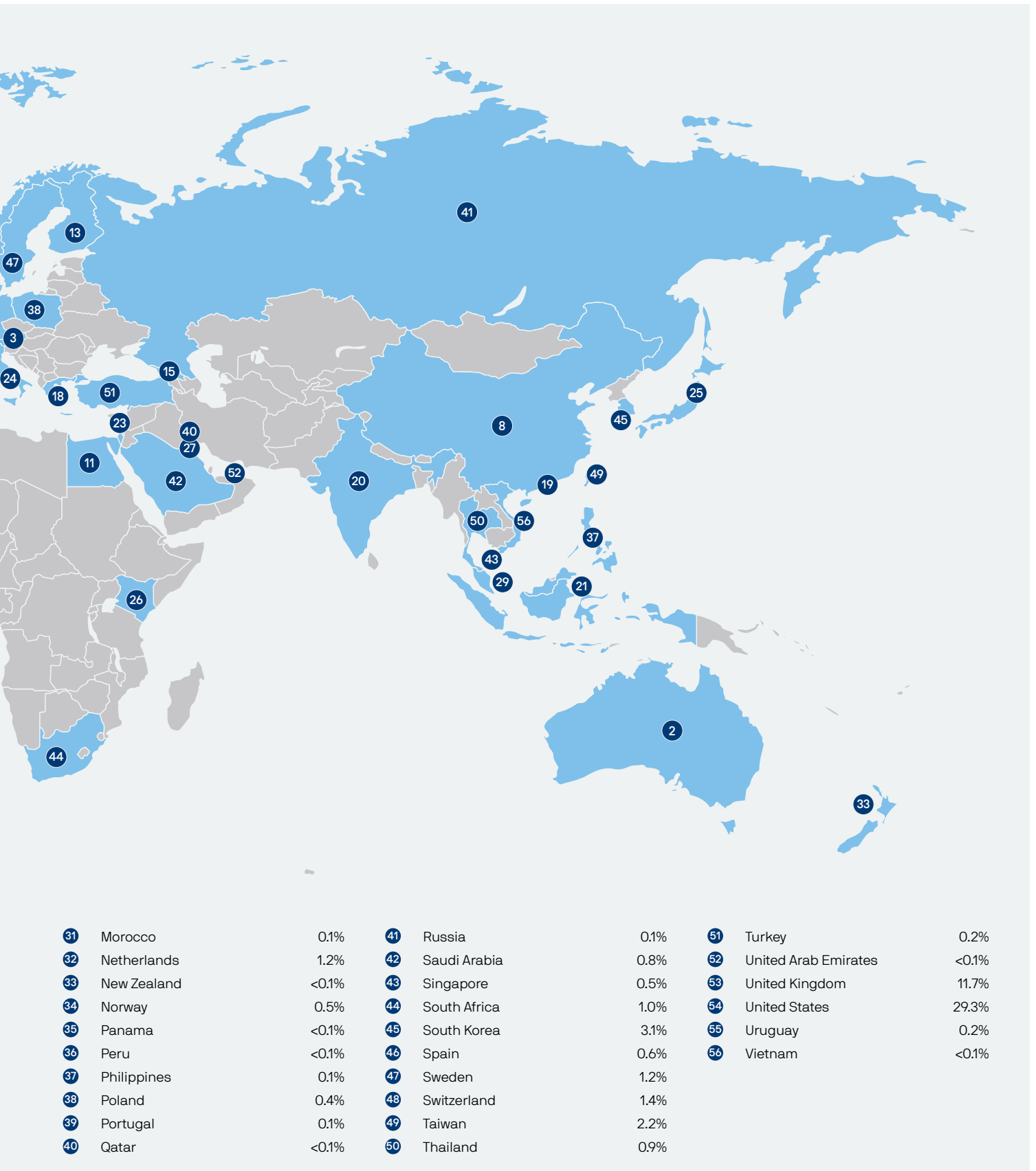


# Engagement in 2022 – A year in review continued

## Engagement by market

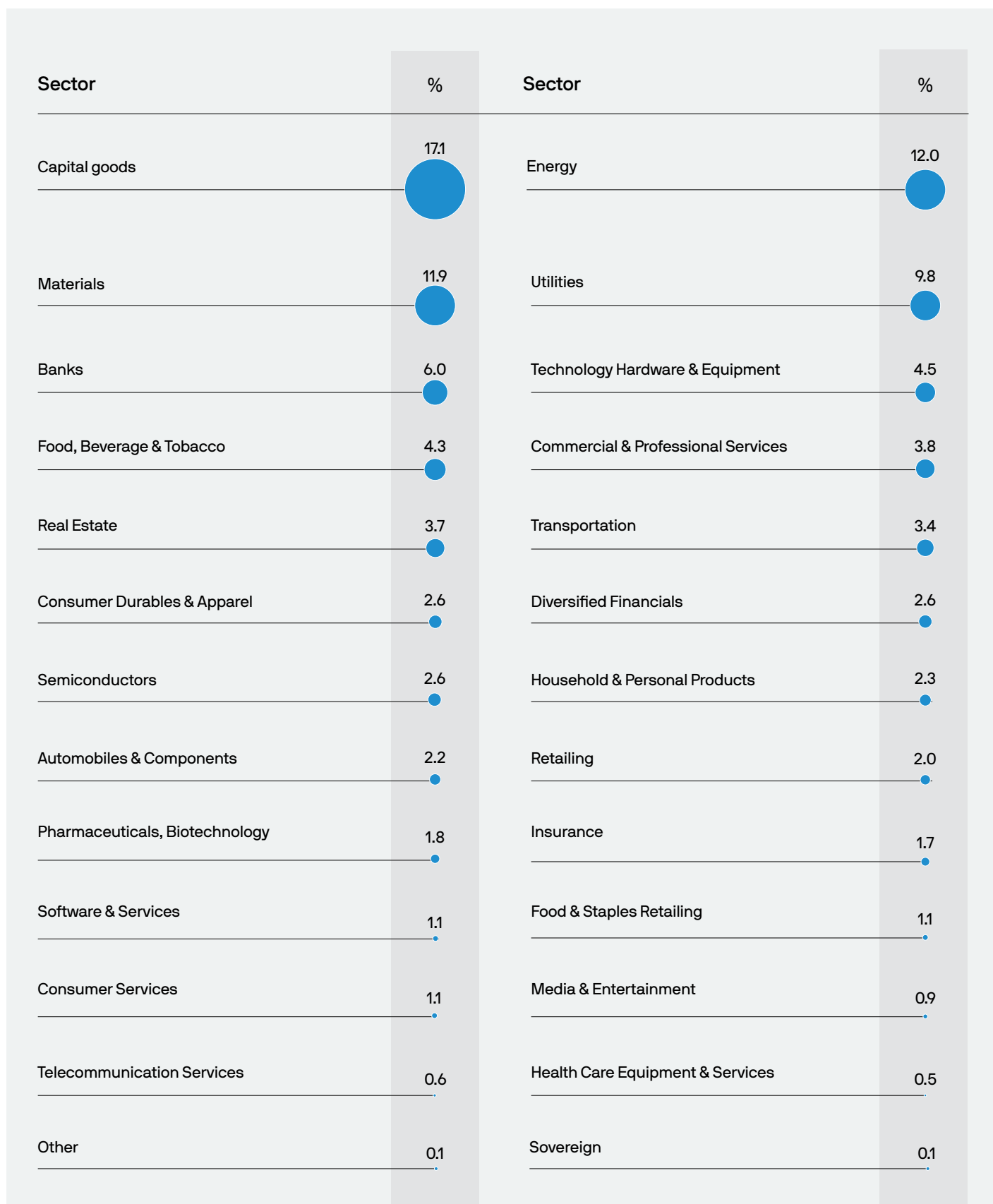


# Engagement in 2022 – A year in review continued



# Engagement in 2022 – A year in review continued

## Engagement by sector





Our six investment stewardship priorities

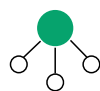
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# Climate change engagement and voting report – 2022



# Climate change engagement and voting report – 2022

## Engaging companies on climate change



**539**

Number of companies engaged on climate change



**42**

Number of countries engaged on climate change



**26**

Number of sectors engaged on climate change

## Top ten markets engaged on climate change

Country	%
1. United States	25.7%
2. United Kingdom	14.4%
3. Japan	11.9%
4. China	6.4%
5. France	3.8%
6. India	3.7%
7. South Korea	2.9%
8. Germany	2.4%
9. Taiwan	2.4%
10. Hong Kong	2.2%
11. Australia	2.2%

## Top 10 sectors engaged on climate change

Industry	%
1. Capital Goods	17.1%
2. Energy	12.0%
3. Materials	11.9%
4. Utilities	9.8%
5. Banks	6.0%
6. Technology Hardware & Equipment	4.5%
7. Food, Beverage & Tobacco	4.3%
8. Commercial & Professional Services	3.8%
9. Real Estate	3.7%
10. Transportation	3.4%

# Climate change engagement and voting report – 2022 continued

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2022 saw another increase in extreme climatic events around the world, from forest fires in the Western United States, to record breaking heatwaves in Southern Europe, and the most severe flooding in Pakistan's recent history which left a third of the country under water<sup>18</sup>. With more than half of all adults surveyed<sup>19,20</sup> recently by the World Economic Forum saying climate change has already had a severe effect in the area where they live, it is clear the increasing urgent and material challenges which climate change is posing to companies around the world. As investors we know that these events damage assets affecting asset prices and disrupt supply chains and the ability of companies to do business. We are concerned about the potential for rising costs associated with the increasing frequency and intensity of such events and the consequential impact on investments.

At the same time, Russia's war in Ukraine put a much greater emphasis on domestic energy security in 2022, as countries tackle the energy crisis - balancing security of supply, cost, and decarbonization. In response, emissions could trend higher than previously expected as countries scramble to replace Russian energy sources to meet shortages. At the same time, the high costs of energy do not appear to be slowing ambitions regarding the commitment to decarbonize.

In part because of these challenges around security, we believe that shifts in public policy to address the climate crisis are likely to accelerate within our investment time horizon across asset classes. We seek to identify companies that will benefit from the opportunities that arise from the anticipated rapid shift to a low-carbon world and assess the risks of investing in companies unprepared for this transition. Engagement plays an important role in encouraging companies to consider the latest climate science and likely policy shifts and, to also build resilience into their planning, recognizing uncertainties which could impact the transition, in order to future proof and avoid energy crises like we have seen this year.

This section outlines how we use our active ownership to address these risks and opportunities through direct engagement with companies on climate change, having engaged with 539 companies on climate change in 2022. It also demonstrates how we express our views through our voting activity, holding boards accountable and supporting resolutions that we feel will support companies toward progress in climate transition strategies that address financially material risks and opportunities facing such companies.

## Engaging across the energy value chain

Energy sector companies in different jurisdictions have been impacted differently by the recent crisis and this is reflected in our engagements. For many European countries the answer has been to cover shortages through import of liquid natural gas (LNG) to replace Russian gas supplies, and to accelerate the roll out of renewables with measures being implemented to speed up permitting and planning processes. Many Asian countries previously considering switching from coal to gas ahead of the transition to renewables, have had to reconsider plans as global gas prices have led to Asian customers being priced out of gas markets.

In the US, producers scrambled to secure LNG supplies ahead of winter meant that their low carbon sourcing requirements were deprioritized in the short term. However, we anticipate that the scrutiny on methane emissions along the LNG value chain will only increase as buyers try to mitigate the impact. With that in mind, JPMAM engaged with two key players in the LNG value chain to understand the challenges to sustainably produced LNG as well as to encourage the companies to adopt and set standards that could differentiate them from other suppliers.

The following two case studies are shown together because they illustrate engagement across the supply chain. EOG produces natural gas (extracts it from underground) and sends some of it to Cheniere, who liquifies it to be shipped to Europe and Asia.

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<sup>18</sup> <https://www.bbc.co.uk/news/world-europe-62712301>

<sup>19</sup> <https://www.ipsos.com/en/climate-change-effects-displacements-global-survey-2022>

<sup>20</sup> <https://www.iea.org/topics/transport>

# Climate change engagement and voting report – 2022 continued

## Case study – Engaging the LNG value chain in North America



EOG Resources Inc.



USA



Equity, Bonds

### Issue

We were concerned when a report by environmental groups identified the oil and gas producer EOG as one of the largest methane emitters in the US based on satellite surveillance readings. The findings were contrary to the progress described in the company's published reports stating that their methane emissions intensity rate has decreased 85% since 2017, with flaring down by half.

The 2022 Inflation Reduction Act in the United States has introduced a methane fee of up to \$1,500 per ton on emissions from oil and gas producers, pipeline operators and others, making excessive methane an increasingly material risk for companies.

### Action

We engaged EOG to address these concerns which presented both reputational and transition risks. EOG noted that the report ranked producers on an absolute basis, which penalizes EOG as a large producer. They also noted that the methodology relied on extrapolation of data from flyovers that might capture intermittent emissions.

Notwithstanding the limitations of such methodologies, management acknowledged the scrutiny the industry and large publicly owned companies are under and shared their efforts to take action. EOG indicated that it has begun implementing a continuous methane monitoring system called iSense that replaces monthly Leak Detection and Repair (LDAR) monitoring in 90% of their Permian facilities. EOG indicated that it will roll out iSense to the rest of the company in 2023.

EOG has also announced a commitment to be net zero on a Scopes 1 and 2 emissions basis by 2040. This will be achieved by a combination of reductions, carbon capture/storage, and high-quality offsets for what cannot be reduced. The company emphasized the importance of corporate culture for achieving emissions reductions. They feel the organization has embraced emissions reductions on a bottoms-up basis, noting that what can be measured can be improved.

EOG provide emissions data to their customers, including Cheniere, with whom they have a partnership to provide gas for liquefaction that means EOG receives an LNG-linked price. When asked about the commercial opportunity for producing sustainably sourced natural gas, they explained that if LNG producers required a sustainability-related certification from their suppliers, it would be to EOG's advantage.

# Climate change engagement and voting report – 2022 continued

## Case study – Engaging the LNG value chain in North America



Cheniere Energy, Inc.



USA



Equity, Bonds

### Issue

While we have been impressed with some of the pioneering work being done by Texas-based LNG company Cheniere, the company has lacked corporate emissions reduction goals leaving them exposed to transition risks. Their efforts to measure emissions has also focused on the upstream supply chain and we had previously encouraged them to expand this further.

### Action

We engaged with Cheniere this year to understand their GHG emission targets. We also wanted to highlight 1) the need to include their own facilities under their Quantify, Monitor, Report and Verify (QMRV) work, which aims to more accurately measure and quantify emissions; and 2) the opportunity for using their LNG life-cycle assessment (LCA) studies to expand into LNG markets and/or to increase supplies of more sustainably sourced natural gas.

The company informed us that they have expanded the QMRV work from upstream producers like EOG to the midstream companies which transport that gas to Cheniere's facilities. The company disclosed that their actual measurements generally revealed a higher level of emissions than was being reported, but with real variability between producers. They attributed the differences in performance to differences in the producers' corporate culture towards emissions and flaring. This confirmed what we heard from EOG.

Cheniere informed us that they have joined the Oil and Gas Methane Partnership (OGMP) 2.0 which is the United Nations Environment Program's (UNEP) data driven oil and gas, methane emissions reporting and mitigation initiative. OGMP 2.0's Gold Standard will require Cheniere to set a methane reduction target by 2025.

They explained that their data driven work has allowed them to start providing Cargo Emission tags to their customers so customers can track the emissions associated with that gas. Cheniere is unsure, however, whether emissions tagging will help differentiate them in the marketplace in such a tight supply environment, particularly in Europe at present.

### Outcome and next steps

We note the enhancements being made by EOG to measure and reduce methane emissions and will continue to monitor implementation. We also welcome Cheniere's commitment to set its own methane reduction targets under the OGMP and to expand its QMRV work.

We note the risk to companies of findings that actual methane emissions exceed reported emissions when measured. The increasing use of new surveillance technologies will require companies to respond to this risk. We will continue to monitor how Cheniere responds to this risk.

# Climate change engagement and voting report – 2022 continued

## Case study – Engaging users of energy



Hapag Lloyd AG



Germany



Bonds

### Issue

The International Maritime Organization (IMO) estimates the shipping sector currently comprises 2.9% of global emissions. As other industries decrease their emissions more quickly than shipping, which is growing in trade volume, the risks to shipping companies may increase as their share of global emissions is expected to rise to as much as 10% by 2050. In 2021 we participated in the Asset Manager & Asset Owner Task Force sub-group of the Sustainable Markets Initiative (SMI) – previously referred to as the Prince of Wales' Sustainable Markets Initiative. Through this work, we contributed to the development of a statement outlining Investor Expectations for Shipping Transition to Net Zero Emissions, which lays out considerations investors can take into account when engaging the sector on financial risks that shipping companies may face as the result of climate transition.

### Action

We engaged with Hapag Lloyd in September 2021 with respect to sustainability linked bonds (SLBs) held in certain of our High Yield portfolios. While these bonds do not carry proxy voting rights, as capital providers we still value a direct line of communication to management to discuss financially material issues such as climate risk and sustainability performance targets (SPTs) linked to the bonds. At that time, we shared a draft of the paper being developed by participants of the SMI with the company. They provided feedback on the paper and we discussed the status of their decarbonization commitments, which at the time were limited to 2030 targets and did not include emissions from their leased fleet. We raised concerns that their targets did not take into account investments needed for the transition to a low carbon future in order to ensure the longevity of the business.

We then followed up in May 2022 to understand progress since our last engagement. The company shared its new decarbonization targets to reduce CO<sub>2</sub> intensity of the entire fleet including its leased fleet by 30% by 2030, and to be climate neutral by 2045.

We discussed the company's decarbonization strategy to understand how they intended to reach the targets set. In the short to medium term, old inefficient vessels will be phased out and efficiency measures deployed to existing ships. They will also buy new fuel efficient vessels and new dual-fuel vessels. From 2030 decarbonization will be driven by low emissions fuels, as ships are transitioned from fossil fuels to biofuels and other low emissions fuels such as methane and ammonia. The company explained that the use of green fuels today is very limited due to limitations on supply of biofuels in particular.

We asked about the potential risks associated with the company's strategy which could expose it to continued transition risks. These included the need to increase the supply of green electricity required to power the development of green fuels, as well as the infrastructure needed to transport and store these fuels. The company shared a number of partnerships it is involved in to further innovation in this area.

### Outcome and next steps

We welcome the enhanced decarbonization targets set by the company since our last engagement and early disclosures around the decarbonization strategy. We encouraged the company to provide greater quantification and information on capital planning as the strategy is developed in the months to follow.

# Climate change engagement and voting report – 2022 continued

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## Engaging users of energy

For companies with high energy usage (e.g., the transportation industry which is responsible for approx. 37% of global emissions)<sup>21</sup> we consider the potential impact on a company's future performance from government policies to mitigate climate change as well as changes in demand for products and services.

For the shipping sector, hurdles exist for companies seeking to meet customer and regulatory demands for low carbon transport, ranging from a lack of scalable low carbon fuels, long-life assets and an unhelpful international policy environment. Some sources estimate that the sector could account for up to 10% of global emissions<sup>22</sup> in future as other industries decrease their emissions more quickly. We are concerned about these challenges and their impact on client portfolios and engage companies to encourage them to make the necessary investments today to mitigate their increasing exposure to changes in policy and customer demand, and to ensure their long-term competitiveness (see Hapag Lloyd case study above).

## Net Zero

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. As part of our business's strategy to help clients manage climate risks and opportunities, JPMAM became a signatory to The Net Zero Asset Managers initiative (NZAMi) in November 2021, in support of the goal to reach net zero greenhouse gas emissions by 2050 or sooner. JPMAM's commitment includes independently setting interim targets within 12 months for assets determined to be in scope for net zero pathways and creating investment products aligned with net zero emissions by 2050. On November 9, 2022, JPMAM's interim net zero targets were published.

JPMAM has included all of its AUM in listed equities and corporate bonds, as well as certain direct investments in forestry, in scope for its NZAMi targets. Those assets make up 45% of its total assets under management (\$1.2 trillion), as of December 31, 2021.

JPMAM will measure its progress towards its NZAMi targets by the proportion of companies in which it invests that have set their own credible net zero targets. By 2030, JPMAM anticipates that the percentage of its AUM held in companies with science-based targets will increase from 20% to 55%.

Investee companies that set and act on credible science-based net zero targets can help manage risk and build and sustain shareholder value over time to the benefit of client accounts. JPMAM will engage with investee companies on these and have refreshed our climate change engagement framework to include an enhanced focus on the scientific credibility of company targets and plans.

JPMAM's role remains first and foremost as a fiduciary to our clients, with a singular focus on acting in their best interests. Our ability to meet our NZAMi targets is dependent on sustained and consistent government policy, accelerated technological breakthroughs, and substantial adaptation in corporate business models. The ability to meet specific targets is contingent on action from a range of parties.

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<sup>21</sup> <https://www.iea.org/topics/transport>

<sup>22</sup> <https://cedelft.eu/publications/fourth-imo-greenhouse-gas-study/>

# Climate change engagement and voting report – 2022 continued

## In focus: Engaging companies on capital allocation to deliver net zero



**Lara Jackson**  
Vice President Investment  
Stewardship



**Lucy Parken**  
Managing Director,  
Global Head of Sector  
Specialist Team

### Context

Many companies, particularly in Europe have set science based medium term decarbonization targets. Increasingly our engagements with these companies are focused on implementation and understanding how companies are placed to deliver on the targets they have set. We believe such engagements are important to understanding how such companies are managing risks and taking advantage of opportunities associated with climate change.

While companies have disclosed high level transition plans, we find that information around the financial planning in place to support the delivery of plans is often lacking. Delivering on their targets will require aligning a company's capital investment to its climate risk management strategy.

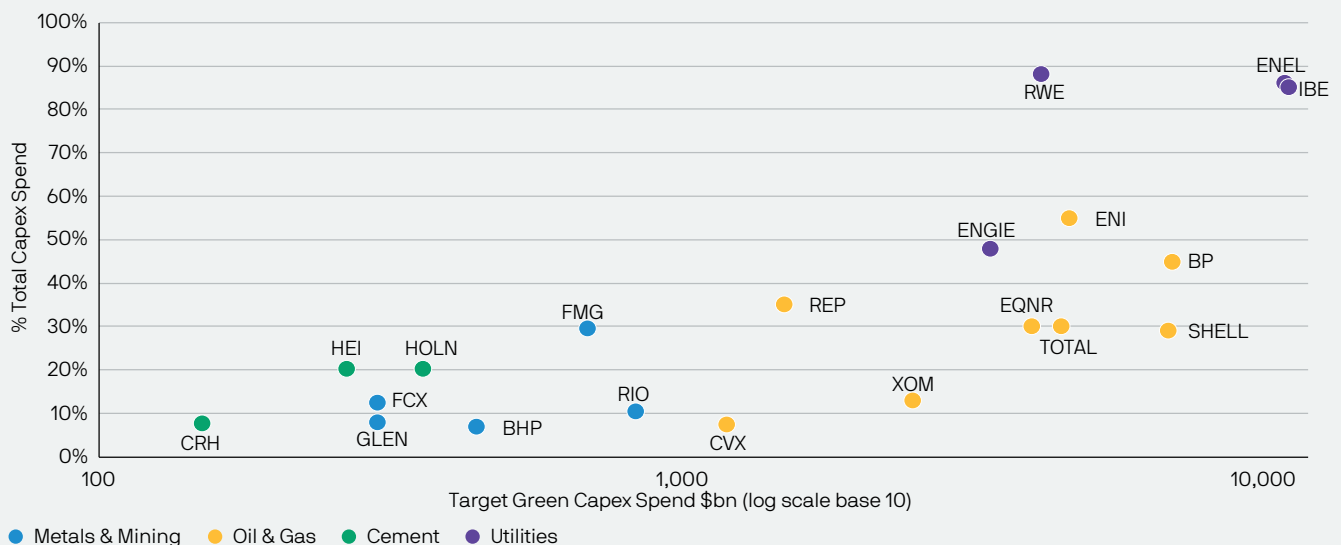
Where 'Green' Capital Expenditure<sup>23</sup> (CapEx) dedicated to decarbonization is disclosed, it allows us to start to assess the adequacy of capital allocation. By tracking annual CapEx spent on decarbonization we will be able to hold companies to account on the capital allocation they have promised. It also enables us to start conversations with management about the potential returns (in terms of both emissions reductions and financials) they expect from investments in the short and longer term.

<sup>23</sup> Green capex is defined differently by companies today but is used here to broadly define capital allocated to decarbonization initiatives. The EU Taxonomy for Sustainable Activities is one way green spend categories are working towards standardization.



# Climate change engagement and voting report – 2022 continued

Figure 1: Green vs Total Capex as disclosed by a sample of public listed companies.



Source: Wood Mackenzie, Bloomberg, Individual Company Reports, JPMAM Forecasts.

## Disclosure today: what we see

We analyzed disclosures of green CapEx from 2022-2030 for a small sample of major companies in heavy GHG emitting sectors: Oil & Gas, Cement, Metals & Mining and Utilities. We found a wide range in planned green CapEx spend as a proportion of total capex.

Only the Utilities sector is consistently reporting the proportion of total capex eligible under the EU Taxonomy for Sustainable Activities, with several companies reporting over 80% of total capex being eligible as decarbonization capex under EU taxonomy. Among the large-cap companies Engie is an outlier. In 2021 total group Capex was 48% eligible but growth capex was 78% eligible (capex in the Renewables and Energy Solutions divisions is mostly eligible, but Thermal Generation & Energy Supply are only marginally eligible).

Among Metals & Mining companies, Fortescue Metals Group (Australian iron ore producer) stands out as investing a high proportion of CapEx in decarbonization. This supports their sector leading ambitions to reach net zero by 2040.

In Oil & Gas, European companies include value chain emissions in decarbonization targets. These are supported by a higher level of green CapEx both in absolute terms and as a proportion of total capex compared to US peers.

Cement producers are investing relatively less in green CapEx. Companies have medium-term decarbonization targets, but we have observed limitations to their longer-term net zero ambitions which could be linked to the relatively lower level of green CapEx.

## Our engagement asks:

As investors, we need to understand how companies will support climate targets with appropriate and credible capital allocation plans as part of their own climate risk management strategies.

Specifically, we ask investee companies to disclose:

- Total capex dedicated to achieving decarbonisation targets as a proportion of overall capex, and an assessment of its adequacy to deliver scale of emissions reductions required.**

Companies should include an assessment of their own financial position and use sector specific decarbonisation pathways to determine appropriate CapEx allocation and disclose these assumptions.

# Climate change engagement and voting report – 2022 continued

- **The breakdown of CapEx between proven technologies and investments in new or unproven levers, and where possible expected financial returns.** Whilst the capital expenditures of energy efficiency measures can have relatively short payback periods, the more profound changes needed to deliver deep decarbonisation typically require much greater investment, involve higher technology risks, and take longer to pay back. Feasibility assessments of new technologies should also be disclosed, as well as an assessment of their economic competitiveness.
- **Internal carbon pricing used to inform project assessment.** As regulation of carbon emissions increases around the world, companies must factor present and future costs of carbon into planning tools. This helps identify capital investment opportunities and risks, and acts as an incentive to drive energy efficiencies to reduce costs. Disclosure should include how carbon pricing assumptions vary across region and business segment and the scopes of emissions included in assessments.
- **Percentage share of CapEx which will remain invested in carbon-intensive assets and when capital will peak.** Where investment in new high carbon projects are made the assumptions that justify investments vs low carbon alternatives should be provided.
- **How incremental costs will be borne, particularly where margins are low, in order to remain profitable** e.g., through charging premiums for green products.

These disclosures allow us to identify which companies are better positioned to deliver on their decarbonization targets and mitigate their own risks. It allows us to identify companies that face additional financial, reputational and regulatory risks associated with hollow commitments and challenge whether investments are sufficient to deliver the transformations required to adequately mitigate transition risks.

We understand that decarbonization is not a linear process so understanding how and when companies will fund decarbonization is important to considering a company's future resilience and whether a company's commitment is realistic.

## Further work

As part of understanding how investee companies are managing risks and taking advantage of opportunities that are important to managing our client portfolios, these types of disclosures allow us to start to have important conversations with companies about the efficacy of their decarbonization plans including their readiness to deliver on them economically. In 2023, we expect the proportion of companies reporting sustainable capex under the EU taxonomy to increase significantly. This will be helpful in enabling comparisons across companies and industries. Beyond capex, earnings associated with 'green' activities will also be an important metric to consider, particularly as costs for green technologies fall.

Further to this, it will be important for us as investors to understand how the capital allocated to particular decarbonization initiatives achieves both the investment returns and decarbonization results required over the long term. Assigning the returns to green capex specifically is difficult today and data is not sufficient to allow us to do this. Similarly, assessing the potential impact of investments on companies' longer-term costs of capital will also be important; further work will be crucial in this area.

## Collaborating to address climate change investment risk

While most of our engagement is conducted alone, we believe that collaborating with other investors and stakeholders that share common concerns about risks facing investment companies owned by them or their clients can help reinforce and, where needed, escalate our engagement efforts.

We are actively involved in investor networks focused on climate risk. In Europe, our Global Head of Investment Stewardship has co-chaired the IIGCC's Net Zero Stewardship working group (see *Collaborative engagement* section for more information).

# Climate change engagement and voting report – 2022 continued

J.P. Morgan Asset Management is a member of Climate Action 100+, an investor-led initiative working to address material climate risk facing investee companies and secure ongoing long-term returns for their beneficiaries. This year we have co-led two and participated in five company engagements through that initiative (see POSCO and PEMEX case studies).

## Case study – Collaborating to address climate change investment risk



Korea Electric Power Corporation (KEPCO)



Korea



Bonds

### Issue

KEPCO announced its commitment to phase out coal-fired power plants and reach carbon neutrality by 2050. We welcomed the long-term commitments which we believe are important to achieving long-term competitiveness in the market where KEPCO operates; however, we were concerned about its financing capacity to reach the climate targets. We wanted to know more about the company's medium-term targets and understand its roadmap for decarbonization and its impact on the company's long-term value and performance.

### Action

In addition to having a direct dialogue with the company, we co-led a collaborative engagement to highlight common investor concerns about the company's ability to finance its decarbonization plan. Noticeably, with fuel costs rising faster and sharper than tariffs, KEPCO reported operating losses in 2021 and the first half of 2022. This, combined with significant capital spending, has drained cash from the company, resulting in soaring debts and shrinking equity. KEPCO's total liabilities to total equity ratio was 223% at the end of 2021, above the government guidance of 200%. As a result, KEPCO needs to implement the Budget Deficit Management System (BDMS) and will be evaluated by the government. Some of the debt-reduction measures in the company's plan include disposal of assets, streamlining the businesses and cost cuts.

Despite having budget constraints, KEPCO has committed to continue to expand its renewable energy portfolio and invest in clean technologies to achieve its net-zero target. The disposal of coal power assets should help raise some cash. However, the timing of the disposal is an unknown and the amount may be insufficient. More debt financing could be required. However, we are concerned that debt financings will not be a long-term solution and think the company will need to consider capital restructuring and capital injections from companies with financial strengths that are interested in energy transition. To improve its operating cash flow, KEPCO recognized the needs to increase its power tariffs and had been in discussion with the government about power tariff hikes.

### Outcome and next steps

In December 2022, about a month after our engagement, KEPCO announced the increase in electricity tariff for the first quarter of 2023. We will continue to monitor the impact of the tariff and to follow up with KEPCO concerning their plans.

# Climate change engagement and voting report – 2022 continued



**Janet He**, Head of Emerging Market Sovereign Research, visiting Pemex's Litoral crude processing facility in the southwestern Bay of Campeche in Tabasco in December 2022.



**Petroleos Mexicanos**



**Mexico**



**Emerging Market Debt**

## Issue

Petroleos Mexicanos (PEMEX) is an oil company and one of Mexico's largest enterprises. PEMEX has been rated poorly across a variety of external ratings for reasons including governance concerns, controversial events around employee and community safety, methane emissions, and overall poor disclosure. We expect the company to face a challenging financial outlook and limited resources to address these issues – as such the Mexican Federal government ultimately needs to provide support for strategic decisions and is key to any engagement. While we are mindful of the constraints on the government and company, constructive engagement has led us to believe PEMEX can move along a positive trajectory.

## Action

We engaged with PEMEX both bilaterally and collaboratively in 2022. Over time the company's management has acknowledged the rising significance of financial risks, including transition risks, to the company and its long-term investors. Subsequent conversations have focused on more targeted issues impacting long-term investors and customers including PEMEX's transition readiness. We also requested PEMEX to make more information publicly available (e.g., GHG emissions and reduction plans and governance arrangements), including an FAQ document covering actions on key environmental and social risks and an English translation of their annual Sustainability Report, which will facilitate risk assessments by investors. Methane emissions were also addressed following a meeting between us, PEMEX and the Environmental Defense Fund which highlighted PEMEX's high levels of methane emissions in Mexico and the reputational and financial risks such emissions raise. Lastly, we discussed controversial events flagged by third parties, in particular a 2019 pipeline explosion purportedly due to fuel theft.

## Outcome/Next Steps

Though progress has been slow and changing personnel has been a recurring challenge for the engagement, we welcome the positive trajectory on disclosure and addressing key concerns. We have noticed meaningful change over this past year: PEMEX began regularly reporting on issues such as gas flaring and methane emissions in their quarterly earnings calls. The company website now has a dedicated page for ESG information covering GHG emissions reduction efforts, conservation and adaptation planning, and health and safety amongst other things. The company has communicated that the next Sustainability Report will be published in English in early Q1 2023. The company has discussed making the scope and coverage of their emissions targets public and beginning work on medium-term targets (beyond 2025). PEMEX has committed to investing \$2bn to reducing methane emissions and partnered with the U.S. EPA to better measure emissions, which we hope will keep the company competitive in the long run. While there is still significant progress to be made on methane, we are pleased the company has acknowledged the issue and made commitments that are also supported at the government level following commitments made by Mexico at COP27 to reduce emissions by 30% by 2030.

# Climate change engagement and voting report – 2022 continued

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## Stewardship as part of low-carbon investment solutions

The transition to a low-carbon economy presents an unprecedented opportunity for companies that are responding to the challenges of climate change, investing in innovative solutions and benefitting from shifts in market and consumer preferences. Energy storage, grid resilience, low-carbon transportation, energy efficiency enhancements and carbon capture and sequestration will all enable the transition. Companies that develop best-in-class solutions in these areas will be well positioned for growth due to the increasing urgency around mitigating climate change and growing policy and regulatory support.

Given the scale of the opportunity facing companies within this space, it is important for us to understand whether a company's proposed solutions are likely to effectively deliver their promised outcomes and a competitive advantage (see Carrier case study). As disclosure standards are lacking for many of these emerging technologies and are uneven across jurisdictions, we seek to understand how their products and services present opportunity by contributing to resolving the challenges of climate change and ensure companies evidence their claims regarding the energy transition. Furthermore, we recognize that a company's positive product impact can be undermined by failure of the company to manage its own emissions and supply chain.

In 2023, we plan to engage further with solutions providers to ensure the credibility of claims of product performance specifically. Metrics such as 'emissions avoided' can provide valuable insights into outcomes of product use, but we will engage with companies to ensure transparent and credible methodologies are employed.

## Voting on climate change

Our voting policies are designed to promote the best long-term interests of our client accounts. As such, we will 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 material risks it faces because of climate change, the quality of the engagement discussion or its progress (see AGL case study). We note that climate risks to

companies may be highly dependent and increase significantly for companies in certain jurisdictions as governments and investors have expectations with respect to the company addressing transition risks.

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 2022, we saw a significant increase in climate-related shareholder proposals, particularly in the USA. The SEC had historically allowed shareholder proposals to be omitted from the annual meeting if they related to "ordinary business problems", however, new guidance issued this year clarifies that proposals covering significant social policy issues should not be excluded. We have also seen an investor coalition led shareholder proposal on climate issued for the first time in Japan (see Electric Power Development case study).

In 2022, we voted in favor of 44 climate-related shareholder resolutions. Climate resolutions are complex. We tend to support votes on governance and strategy transparency, climate-risk disclosure, and lobbying.

Where we believe that climate change poses financially material implications to the business, we support shareholder resolutions which call for greater details from companies that have set their own long term aspirational goals, such as the provision of interim target disclosures and roadmaps detailing strategic changes (see Dominion Energy case study).

In 2022, we have seen an uptick of management proposed resolutions on climate or so called "say-on-climate" votes in Europe and Asia. These are where companies put forward their climate action plans and progress reports for shareholder approval. Investors seek to understand whether targets set by companies are meaningful and properly implemented, and that action can be taken when this is not the case (see Engie case study). We have increased our scrutiny of the scientific credibility of company transition plans this year through our engagements and voting activity related to these proposals. There is still a need for standardization of how companies report their own transition plans to enable proper comparability and we welcome efforts to enable understanding and comparability.

# Climate change engagement and voting report – 2022 continued

## Case study – Engaging with companies offering low-carbon investment solutions



Carrier Global



USA



Equity, Bonds

### Issue

Buildings are responsible for 39% of global energy related carbon emissions. In light of this, building energy efficiency is gaining increasing attention and companies such as Carrier that can deliver high efficiency, low-emission heating, ventilation and air conditioning products may be well-placed to benefit from sustainability-driven order demand. However, these companies will also face increasing scrutiny to ensure products are effective and deliver promised benefits.

### Action

We met with Carrier’s Chief Sustainability Officer and ESG specialist to seek improved disclosure on how products are driving improved energy efficiency for customers, and better understand how the company evaluates product performance. We asked the company for green revenue figures, which the company discloses only for residential products. We encouraged disclosure for a wider set of products, with definitions of ‘high efficiency’ included.

We asked the company about the global warming potential of refrigerants, and the introduction of alternatives such as natural refrigerants. The company suggested the transport sector and supermarkets as opportunities where natural refrigerants, with a lower climate impact, can be used more easily, and Carrier stated that, where possible, it is working to meet standards it expects to be imposed by regulation before they apply to its business.

Carrier targets to reduce customers’ carbon footprint by more than 1 gigaton by 2030 and aims to deliver this through: 1/3 by lower global warming potential refrigerants, 1/3 greater energy efficiency in products and 1/3 from new product development. We queried how Carrier calculated the ‘emissions avoided’ which contribute to this target and sought to ensure reference baselines are credible, both in terms of categorizing ‘high efficiency’, low global warming potential products and emissions avoided through food loss prevention.

We also spoke to the company about their decarbonization strategy. While the company had committed to a science-based targets initiative-validated 2-degree target, the company is having to reformulate targets following M&A activity and so has not gained validation.

### Outcome and next steps

Carrier is focused on improving energy efficiency of products and investing in research and development to further lower emissions from product use, and the company is seeking to measure product outcome where possible. We will follow up with the company to monitor its progress.

# Climate change engagement and voting report – 2022 continued

## Proxy voting – election of director



AGL Energy



Australia



Equity

### Issue

Galipea Partnership, who holds an 11% interest in AGL, nominated four alternative individuals as candidates for election as non-executive directors at the company's AGM, citing their energy transition and technology expertise as preferable to the nominees put forward for by the Board.

### Action

The company is reported to have had one of the highest carbon emissions of any listed company on the Australia Stock Exchange and has demonstrated disappointing financial performance in recent years. Changes were needed to ensure the board had a sufficient number of directors with the requisite experience – not only in energy transition but also in public policy and organizational changes – to help the company overcome its business challenges in the era of energy transition in Australia. We saw room for improvement of the board in terms of size, diversity of experience and background. After assessing the skill sets of the nominees put forward by the Galipea Partnership, we decided to vote FOR the appointment of all four independent directors proposed.

### Outcome and next steps

The four director candidates were successfully nominated by shareholders at the AGM and became AGL's non-executive directors. We expect these four new directors to work closely with the existing directors and to help guide AGL to generate better value to the shareholders.

# Climate change engagement and voting report – 2022 continued

## Proxy voting – shareholder proposal on climate



Electric Power Development



Japan



Equity

### Issue

Three shareholder proposals were filed at the company's 2022 AGM, asking the company to amend its Articles of Incorporation to add chapters to disclose a business plan with science-based short- and mid-term GHG emissions reduction targets aligned to the Paris Agreement, an assessment of the alignment of its capital expenditure with GHG emissions reductions, and details of the remuneration policies that facilitate the achievement of these targets.

### Action

We met the managing executive officer to discuss the shareholder proposals and the mid-term business plan released by the company where it disclosed its new short-term GHG emission reduction target. However, as we thought the pathway was still not clear and the proposed disclosure would help our understanding of the company's business strategy and resiliency to climate change risk, we supported all three shareholder proposals.

### Outcome and next steps

The proposals received 25.8%, 18.1% and 18.9% shareholders' support respectively. Post-AGM, we met the company to explain our voting rationale and express our appreciation for their response which included publishing updated disclosures in the integrated report, despite the resolutions not receiving majority support. The report elaborated on its scenario analysis along with financial impacts and disclosed necessary capital expenditures for GHG emissions reductions.



# Climate change engagement and voting report – 2022 continued

## Proxy voting – shareholder proposal on climate



Dominion Energy



USA



Equity

### Issue

A shareholder proposal was filed at Dominion Energy asking the company to set intermediate scope 3 emissions reduction targets on route to their 2050 net zero aspiration.

### Action

For Dominion, Scope 3 emissions largely relate to customers' use of natural gas and are about 40% of total emissions. Where Scope 3 emissions are significant and where the company has already set net zero scope 3 targets, and where we believe that the attainment of net zero will have significant shareholder implications, shareholders should be able to see more details behind these aspirational goals.

Intermediate targets will allow investors to assess progress as well as reliance on offsets, which is coming under scrutiny. We noted that for Scope 1 and 2, Dominion had outlined their proposed path through intermediate targets. For Scope 3, they have announced this 2050 aspiration without explaining how they would implement. Meeting their commitment could have material impacts on the company's strategy and failure to meet their commitments could present reputational risks to the company. Therefore, we believed investors should be able to understand what those impacts on strategy might be. We therefore supported the proposal.

### Outcome and next steps

The proposal received 15.8% support from shareholders at the AGM. In order to address these risks, we will continue to engage with the company and encourage them to set intermediate Scope 3 emissions reduction targets.

# Climate change engagement and voting report – 2022 continued

## Proxy voting – say on climate



Engie



Europe



Equity

### Issue

The company updated its climate targets and strategy in May 2021 following significant engagement and pressure from shareholders at the 2021 AGM and promised to provide shareholders a vote on the plan this year also known as a “say on climate” vote. Their updates include adopting a net-zero by 2045 strategy across Scope 1, 2 and 3 emissions, as well as absolute emission reduction targets for 2030 aligned with a well below 2°C trajectory.

### Action

We acknowledged the significant improvements in Engie’s climate plans. However, we have concerns regarding the company’s plans noting that they fall short of their European peers, many of which have committed to targets aligned with 1.5°C consistent with expectations of regulators and investors. The company has a plan to build renewables assets and close coal assets in Europe by 2025 and the rest of the world by 2027. We therefore saw no reason why an acceleration in their targets to align with a 1.5°C pathway wouldn’t be possible and chose to vote AGAINST the plan in order to demonstrate the need for the plans to go further.

### Outcome and next steps

The proposal received 4% of votes against by shareholders at the AGM. We will engage Engie around its climate risk strategy in 2023.

Our six investment stewardship priorities

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# Natural capital and ecosystems engagement – 2022



# Natural capital and ecosystems engagement – 2022

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Engaging on natural capital and ecosystems is long running in our discussion with investee companies as many businesses depend on natural resources for the production of products or provision of services. The depletion or loss of these ecosystem services through the degradation of nature poses significant financial risks for the long-term resiliency of many businesses – according to the World Economic Forum, over half of the world’s GDP is dependent on nature.<sup>24</sup> As long-term investors, the dependencies of our investee companies on natural capital, either directly in the production of products and services or indirectly across supply chains, and the treatment of waste and pollution, translates into investment risks and opportunities. This is why we decided to make Natural capital and ecosystems our new investment stewardship priority theme and we will be increasing the intensity of engagement on this topic in the coming years.

While natural capital is still an emerging theme, we are starting to see significant focus and attention paid in various government, industry and supranational forums. The delayed COP15 conference in Montreal shed a light on the risks of biodiversity loss to our economy, business and society, whilst new legislation which aims to preserve and restore nature is being considered in many jurisdictions including Europe, America and China.<sup>25</sup> We are closely following developments of the Taskforce for Nature-related Financial Disclosures (TNFD) which will help to standardize assessment and disclosure of nature-related financial risks and opportunities for businesses, and which will provide investors with the tools to engage investee companies on nature resiliency, financial implications and opportunities.

As part of our engagement with companies, we aim to explore not only how they can reduce their nature risks and generate better business efficiency, but also explore how companies are considering ways to unlock new business opportunities. For example, food, land and ocean use, extractives and energy, and the building of infrastructure and properties are currently responsible for 80% of biodiversity loss – but their transition to less resource-intensive businesses could bring in an estimated annual revenue of USD 10.1 trillion.<sup>26</sup> We engage with companies to understand how the depletion or degradation of natural capital may translate into costs for businesses and their supply chains, for instance increased capital expenditures on infrastructure and restoration repairs or higher insurance premiums, potential regulatory or reputational risks. But we also aim to understand how businesses are exploring new business opportunities in a circular economy, for instance developing less resource-intensive products or using recycled or regenerative materials.

In light of the above, our engagement with investee companies seeks to address two key themes: an assessment of nature-related financial risks and opportunities, and to set targets to mitigate risks and explore opportunities. Having formalized our framework on the priority in 2022, we are resourced to increase our engagement activity in 2023 in partnership with our investment teams.

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<sup>24</sup> World Economic Forum (2020). Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy.

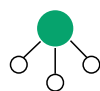
<sup>25</sup> In Europe: The technical screening criteria for economic activities which drive these nature-related objectives in the EU Taxonomy was published earlier this year. See: (i) European Commission (2022). Platform on Sustainable Finance’s report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy. (ii) European Commission (2022). Annex to the Platform on Sustainable Finance’s report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy.  
**In US:** President Biden Signs Executive Order to Strengthen America’s Forests, Boost Wildfire Resilience, and Combat Global Deforestation. April 22, 2022. “America the Beautiful” initiative. 6 May 2021.

**In China:** Law of the PRC on Prevention and Control of Soil Contamination. 1 January 2021

<sup>26</sup> World Economic Forum (2020). New Nature Economy Report II: The Future of Nature And Business.

# Natural capital and ecosystems engagement – 2022 continued

## Engaging on Natural capital and ecosystems



**195**

Number of companies engaged on natural capital and ecosystems engagement



**38**

Number of markets engaged on natural capital and ecosystems engagement



**26**

Number of sectors engaged on natural capital and ecosystems engagement

### Top 10 markets engaged on Natural capital and ecosystems

Country	%
1. United States	22.0%
2. Britain	12.9%
3. Japan	11.2%
4. China	9.1%
5. India	5.8%
6. South Korea	3.7%
7. Brazil	3.7%
8. Hong Kong	3.3%
9. France	2.9%
10. Australia	2.5%

### Top 10 sectors engaged on Natural capital and ecosystems

Industry	%
1. Capital Goods	19.1%
2. Food, Beverage & Tobacco	15.4%
3. Materials	11.6%
4. Consumer Durables & Apparel	7.5%
5. Energy	6.2%
6. Utilities	5.8%
7. Retailing	5.4%
8. Commercial & Professional Services	5.0%
9. Technology Hardware & Equipment	2.9%
10. Banks	2.5%

# Natural capital and ecosystems engagement – 2022 continued

## Case study – Engaging on water stewardship



Budweiser Brewing Company



Hong Kong



Equity

### Issue

Adequate supply of quality water is vital to the business of Budweiser Brewing. We identified water stewardship as a financially material ESG issue for the company and sought to understand its considerations for water-related matters.

### Action

Water stewardship has been a key topic in our discussion with Budweiser Brewing over the past two years. We encouraged the company to respond to the Carbon Disclosure Project's (CDP) Water Security questionnaire, a leading self-reported environmental survey for companies and were glad to see its first response for the questionnaire. The company was rated "A-" for its 2021 reporting.

Budweiser has a substantial operation in India, which is identified by the World Resources Institute (WRI) as having high water stress. With reference to the Aqueduct tool from WRI, the company identified five breweries in India located in high water stress areas. This translated to about 10% of total breweries and 2.4% of the production of Budweiser in the Asia Pacific region. The company disclosed a goal for 100% of the communities of those breweries located in high stress areas to have measurably improved water availability and to reduce the water use efficiency to 2.0l/l for production by 2025. However, while the company disclosed in its 2021 ESG report its current water use efficiency for its entire operations in India, which is 2.84l/l, there was no specific disclosure for the five breweries in areas with high water stress.

As investors, we seek to know more about the economic impact of water to Budweiser including how Budweiser assesses the impact.

### Outcome and next steps

The company has continued to participate in CDP's Water Security questionnaire, and we are looking forward to the disclosure for its response in 2022. As we evaluate these responses, we may make recommendations as we see necessary to address water-related matters.

# Natural capital and ecosystems engagement – 2022 continued

## Case study – Engaging on sustainability linked bonds



Oriental Republic of Uruguay



Uruguay



Bonds

### Issue

Sovereign economies may be highly dependent on the flow of services provided by nature and ecosystems in their markets, such as natural pollination of crops, climate change and soil health. As a result, risks related to the degradation or depletion of natural capital through water stress, deforestation or loss of natural carbon sinks translate into investment risks as long-term investors. A new and increasing trend in sovereign emerging markets is the restructuring of debt where proceeds are used to fulfill nature or climate commitments, such as debt for nature swaps and sustainability-linked bonds (SLB). The Oriental Republic of Uruguay recently issued a SLB tied to the sovereign's climate and nature targets as established in its Nationally Determined Contributions (NDCs) under the Paris Agreement and would result in a step-down feature, whereby the coupon payment would be reduced, if relevant KPIs are met and outperformed.

### Action

We engaged with the sovereign to learn about their plans for the SLB. We welcome the opportunity to build long-term resiliency in the sovereign market related to the investment risks associated with biodiversity loss and climate, and we sought to use the engagement to understand how the targets would help to meet the NDCs, data assessment and assurance.

The Sustainability Performance Targets (SPTs) for Uruguay's SLB are linked to the quantitative goals set for 2025 as established in the sovereign's NDCs. The Republic responded to recommendations to provide consistent and frequent reporting against the SPTs and use of independent, third-party data providers and globally recognized tools, such as Global Forest Watch for forestry assessment, to ensure transparency of methodologies and measurement. The Republic advised they would follow the IPCC's established methodologies for calculating emissions data and would increase the frequency of reporting, previously every two years, to an annual disclosure. For forestry data, the sovereign stated they would be establishing proprietary monitoring tools, but these would be disclosed and reported every 4 years. We urged for clear and transparent reporting on measurement and progress.

### Outcome and next steps

We welcome the Oriental Republic of Uruguay's transparency on the SLB, especially as we recognize that engagement may often be more nuanced in the sovereign space than the corporate market. Our key request for the SLB is clear and transparent post-issuance reporting to help monitoring of progress which is critical for holders of a bond with stepdown features to assess long-term value creation.

## Our six investment stewardship priorities

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# Human capital management engagement and voting – 2022





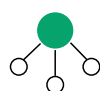
# Human capital management engagement and voting – 2022

Effective management of human capital is critical to an engaged and productive workforce and, ultimately, failure to manage human capital risks and opportunities can affect a company's relationship with its workforce and other stakeholders which may, in turn, impact shareholder value. Many companies have openly discussed how their businesses have been impacted by the loss of key personnel to competitors, and labor unionization, amongst other issues. The competitive war for talent and need to address employees' concerns, shines a spotlight on the need to prioritize this area.

To effectively manage the workforce and attract and retain employees, companies need to clearly demonstrate their commitment to their workforce. This begins with compensation and benefits, but also includes the company's approach to diversity, equity and inclusion, labor practices and decent work.<sup>27</sup>

Human capital management issues are particularly pertinent in certain sectors and geographies and this section demonstrates how we have targeted engagements in key sectors to address these issues where they are particularly material. In 2022, we engaged with 774 companies on human capital related topics.

## Engaging with companies on human capital management



**774**

Number of companies engaged on human capital management



**48**

Number of markets engaged on human capital management



**25**

Number of sectors engaged on human capital management

### Top 10 markets engaged on Human capital management

Country	%
1. United States	29.5%
2. Britain	13.7%
3. China	11.4%
4. Japan	9.3%
5. Hong Kong	3.2%
6. Germany	3.2%
7. Taiwan	3.1%
8. India	2.7%
9. South Korea	2.4%
10. France	2.3%

### Top 10 sectors engaged on Human capital management

Sector	%
1. Capital Goods	16.4%
2. Retailing	7.0%
3. Materials	6.7%
4. Technology Hardware & Equipment	6.3%
5. Banks	5.3%
6. Food, Beverage & Tobacco	5.2%
7. Consumer Durables & Apparel	5.1%
8. Semiconductors	4.9%
9. Food & Staples Retailing	4.6%
10. Health Care Equipment & Services	4.1%

<sup>27</sup> <https://www.brookings.edu/blog/future-development/2021/03/31/are-better-managed-firms-more-pandemic-resilient/>

# Human capital management engagement and voting – 2022 continued

At JPMAM, we believe an engaged and diverse employee base is integral to a company's ability to innovate, responds to a diverse customer base and engage with diverse communities in which the company operates, thus delivering shareholder returns. In 2022, we conducted diversity-related engagements with approximately 300 companies globally to understand their approach to diversity, equity, and inclusion, across the general workforce, senior management, and the board. While discussions on specific diversity topics such as gender pay gap or pay equity are still developing in some regions, we see progress in other diversity related aspects, e.g., improved workforce disclosures, diversity targets, etc. (see Kotak Mahindra Bank's and Union Pacific Corporation's case studies below). For more details on our engagement and voting on Board Diversity, please refer to the *Governance engagement and voting* section.

## Introduction to our Diversity Engagement Framework

We conducted analysis with peers from our investment teams in identifying companies that appeared to have gender diversity and employee engagement issues. As we completed the analysis, we identified key criteria that we should ask companies to report on progress. These key components included diversity strategy and governance and diversity reporting. The framework was created to be leveraged by all investors and Investment Stewardship teams globally. When engaging with companies, the purpose for creating the framework was to seek tangible outcomes and transparency in company reporting.

## Our diversity engagement framework asks companies to:

### Diversity Strategy and Governance

- Establish board and/or senior executive-level oversight of setting a diversity and inclusion strategy and culture;
- Consider incorporating diversity and other key human capital management performance indicators and targets into executive compensation structures;
- Establish a time-bound diversity strategy and quantitative ambitions and goals on balancing gender representation at the board, executive management, middle management, and new hires within the workforce;
- Establish processes and programs of how the company is widening its talent pool;
- Improve data disclosure around diversity;
- Establish a broader diversity policy and strategy at board and management level.

### Diversity Reporting

- Report on alignment with international frameworks, market practice, or on setting intentions regarding increasing a balance in gender representation at board and executive management level;
- Report on voluntary turnover statistics by gender, race and ethnicity (retention, mobility and gender attrition levels);
- Report annually within company annual report on both the gender pay equality program progress and gender pay gap statistics globally, or in key markets of operation.

# Human capital management engagement and voting – 2022 continued

## Case study – Engaging on diversity



Kotak Mahindra Bank



India



Equity

### Issue

Female labor force participation rate remains low at roughly 20%, according to the National Statistical Office's Periodic Labour Force Survey.<sup>28</sup> For Kotak Mahindra Bank, its female employees accounted for nearly a quarter of its bank workforce in 2020. While it is proud of the workforce gender diversity of 27% in 2021 being higher than the average female labor force participation rate, in our view, the company still needs to take steps to improve in this area to access broader pools of talent.

### Action

We met with the bank in August 2021 to discuss its approach to human capital management. We asked about the purpose and strategy of its newly established diversity and inclusion council led by the Group President of Consumer Bank. Explaining the importance of diversity, equity, and inclusion as one of our stewardship priorities, we encouraged it to consider disclosing workforce female representation targets in its next reporting cycle to facilitate our analysis.

After the meeting, we also shared a global bank's diversity and inclusion website as an example to communicate its diversity, equity and inclusion efforts to provide greater transparency to investors and other external stakeholders and shared a global peer's diversity and inclusion website as an example.

### Outcome and next steps

After our suggestions, the bank included an expanded section on diversity and inclusion in its latest annual report 2021-2022. It details existing gender diversity programs, as well as new policies which include its "New Mother Benefit Policy" which provides financial benefits to mothers returning to work. The expanded disclosures also included both age and diversity data by seniority for the overall workforce and for new joiners, as well as gender pay ratio by seniority. Females represented 12% of senior managers.

We also note its year-on-year increase in female gender representation as a proportion of its overall workforce to 27% in FY22 from 24% in FY20.

In addition, the company announced its ambition to increase female gender representation in the overall workforce to at least one third. This reflects that diversity, equity and inclusion remains an important objective for the bank.

While we welcome the progress the bank made as well as its revised gender target, which is more ambitious than some other India private sector banks, we asked it to put in place a timeline to track progress in our recent meeting with the bank in November 2022.

<sup>28</sup> <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1855783>

# Human capital management engagement and voting – 2022 continued

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## Equity and inclusion

Diversity alone is insufficient to unleash the full potential of human capital. Equity and inclusion are equally as important. Equity reflects the promotion of fairness while inclusion is making sure individuals feel welcome and included and can help retain employees over the long term. We believe the failure to address these issues creates legal and reputational risks to companies and ultimately, their long-term value.

Key points of engagement include establishing a process to achieve pay equity on a regular basis with public disclosure. Collecting and reporting on granular pay gap data is an example of best practice to evaluate pay equity; it allows companies to assess the level of gender or racial inequality, which may be driven by several root causes, including lack of minority representation in senior roles. For example, in the US where pay-equity reporting is the norm versus pay-gap reporting, we engage with companies (see Union Pacific Corporation case study below) to publicly disclose their EEO-1 data, a mandatory annual data collection that requires all private sector employers with 100 or more employees to submit demographic workforce data, including data by race/ethnicity, sex and job categories. While gender pay gap reporting is mandatory in the UK, discussions around pay gap reporting on race/ethnicity are still developing in this market. This year, we collaborated with a member within the 30% Club UK – Race Working Group to engage with companies to obtain best practice requirements on ethnicity pay gap reporting. We met with experts from Lloyds Banking Group Plc, who provided insights on their ethnicity pay gap report.<sup>29</sup> Within the analysis completed, we note a handful of companies that voluntarily report an ethnicity pay gap report, for example, Shell, ITV, BT Group and Sainsbury. From these discussions, we understood that while the pay gap calculation methodology may differ, the important aspect is to provide narrative within the report that explains the implications of pay gap analysis.

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<sup>29</sup> <https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/responsible-business/downloads/2022-reporting/lbg-ethnicity-pay-gap-report-2022.pdf>

# Human capital management engagement and voting – 2022 continued

## Case Study - engaging on workforce diversity and inclusion



Union Pacific Corporation



USA



Equity, Bonds

### Issue

As noted in last year's report, the issuer's reporting was deemed insufficient for investors to determine the effectiveness of its human capital management programs. As a result, two proposals were filed at the company requesting annual disclosure of Equal Employment Opportunity EEO-1 data and an annual report assessing diversity and inclusion efforts in 2020. We voted in support of both proposals with the view that such reports, including quantitative details, would allow shareholders to better assess the efficacy of diversity and inclusion efforts. The proposals received 86% and 81% of shareholders' support respectively and UNP subsequently disclosed 3 years' worth of EEO-1 data.

### Action

After reviewing additional EEO-1 disclosures and UNP's Building America report, we engaged with the company to understand what steps were being taken to improve diversity and to follow up on employee engagement, which is a key ask within our stewardship priorities. We encouraged the company to aggregate and evaluate engagement data by demographics to gain insight into possible trends and areas of opportunity for underrepresented groups. They also noted that diversity goals were embedded within the executive's compensation qualitatively, with the intention to make targets more quantitative in the future.

### Outcome and next steps

We noted that UNP committed to increase workforce representation of women to 11.0% and minorities to 40.0% by 2030, up from 5.9% and 29.8% as of 2020, respectively. With regards to employee engagement, the company saw an increase in participation from 40% to 80% in 2021. Further, at the 2022 annual meeting the company incorporated employee engagement into the annual bonus plan. The increased transparency via disclosures and inclusion of engagement scores in the compensation plan are welcomed improvements. We will continue to evaluate the evolution of UNP's workforce diversity, compensation practices and evaluations of engagement score data.

## Collaborating to advance human capital and labor management disclosure

In 2022, we became signatories of the Workforce Disclosure Initiative, also known as the (WDI). The WDI aims to close the gaps where data has not been presented by companies on human rights issues, improving provisions of decent work within the supply chain, labor rights issues and diversity equity and inclusion. To address the data gap issues, the WDI invite companies to respond to its data collection<sup>30</sup> and have subsequently built a database available to its members to retrieve this data.

We asked the WDI to engage with more than 90 focus companies as an initial start to building out the engagement campaign on behalf of J.P. Morgan Asset Management. 19 companies completed the survey, from our preferred engagement list, we will therefore continue to encourage investee companies to complete the survey if this has been declined in the first instance as we believe that companies are "talking the talk" when we engage on themes discussed within the survey, for example diversity, equity, and inclusion and on human rights and supply chain. The WDI have cited, some companies declined to complete the survey, due to not having the data to be able to disclose the details and others declined, due to already providing data within sustainability reports. We will continue dialogue with these companies to further understand the nature of the lack of responses or for declining to

<sup>30</sup> [2022-WDI-Survey.xlsx \(live.com\)](#)

# Human capital management engagement and voting – 2022 continued

complete the survey. Data can be extremely difficult to obtain, especially on themes such as diversity, equity, and inclusion therefore we're keen to understand some of the barriers for why the data cannot be shared via the WDI survey, especially by companies positioned within developed markets.

## 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. One issue we noted during the year related to controversies around US technology companies' use of concealment clauses. Concealment clauses are defined as employment or post-employment agreement, such as arbitration, non-disclosure, or non-disparagement agreements, that a company asks employees or contractors to sign. While they may be used to help the company protect corporate information such as trade secrets, they can also be used to limit an employees' ability to discuss unlawful acts in the workplace, including harassment and discrimination.

This year we supported six shareholder proposals related to concealment clauses including at Apple.



Apple Inc.



USA



Equity

### Issue

Apple received a shareholder proposal asking for a report on concealment clauses. Given the reputational risk and potential negative impact to human capital, we sought to engage with the company to better understand their position on the issue.

### Action

During our engagement, Apple shared that its Business Conduct Policy reinforces employees' right to speak freely about "wages and working conditions". Given that "working conditions" is meant to include harassment and discrimination, we believe it is appropriate for the board to make this explicit. We therefore voted for the proposal.

### Outcome and next steps

The proposal passed at the 2022 annual meeting.

In our follow-up meeting with Apple in November 2022, we communicated our support for the related proposals and obtained a company update on its plan to address the advisory shareholder vote. We are encouraged by its positive action. It reiterated its policy is not to use concealment clauses in harassment or discrimination cases and will also address shareholders' request to publish a report to assess the risks associated with concealment clauses.

Our six investment stewardship priorities

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# Social stakeholder engagement and voting – 2022



# Social stakeholder engagement and voting – 2022

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, failure of a mining company to manage its impact on local communities could result in unrest and impact its license to operate. Similarly, a consumer electronic company’s failure to exercise responsible sourcing could result in reputational risk and boycott from customers. Both instances could result in the destruction of shareholder value. The conflict in Ukraine has placed the focus back again on the importance of companies playing their role to ensure that they are not complicit in the human rights abuse of employees and communities especially in conflict afflicted or occupied territories. When we engage with investee companies on this, we encourage them to discuss options to avoid, prevent or mitigate the actual or potential human rights impacts.

## Engaging with companies on their stakeholder management



**338**

Number of companies engaged on stakeholder management



**36**

Number of markets engaged on stakeholder management



**25**

Number of sectors engaged on stakeholder management

### Top 10 markets engaged on Social stakeholder engagement

Country	%
1. United States	27.4%
2. Britain	14.7%
3. China	14.7%
4. Japan	7.4%
5. India	7.1%
6. Hong Kong	3.7%
7. South Korea	3.0%
8. Taiwan	2.8%
9. Brazil	2.1%
10. Australia	1.6%

### Top 10 sectors engaged on Social stakeholder engagement

Industry	%
1. Pharmaceuticals, Biotechnology	9.0%
2. Banks	7.4%
3. Food, Beverage & Tobacco	7.4%
4. Capital Goods	6.7%
5. Retailing	6.0%
6. Health Care Equipment & Services	5.1%
7. Media & Entertainment	5.1%
8. Materials	4.8%
9. Technology Hardware & Equipment	4.8%
10. Consumer Durables & Apparel	4.8%



# Social stakeholder engagement and voting – 2022 continued

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## Continuing discussions with UK Housebuilder on building safety

We continued dialogue with UK housebuilders on building safety and highlight some outcomes following the tragic events of Grenfell Tower in 2017, where the Government, the construction industry, and the wider housing market increased their focus on fire safety issues and have been under pressure to remediate Aluminum Composite Material (ACM) cladding within high rise buildings. Many leaseholders had been left to feel insecure and scared, due to the associated fire safety risks with existing cladding. We have met with Taylor Wimpey Plc, Barratt Plc, Bellway Plc and Berkeley Group Plc to discuss their plans for remediation and how the industry will move forward since it has become highly regulated with government intervention and housebuilders levies to be paid.

### Outcomes Achieved:

- House builders entered into pledges with Department for Levelling Up, Housing and Communities (DLUHC) including pledges to remediate safety issues on buildings of 11 meters and above;
- Leaseholders do not have to pay for remediation work of unsafe high-rise buildings;
- Government introduced a tax levy for all housebuilders;
- Housebuilders have set up dedicated fire safety divisions, with additional training and responsible for liaison and negotiation with management companies and residents;
- Housebuilders continue to engage with the Government to establish a workable, sector-wide solution towards fire remediation issues.

Stakeholders can have a positive or a negative impact on a company, depending on how effectively they are managed. Their impact could be acute and negligible over the short term but could also be long term and substantial. It is, therefore, important for companies to have an enterprise risk management framework that helps identify their major stakeholders, understands the associated risks and opportunities, and prioritizes them for engagement and management. This section demonstrates how we engage with issuers about their key stakeholder risks, particularly those that are important across its value chain.

# Social stakeholder engagement and voting – 2022 continued

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## Engaging companies on human rights along the supply chain

We engage with our investee companies on a wide range of financially material social and human rights issues, such as indigenous rights, modern slavery and forced labor, child labor and digital rights.

In 2022, the war in Ukraine turned the spotlight back on to long-running concerns about business practices regarding human rights in occupied or conflict-affected territories and labour standards within opaque international supply chains. Scrutiny has increased on identifying companies that are knowingly or unwittingly complicit in human rights abuses. We continue to find that engagements on these issues are challenging, at times emotive, and progress can be hampered by local legal frameworks.

Corporates' human rights due diligence and management is increasingly becoming subject to legal and sanctions risks. In February 2022, the European Commission released its draft Mandatory Human Rights and Environmental Due Diligence Directive. In June, the US government started implementing the Uyghur Forced Labor Prevention Act.<sup>31</sup> And in September, the Japanese government published its Guidelines on Respecting Human Rights in Responsible Supply Chain.<sup>32</sup>

As such, it is essential for companies to establish processes to assess human-rights-related legal risks and potential breaches of international norms, given that supply chain are often complex, expansive, and opaque. During our engagement, we do not only seek companies' confirmation of their compliance with different laws and regulations, but also how they arrive at the conclusion. For example, conducting an overall human rights due diligence is useful in identifying potential salient human rights issues. Non-scheduled social audits and obtaining external assurances for suppliers' social practices for specific social aspects can help manage social outcomes and minimize risks (see Fast Retailing's case study below as an example).

## Forced labor engagement

Retailers often face customers' criticism on their potential indirect linkage to human rights issues that take place at their suppliers' production sites in emerging markets. Last year, we featured our successful engagement with Boohoo, a British online fashion retailer, on labor rights management and supply chain governance in the apparel sector. In 2022, we furthered our engagement with several Asian and US retailers. While some retailers are good at communicating their supply chain transparency work, a lot of efforts focus on their Tier 1, i.e., direct suppliers only. Visibility of indirect suppliers is often a challenge. As product traceability has become more critical than ever for the companies in minimizing risks related to labor practices and regulatory risk, we expect the company's efforts could lead to positive impact on its long-term shareholder value. As such, we also reached out to some of the retailers' direct suppliers to understand their traceability work along the supply chain. We outline our engagement progress on supply chain traceability and audit coverage in the Fast Retailing case study below. We concurrently put forward labor management asks to one of Fast Retailing's supplier Shenzhou International. In our meeting with its chief financial officer in March 2022, we shared industry labor practices and provided suggestions related to labor management and the associated disclosure.

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<sup>31</sup> <https://www.state.gov/implementation-of-the-uyghur-forced-labor-prevention-act/>

<sup>32</sup> [https://www.meti.go.jp/english/press/2022/pdf/0913\\_001a.pdf](https://www.meti.go.jp/english/press/2022/pdf/0913_001a.pdf)

# Social stakeholder engagement and voting – 2022 continued



Fast Retailing



Japan



Equity

## Issue

The company began disclosing suppliers of core sewing factories for its Uniqlo and GU brands in 2017 in an effort to make its supply chain transparent and ensure proper work conditions. There was an ongoing reported allegation of the use of forced labor in Uniqlo's supply chain, including the reported block of Uniqlo shirts at the US border due to such allegations in 2021.<sup>33</sup> This prompted our engagement on this issue.

## Action

We met with the company several times in 2021, including the founder and the chief executive officer, to understand its management of supply chain engagement and human rights issues in suppliers. Reiterating the importance of demonstrating actions to improve supply chain transparency and combat forced labor, we put forward the following suggestions to the company:

- Obtain external assurance, for example through third party accreditors or certification, in addition to their own supplier monitoring system.
- Increase board accountability and incentives to oversee supply chain management by linking key performance indicators to board of directors' compensation, not only at the operating officers level.

In addition, in our follow-up meeting in May 2022, we asked the company to expand the utilization of the industry-wide converged assessment framework such as the Social and Labor Convergence Program<sup>34</sup> beyond China to other key manufacturing markets. In particular, while we welcome the industry-wide assessment framework for social and labor practices among its 75 partner factories in China, we communicated to the company that we think it is equally important to cover other manufacturing markets such as Bangladesh.

## Outcome and next steps

Following our suggestions, at a sustainability media and analyst briefing in Tokyo in November 2022 the company announced plans to expand its supply chain traceability data management system with a third-party accreditor to cover all UNIQLO products and all Fast Retailing Group brands in the future.

In addition, it is considering expanding the published production partners list to include spinning mills. The company has developed its own on-site survey programs to check the workers' practices directly at partner factories (not only garment factories, but also fabric and spinning mills).

The company established a new system to confirm supply chain planning and results for each product, which aims to ensure traceability and provide enhanced disclosure on origins for fabrics by product and is scheduled to be implemented in 2023. We will continue our oversight of expansion of regional and product coverage of social and labor convergence program and further engagement to improve board accountability for supply chain management.

<sup>33</sup> <https://www.reuters.com/world/china/uniqlo-shirts-blocked-us-border-january-china-forced-labour-concern-2021-05-19/>

<sup>34</sup> Social Social and Labor Convergence Program - The Social & Labor Convergence Program provides the tools to capture accurate data about working conditions in global supply chains. This multi-stakeholder initiative replaces the need for repetitive social audits by facilitating data sharing.

# Social stakeholder engagement and voting – 2022 continued

In addition to the apparel sector, we identify human rights hotspots in other sectors such as metals and mining and technology sector. Indigenous rights is one of the engagement focuses as we highlighted in last year's report. Failure to manage these human rights issues may present reputational and regulatory risk whereas effectively managing such issues helps rebuild trust amongst communities and strengthen company culture; all of which we believe to be important to long-term shareholder value. See below our engagement updates with Rio Tinto.



Rio Tinto



Australia and United Kingdom



Equity, Bonds

## Issue

In 2020, the expansion of Rio Tinto's iron ore mine at Juukan Gorge resulted in the destruction of an Aboriginal and 46,000-year-old sacred site. In addition, concerns were raised over low representation of indigenous professionals in the company.

This year, the company launched the Everyday Respect Report, which placed a large focus on company culture, employee wellbeing and business conduct following the findings of the Broderick Review<sup>35</sup> and making Rio Tinto the first mining company to disclose such a report. The Everyday Respect report outlined a series of 26 recommendations including making early intervention for misconduct a priority, addressing the cultural drivers of bullying and physical misconduct, and empowering staff to speak up.

## Action

As mentioned in the 2021 Stewardship Report, we have been engaging with the Board and senior management at Rio Tinto and continued our discussions through 2022. Specifically, we wanted to understand progress on the reform of its governance practices, community work and culture transformation. We met the newly appointed Chair and Chief Peoples Officer, in addition to operations experts - Global Head of Communities & Social Performance and Chief Advisor Indigenous Affairs. We asked how the company is increasing efforts on indigenous employment and retention.

We also asked how Rio Tinto's involvement in the International Council on Mining and Metals (ICMM) industry association is shaping their reforms on working with indigenous communities. We encouraged Rio Tinto to disclose their work at firm level and identify why they may have prioritized certain regions within their strategy, for example to protect land or creating certain job roles. We recommended the company disclose how they work outside of Australia, and the interplay between the company's global businesses.

## Outcome and next steps

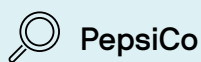
Rio Tinto now leads within the mining industry in providing transparency on reporting on programs taken to improve relations with indigenous communities. There is detailed reporting, as per the company's second Communities and Social Performance Commitments Disclosure, citing how, since the destruction at Juukan Gorge two years ago, Rio Tinto continues working with the impacted communities and how they have co-designed new ways to work together to strengthen heritage protection in Australia including the provision of training on cultural awareness.

In the U.S., Rio Tinto has started to develop programs for tribal members, and to identify sites of significance. Additionally, having met with the Chief Peoples Officer, we believe that the company has set goals and priorities to strengthen corporate culture. We will continue engagement with the company to evaluate progress.

<sup>35</sup> Broderick Review - An independent review into harmful behaviors including bullying, sexual harassment, and sexual misconduct at NSW Parliament workplaces. This review was undertaken by the former Sex Discrimination Commissioner Elizabeth Broderick

# Social stakeholder engagement and voting – 2022 continued

We also engaged on indigenous rights and community engagement related to the palm oil sector. Despite the development of third-party certifications on sustainable palm oil, there have still been ongoing allegations related to land grabbing. This year, we had a reactive engagement with PepsiCo on its palm oil controversies to understand its execution of its No Deforestation, No Peat, No Exploitation (NDPE)<sup>36</sup> policy. We also held separate discussion with palm oil suppliers' chief executive officer to understand their approach to NDPE and the respective implementation.



USA



Equity, Bonds

## Issue

Pepsi have been facing palm oil supply chain and related controversies. Allegations include illegal land acquisition, environmental destruction, and violence against local communities by an Indonesian palm oil supplier.

## Action

We reviewed relevant information provided by PepsiCo on the issue including the “PepsiCo Global Policy on Sustainable Palm Oil Implementation” which included several commitments to improve their palm oil supply chain practices, including certain commitments to No Deforestation, No Peat, No Exploitation (NDPE). Our US and Asia stewardship and equity team reached out to Pepsi to discuss the issue. We asked about the process Pepsi has in place to ensure its suppliers work towards 100% NDPE and the evidence to demonstrate its effectiveness.

## Outcome and next steps

Pepsi acknowledged there are systemic issues in the supply chain. They have found that issues like deforestation, forced labor, and land grabbing are often interlinked. One challenge comes from the number of participants in the palm oil supply chain. While Pepsi is one of the largest consumer packaged goods palm oil purchasers, its purchases represent less than 1% of the total palm oil market. The mills and plantations themselves can be three to five tiers deep in the supply chain. The company is linked to 1,500 of the 2,000 global mills, often through traders.

Pepsi views NDPE as the immediate priority against which progress should be measured. They are part of the Palm Oil Collaboration Group developing the NDPE Implementation Reporting Framework (IRF) to create a consistent way to measure how mills/refiners are adhering to the principles of NDPE. Through the No Exploitation pillar, NDPE also includes Free, Prior, and Informed Consent (FPIC), which refers to the right of indigenous peoples to give or withhold their consent for any action that would affect their lands, territories, or rights. There are several direct suppliers with whom Pepsi has ended relationships given sustainability-related problems.

Pepsi continues to work with suppliers to help them achieve NDPE with a pledge to have 100% of its palm oil supply covered under the NDPE principles or within a timebound initiative that demonstrates progress to delivering by 2022. They are also in the process of improving their disclosures, having pledged to disclose their full supplier grievance list including whether they've been resolved.

We are encouraged by their commitment to transparency and suggested they continue to report on ongoing, problematic issues as well as the successes.

<sup>36</sup> No Deforestation, No Peat and No Exploitation – No Deforestation refers to avoid deforestation when developing lands to produce commodities or associated projects. No Peat refers to no development on peatland and encouraging the use of best management practices on existing plantations on peat. No Exploitation refers to not exploiting workers, local communities or small-scale growers, in the production of an agricultural commodity.

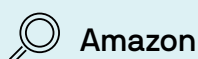
# Social stakeholder engagement and voting – 2022 continued

## Collaborative efforts on human rights

Starting from December this year, we became a participant of Advance,<sup>37</sup> a new investor-led initiative coordinated by the UN-supported Principles for Responsible Investment (PRI) with the objective to increase respect for human rights and drive positive outcomes for people through investor stewardship. We view these objectives 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 implication. The initiative has been endorsed by around 220 investors, which amounts to over \$USD 30 trillion in assets under management, and around 120 investors will be participating in the engagement. We will be leading social and human rights discussion with POSCO and collaborating with other investors on Nippon Steel engagement.

## Voting on human rights

Human rights due diligence not only forms part of our engagement asks; we also voted for several human rights related shareholder proposals when we believed the issue was financially material and there wasn't evidence to demonstrate adequate management of the risk. For example, we supported a shareholder proposal faced by Amazon asking to "Commission a Third Party Audit on Working Conditions".



Amazon



USA



Equity

### Issue

We have been engaging with Amazon on warehouse working conditions over the last two years given the controversies and resulting risks tied to human rights and AMZN's reputation. As a result of these broadly shared concerns, AMZN received a shareholder proposal to "Commission a Third Party Audit on Working Conditions".

### Action

We had requested the company disclose workplace injury data and provide an update on how they are improving ergonomics of warehouse working conditions. We acknowledge the company was responsive to our request by publishing "Amazon's Delivered with Care Report on Safety and Well-being" which showed recordable injury rate (IR) and lost time incident rate (LTIR) and noted an improvement in the LTIR. However, we also noted that injury rates in the US appeared significantly higher than the rest of the world; the company did not disclose warehouse attrition rates and there was no discussion on hiring practices ensuring individuals were physically fit for warehouse employment.

### Outcome and next steps

While recognizing some encouraging signs and responsiveness, we believe their reporting should continue to evolve to provide shareholders and stakeholders with adequate information to assess risk and remediation efforts. As a result, we supported the proposal to commission a third-party audit, which received 44% support.

<sup>37</sup> <http://www.unpri.org/advance>

# Social stakeholder engagement and voting – 2022

## continued

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### **Engaging companies on digital rights and cybersecurity**

Cybersecurity risks are ever present and are a key risk for almost all businesses. Cyberattacks can have ripple effects beyond business disruptions in a company's direct operations; they can affect partners in the supply chain and lead to a substantial loss of integrity and trust from customers, a decline in company valuation, and even the license to operate. Executive teams face the challenge of protecting their institutions from cyberattacks, without degrading their ability to innovate and extract value from technology investments. The U.S. SEC's proposed cybersecurity rules will require companies to disclose material cyber incidents including cyber risk policies and procedures, board oversight of cyber risk, and any cyber expert on the board.

### **Our expectation of companies**

The technical nature of cybersecurity and the limited ability of companies to make detailed disclosures make this engagement more challenging. In general, we encourage companies to implement the following:

- Ensure board oversight of cybersecurity risks.
- Integrate cybersecurity resilience and data privacy into corporate strategy.
- Appoint key personnel accountable for cybersecurity.
- Disclose budgets and spending on cybersecurity.
- Establish a framework for analyzing cybersecurity risk.
- Establish a clear audit process for cybersecurity risk.
- Provide training to the board and wider workforce on cybersecurity.

# Social stakeholder engagement and voting – 2022 continued



Advantech



Taiwan



Equity

## Issue

In November 2020, the Taiwanese industrial computer manufacturer was subject to a ransomware attack affecting 267 servers and causing approximately US\$6 million worth of shipping delay for a month. We see this as a financially material issue not only because of the operational impact of the ransomware attack, but also because of the company's business proposition in the Internet of Things solutions, where product safety and security play key roles.

## Action

In 2021, we reached out to the company to discuss lessons learned from the ransomware incident. The company disclosed the incident's impact on operations in its 2020 CSR report as well as the appointment of Deloitte to conduct an external assessment of its information security maturity. What we wanted to better understand was the root cause for the issue and the additional action the company would take in order to address the issues. We encouraged it to disclose its medium action plan in its upcoming report.

We explained the importance of having key personnel accountability for cybersecurity. One issue we identified at the meeting related to the "dual-hatting" of cybersecurity oversight. The president of general management who is also the chief financial officer is responsible for overseeing information and cybersecurity. We recommended the company consider strengthening cybersecurity governance by separating financial management from information and cybersecurity. We reiterated our requests in a follow-up meeting in November 2022.

## Outcome and next steps

After our company engagement, the company has furthered its disclosure on information security oversight. In March 2022, it released its information security policy as the highest guiding principle to cover the operation content and procedure regarding information security. In its latest corporate sustainability report (CSR) report published in June 2022, the company disclosed a detailed action plan on improving information security. Measures range from a comprehensive assessment of information security risks, improving information security management capabilities, raising employee security awareness, strengthening data security with R&D backup data, enhancing network and endpoint protection, improving the resilience of information services, and introducing information security management and product safety systems.

The company also acknowledged the personnel accountability issue and indicated that it is internally building capacity. It has hired a dedicated cybersecurity manager, and the latest cross-departmental information security governance team structure is reflected on the risk management section of its website. We welcome the progress and would continue the engagement to understand the robustness of its cyber oversight.



Our six investment stewardship priorities

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# Governance engagement and voting – 2022



# Governance engagement and voting – 2022

We believe that there is strong positive correlation between high governance standards and superior shareholder returns. Effective corporate governance features transparency, accountability, oversight and respect for shareholders.

We evaluate governance starting with the board and its performance, looking for independence, relevant skillsets and diverse perspectives. Companies should make an effort to adequately refresh the board through a transparent and independent recruitment process based on a fair evaluation of the board’s composition and needs.

Importantly, the responsibilities of the board can have a direct impact on a company’s returns and, therefore, shareholder value. The board oversees management’s execution against the company’s capital, liquidity, strategic and financial operating plans. Capital allocation issues are judged in terms of alignment with long-term strategy and value creation at the applicable company. Boards are also responsible for overseeing management of environmental and social matters, which could affect the company’s value.

In 2020, JPMAM defined board diversity and capital allocation as key themes to be addressed in the medium term under our governance priority, due to their importance in creating long-term value for our clients. After several years of engaging on board diversity, we decided to uplift the theme to board effectiveness to encompass, more broadly, issues related to structures of the board and its committees and their functioning. In the examples below, we address this theme together with capital allocation.

In 2022, J.P. Morgan Asset Management carried out engagements globally with regards to Governance. This section demonstrates how we are advancing engagement with investee companies on these topics.

## Engaging companies on governance



**505**

Number of companies engaged on governance



**47**

Number of markets engaged on governance



**25**

Number of sectors engaged on governance

## Top 10 markets engaged on Governance

Country	%
1. United States	29.1%
2. Japan	13.1%
3. China	11.7%
4. United Kingdom	9.3%
5. India	7.6%
6. South Korea	5.3%
7. Hong Kong	3.3%
8. Taiwan	2.2%
9. France	1.6%
10. Germany	1.4%

## Top 10 sectors engaged on Governance

Industry	%
1. Banks	11.4%
2. Capital Goods	10.3%
3. Software & Services	7.0%
4. Energy	4.8%
5. Media & Entertainment	4.8%
6. Technology Hardware & Equipment	4.7%
7. Transportation	4.7%
8. Materials	4.5%
9. Diversified Financials	4.5%
10. Retailing	4.4%

# Governance engagement and voting – 2022

## continued

### Engaging companies on board effectiveness

We believe the composition of the board is important to board effectiveness. An appropriate mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives helps generate constructive discussions and supports decision-making that aligns with the company's mission, purpose and long-term strategy and goals. In an effort to create effective boards, we believe companies should strive to include diversity with respect to gender, race, ethnicity and nationality, and provide appropriate training beyond the prerequisite qualifications.

As outlined in our engagement case studies that follow, positive outcomes involved engaging with companies on their director nomination process to encourage board diversity (see Silgan case study) and to improve board independence and diversity to ensure board effectiveness (see Alibaba case study). Our global participation in collaborative initiatives to advance diversity has also helped us increase corporate awareness.

### Board diversity regulatory developments

We have seen increasing regulatory expectations globally to promote diversity of boards and executives. The EU directive sets a target for EU companies listed on the EU stock exchanges for 40% of the underrepresented gender among non-executive directors and 33% among all directors by 2026. The UK Financial Conduct Authority announced in April 2022, that listed companies will be required to report information and disclose against targets of representation of women and ethnic minorities on boards and executive management roles, making it more transparent for investors to see the diversity of company senior leadership teams.<sup>38</sup>

In Asia, Hong Kong Exchanges and Clearing will no longer accept single-gender boards for listed companies after 2024, and neither will Malaysia from 2023. Single-gender boards are also currently banned for listed companies in India and large listed companies in South Korea.

In the United States, we note the Nasdaq listing rules that require companies publicly disclose the diversity of their boards, either in annual proxy statements or on their websites. By 2025 or 2026, depending on their listing tier, companies must either have two diverse directors including one who identifies as female and another as an underrepresented minority or LGBTQ+, or explain why they do not have such representations.

### Focus on: Board diversity voting

We worked across regions to uplift our voting policy on board diversity to support our engagement on this key issue given JPMAM's belief that diversity is important to corporate governance, sound decision making and long term value to companies. From 2023, we have established a global diversity voting policy where we are voting against single-gender boards of listed companies across all markets. While board diversity has steadily improved in many markets, such as the U.K., without having to impose a quota or target, we believe there continues to be opportunity for improvement. This step forward is intended to help bolster board diversity for small companies and across emerging markets. We also seek to mitigate tokenism, where Director is added merely as a symbolic effort, given we believe it undermines effective board governance. In developed markets, we had already established enhanced expectations for board diversity. For example in Continental Europe and the U.K., regulation requires at least 30% gender diversity. Looking out to 2023 and beyond, we are encouraging all companies, across all markets, to work towards a minimum of 30% diversity (as defined by each region).

<sup>38</sup> <https://www.fca.org.uk/news/press-releases/fca-finalises-proposals-boost-disclosure-diversity-listed-company-boards-executive-committees>

# Governance engagement and voting – 2022

## continued

### Case study – Engaging on board independence and diversity



Silgan Holdings



USA



Equity, Bonds

#### Issue

We have been long term shareholders of Silgan Holdings, the American manufacturer of consumer goods packaging. Since November 2001, the company had a Stockholders Agreement with the two founders that gave them the contractual right to nominate all directors so long as the cofounders, their affiliates, and their estate's (the "Group's") collective ownership exceeded a certain threshold. We had no concerns about the quality of directors on the board, but expressed concerns about the lack of a nominating committee to identify qualified directors. We also noted the rising importance of diversity in Board nomination to inform effective board decision-making and the apparent lack of it on the board or disclosure in their proxy statements.

#### Action

We continued to have constructive engagements with the company over the following two years to address these concerns. Our discussions assured us that the Board was aware of the concerns of shareholders, and while there was no formal nominating committee, the other directors did have a role in the nomination process. Also, the Board was expanding the pool of candidates that were being considered for director nominations with diversity being an important consideration.

#### Outcome and next steps

In November 2021, the company announced the addition of a new female director who in addition to bringing financial, operational, supply chain and global work experience, is also ethnically diverse. Though nominated by the founders, the remaining board members had the opportunity to meet and evaluate the director. Soon after, the company also announced a New Stockholders Agreement that amends the existing Stockholders Agreement by removing this contractual right of the founders to nominate all directors. Under the New Stockholders Agreement, the Group retains its existing contractual right to nominate one nominee for election as director until such time as the Group beneficially owns less than five percent of the outstanding shares, which nominee must be one of the founders.

We believe the founders, independent directors and management have been responsive to shareholder concerns and have executed the transition in a thoughtful manner. Through this period the Board size has expanded from 7 to 9, adding diversity including important skill sets to the Board. The Board has removed the Co-Chairman positions that were filled by the two founders and separated the Chairman and CEO roles, with a successfully executed CEO transition during this period.

# Governance engagement and voting – 2022

## continued

### Case study – Engaging on board independence and diversity



Alibaba Group



China



Equity, Bonds

#### Issue

We engaged with this Chinese multinational technology company on its board structure. We have identified board independence and diversity, and evidence to demonstrate board effectiveness and accountability to investors as key areas for improvement given the combined CEO and chair position, the less than 50% board independence level and the influence of Alibaba Partnership which is a unique governance structure that Alibaba puts in place and has the power to nominate executive board directors.

#### Action

We have been raising our concerns about the overall board independence and diversity with the company in the past years. In September 2020, we wrote an email to the chief financial officer to communicate our corporate governance expectations in terms of board independence and diversity. In August 2021, we had a meeting with the investor relations and legal counsel on a number of ESG issues including corporate governance, the reporting frequency of material ESG issues, human capital management, and data privacy.

This year, we further expressed our objectives in a letter to the chair/CEO, asking for at least majority board independence, additional gender diversity, an appointment of a lead independent director, disclosure of the nomination criteria and the selection process of independent directors, and conducting a board evaluation which has been the Hong Kong Stock Exchange Corporate Governance Code's recommended best practice since 2012. The Code focuses on board members' attention on their roles and duties and identifies areas for improvement.

#### Outcome and next steps

In August 2022, the company appointed two new independent directors, while another seasoned independent director decided not to seek re-election after serving on the board for seven years. The overall board independence and gender diversity on the board improved to 55% and 27% from 50% and 20% (as of AGM 2021), respectively. We welcome the progress on board refreshments and gender diversity. We will continue to ask for engagement opportunities with independent directors to discuss strategic topics including capital allocation and human capital management. We will also continue to seek its opinion on the board evaluation practice.

# Governance engagement and voting – 2022

## continued

### Collaborating to achieve board-level diversity goals

We are long-standing members of the UK 30% Investor Group, which further articulates the investment case and importance for more diverse boards and senior management teams. We have been using its work on gender diversity in our engagements with companies. In 2022, we also engaged on racial diversity with companies who did not meet the recommendations of the UK Parker Review within the FTSE 100, which set an expectation of the appointment of at least one director from an ethnic minority group by 2021. The UK 30% Club – Race Equity Working Group members wrote to companies. We led discussions with 3i Group Plc (see the case study below) and with M&G Plc; both companies made commitments to appoint a director from an ethnic minority group at the time of the 2022 annual general meeting.

At the time of writing this report, 90% of FTSE100 companies adhere to the UK Parker Review. We also began engagement with FTSE 250 companies to encourage them to meet the Parker Review ambitions for 2024. We set up a collaborative engagement with Bellway plc Chair and members from the UK 30% Club Race Equity Group were also in attendance. The company has set timebound targets on diversity and commit to adhering to the UK Parker Review by the 2024 deadline.

### Case study – Collaborating on board diversity



3i Group Plc



United Kingdom



Equity

#### Issue

In 2017, the Parker Review, which considers how to improve the ethnic and cultural diversity of UK boards to better reflect their employee base and the communities they serve, set a target for FTSE 100 companies to appoint at least one director from a minority ethnic group by 2021 and on each FTSE 250 Board by 2024. At the start of 2022, 3i Group Plc had failed to meet the requests of the UK Parker Review to appoint at least one person with an ethnic minority background to its Board.

#### Action

JPMAM as members of the UK 30% Club – Race Equity Working Group helped to identify a list of UK companies that had not disclosed adherence with the UK Parker Review in appointing a director from an ethnic minority background. We were a signatory to a letter via the UK 30% Club to 3i Group asking for further transparency on the company's commitments to appoint an ethnic minority to its Board and met individually with 3i Group.

#### Outcome and next steps

The Chairman wrote to confirm appointment of an ethnic minority Board member at the 2022 Annual General Meeting. Separately, we also held a call with the Investor Relations team prior to the AGM asking for clarity on the delay for the appointment. It was noted that the company had been searching for all aspects of diverse skills sets for the nomination, in addition to be able to meet the recommendations of the Parker Review. This was a successful engagement, where our objectives had been satisfied by company action.

# Governance engagement and voting – 2022

## continued

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We also signed a UK 30% Club investor statement to encourage UK public companies to lead in global efforts to address systemic inequities by advancing diversity and inclusion efforts and enhancing transparency and accountability, which was published in March 2022.

In Hong Kong, we participated in 30% Club Hong Kong Investor Group (previously known as the Hong Kong Board Diversity Investors Initiative (HKBDI)), a collaborative investor group that promotes the advancement of gender diversity on the board in that region. In 2022, we co-led a new diversity collaborative engagement within 30% Club Hong Kong Investor Group. Together with four other group members we reached out to 23 Hong Kong listed companies with single-gender boards to better understand their board nomination process, and their approach to board diversity and to advocate for better gender representation in the boardroom.

After joining the Japan 30% Club in 2020, we have been participating in its Best Practice Working Group of the Investor Group to share best practices in engagements. In 2022, we were invited as a panelist on the educational event organized by the Thought Leadership Working Group of the Investor Group. Our presentation to select audience of senior female managers who are future board director candidates focused on roles and responsibilities of board directors.

We furthered our collaboration with Asian Corporate Governance Association (ACGA) to engage with policy makers to advance the diversity ask to corporates. Through China Investor Working Group, we are co-leading ESG engagements with two Chinese companies. In Japan, we co-signed an open letter to Japan Financial Services Agencies and Tokyo Stock Exchange to boost gender diversity on boards of Japanese listed companies through the Japan's Corporate Governance Code and Listing Rules.<sup>39</sup>

### How we voted on board diversity

In 2022, we continued to utilize our voting power alongside engagement to bring about change where boards are lagging in gender or racial/ethnic diversity. We voted against directors at 250 companies for a lack of diversity and supported two shareholder resolutions requesting board diversity reporting where the board was apparently lacking in racial/ethnic diversity and there were no clear mitigating factors, including at Corvel Corporation. Additionally, in 2022, following changes made to our Japan guidelines requiring female representation, we cast votes against directors at 20 shareholder meetings in Japan where there were no female directors (see Shin-Etsu Chemical case study).

Note, our 2022 progress is the continuation of our efforts from 2021 when, following changes to our proxy voting guidelines, we voted against 136 directors given a lack of gender and/or racial or ethnic diversity and supported three shareholder resolutions requesting board diversity reporting where the board was apparently lacking in racial/ethnic diversity.

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<sup>39</sup> <https://www.acga-asia.org//pdf/japan-gender-diversity-letter-en-2022>

# Governance engagement and voting – 2022

## continued

### Proxy voting – election of director



Shin-Etsu Chemical



United Kingdom



Equity

#### Issue

There have been long-standing issues regarding the long tenure of independent directors and lack of female representation on the board of this Japan listed diversified chemical company. At the 2022 AGM, the company announced the nomination of the CEO and the Chairman of PPG Industries as an independent director, to succeed the independent director who was the ex-CEO of Dow Chemical Company and had been on the board for 21 years. Of the remaining four independent directors, three had served as directors for more than twelve years thereby raising concerns regarding board refreshment.

#### Action

We believe the nomination of the CEO of PPG as an independent director brings international and industry perspectives that are valuable to the company. However, we raised concerns with the company concerning the long tenure of several independent directors and the lack of board diversity. The company explained it had been in search for a female board director but had not been able to find an appropriate candidate who has sufficient understanding of the business. We emphasized the importance of balancing the experience, background and skill set of the entire board, and recommended to broaden the search. We further encouraged the company to be transparent in the nomination process, the role and responsibility of the advisory committee for nomination and its succession plan.

At the AGM in June 2022, we voted against the election of representative directors, such as the Chairman and the President to convey our concern on board independence, refreshment and lack of female representation. In particular, we voted against four independent directors who we believed had served on the board for too long.

#### Outcome and next steps

The approval rate for those directors we voted against was low. Post AGM, we discussed the rationale for our votes. The company explained that although it could not appoint female director this year, it is advancing its search in the hopes of being able to do so at the next AGM. We will continue to monitor progress.



# Governance engagement and voting - 2022

## continued

### Engaging companies on capital allocation

We seek to invest in companies that are allocating capital efficiently, generating reasonable long-term returns for shareholders and meeting interest and principle payments of their debts on time for 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 many of the risks and opportunities. The board should disclose a clear policy on the company's approach to its capital structure, which could address the demand from different stakeholders.

The board should articulate the incorporation of material ESG issues in its approach to optimizing shareholder returns and investing for the long term (see DTS case study).

### Case study – Engaging on capital allocation



DTS Corporation



Japan



Equity, Bonds

#### Issue

We thought there were problems with capital allocation policy at this system integrator in Japan, with net cash equivalent to 55% of total assets and an equity ratio standing at 78%, while total shareholder return ratio was 45%. We also raised concerns over board independence and diversity given the lack of female representation.

#### Action

In 2021, we engaged with a board director and executive officer of the company concerning capital allocation. We explained that, as a long-term shareholder of the company, we evaluated the company's track record in realizing growth over the mid-term but that we wished to ensure effective capital allocation. In particular, we expressed concerns that the company should either invest more to realize long-term growth or increase return to shareholders rather than retaining cash. We voted against the proposal on allocation of capital at the company's 2021 AGM as we thought the payout ratio was still insufficient.

In March 2022, we had further discussions on the company's governance structure. Specifically, DTS proposed to change the structure of the company from one with a board of auditors to one with an audit and supervisory committee. The aim was to make the board meetings focused on overseeing high level discussions such as its capital policy or mid-term business plans whilst leaving decisions on business execution to the executive board. We suggested majority independence of the board as best practice and requested that the company make the chair of its advisory nomination committee independent. We explained our 2022 Japan voting policy to vote against re-election of representative directors where the board is not majority independent or lacks female representation.

#### Outcome and next steps

In its mid-term plan, released in April 2022, the company announced its capital policy, with a dividend payout target exceeding 50% and shareholder return ratio above 70%. The company also released its plan to expand investment in human resources and increased R&D spending. At the June 2022 AGM, the company appointed a majority of independent directors to the board, elected two female directors, and changed the chair of the advisory nomination committee to an independent director

# Governance engagement and voting - 2022

## continued

In cases where we are not convinced of the effective deployment of capital at corporates, we may escalate our concerns via proxy voting to communicate our views to management (see Unilever case study).

### Proxy voting – capital allocation and election of director



Unilever Plc

United Kingdom

#### Issue

We believed Unilever Plc, the British multinational consumer goods company, has failed to align shareholder expectations in capital allocation, and has problems in its operational performance. While we were of the view Unilever should maintain a prudent balance sheet, it could invest more in its business, with capital expenditure to sales lagging peers by some way (3.5% for Unilever vs 5-6% for peers) and same being true of R&D sales (1.5% vs 3%). Since 2015, the company has spent Euro 15bn on bolt on acquisitions and return on invested capital (ROIC) has stagnated. We thought Unilever's past acquisition of Best Foods did not bring much value to the company, and the bid for GSK Consumer came at a time when shareholders generally had negative views regarding such a sizeable acquisition.

#### Action

In 2021, we engaged with company management including members of the Sustainability team and the Chair regarding the performance metrics being used. We also held conversations with the CFO regarding concerns with its ROIC figures. In 2022, we joined a collaborative engagement with the Investor Forum for the company to discuss our concerns. As we have not been fully convinced of the company's capital allocation strategy and operational performance, we took further action, and voted against several resolutions, including the Management team, Chairman, Non-executive Director and the approval of the Remuneration Report at the 2022 AGM.

#### Outcome and next steps

We held 1-1 meeting with the Chairman and CEO of Unilever Plc (following the vote against at the 2022 AGM), in addition to collectively engaging with the company through the Investor Forum, whereby the company has committed to 1) executing against its strategic priorities, 2) delivering improved performance and 3) addressing concerns regarding Board effectiveness and succession. We believe our engagement with management in tackling these issues helped formulate management's decision to refocus the business along five key business units with a dismantling of the old matrix structure to one where there is enhanced accountability and responsibility. We look ahead for Unilever to continue to uphold these commitments in 2023 and beyond.

At the working group of the 21st Annual Conference where Corporate Governance reform in Japan was discussed, we pointed out inefficient capital allocation and cross share-holdings as remaining challenges to sustainable growth of corporate value and needs to strengthen engagement with independent directors to bring investor views to the board. We are also an active member of Korea Investor Working Group and joined a delegation to Seoul in October, meeting companies and policymakers there to advance corporate governance.

## Our six investment stewardship priorities

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Strategy alignment with the long term engagement and voting – 2022



# Strategy alignment with the long term engagement and voting – 2022

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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 reflect 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 boards need flexibility when formulating a compensation plan. We also acknowledge some discretion is needed when evaluating management performance towards realizing long-term outcomes. In addition to challenges of business uncertainty, there are other challenges in designing plans, see box below.

## Challenges in Designing Compensation Plans

- **Choosing metrics well correlated with long-term share performance.** In recent years, we have seen a proliferation of performance share units (PSUs) in long-term equity plans that are driven by operational and financial metrics in lieu of shareholder returns over the performance period. Picking one or two PSU metrics that would correlate well with long-term share performance can be a daunting task. Most Boards make a good faith attempt to use metrics and targets that if obtained should result in a similarity of outcomes between management and shareholders. Issues arise when a metric is chosen that does not correlate well with long-term shareholder returns. For example, we have seen companies use absolute long-term sales growth as a metric on which to determine management compensation. Such a metric may be flawed, however, when targets are achieved as a result of expensive acquisitions or pricing at the expense of operating margins.
- **Choosing targets that are well correlated with long-term share performance.** In other cases, a Board may choose the right metrics but an inappropriate target. For example, a cyclical company may use earnings per share (EPS) growth rate targets relative to EPS at the bottom of a cycle, allowing management to achieve targets simply because the cycle rebounds even if the company's shares underperform.
- **Determining time periods over which to measure and compensate executives.** Most grants of performance shares are evaluated over a three year performance period, which is considerably shorter than the investment horizon of most long term investors. Consider a company that performs very well in the first three years of a CEO's tenure only to give back the gains in the next three year period of his/her tenure. While long term shareholders may not make any returns over this period of the CEO's tenure, it is easy to see how such a tenured executive who receives annual equity grants driven by three year PSU performance ends up with target compensation.
- **Inclusion of ESG metrics.** There has been a marked uptick in the inclusion of ESG metric within compensation plans. The challenge remains to explain how the chosen ESG metrics, targets, and weighting fit into the company's long-term strategy and how they are tied to material outcomes that enhance long-term shareholder value. We expect targets for ESG metrics to be financially material, challenging, and not merely increase management compensation and insulate executives from volatility in stock price performance and operational performance.

# Strategy alignment with the long term engagement and voting – 2022 continued

While we acknowledge the challenges in creating a compensation plan that aligns executive compensation with shareholder experience, we frequently come across practices we find problematic. Over this chapter, we discuss some of those that we encountered in 2022, as well as providing progress updates to some case studies presented in last years' Investment Stewardship Report. We provide examples of pay packages we supported and those we did not. We also in some cases 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.

## Engaging companies on their strategic alignment with the long term



**376**

Number of companies engaged on strategic alignment with the long term



**38**

Number of countries engaged on on strategic alignment with the long term



**24**

Number of sectors engaged on on strategic alignment with the long term

### Top 10 markets engaged on Strategy alignment with the long term

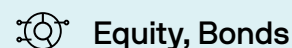
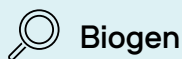
Country	%
1. United States	38.7%
2. Britain	12.6%
3. Japan	11.9%
4. China	10.1%
5. South Korea	2.9%
6. India	2.7%
7. France	2.3%
8. Germany	2.1%
9. Netherlands	1.4%
10. South Africa	1.4%

### Top 10 sectors engaged on Strategy alignment with the long term

Industry	%
1. Capital Goods	9.9%
2. Banks	7.5%
3. Software & Services	6.8%
4. Consumer Durables & Apparel	6.5%
5. Retailing	6.2%
6. Technology Hardware & Equipment	5.9%
7. Transportation	5.9%
8. Pharmaceuticals, Biotechnology	5.3%
9. Food, Beverage & Tobacco	5.0%
10. Media & Entertainment	4.7%
11. Semiconductors & Semiconductor	4.3%
12. Real Estate	4.1%
13. Insurance	4.1%

# Strategy alignment with the long term engagement and voting – 2022 continued

## Case study – engaging companies on long term pay for performance alignment



### Issue

In our 2021 annual stewardship report, we noted concerns around the design of Biogen’s executive compensation plan noting that the awards were too complicated to track, they were partly settled in cash and had tranches that use one, two, and three-year performance periods. In addition to adding complexity, this practice results in awards overweighting the first year. We conveyed this feedback to the company in a September 2021 engagement. JPMAM also raised concerns about corporate strategy and execution.

### Action

In Spring of 2022, JPMAM investors and stewardship team engaged with the Chair of the Board to discuss wide ranging of issues including corporate strategy, management execution, governance, and executive compensation. Building on our previous engagement, we discussed their strategy and provided feedback on performance. After that meeting, JPMAM has had other meetings with board members and company representatives to discuss their redesigned compensation plan and management changes.

### Outcomes and next steps

In each of these engagements, we found the Board to be engaged and the discussions constructive. In the 2022 proxy, the company described changes to the compensation plan that had been put into place with the 2022 grants. These changes addressed the concerns we had outlined in the fall of 2021. In particular, the 2022 long-term incentive calculation is much simpler, with one performance share tranche based on three-year total shareholder return (TSR) and settled in stock while parts of the prior long term incentive plan had used cash settlement. We therefore voted in favor of compensation at the 2022 annual meeting. Though proxy advisors recommended a vote against compensation citing lack of responsiveness to low support for last year’s say-on-pay, we believe the Board had been responsive and engaged through this process.

After the annual meeting, Biogen announced a CEO transition, and in November 2022, the Board named a new CEO who is an industry veteran and someone who is well known and well regarded by investors. Beyond his industry expertise, the Board also noted his emphasis on corporate culture.

In summary, notwithstanding the low say-on-pay support for 2022, we regard the engagement and outcomes as a success. With the change in leadership, we look forward to learning more about changes to corporate strategy and board’s oversight of strategy, execution, and management accountability.

# Strategy alignment with the long term engagement and voting – 2022 continued

## Engaging companies on one-off awards

We continue to see one-off awards. These are one-time awards outside of the normal compensation program. They can be issued for a variety of reasons including facilitating management transitions or incentivizing the achievement of a specific corporate objective. We engage with companies to better understand the rationale for such grants. At times, we are supportive as they can create better alignment with long-term shareholders so long as performance conditions are reasonable, and the vesting period and conditions are in line with our long-term view (5 years or more compared to typical PSUs with a three-year measurement period). Conversely, if the performance conditions are not challenging or in alignment with the interests of long-term shareholders, we tend not to support (see Kering case study). We also disfavor one-off awards predicated upon performing duties that would be considered a normal part of an executive's job.

### Case study – engaging on one-off awards



Kering SA



France



Equity

#### Issue

Concerns were raised with the granting of a significant one-off equity award to the vice-CEO at this French listed luxury goods company. Where companies grant one-off awards, we may seek to engage to better understand the rationale for such grants.

#### Action

The company rewarded the vice-CEO with a EUR 9.3 million equity award without performance conditions attached as exceptional remuneration. The payment of this exceptional remuneration was delayed by a year and ex-post approval of the award was granted at the 2022 annual meeting. We sought to engage the company to understand better the rationale behind the grant and express our view that we do not consider exceptional grants of remuneration to be aligned with best practice and aligning with long term performance of the company. We noted other areas of concern on remuneration practices, including the proposed increase in variable remuneration without appropriate rationale for such significant increases. As a result of our concerns, we determined to escalate our engagement by voting against the vice-CEO pay at the AGM. Despite our concerns, the resolution was passed at the AGM.

#### Outcome and next steps

Following the vote, we further clarified with the company our approach to remuneration, noting that compensation policies should provide clear visibility and confidence for shareholders in the long-term planning of the company as well limiting the use of exceptional remuneration. We will continue to monitor the remuneration arrangements.

# Strategy alignment with the long term engagement and voting – 2022 continued

## Case study – engaging on one-off awards



Howmet Aerospace



USA



Equity, Bonds

### Issue

JPMAM has had concerns with this American aerospace company's repeated use of "one-time" grants to its CEO. In 2019, he received a pay package worth \$50mil, including a cash bonus of \$20mil following the achievement of certain stock price hurdles. In 2020, he received another pay package worth \$40mil. In the 2021 proxy, the company stated that the CEO was not eligible for any annual incentive or long-term incentive awards for 2021 and 2022. Yet, in October 2021, the CEO was granted a one-time award that was all time-based restricted stock.

These grants have resulted in relatively outsized compensation amounts for a mid-cap company, as well as some loss of confidence in the board for investors. The say-on-pay votes from the last two years received only 53% and 44% support, reflecting widespread dissatisfaction with these pay practices.

### Action

In 2022, we engaged with the company and outlined concerns with the grants. Howmet acknowledged the investor feedback that such awards were outsized and explained how these grants were necessitated by a lack of suitable succession candidates.

They noted that a large package was required to bring in a CEO to turn around a struggling company, and investors generally understood that at the time. The company noted that, when the CEO originally took the position, he intended to stay for twelve months. The company indicated that they were unable to find a suitable successor with the CEO's qualifications and therefore had to incentivize him to stay longer than he intended.

The special awards should ensure the CEO's retention through the end of 2023 (extended from March 2023). HWM has committed that if the CEO receives future compensation, it will be more traditional, with a base salary, cash bonus, and normal equity award.

The board indicated that they continue to communicate with the CEO about his plans. Should the company need to find another CEO, they will consider a couple of internal candidates as well as outside candidates.

### Outcome and next steps

We acknowledge how the CEO has helped bring about strong company performance, especially considering the challenges of turning around the company and of the unexpected COVID-related aerospace slowdown. However, we believe the environment has now normalized and a more traditional compensation program is therefore appropriate.

We were therefore pleased to see HWM acknowledge the need to change its compensation practices, and we will review the next proxy for a disclosure of that commitment. Meanwhile, we will monitor their progress developing a pipeline of potential candidates to succeed as the next CEO.



# Strategy alignment with the long term engagement and voting – 2022 continued

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## Engaging companies on mega grants

These involve outsized upfront equity grants to CEOs to incentivize long term performance and are usually accompanied by commitments of little, if any, additional equity grants for several years. They can encompass compensation packages in the hundreds of millions or even billions of dollars in potential pay out, with full payoff often predicated upon the achievement of ambitious stock price performance targets and in some cases challenging financial/operational milestones.

Potential payoffs are large as the entire compensation is at risk, with no payoff unless a minimum absolute return is delivered to shareholders. Due to the large payoff risk, these packages are often granted to founder CEOs, often of tech companies, upon their IPO. On the surface, these mega grants appear to be so large as to be difficult to support. If, however, performance conditions attached to the grant are sufficiently rigorous such that they create a situation where the executive is compensated only if long-term shareholders also earn well above market returns (and vesting terms are stringent enough to create long term alignment), we have been supportive of such packages (demonstrated in Arrowhead Pharmaceuticals case study). That said, if executives can fare exceptionally well even if shareholders earn middling returns, we tend not to support such proposals. Problematic features could include low price thresholds, or price thresholds that only need to be met for a short duration - often leading to payoffs due to normal market volatility.

# Strategy alignment with the long term engagement and voting – 2022 continued

## Case study - engaging on mega grants



Arrowhead Pharmaceuticals



USA



Equity

### Issue

JPMAM has had concerns with the large performance-based equity grants given to the CEO in three consecutive years at this American pharmaceutical company. The first grant, which occurred in 2020, pays out in nine tranches based on achievement of operational goals. The second (2021) and third (2022) were tied to market cap goals. These grants had the potential to each be worth over \$40mil.

The board had explained that they believe the CEO is for all intents and purposes the commercial founder of the company, and they want to provide an ownership stake that reflects that status. That is an unusual philosophy, and while we appreciated the effort to create alignment between management and shareholders, we were concerned it would result in excessive dilution for shareholders.

These concerns were broadly shared by shareholders, as say-on-pay support at the 2022 annual meeting was only 21% after being a poor 45% in 2021.

### Action

In 2022, we engaged with the company and outlined our concerns. The board acknowledged the broader shareholder dissatisfaction with these grants, and in July 2022 modified the recently granted 2022 grant. That modification changed the grant from 100% performance-based to 60%, but also resulted in a two-thirds reduction in the number of shares available to be earned. The target value for that grant is now \$10mil, with payout now based on operational goals that are different from those in the 2020 grant.

They also instituted a more traditional compensation plan, which will target the 50th percentile of the peer group. It will include equity grants that are 60% performance based.

The board noted they remain comfortable with the 2021 grant as an incentive in place, which pays out based on achievement of a \$9bn, \$10bn, and \$11bn market cap for two quarters. We considered the two-quarter test to be an effective safeguard for the awards paying out based on short-term market volatility.

### Outcome and next steps

We were pleased to see the company acknowledge the broader shareholder dissatisfaction and respond through both retroactive modifications and to changes to go-forward practices. We will review further disclosure of performance goals in next year's proxy.

# Strategy alignment with the long term engagement and voting – 2022 continued

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## Engaging companies on ESG metrics in compensation plans

As consideration of material ESG rises in prominence, boards have been including metrics tied to ESG measures in compensation plans more frequently. These could, for example, relate to achievement of diversity and inclusion goals or GHG emissions reductions.

We recognize that these metrics have not been used for long, and we do not yet know what best practice will look like. We also note that inclusion of these metrics means that other metrics are being weighed less. Engaging companies around this issue has been a focus in 2022 as we refined our voting approach to reflect emerging good practice. For now, we recommend boards take a cautious approach and tweak their plans over multiple years.

We do, however, believe that there are good practices today that will lead to better outcomes. We put ESG metrics into three buckets, which need to be treated differently in compensation:

1. “Table Stakes” metrics like employee health and safety: management should not be rewarded above target pay for success in these metrics.
2. ESG metrics that are made redundant by other metrics should be avoided: Management of transportation companies are already incentivized to reduce fuel consumption, because those savings will improve earnings.
3. ESG goals that pertain to strategic objectives which management has identified as material to the long-term success of the business. We want these ESG metrics prioritized in compensation plans.

Unlike other measures, ESG data continues to evolve and has not yet achieved the level of assurance and transparency as other measures. This can make them prone to misuse or misapplication. For example, notwithstanding the improvement in sophistication around ESG discussions, it can be hard for outsiders to evaluate whether selected diversity, equity and inclusion targets are rigorous enough to merit target payout. We recommend compensation committees emphasize metrics that can be audited, demonstrated to be rigorous, and, better still, metrics that can be objective measures of underlying performance such as feedback on performance, improvement in employee engagement scores or customer satisfaction levels.

# Strategy alignment with the long term engagement and voting – 2022 continued



Diploma Plc



United Kingdom



Equity

## Issue

Incorporation of ESG metrics into compensation plans continues to grow with the number of companies that integrate such metrics into plans increasing. While many boards have begun including metrics tied to ESG measures, the challenge when engaging companies is ensuring metrics align with the strategy and long-term performance of the company.

## Action

Diploma has historically linked executive compensation to traditional performance metrics. We sought to engage to discuss the upcoming renewal of their remuneration policy and to understand which ESG metrics it was planning to use and the rationale for its choices.

The company explained that their ESG program is a key part of their strategy and it was developing reporting to ensure any ESG metric incorporated into compensation is meaningful, strategically relevant and that targets are measurable and stretching. The company shared they planned to use the first year to introduce ESG metrics and target setting and then introduce ESG metrics into bonus from the second year onwards.

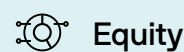
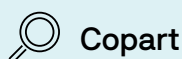
## Outcome and next steps

We welcome this approach as it allows the company flexibility to ensure ESG metrics set are appropriate for the business and align with strategy and identified business key performance indicators (KPIs) including safety, diversity in senior management, and carbon reduction targets. We encouraged the company to ensure robust disclosure on how it is progressing on implementation of ESG metrics and will review and monitor company progress and continued appropriateness of ESG goals and metrics set.

# Strategy alignment with the long term engagement and voting – 2022 continued

## In focus: use of proxy advisers

While we recognize the contribution of proxy advisers, and use their research as part of the range of inputs into the voting process, our in-house analysis determines how we vote on a particular proxy issue. For example, we evaluate executive compensation on a case-by-case basis, and our analysis and voting decisions can differ from the recommendations provided by proxy advisory firms. We provide an example of one such analysis and vote.



### Issue

We have our own views regarding what makes an effective compensation plan which can differ from that of proxy advisers. One of these points of disagreement is the use of options: while certain proxy advisers treat these as time-based awards that are not linked to company performance, we believe there is a significant performance-based component to these grants. If a share price falls over the life of the option, such that it is below the option's strike price, then the option will expire with no value, unlike with time-based restricted stock.

The differences between our views and those of proxy advisers on option classification were highlighted by Copart's compensation plan, which includes one-time payments of large option-grants to its executives that are meant to cover four years of equity pay. Copart had given such grants in 2013 and in 2020.

A major proxy advisor recommended votes against compensation at this American vehicle auction company this year when they gave a promotional grant to the new co-CEO. The grant consisted of \$6mil of time-based stock and \$23mil of options and was meant to cover his equity compensation for the next four years.

### Action

We engaged with the company ahead of the vote to discuss the grant. For this grant, the board put a performance condition on options covering 60% of the value of grant requiring that the stock price be at least 25% above the grant-day price for twenty days before the options could be exercised. They believed that would be a reasonable way to accommodate the proxy advisor philosophy without compromising the core compensation philosophy that they believe has contributed to the strong long-term value creation at Copart. In 2020, when the CEO received such a grant, it did not contain such a provision.

The grant is designed to align the CEO with CPRT's shareholders, while the promotion addresses succession planning concerns while allowing the more experienced co-CEO to focus on bigger picture strategic thinking. The Co-CEO understood the risk inherent in the grant structure. He will personally realize substantial compensation if the stock performs well but will see little realized compensation if it does not.

### Outcome and next steps

As long-term shareholders of Copart, our clients have benefited from the strong performance at Copart. We believe the compensation philosophy contributes to that performance, as it leads to a long-term focus on value creation. Since Copart granted the first large option grant in December 2013 to CEO and the President, the stock price has compounded at 26% per year as of the end of CPRT's most recent fiscal year in July 2022.

# Strategy alignment with the long term engagement and voting – 2022 continued

## Voting on strategic long term alignment

This chapter has demonstrated how we utilize our engagement and voting power to bring about change where we believe executive compensation plans have not been structured in a way to create long-term alignment between shareholders and company management. In 2022, we voted against management on compensation 1,708 occasions (20% of the time). An additional case study demonstrating our voting activity specifically relating to a high profile executive compensation case at Wuxi Biologics 2022 AGM below.



Wuxi Biologics



Hong Kong



Equity, Bonds

### Issue

Hong Kong-listed Wuxi Biologics (WB) tabled a list of resolutions in its 2022 Annual General Meeting (AGM) regarding grant of restricted shares to connected persons of the company. These restricted shares are part of two share award programs, one for all employees and the other for core talents. We engaged with the company before the AGM to follow up on our previous discussion regarding the design of the share award programs.

### Action

In 2021, we discussed our concerns about the share award programs with the company, in particular the vesting conditions of the restricted shares. We learned that the majority of the restricted shares will be granted based on the share price of the company, while earnings per share growth is another metric for vesting. We shared our view with the company that the vesting conditions should be associated with the businesses' results, operational performance and financial outcome of the company and returns to its shareholders. The company acknowledged our concerns, noting that the sharp correction of the share price since the second half of 2021 has reduced the effectiveness of the share award programs. The company indicates that it plans to change the design of the programs. We also suggested the company improve its disclosure about the share award programs.

### Outcome and next steps

Based on our engagement and the company's indication that it plans to change the design of the share award programs, we supported the resolutions related to the granting of restricted shares. We will review the company's changes to the design once they occur for further evaluation.

# Engaging for Sustainable Outcomes

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In 2015, the United Nations' Sustainable Development Goals (SDGs) provided a much-needed blueprint for countries around the world to end poverty, protect the planet and ensure that all peoples enjoy peace and prosperity. The rise of sustainable investing has coincided with the increasing adoption of the SDGs, which today serve as a call to action for the global investment community. As long-term investors, we understand the global challenges identified by the SDGs are likely to influence society for years to come, and represent unmet societal needs that some companies are well-placed to address.

Our range of outcome-driven thematic investment strategies seek to allocate capital to companies which tackle these global challenges, tapping into the growth of those companies as they facilitate a more sustainable future. By meeting these unmet societal needs, companies can create competitive advantages and provide disruptive technologies. Outcome-driven investing therefore creates the opportunity for investors to gain exposure to attractive financial returns over the long term while contributing solutions to sustainability challenges.<sup>40</sup>

Our engagement for these strategies, which are not the majority of our engagement meetings, aims to maximize the sustainable outcomes driven by investee companies. Companies that successfully invest in solutions that address these key societal needs efficiently are likely to benefit long-term, and those that successfully demonstrate the value of products for customers and stakeholders may gain a competitive advantage. Therefore, for these strategies, we encourage companies to capitalize strategically on these opportunities, including setting targets related to positive outcomes for end users; setting targets related to sales of products with proven sustainable credentials; and allocating expenditures for research and development on sustainable solutions. We encourage improved measurement of positive outcomes, asking companies to quantify the impacts of products and provide evidence for companies' claims regarding contribution to positive outcomes.

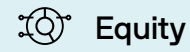
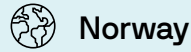
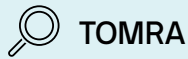
Going forward, we will seek to work with companies further as they develop outcome-oriented metrics and standardization within the industry increases. Engagement for sustainable outcomes may vary in approach depending on sector and the outcome being sought, as data availability and ease of measurement differs greatly across possible social and environmental indicators. Nonetheless, our focus will remain on encouraging companies to address the most material societal challenges with the goal of creating long-term value for the company and for society.

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<sup>40</sup> Please see our [Sustainable and Inclusive Economy Framework](#) for more information

# Engaging for Sustainable Outcomes continued

## Case study – Engaging for sustainable outcomes SDGs: 12.5 and 12.3.<sup>41</sup>



### Issue

Globally, only 14% of plastic packaging is collected for recycling and 95% of the value of plastic packaging material, worth USD 80-120bn, is lost to the economy.<sup>42</sup> Meanwhile, one third of all food is wasted. Achieving SDG 12 – Responsible Consumption and Production – will involve reducing the volume of waste generated and transitioning to a circular economy.

TOMRA provides recycling solutions for plastic waste through ‘reverse vending machines’, which provides an automated method for collecting, sorting and handling the return of used beverage containers, as well as sorting capabilities for the food, recycling, metals, and mining industries. However, the company did not provide detailed sustainability disclosure or measurement of outcomes associated with the company’s products and services, which may be important for strategies which seek sustainable outcomes.

### Action

We met with the Head of Sustainability at TOMRA. The company is well positioned for the transition to a circular economy as the TOMRA’s business strategy is aligned with reducing waste and minimizing pollution.

The company outlined five priority areas: improving design of machinery to optimize recyclability; reducing climate risk; improving supply chain traceability; enhancing diversity, equity, and inclusion; ensuring products and services have a positive impact by reducing waste and increasing resource circularity for customers. We encouraged disclosure of measurable milestones for implementation and asked for further details on these initiatives. Our questions focused on the impact of TOMRA’s products, encouraging the company to work with customers to increase utilization of recycling solutions and, where possible, disclose product-use related metrics.

### Outcome and next steps

The company has subsequently announced targets for 2030 that demonstrate a significant level of ambition. These include doubling avoided emissions enabled by TOMRA products by 2030 and collecting 500 billion used beverage containers annually without contamination, ensuring continued recyclability. We will continue to engage with the company on their implementation plan and milestones, with a focus on measurement of outcomes driven by product use.

<sup>41</sup> SDG 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

SDG 12.3: By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses.

<sup>42</sup> Ellen MacArthur Foundation



# Stewardship in Alternative Markets

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J.P. Morgan Asset Management's Global Alternatives team includes investment solutions in private equity, private debt, real assets, 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 which 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 to sustainability performance 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 ensure positive outcomes for our clients. For instance, we may partner with property managers in our real estate properties to ensure 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 head of the global alternatives business is a member on 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.

## Closing the data gap

Standards of transparency and reporting within alternative investments are low, especially when compared to public markets. This is widely recognised across the industry, and much of our engagement within alternatives is geared towards procuring uniform ESG 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 highest standards possible 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.

In light of limited regulatory or market obligations for transparency, our global alternatives business has been seeking third-party review and assurance of data collection and assessment to improve data quality and standardisation. Examples include work underway with the Global Real Estate Sustainability Benchmark (GRESB) to provide reporting on financially material indicators of sustainability performance for our Real Estate business, and which enables consistent reporting across regions, investment vehicles and property types. In the section below, we provide examples of our approach to stewardship within our Infrastructure, Real Estate and Campbell Global forestry businesses.

# Stewardship in Alternative Markets continued

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Within Sustainable Growth Private Equity, we have developed J.P. Morgan Clarity, our proprietary sustainability software application. As well as providing pre-investment data to inform our outcome-driven investment approach, this tool will be invaluable post-investment. J.P. Morgan Clarity enables timely and accurate data collection on an ongoing basis, allowing Sustainable Growth Equity to proactively monitor, manage, and mitigate risk signals. We seek ways to improve best practices and actively engage with portfolio companies. As this tool is in development, we look forward to improving the standard of sustainability metrics included within Clarity.

## Infrastructure

Once an investment becomes part of a direct infrastructure equity investment strategy's portfolio, the team actively engages with the boards and management teams on financially material ESG matters, including customizing an ESG approach with goals and objectives and practical implementation of best practices. ESG is an agenda item for each portfolio company, whose boards and management teams work together to integrate financially material ESG matters into their overall business plans, strategy, risk management and company culture. A JPMAM employee sits on each board, in their capacity as a shareholder representative for the strategy, and is responsible for ensuring, among other things, an appropriate focus on financially material ESG matters. In addition, the team provides policies, trainings and best practice sharing across the portfolio. Each company also participates in ESG benchmarking through GRESB and is required to participate in the assessment on an annual basis. The results of this are reviewed and reported at the portfolio company's quarterly board meeting.

# Stewardship in Alternative Markets continued



North Sea Midstream Partners (NSMP)



United Kingdom



Alternatives

## Issue

Safety is the highest priority when operating infrastructure assets as it is tied to long-term value and risk of the portfolio company. NSMP, a UK gas transportation and processing asset has facilities which are high hazard sites that are heavily regulated by various bodies and industry standards agencies, and subject to multiple third-party audits on an ongoing basis. Serving as a member of the Board, in a fiduciary capacity, we actively oversee safety, health and environment (SHE) performance, risk management and remediation plans.

## Action

NSMP's Board takes a leading role in assessing SHE at the company. Extensive and regular Board dialogue during SHE deep dives, Board major accident hazard SHE training, and Board site visits, which include direct engagement with management and local staff, allow more granular discussion of the underlying data set. The performance is discussed at length in each Board meeting and Board members challenge themselves and management on how they can gain comfort that they have a true depiction and sense of current and likely future SHE performance. With the expanding asset portfolio, this is being enhanced with a dedicated Board SHE Committee, chaired by the CEO and attended by the industry-experienced independent Chair and non-executive directors, which will allow further in-depth review on key asset and projects risks and SHE priorities.

## Outcome and next steps

The output of this oversight can be evidenced through achievement, in 2nd quarter 2022, of 10 million man-hours with no Lost Time Injuries (LTI) across all facilities in Q2 2022 and recognition through multiple industry awards. The Royal Society for the Prevention of Accidents (RoSPA) Gold Awards has been awarded to St. Fergus Gas Terminal for 6 consecutive years and to the Teesside Gas Processing Plant for 26 years consecutively, as well as the Patron's Award.

Importantly, the Chair of NSMP leads the Safety Cohort, a forum which brings together leads from each of the strategy's portfolio companies to share best safety practices of companies across the portfolio. Through this forum, we have been able to improve the reporting of safety standards across all our assets with detailed quarterly case studies, enabling greater transparency and monitoring for long-term value creation for our clients.

# Stewardship in Alternative Markets continued

## Campbell Global

In an effort to directly impact the transition to a low-carbon economy and provide ESG-minded investment opportunities related to climate, conservation and biodiversity, J.P. Morgan Asset Management has acquired Forest Management and Timberland Investing company, Campbell Global, LLC. Within Campbell Global, we directly own longstanding commercial forestry businesses in the US and globally. Responsible investing is a hallmark of JPMAM, and we seek to drive sustainable forestry practices which provide investment solutions whilst also improving the environment. We aim to replant the trees we have harvested, open our forests for recreational purposes, and report on our

activities with precision and transparency. We track and disclose key performance indicators across many facets including GHG accounting metrics and nature based KPIs. This helps to monitor and manage ESG considerations over the active management phase of the investment horizon and is critical to ensure the long-term sustainability of our assets for our clients and beneficiaries. To further demonstrate the commitment to responsible investing, Campbell Global ensure 100% of our properties are certified by a third-party forest certification provider, frequently going above and beyond local and federal laws and regulations in responsible management.



Campbell Global



USA



Alternatives

### Issue

As owners of a commercial forestry business, assessing, measuring, and disclosing GHG emissions accounting is central to the long-term sustainable management of assets for our investment solutions and clients.

### Action

Campbell Global's GHG accounting, and reporting methodology relies on the Forest Industry Carbon Assessment Tool (FICAT) framework to quantify climate benefits derived from the purposeful implementation of sustainable forest management practices. Investors are provided with (1) annual estimates of net retained carbon, (2) carbon passed downstream to manufacturing customers in the form of delivered wood, and (3) the upstream/downstream greenhouse gas emissions (Scopes 1-3) over the cradle to scale horizon. In order to complete this annual stock change assessment, Campbell Global leverages its robust forest resource and accounting systems to harness property-specific data that enables aggregation of results at the portfolio and investor level.

### Outcome and next steps

In 2021, Campbell Global's total AUM delivered a net negative (carbon outcome of approximately 1.7 million metric tons CO<sub>2</sub>e



# Proxy voting – How we utilized our voting rights in 2022

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2022 saw continued focus on key ESG issues being subject to shareholder scrutiny ahead of voting at company general meetings. Topics such as climate transition plans, sustainability of supply chains, and an uptick in executive compensation played out against a global climate of an energy crisis, war, and increased inflation. It is clear that these topics will remain a key part of investors' engagement and voting plans as we look to the 2023 voting season.

We have seen over the past year companies attempt to return to some semblance of normality following the disruption of the Covid pandemic years while also navigating difficult circumstances following Russia's invasion of Ukraine causing disruption to supply chains and energy security.

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 2022. We believe that the need to effectively use voting rights is important to encouraging corporate practices that deliver long term sustainable returns to shareholders.

We expect all investee companies to demonstrate and aspire to high standards of governance at all times. We believe that one of the drivers of investment performance is the quality of corporate governance practices of companies. As such, voting is an integral part of how we manage our clients' assets and is an important aspect in how we can ensure our views are heard by companies.

2022 has once again seen an increase, from previous years, in the number of resolutions globally on environmental and social issues which are increasingly becoming mainstays on company general meeting agendas. We take seriously our responsibility to review these issues and carry out voting in a considered manner, using insights from our research and engagement with companies. We see that the importance of voting is rising. The influence we can have as a large global asset manager with investee companies large and small needs to be used in an effective and transparent fashion.

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 except in markets or companies that impose restrictions on shareholders wanting to vote at general meetings, such as share-blocking. There also could be occasions where we are unable to cast a vote, due to a conflict of interest occurring or securities being out on loan as part of a client's securities lending program.

## 2022 voting<sup>43</sup>

In 2022, J.P. Morgan Asset Management voted on 88,963 proposals across 8,663 meetings and opposed management (either voting against or abstaining) approximately 9.1% of the time.

J.P. Morgan Asset Management voted with management on 80,883 proposals and voted against management on 8,080 proposals. An analysis of our voting activity shows the most common reasons for voting against 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 1,078 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 1,785 proposals.

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<sup>43</sup> Split votes are reflected in the statistics once based on the instruction for which the majority of votable shares was applied. There were 527 proposals with split votes globally, broken down as 40 in EMEA, 275 in Americas, 36 in Japan, and 176 in Asia-Pacific ex Japan. That includes 115 split votes on shareholder proposals, broken down as 1 in EMEA, 88 in Americas, 26 in Japan, and 0 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 one time based on which proxy card was voted.

Meetings are assigned to regions based on country location of the issuer. This methodology is different from our 2021 Investment Stewardship report, which used location of the account holding the security. Regional totals are therefore not comparable vs last year's report.

This section includes summary of voting data taken from our proxy adviser. Such information has not been audited.

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# Proxy voting – How we utilized our voting rights in 2022 continued

## J.P. Morgan Asset Management voting globally in 2022

Number of Votable Meetings	9,137
Number of Meetings Voted	8,663
Number of Proposals Voted	88,963
Number of Shareholder Proposals voted FOR	1,078
Votes with management	80,883
Votes against management	8,080
Abstains	843
Withholds	942

Some key voting trends from the year include:

- A number of companies returned to holding in person annual general meetings for the first time since the start of the Covid pandemic nearly three years ago. In a number of cases, these companies continued to offer online capabilities for those wishing to join the meetings virtually, highlighting the ability for companies to offer ‘hybrid’ annual general meetings (AGMs) with both a physical presence and an online offering. However, it remains to be seen whether the technology can effectively support hybrid meetings to offer the same seamless experience for both in person and virtual attendees particularly with a number of regulators moving to provide legislation on the format of future AGMs.
- Climate change risk is now firmly embedded in the list of topics discussed ahead of many companies’ AGMs. 2022 saw a significant increase in the number of management proposed ‘say on climate’ votes presented to shareholders. Increasing scrutiny on the details and scientific credibility of company climate transition plans, however, meant that these votes were not simply rubber-stamped approvals but faced shareholder pushback where plans did not stack up to the science or where details were found wanting. The prescriptiveness of certain climate related resolutions also came under scrutiny with some questioning climate proposals intending to micromanage companies with these questions amplified by the energy crisis.
- Directors face an ever-increasing list of priorities, and shareholders are studiously monitoring board effectiveness with many willing to use their voting at AGMs to express dissent. Whether the topic is company culture and ethics, climate priorities, supply chain challenges, or governance issues,

such as board diversity, we have seen an increase in the number of directors receiving material dissent (greater than 20% votes against) on their re-election during the year.

- Remuneration arrangements and payouts appeared to largely return to levels seen prior to the start of the covid pandemic with a number of companies reporting payouts near or at potential maximum.

However, with inflation rampant and a brewing cost of living crisis, it remains to be seen how companies will strike a balance between ensuring executives are rewarded appropriately while also being cognizant of wider employee workforce pay and conditions.

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 2023, much of the focus will be on how companies continue to address key themes, including on climate change risks and opportunities, executive pay and wider ESG considerations, effective board oversight, and assurance of material ESG practices. Other areas that we believe impact shareholder value and where we will be focusing our attention include:

- Using our voting across regions to encourage companies to better address diversity concerns on the board and senior management. We will target companies where boards fall short of evolving best practice guidelines and also engage on how companies deal with challenges in other forms of diversity, including in some markets on diversity of ethnicity.
- We will use our voting, including on board directors and management, to reflect financially material climate related concerns. We will consider how companies are delivering on their own commitments to decarbonize in line with a scientifically credible trajectory aligned with net zero.
- We will push companies to address how compensation practices for wider employee workforce appropriately reflects the current economic environment. In addition, we will be monitoring closely how incentive plans awarded during the COVID pandemic pay out including any windfall gains made due to depressed share prices.

# Proxy voting – How we utilized our voting rights in 2022 continued

## 2022 voting in detail

	Global	%	EMEA	%	United States	%	Japan	%	Asia ex-Japan	%
Number of Votable Meetings	9,137		2,141		3,731		560		2,705	
Number of Meetings Voted	8,663	94.81%	1,966	91.83%	3,710	99.44%	560	100.00%	2,427	89.72%
Number of Votable Proposals	93,268		32,234		33,009		6,704		21,321	
Number of Proposals Voted	88,963	95.38%	30,293	93.98%	32,603	98.77%	6,704	100.00%	19,363	90.82%
Number of Shareholder Proposals voted FOR	1,078		117		275		41		645	
Votes with management	80,883	90.92%	28,448	93.91%	30,401	93.25%	5,660	84.43%	16,374	84.56%
Votes against management	8,080	9.08%	1,845	6.09%	2,202	6.75%	1,044	15.57%	2,989	15.44%
Abstains	843	0.95%	364	1.20%	449	1.38%	1	0.01%	29	0.15%
Withholds	942	1.06%	1	0.00%	877	2.69%	-	0.00%	64	0.33%
Abstain and withholds aggregated	1,785	2.01%	365	1.20%	1,326	4.07%	1	0.01%	93	0.48%

## Management proposals

	Director-related	EMEA	Americas	Japan	APAC ex Japan	Global
<b>Director Elections</b>	Support	7,767	20,465	4,097	3,516	35,845
	Not Support	576	1,226	833	572	3,207
	Abstain	349	290	-	3	642
<b>Director-related</b>	Support	3,432	440	392	743	5,007
	Not Support	198	74	33	370	675
	Abstain	-	131	-	21	152
<b>Compensation</b>	Support	3,420	3,056	283	1,617	8,376
	Not Support	656	583	18	451	1,708
	Abstain	1	-	-	4	5
<b>Capitalization</b>	Support	4,013	332	5	2,348	6,698
	Not Support	176	31	1	401	609
	Abstain	-	-	-	-	-
<b>Mergers &amp; Transactions</b>	Support	1,129	576	13	1,731	3,449
	Not Support	67	15	4	473	559
	Abstain	1	-	-	-	1

Management and shareholder proposal tables are broken down based on ISS classifications, with some aggregations. Proposals for contested proxies are reflected one time based on which proxy card was voted.

Meetings are assigned to regions based on country location of the issuer. This methodology is different from last year's report, which used location of the account holding the security. Regional totals are therefore not comparable vs last year's report.

# Proxy voting – How we utilized our voting rights in 2022 continued

	Director-related	EMEA	Americas	Japan	APAC ex Japan	Global
Company Articles	Support	651	264	535	751	2,201
	Not Support	27	26	31	268	352
	Abstain	1	1	-	-	2
Routine Business/ Miscellaneous	Support	6,778	3,915	265	4,933	15,891
	Not Support	167	40	82	383	672
	Abstain	6	3	-	-	9
Environmental & Social	Support	336	3	-	30	369
	Not Support	13	-	-	5	18
	Abstain	-	-	-	-	-
Other	Support	153	47	-	8	208
	Not Support					
	Abstain					

## Shareholder proposals

	Director-related	EMEA	Americas	Japan	APAC ex Japan	Global
Environmental	Support	6	39	18	1	64
	Not Support	9	46	35	18	108
	Abstain	-	-	-	-	-
Social	Support	1	74	2	-	77
	Not Support	2	157	1	-	160
	Abstain	-	-	-	-	-
Director Elections	Support	26	67	1	340	434
	Not Support	44	16	4	38	102
	Abstain	2	13	-	-	15
Director-related	Support	44	22	1	4	71
	Not Support	23	53	-	3	79
	Abstain	-	-	-	1	1
Governance excluding Directors	Support	1	34	7	30	72
	Not Support	12	135	1	18	166
	Abstain	-	-	-	-	-
Other Proposals	Support	39	39	12	270	360
	Not Support	126	59	29	11	225
	Abstain	-	6	1	-	7



# Proxy voting – How we utilized our voting rights in 2022 continued

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## 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 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 ensure 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 we have concerns. This helps encourage further dialogue with directors on important corporate governance matters.

In 2022, J.P. Morgan Asset Management voted at 8,663 meetings, representing 94.8% 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 J.P. Morgan Asset Management to exercise its votes. Many of the resolutions at these 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.

J.P. Morgan Asset Management publicly discloses its voting for certain accounts. In 2022, we implemented a vote disclosure service via Institutional Shareholder services, which is updated on a quarterly basis and contains the voting record, at company level, for all meetings voted for global companies held in our European fund range in the preceding quarter. The voting reports are available [here](#). We are exploring expanding this scope to additional fund ranges and mandates in 2023. 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 take into account good practice recommendations from the International Corporate Governance Network and the OECD, 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 in 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, Global Head of Stewardship (who sits on each regional Committee) 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 Sustainable Investing Oversight Committee (SIOC).

Our Global Proxy Voting Guidelines document can be found [here](#).

# Proxy voting – How we utilized our voting rights in 2022 continued

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We also have a North American Sustainable Strategy Proxy Voting Guidelines that are designed to align proxy voting decisions with in scope sustainable strategy accounts' objectives and strategies. The guidelines can be found [here](#).

## Client voting and overriding policy

J.P. Morgan Asset Management'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 our belief that what is in the best interest of our clients is applicable across investment strategies and ordinarily do not differ.

## Use of proxy advisors and voting guidelines

To assist us 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 makes recommendations on each resolution requiring a shareholder vote. Our Investment Stewardship team, investment analysts and portfolio managers take the decision to vote according to our own governance principles and guidelines, as well as our research insights. Globally, records of our voting activities are maintained within the proxy voting platform, and deviations from our in-house policies are documented. To assist us 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-ESG. More information on this can be found on 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 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 participate in a number of bond market-focused groups such as the Green and Social Bond Principles. We are active members of its Climate Transition Finance Working Group and the Sustainability Linked Bond Working Group. For the latter, we are representing the investor voice on high-yield bond issuances and calling for higher overall standards of sustainability targets that are a component of sustainability-linked bond structures. For more details, please refer to the *Collaborative initiatives and managing risks* section.

# Proxy voting – How we utilized our voting rights in 2022 continued

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## Stock or securities lending

Certain clients participate in a securities lending program. As title passes in a securities lending transaction, client accounts are not be permitted to vote proxies where the securities are out on loan over the record date. In most cases, JPMAM is not involved in a client's securities lending arrangements and ordinarily will not have the ability to restrict securities from being lent or recall securities from loan to vote securities. For the accounts where JPMAM is involved in the securities lending arrangement, 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 in highly contested issue for which JPMAM believes its vote is important to the account's strategy.

## 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 specialist and control function partners. It acts as an oversight function.

Regular reviews are conducted by internal control partners on committee materials to ensure 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.

# 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. ESG integration does not change a strategy's investment objective, exclude specific types of companies or constrain a strategy's investable universe. In addition, ESG integration is dependent upon the availability of sufficient ESG information relevant to the applicable investment universe. ESG factors are not considered for each and 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.

## Introduction

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. The following are some illustrative examples of ESG factors that may be taken into account during our investment and engagement processes.

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 industry participation 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. Please refer to *Our approach to engagement* section for further details on engagement practices.

## ESG factors that we consider



### Environmental

- Air pollution
- Waste-water management
- Biodiversity impacts

### Social

- Product safety
- Diversity and inclusion
- Local community impacts

### Governance

- Board composition
- Executive remuneration
- Capital allocation

# ESG integration at J.P. Morgan Asset Management

## continued

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There are four key reasons why we believe consideration of financially material ESG metrics may lead companies to perform better in the long run:

- **Efficiency gains:** there is a large and growing body of academic evidence to suggest strong ESG performance serves to mitigate risk and enhance employee and structural efficiency. Empirical studies find a positive link between ESG metrics and financial performance of companies, suggesting that the adoption of sustainable business practices may sometimes be necessary to keep them from falling behind competitors.<sup>44</sup>
- **Consumer sentiment:** recently, there have been powerful shifts in consumer sentiment from firms with poor ESG ratings toward more responsible alternatives.
- **Mitigation of regulatory risks:** ESG leaders are likely to be more insulated from the regulatory risk associated with the transition to a net-zero economy; for example, the rise in carbon pricing.
- **Capital costs:** shifts in investor sentiment toward green-bond purchases will reduce the cost of capital for issuers. Research from MSCI found that companies averaging high ESG scores experienced lower costs of capital compared to companies with poor ESG scores in both developed and emerging markets during a four-year study period. The cost of equity and debt followed the same relationship.<sup>45</sup>

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.

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 10-metric scoring framework to validate the approach applied by the investment groups.

We also offer a growing range of products designed for clients that 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.<sup>46</sup>

It is important to note that for the ESG integration process to be satisfied, we require the following:

- Portfolio management teams to consider proprietary research on the financial materiality of ESG issues on the strategy's investments, and to conduct corporate engagements when applicable.
- Documentation of the advisor's research views and methodology throughout the investment process.
- Appropriate monitoring of ESG considerations in ongoing risk management and portfolio monitoring.

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<sup>44</sup> Gunnar Friede, Timo Busch and Alexander Bassen, "ESG and financial performance: Aggregated evidence from more than 2,000 empirical studies," *Journal of Sustainable Finance & Investment*, 5:4 (2015), 210-233.

<sup>45</sup> MSCI, "ESG and the Cost of Capital" (2020) <https://www.msci.com/www/blog-posts/esg-and-the-cost-of-capital/01726513589>

<sup>46</sup> For further details on strategies that are ESG integrated, please reach out to your local JPMAM representative.

# ESG integration at J.P. Morgan Asset Management continued

**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 manager's investable

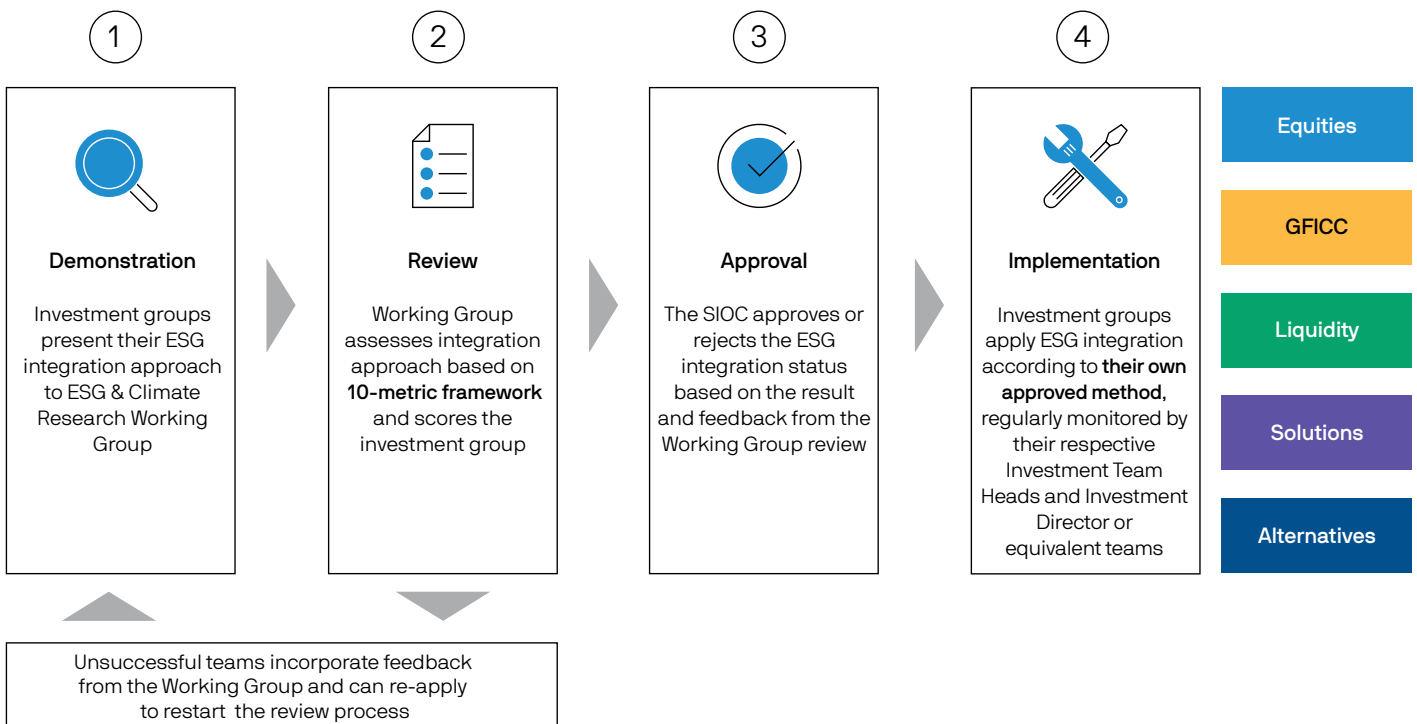
universe, nor does it imply that a product is marketed or authorized as an ESG product in any jurisdiction where such authorization is required.

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.

## Our ESG integration process

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

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



Source: J.P. Morgan Asset Management, as of December 31, 2022. For illustrative purposes only.

# ESG integration at J.P. Morgan Asset Management

## continued

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Our ESG & Climate Research Working Group vets and reviews the ESG integration approach of each investment group. The Working Group is chaired by the Global Head of Sustainable Investing, Jennifer Wu, and its members are senior portfolio managers, research analysts and investment stewardship specialists. The Working Group's review is used to form a recommendation that the J.P. Morgan Asset Management Sustainable Investing team submits to the Sustainable Investing Oversight Committee (SIOC), which is responsible for approving or rejecting the ESG integrated status of each investment group. The committee was established in 2021 as part of a comprehensive review of our sustainable investing governance practices. See the section on *Governance of stewardship* for further details.

The ESG & Climate Research Working Group, alongside the Sustainable Investing team, has developed a 10-metric framework to evaluate ESG integration progress at each critical step of a typical investment process. Investment groups are required to present their ESG integration approach to the Working Group.

Our process for determining which investment groups are ESG integrated has continued to evolve and improve with the development of the framework (see 10-metric framework for ESG integration on the next page.) To receive ESG integrated status under our current methodology, the investment groups must receive an aggregate score of at least 30 points out of a total of 50 and, for each metric, receive at least a 2 on a scale of 1 to 5. If the investment group does not meet this threshold, the Working Group will discuss the improvements that need to be made before it can reapply at a later stage. For those that are successful, the score and feedback are used to form a recommendation that the Sustainable Investing team submits to SIOC for formal approval of the ESG integrated status.

The systematic consideration of ESG metrics in the investment process also informs our investment stewardship activity. Where an analyst identifies a financially material E, S or G 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 (as defined on page 122) 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 be 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 10-metric framework for ESG Integration, as depicted below.

# ESG integration at J.P. Morgan Asset Management continued

## J.P. Morgan Asset Management 10-metric framework for ESG integration

Metrics	Sub questions
Research and Investment Management	1. Research analyst/ investment due diligence <ul style="list-style-type: none"> <li>● Is ESG integration an integral part of the research or investment due diligence process?</li> <li>● Are analysts engaging on issues related to ESG with companies and leveraging ESG information for analysis?</li> </ul>
	2. Consideration at portfolio management/ investment decision level <ul style="list-style-type: none"> <li>● Is ESG fundamental to the investment decision-making process?</li> <li>● Do ESG factors lead to a reweighting of the portfolio?</li> <li>● Do the portfolio managers and/or investment committee override or add insights to analysts' ESG analysis?</li> </ul>
	3. Breadth of third-party ESG data <ul style="list-style-type: none"> <li>● Is independent, external or third-party data incorporated into ESG analysis? How is this data used?</li> <li>● Is the team relying on a single data source, or are different third-party data sources leveraged and used for verification?</li> </ul>
	4. Level of proprietary research conducted <ul style="list-style-type: none"> <li>● How much in-house research has been conducted in conjunction with available third-party data? Is there a heavy reliance on external/third-party data?</li> <li>● Is there any evidence of ESG scores created by the team?</li> <li>● Where relevant, does the team meet with companies to engage on issues related to ESG?</li> </ul>
	5. Company/sector coverage <ul style="list-style-type: none"> <li>● Has the team considered sector differences when integrating ESG and thought about ESG factors' financial materiality?</li> <li>● If so, how is the team implementing this?</li> </ul>
Documentation	6. Documentation of integration methodology <ul style="list-style-type: none"> <li>● Is there documentation setting out how ESG is integrated?</li> <li>● Is there a specific methodology or a framework being leveraged, and has this been shared within the team?</li> </ul>
	7. Documentation of proprietary data and research methods <ul style="list-style-type: none"> <li>● Is there any documentation of proprietary data and research?</li> <li>● Are there any case studies/examples that demonstrate this?</li> <li>● Is ongoing corporate engagement part of the process, and how is that documented, especially with respect to engagement activities on highlighted financially material ESG factors?</li> </ul>
Monitoring	8. Risk management and oversight <ul style="list-style-type: none"> <li>● Is there clear assignment of roles and responsibilities in the ESG integration process to ensure risk management and oversight are in place?</li> <li>● What is the risk management process of ESG integration?</li> </ul>
	9. Systematization <ul style="list-style-type: none"> <li>● Is the process implemented using a centralized system such as Spectrum™ so it can be leveraged by the entire investment engine?</li> <li>● Is the ESG integration information shared across the team, not just within a limited group of people?</li> </ul>
	10. Ongoing monitoring and maintenance <ul style="list-style-type: none"> <li>● How does monitoring of ESG integration take place?</li> <li>● Is there a forum to discuss improvements to, and enhancements of, ESG integration?</li> </ul>

Source: J.P. Morgan Asset Management Sustainable Investing Team and ESG & Climate Research Working Group.



# ESG integration at J.P. Morgan Asset Management

## continued

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Although JPMAM's ESG integration validation framework and development of supporting tools and analytics is led by specialists from the centralized Sustainable Investing team as well as the ESG & Climate Research Working Group, 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. Importantly, systematic ESG integration should never result in sacrificing portfolio returns, making major changes to the investment process or taking into account immaterial ESG metrics at the expense of ignoring other factors. Please refer to the asset class level sections in the following pages for details around how ESG integration works in practice at various asset classes.

The 10-metric framework not only offers guidance on how to evaluate a particular investment group but can also be used to measure how approaches have evolved and adapted over time.

In 2022, JPMAM received the highest available rating of 5 for its response to the Investment and Stewardship Policy module of the UN Principles for Responsible Investment (UNPRI) survey based on information provided for reporting year 2021 (data as of end of 2020). UNPRI are a set of voluntary and aspirational principles; signatories to the Principles are required to report publicly on their responsible investment activities each year. 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.<sup>47</sup> 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.

### Resources we share across 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.

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<sup>47</sup> The UNPRI survey includes modules that solicit information from signatories, including J.P. Morgan Asset Management, on topics including an overall Investment Stewardship & Policy 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 UNPRI. Information on the UNPRI 2021 assessment methodology is available [here](#), along with FAQs on the 2021 reporting cycle [here](#). 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 of 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 differs 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.

# ESG integration at J.P. Morgan Asset Management continued

J.P. Morgan Spectrum™, launched in 2017, 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 more than 35 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. Where an ESG metric is deemed to be financially material, analysts as well as the investment stewardship specialists are expected to identify and capture this through the engagement process and bring it to the attention of other users.

## Illustration of Spectrum™ “Research Notes” dashboard

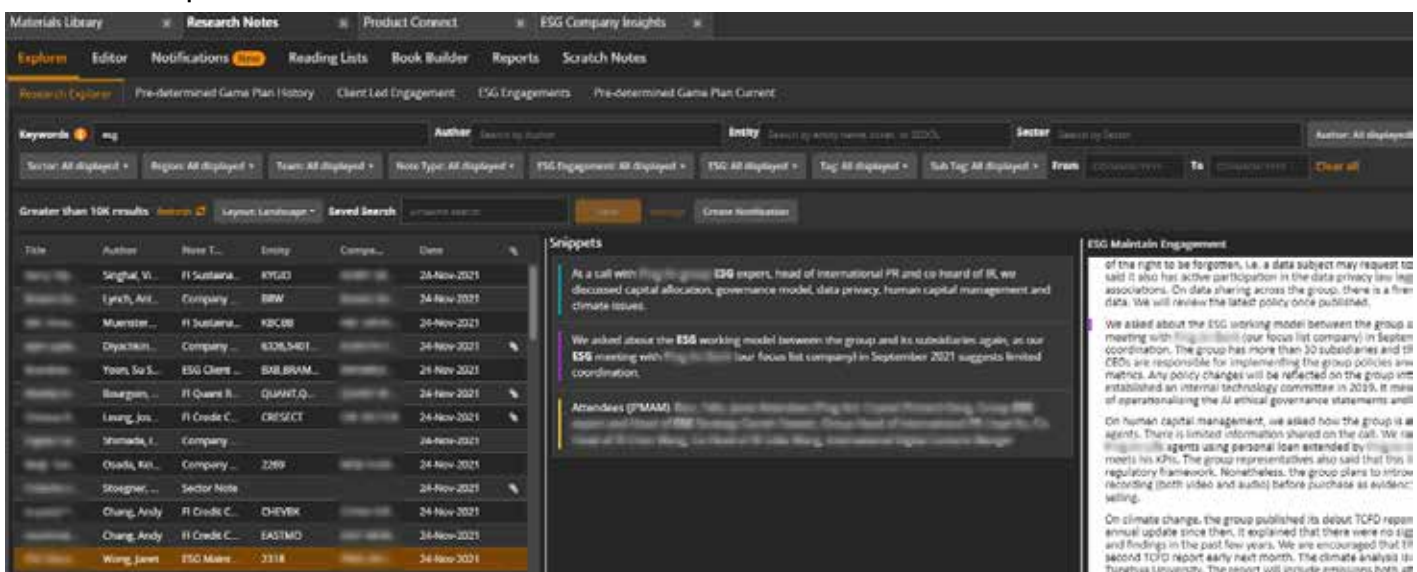


Image source: J.P. Morgan Asset Management Spectrum™.

# ESG integration at J.P. Morgan Asset Management continued

- Quantitative ESG data:** Another pivotal update within Spectrum™ was the addition of an application called “ESG Company Insights.” Essentially, this is where, subject to any required information barriers, investment teams can view the JPMAM Quantitative ESG Score, as well as the underlying metrics from which the score is derived. Investors are also able to access a historical view of the overall JPMAM Quantitative ESG Score over the last five years. Illustration of Spectrum™ “ESG Company Insights” dashboard Image source: J.P. Morgan Asset Management Spectrum™.
- 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.

Illustration of Spectrum™ “ESG Company Insights” dashboard

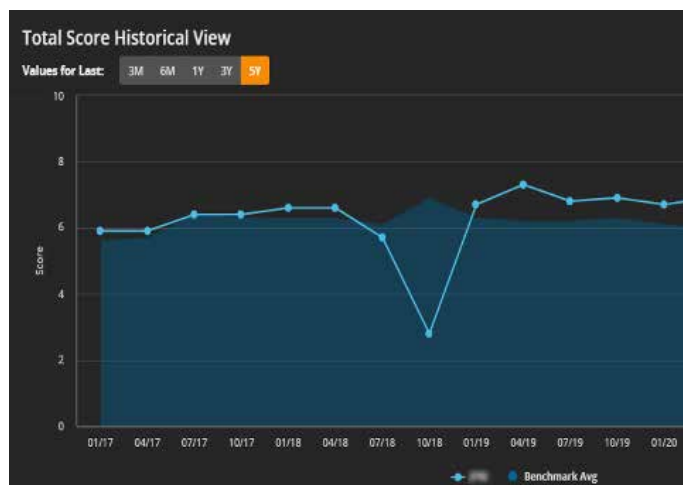
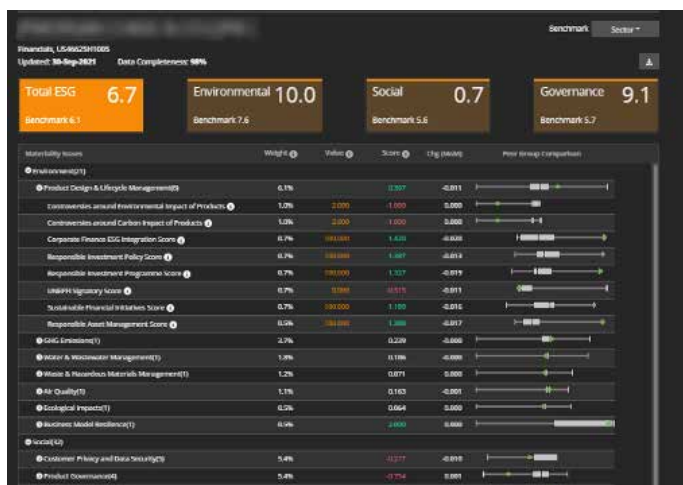


Image source: J.P. Morgan Asset Management Spectrum™.

# ESG integration at J.P. Morgan Asset Management

## continued

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### 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 in actively managed strategies that are determined to be ESG integrated, 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.
- **Central Sustainable Investing team:** As of March 1, 2023, we have 41 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 March 1, 2023, we have 15 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.

### ESG data<sup>48</sup>

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 providers or J.P. Morgan Asset Management. In addition, evaluations by third-party

providers may be based on data sets and assumptions that may be insufficient, of poor quality or contain biased information.

To help improve the quality and availability of data and support ESG integration, over the past few years our investment teams have developed proprietary ESG insights and looked to integrate these into the investment process.

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. For most strategies, scores are not a definitive driver of investment decision making, and portfolio managers may continue to hold low-scoring securities for reasons unrelated to their ESG profile.

The score provides a data solution that allows 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 improvements – or lack thereof – in company behavior and performance.

**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 instead draw on granular, outcomes-focused data, making increased use of the significant increase in ESG disclosures and data available over recent years.

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<sup>48</sup> 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 of 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 differs 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.

# ESG integration at J.P. Morgan Asset Management

## continued

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Having been developed in collaboration with the Sustainable Investing team's ESG & Climate 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, at scale.<sup>49</sup>

- 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, data science signals, which make use of our in-house natural language processing tool, ThemeBot, and alternative data sets provided by external vendors.<sup>50</sup> 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.
- 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 addition, the recently created International Sustainability Standards Board (ISSB) aims to establish a common set of base guidelines for data disclosure on ESG issues.

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.

### 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.

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<sup>49</sup> 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 of 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 differs 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.

<sup>50</sup> Where J.P. Morgan Asset Management uses the proprietary system, any changes to an algorithm or underlying assumptions may have unintended consequences, which could have an adverse effect on the performance of a strategy. Algorithms may not perform as intended for a variety of reasons, including, but not limited to, incorrect assumptions, changes in the market and changes to data inputs. In addition, the data sets that the proprietary system processes may be insufficient, of poor quality or contain biased information. Although J.P. Morgan Asset Management obtains data and information from third-party sources that it considers to be reliable, J.P. Morgan Asset Management does not guarantee the accuracy and/or completeness of any data or information provided by these sources.

# ESG integration at J.P. Morgan Asset Management continued

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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 process in the context of client objectives or fund guidelines, performance, risk position and ESG profile. 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 similar regular monitoring processes in Global Liquidity and Alternatives, 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, AM 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 versus their benchmark and understanding the rationale for such differences. The analysis will be shared with AM Risk and AM CIOs on a quarterly basis. 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.

## 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. We follow an approach of 'Demonstrate, Review, Approval and Implementation'.

Investment groups present to our ESG & Climate Research Working Group as part of the ESG integration recertification approach. For consistency this is done against a 10-metric framework and is conducted on at least a three-year cycle. Following the introduction of these recertification reviews, the investment groups are asked to provide updates on any significant changes and demonstrate the enhancements made since the previous vetting/review session – a process we started in 2021. The ESG & Climate Research Working Group will provide feedback to investment groups as part of maintaining a good standard of integration practices while continuously seeking to enhance their process. Should the ESG & Climate Research Working Group have any concerns or suggestions, these will be communicated to the respective investment groups as well as the team in charge of ongoing monitoring for improvement. The feedback and outcome of the periodic review by the ESG & Climate Research Working Group will be shared with SIOC for formal approval.

Each investment group applies ESG integration according to their own method and groups are regularly monitored by their respective Investment Director or equivalent teams.

In 2022, investment groups including Infrastructure, Infrastructure Debt, Macro Strategies, Global Transport, Private Equity Group, JPMAAM, Alternative Beta, Thematic and Equity Strategic Beta were reviewed for recertification by the ESG & Climate Research Working Group. Our proprietary JPMAM Quantitative ESG Score supports investment groups' quantitative ESG analysis and help to inform qualitative assessments of individual companies.

# ESG integration at J.P. Morgan Asset Management

## continued

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### 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 engagements with companies. We also draw on data from external providers. These ESG views are one of multiple informational inputs into the investment process, alongside data on traditional financial factors, and are not the sole driver of decision-making.

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 40 questions to more than 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 checklist is not a “pass/fail” exercise but rather a tool to inform discussions between portfolio managers and fundamental analysts and our engagements with the companies we cover.

The Investment Stewardship team worked closely with research analysts to update the ESG Checklist, with the aim of making them more suitable for the purpose of ongoing monitoring and targeted corporate engagement. For example, new questions around supply chain environmental risks, workforce diversity and disclosure on social and diversity were added, as well as detailed guidance as to how analysts should think about responding to these. 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 and serves as helpful guidance for more focused ESG engagement with companies.

In addition, analysts conduct deep-dive research into ESG topics identified as material to our investment process. Among the topics examined: flaring in US oil fields, the environmental impact of fast fashion

in Europe and corporate governance in insurance companies 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 subindustries, 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, Trading and Structurally 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.

# ESG integration at J.P. Morgan Asset Management continued

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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 chairman or other board members, formal letters to the chairman and board or collaborative engagement.

## 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 an investment, including ESG metrics. 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 metrics shows that they are financially material and relevant, this view is reflected in their credit opinions.

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 proprietary quantitative ESG rating systems that capture the nuances within their specific markets and align to their existing investment processes. These include a 40-question 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.

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

As bondholders, although 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 thousands of meetings with issuers from across the fixed income investment universe (companies and countries) every year.



# ESG integration at J.P. Morgan Asset Management

## continued

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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 metrics. 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 Edison Electric Institute and 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 to improve their coverage of the fixed income universe, data accuracy and timeliness.

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 review progress on climate goals and participating in industry groups to collectively advocate for 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 where financially material.

## Global Liquidity

### Research/due diligence

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

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

Proprietary quantitative ESG rating systems have also been developed to capture the nuances across specific fixed income markets. These include a 40-question ESG checklist for the corporate bond market, at both the ticker and specific bond level, country ESG rankings for developed markets and systematic identification of ESG leaders and laggards in the securitized market. These ESG-related frameworks allow analysts to make informed decisions on the ESG profile of each issuer within its respective sectors.

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.

# ESG integration at J.P. Morgan Asset Management

## continued

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### 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 40-question analysis. The results of our ESG engagement are reflected in the research reports produced by analysts, and feed back into the overall view of an issuer. Portfolio managers work with research analysts to understand how engagement opportunities are impacting the overall view of a credit.

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

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

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

- ESG research performed by our Multi-Asset Solutions Manager Research team.
- ESG research performed by our centralized Sustainable Investing team.
- ESG research performed by the research analysts of the corresponding asset classes.

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 our manager research team to engage with underlying investment teams to understand how ESG is considered. We incorporate ESG in our regular manager/strategy review process where we raise topical considerations, review ESG outliers from a third-party score perspective and conduct periodic deep-

# ESG integration at J.P. Morgan Asset Management continued

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diverge ESG reviews to cover enhancements to integration and the sustainable investing process. The output from these reviews is then included within our Research Notes application in Spectrum™ and forms part of the dialogue between our Manager Research and Portfolio Management teams.

## Quantitative Solutions

### Research/due diligence

- In order to integrate financially material ESG considerations in factor based strategies (long-only and long/short) and thematic, we rely upon a third-party vendor to evaluate companies based on a quantitative ESG metric.
- Third-party vendor coverage for our full long/short universe is approximately 95%, with most in Europe and least in Asia, emerging markets and small cap, and is increasing over time. The result of the ESG evaluation provided by the third-party vendor is reflected in scores that are normalized by sector, but not by region. The scores range from 1-10 (10 being the best score), with most benchmarks' ESG score averaging around 5.

ESG integration is dependent on the availability of sufficient ESG information on relevant companies or issuers and the investment universe. We recognize the limitations around ESG data quality and availability.

### Engagement

- The Quantitative Solutions team manages portfolios that invest across large starting universes. As such, we rely on a third-party vendor, avoid investing in the worst-ranked names and do not proactively engage with companies as a team. However, the Investment Stewardship team does exercise our voting rights in line with the 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 proxy advisor recommendations, discuss the issues and come to a decision.

## Alternatives Macro Strategies

### Research/due diligence

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

- **Assessment of materiality:** Our fundamental analysis of securities integrates ESG risks and opportunities, alongside others, both pre-trade and on an ongoing basis. We assess financially material ESG risks and opportunities through defined frameworks for corporates and sovereigns to ensure a robust and repeatable process. Our framework for corporates leverages the Sustainable Accounting Standards Board (SASB) ESG topics for the relevant sub-industry and MSCI governance topics, while our framework for sovereigns leverages some of the ESG topics from the UNPRI guide to sovereign debt and have added 'central bank credibility' as an additional standalone governance topic. The portfolio managers have 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 JPMAM Quantitative ESG Score, 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 breadth of ESG data using our proprietary methodology in the future.

# ESG integration at J.P. Morgan Asset Management continued

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## Engagement

To enhance our ESG analysis and ensure 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.

## Alternatives

### J.P. Morgan Alternative Asset Management (JPMAAM) Hedge Fund and Alternative Credit Solutions

#### Research/due diligence

J.P. Morgan Alternative Asset Management (JPMAAM) Hedge Fund and Alternative Credit Solutions believes that sustainability is a key factor, alongside others, in managing risks and identifying opportunities, and we have developed a holistic investment approach that reflects this belief. Our ESG framework primarily focuses on ESG integration in our manager due diligence process. Our proprietary framework for evaluating managers includes an extensive list of questions on ESG metrics across 25 categories in relation to their operational and investment processes. We apply the framework to every manager while recognizing that the financial materiality of certain ESG risks and opportunities may vary by manager type, size and strategy. This comprehensive analysis informs our view of ESG-related risks and is an important part of our investment decision-making process.

#### Engagement

After evaluating managers on 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 ESG metrics where we believe they are lacking, providing guidance and support to help them achieve best-in-class 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. Notably, over 95% of managers on the J.P. Morgan Alternative Asset Management platform already have or are actively drafting an ESG policy focused on investment and/or business practices, up from 10-15% at the start of 2018.

# Client and beneficiary needs

Our investment stewardship approach aims above all 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 7,500 institutional accounts and over 569 funds in over 72 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.

As of December 31, 2022, our total assets under management was USD \$2.36 trillion, broken down as follows by asset class, client region and client type:

## Asset class

Total assets under management (in USD millions)	
Equity	\$618,420
Fixed Income	\$1,297,068
Multi-Asset	\$239,758
Alternatives	\$205,937
<b>Total</b>	<b>\$2,361,182</b>

## Client region

Total assets under management (in USD millions)	
United Kingdom	\$144,415
Europe ex-UK	\$298,054
North America	\$1,652,606
Japan	\$27,552
Pacific ex-Japan	\$119,991
Other	\$118,564
<b>Total</b>	<b>\$2,361,182</b>

## Client type

Total assets under management (in USD millions)	
Institutional	\$1,260,677
Retail	\$1,100,506
<b>Total</b>	<b>\$2,361,182</b>

## Portfolio management by country

Total assets under management (in USD millions)	
Hong Kong	\$45,638
Japan	\$18,550
Other Latin America	\$202
Singapore	\$3,440
Taiwan	\$6,149
U.K.	\$353,429
U.S.	\$1,933,002
Australia / New Zealand	\$112
China	\$661
<b>Total Assets Under Management</b>	<b>\$2,361,182</b>

At J.P. Morgan Asset Management, we are constantly looking to evolve and improve our approach to stewardship and consider our clients and stakeholders as a vital source of insight into how this can best be done. In 2022, we continued our efforts to obtain additional insight from clients and stakeholders through a number of formal and informal feedback mechanisms.

We seek to understand clients' views and positions on responsible investment 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, industry memberships, ESG investment process and stewardship. We also receive increasing requests on quantitative aspects, including ESG rating characteristics of portfolio, carbon footprint, alignment to Net Zero emissions reduction pathways, engagement activity breakdowns and voting records, among others. This provides significant insight into the extent sustainable investing-related issues matter to the client. The expansion of this type of detailed information request from the European institutional client base to client channels globally is a trend that has continued in 2022.

Client feedback is also sought on a more ad hoc basis, through industry events, training webinars and due diligence feedback. In 2022, we continued work to strengthen the communication channel with our sales and distribution teams, which has allowed us to collect feedback more efficiently and systematically on how our stewardship practices correlate with clients' needs.

# Client and beneficiary needs continued

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## Soliciting client feedback

In 2022, we conducted a wide-ranging survey of investment advisers in EMEA and APAC regions, the J.P. Morgan Asset Management Future Focus Survey on ESG and Sustainable Investing Trends.<sup>51</sup> This survey covered questions such as how investor behavior is evolving, advisers' asset allocation intentions, and the drivers behind their changing choices. Some of the survey's main conclusions were around the increasing importance of social themes to ESG-focused investors; a shift away from equity and fixed income towards multi-asset and alternatives allocations; and the strong growth prospects for thematic and impact strategies. In regional terms, the survey revealed a large potential increase in ESG allocations from the APAC region over next five years. Factors behind this included the search for long-term value and portfolio diversification. Governance was shown to be more important as a factor in investment decisions in APAC compared to other regions, whilst renewable energy was the top theme in every APAC market apart from Singapore.

In 2022, we also ran a survey of our insurance clients around their investments in the low-carbon transition. The survey looked at how insurers can align portfolios with different temperature scenarios and conduct climate stress tests and incorporated viewpoints from a range of key insurance clients. We are due to produce an updated version at the beginning of 2023, such that we maintain clear and timely insight into climate-related issues of relevance to our clients.

Building on client surveying activity carried out in 2021, 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 whilst acknowledging current limitations around data quality and availability. A working group was established following the survey to address several of the issues raised and will report back to the operating committee on progress.

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 offering to their needs, in 2022 we hosted a series of educational roundtables on Investment Stewardship with clients from each of our key distribution channels in Europe. This was in response to client requests which asked us to provide interactive forums to develop their understanding of stewardship practices, priorities, trends and industry drivers.

This included dedicated sessions in the J.P. Morgan Asset Management European Research Forum which is our flagship annual regional client event for our investment fund clients in wholesale channels. We conducted a client survey at the event which showed that Natural capital and ecosystems was an issue only second to Climate change at the top of client's mind and concerns. In response to this survey result, we responded by adding this theme later in 2022 as one of our Investment Stewardship Priorities.<sup>52</sup>

We also hosted an event with European consultant clients discussing the merits of stewardship and forestry investment. This was in partnership with Campbell Global, a sustainable forest manager acquired by J.P. Morgan Asset Management in 2021. In addition, we hosted events for insurance clients as well as one for ETF clients around investment stewardship and how it can benefit their portfolios to achieve long-term investment outcomes.

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<sup>51</sup> The J.P. Morgan Asset Management Future Focus Survey on ESG and Sustainable Investing Trends – EMEA <https://am.jpmorgan.com/content/dam/jpm-am-aem/emea/regional/en/pdfs/future-focus-survey-report-final.pdf>

<sup>52</sup> J.P. Morgan Investment Stewardship Priorities – Dec 2022 <https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/investment-stewardship-priorities-report.pdf>

# Client and beneficiary needs continued

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## 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. The Sustainable Investing team, in partnership with our Client Skills Training team, expanded training offerings in 2022 to include sessions on Net Zero, and updated training on the fundamentals of climate change and sustainable investing.

Our online Sustainable Investing Academy, containing around 40 modules and more than 700 hours of content, is supported by regular in-person sustainable investing training workshops. These aim to equip client advisors with a solid foundation in sustainable investing knowledge to help them in their interactions with clients. In this way, we seek to create the basis for more meaningful discussions with clients on key sustainability issues.

With this aim in mind, we hosted a range of webinars in 2022, including several episodes of our “ESG 360” series. The series this year included episodes on Europe’s energy crisis and the options for investors; the role of alternative assets in fighting climate change; rebuilding the global supply chain while incorporating ESG metrics; whether investing in China is compatible with an ESG framework; and the power of active engagement.<sup>53</sup> The latter took the form of a discussion between our Global Head of Investment Stewardship and the portfolio manager of one of our sustainable funds, offering clients a comprehensive deep dive into how stewardship is integrated into the day-to-day management of their assets.

We held a number of client events with a focus on sustainable investing and Stewardship, including our online Sustainable Investing Summit in June 2022 and the European Research Forum.

In 2022, we continued to produce sustainability and sustainable investing related content on a wide range of topics for our clients and end-beneficiaries. We published regular sustainable investing-themed papers and shared content for client education, based on proprietary research on a range of ESG topics. This was as a result of the view that clients are more willing to engage in discussion on sustainable investing if their own knowledge basis is higher. A list of publications can be found in the *Appendix*.

## Articulating and addressing client needs

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. In recognition of the fact that themes beyond climate and environmental issues are gaining traction with clients in the ESG space, in 2022 we launched several additions to our thematic outcome-driven investment strategies, including our Social Advancement, Sustainable Consumption and Sustainable Infrastructure strategies. We also noted increased client demand for core sustainable fixed income strategies, in response to which we launched our Green Social Sustainable Bond strategy in late 2022.

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<sup>53</sup> Replay of the “Power of Active Engagement” webinar can be seen here: [https://event.webcasts.com/starthere.jsp?ei=1574522&tp\\_key=a0fecce63a](https://event.webcasts.com/starthere.jsp?ei=1574522&tp_key=a0fecce63a)

# Client and beneficiary needs continued

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## 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-labeling regimes. Sustainable investing represents a broad set of approaches, and 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 advising them on exclusions and providing support to implement clients' tailored exclusion lists. These cover a range of areas including:

- Thermal coal
- Unconventional oil and gas extraction
- Tobacco
- Alcohol
- Controversial weapons
- Traditional weapons
- Gambling
- Adult entertainment
- International norms-based breaches (such as United Nations global compact).

## Facilitating and supporting client interest in engagements

We are conscious that our clients are themselves often tracking current ESG issues and the activity of the companies in which their money is invested. An example of this in 2022 is our decision to join a range of new industry initiatives aligned with issues that have been brought to our attention by clients. In May, having long been encouraged to do so by institutional clients, we took the decision to join Pensions for Purpose. This reflected our commitment to continually assessing the avenues via which we manage and invest our clients' assets, as well as our determination to maintain visibility of industry developments in the sustainability space.

In addition to this, we became members of FAIRR, an industry initiative focused on managing ESG risks in the global food sector and promoting sustainable food systems. This was prompted through our partnership with an advisory client focused on sustainable nutrition, as well as our deepening focus on issues related to natural capital and biodiversity, which is exemplified with the addition of our new sixth Investment Stewardship Priority, Natural capital and ecosystems.

## 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 always 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

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We vote shares held in our clients' portfolios in a prudent and diligent manner, based on our reasonable judgement of what will best serve the long-term interests of our clients. To help ensure that proxies are 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 aim to keep abstentions to a minimum. In certain instances, however, it may be in a client's best interests to intentionally refrain from voting.

At the same time, we are 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.

This is an area for continued focus in 2023, and we will report on progress accordingly. We understand client needs are constantly evolving and are committed to reviewing our approaches as practices evolve.

## Improving client reporting and communication

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.
- Conflicts of interest policy.
- Case studies on each of our six Investment Stewardship Priorities.
- ESG fund reports for certain funds

In addition, we have built out an interactive online proxy voting dashboard, for our European fund range, to enable clients to explore our voting activity on their behalf in more detail and on a continuous basis. This forms part of a wider sustained effort to increase transparency and accountability regarding our stewardship practices, providing clients with the information necessary to make informed decisions about the assets that they entrust to us for management.

### Action plan for 2023

1. We are strengthening our client reporting capabilities for engagement and proxy voting. We see the demand for increased transparency in stewardship activities growing.
2. Continue with provision of client education on Stewardship related matters globally. This will build on the series of events and webinars held in 2022 which received positive feedback from clients.

# Structures, process, policies, and procedures supporting stewardship

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## Stewardship policies and procedures

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., Firm-wide Conflicts policy, while procedures describe how we implement processes to meet policy objectives, e.g., Proxy Voting Guidelines are 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, changes in regulation. Typically, J.P. Morgan Asset Management 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 - 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, employee versus client, client versus client and employee versus firm. Management of Conflicts include policies and procedures, training, management oversight, governance, and other controls, for example, separation of job functions, disclosure, etc. Please see section on Stewardship material conflicts of interest for more details on corresponding mitigants and examples of how we’ve handled Conflicts.

**Proxy Voting Guidelines (Guidelines):** J.P. Morgan Asset Management has comprehensive proxy voting guidelines in our four key investing regions. The guidelines are consistent with law and expectations of good governance practices in these different locations. As standards of corporate governance vary widely, for non-EMEA markets we have generally adopted a principles-based rather than rules-based approach to voting in international markets, based on local corporate governance codes and recognized standards and best practices. These include good practice recommendations from the International Corporate Governance Network (ICGN) and the OECD, among others. Updates to the proxy voting guidelines,

as a result of discussions within the proxy committee meetings, are made public at least annually. As described in the section on *Proxy Voting*, overall responsibility for the formulation of the proxy guidelines rests with the Regional Proxy Committee.

**Engagement Statement (external) and Policy (internal):** The objective of these documents is to outline the J.P. Morgan Asset Management 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 internal policy outlines minimum standards with regards to how J.P. Morgan Asset Management: 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 external statement on Corporate Engagement and Proxy Voting sets out how J.P. Morgan Asset Management integrates engagements with issuers into its investment strategies and 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

J.P. Morgan Asset Management has policies and procedures in place to address material Conflicts of Interest, in order to maintain the integrity and independence of J.P. Morgan Asset Management’s investment processes and decisions, including proxy voting decisions, and to protect J.P. Morgan Asset Management decisions from influences that could lead to a vote other than in its clients’ best interests. JPMorgan Chase & Co. (including J.P. Morgan Asset Management) has adopted several policies including the Conflicts of Interest Policy – Firmwide, Information Safeguarding and Barriers Policy – Firmwide and Information Safeguarding and Barriers Policy – MNPI.

# Structures, process, policies, and procedures supporting stewardship continued

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## J.P. Morgan Asset Management Conflicts of interest

J.P. Morgan Asset Management also has a standalone Conflicts of Interest policy for corporate governance. Material Conflicts of Interest are further avoided by voting in accordance with J.P. Morgan Asset Management's predetermined guidelines, which can be downloaded on J.P. Morgan Asset Management's investment stewardship website.

Given the breadth of J.P. Morgan Asset Management's products and service offerings, it is not possible to list every circumstance that could give rise to a material Conflict. Examples of such material Conflicts of Interest that could arise include, without limitation, circumstances in which:

- Management of a J.P. Morgan Asset Management 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.
- A personal relationship between a J.P. Morgan Asset Management officer and management of a company or other proponent of a proxy proposal could impact J.P. Morgan Asset Management's voting decision.
- The proxy being voted is for JPMorgan Chase & Co. stock or for J.P. Morgan Funds.
- When a J.P. Morgan Asset Management affiliate is an investment banker or has rendered a fairness opinion with respect to the matter that is the subject of the proxy vote.
- Voting of third-party funds.
- Depending on the nature of the Conflict, J.P. Morgan Asset Management may elect to take one or more of the following measures, or other appropriate action:
  - Removing certain Advisor personnel from the proxy voting process.
  - Walling off personnel with knowledge of the Conflict to ensure that such personnel do not influence the relevant proxy vote.
  - Voting in accordance with the applicable Proxy Guidelines, if any, if the application of the Proxy Guidelines would objectively result in the casting of a proxy vote in a predetermined manner.
- Deferring the vote to an independent third-party, if any, that will vote in accordance with its own recommendation. However, J.P. Morgan Asset Management 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 J.P. Morgan Asset Management 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 J.P. Morgan Asset Management 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.
- Train employees on Conflicts of Interest through required online learnings, compliance bulletins and/or compliance trainings.

## Potential Conflicts

- J.P. Morgan Asset Management 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.
- J.P. Morgan Asset Management 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, J.P. Morgan Asset Management may cast different votes on behalf of different clients or on behalf of the same client with different accounts.
- J.P. Morgan Asset Management, or our clients, may participate in securities 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.
- J.P. Morgan Asset Management may engage with companies on behalf of impact and sustainable funds that have different objectives to other funds.

# Structures, process, policies, and procedures supporting stewardship continued

- J.P. Morgan Asset Management may have a different position on environmental, social and corporate governance matters than its parent company (JPMC).
- J.P. Morgan Asset Management clients may want us to engage or vote on corporate governance issues that further their interests but are not consistent with our policies.
- J.P. Morgan Asset Management 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 six 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

When a potential material Conflict of Interest has been identified, the proxy administrator and, as necessary, a legal and/or compliance representative from the Proxy Committee will evaluate the potential Conflict and determine whether an actual material Conflict of Interest exists, and if so, will recommend how the relevant J.P. Morgan Asset Management entity will vote the proxy. 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 J.P. Morgan Asset Management acted in the best interests of its clients.

The Proxy Committee must review actual or perceived Conflicts of Interest in accordance with the Proxy Voting Guidelines.

## 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.

## Example of an actual Conflict

In 2022, Solid Biosciences Inc company sought shareholders' approval for the election of a Director who was also a JPMorgan Chase & Co. employee. We referred the vote to an independent voting provider to avoid the conflict, i.e., supporting the election of the Director because the Director was an employee.

This demonstrates our existing processes on Conflict of Interest. These Conflicts were included in Conflict summaries that are presented to the Proxy Committee on a quarterly basis to ensure adequate oversight.

Additional common Conflicts of Interest relate to the voting of JPMorgan Chase & Co. stock or voting on third-party funds (for example, in such cases, similar Conflict procedures are in place and voting is performed by an independent voting service).

## Delegated Conflicts of Interest votes

In 2022, there were 83 meetings referred to our conflict independent voting service. 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:** J.P. Morgan Asset Management uses multiple lines of defense to assure adequate oversight over its activities, including 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 J.P. Morgan Asset Management 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.

# Structures, process, policies, and procedures supporting stewardship continued

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- **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 ensure 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, as referenced in our last report, the Investment Stewardship team undertook an in-depth review of our practices and made several improvements including the formation of the J.P. Morgan Asset Management Sustainable Investing Oversight Committee (SIOC).
- **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 Firm-wide control policies. Risk 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, the Investment Stewardship team works with Compliance on an annual basis to evaluate and draft proxy voting guideline changes. These changes are then shared with the broader Proxy Committee for ratification by voting members.
- **Internal audit:** The Internal Audit function operates independently from other parts of the company, providing testing and evaluation of processes and controls across the entire enterprise. 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 Proxy Committee, additional measures are in place to support the quality of the proxy voting process. This includes account setup and account reconciliations to ensure 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, e.g., as part of the annual N-PX filing process in the US and other checks performed by our Operations teams. Additionally, given that proxy voting is identified as a key process for J.P. Morgan Asset Management, associated risks and controls are identified and evaluated as part of regular monitoring. The Investment Stewardship team in concert 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:** J.P. Morgan Asset Management 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 a 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** – In 2021, when we initiated the preparation of our Annual Stewardship report we took concerted effort to ensure that the document is responsive to the requirements set out by the various global stewardship codes. To that end, we formed an initiative, under the leadership of the newly appointed Global Head of Investment Stewardship, that spanned the Investment Stewardship team, Legal, senior management and a third party audit firm. The entirety of our document was reviewed by a third party firm against the various stewardship codes including the UK Stewardship code. Robust discussions were had with our third party firm and feedback was incorporated into the document followed by internal review including review by members of senior management. The purpose of these reviews was to ensure our document adequately described our practices and indeed

# Structures, process, policies, and procedures supporting stewardship continued

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were fair, balanced and understandable. This document is the second and iterative version of the 2021 document. We have incorporated updates to reflect initiatives undertaken in 2022 and to address improvements identified by various stakeholders including the Financial Reporting Council (FRC). Similarly, this document has gone through several rounds of reviews. Final approval to publish this report is also made by SIOC who has oversight of 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, J.P. Morgan Asset Management has seven funds that hold the Belgian “Towards Sustainability” label and five hold the French government’s “SRI 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 2022.
- **External audit:** J.P. Morgan Asset Management has operations that span the globe and given operating across many jurisdictions, we are subject to the oversight of many regulatory regimes. We are, therefore, regularly audited to ensure adherence to the requirements set out by each governing body. Our proxy voting activities, when required by regulation, may be audited by an independent external auditor.

## Stewardship continuous improvements

Through our interactions across the lines of defense, governance committees, day-to-day activities and changing market and regulatory landscape, J.P. Morgan Asset Management will identify opportunities to evolve and improve our practices.

**Example 1:** As described in last year’s report, we undertook an in-depth review of our stewardship practices led by the Global Head of Investment Stewardship in 2021. One of its recommendations was to further strengthen our global governance of stewardship and sustainable investing to reflect the size, scope and complexity of our company. As a result, governance of stewardship now falls under the J.P. Morgan Asset Management Sustainable Investing Oversight Committee (SIOC).

In 2022, as described in our *Governance of stewardship* section, we conducted a committee evaluation to assess its effectiveness as part of our ongoing evolution and enhancements to stewardship and sustainable Investing. SIOC committee members were surveyed with the objective of identifying current obstacles to better performance and highlighting additional good governance practices.

Action points for 2023 includes ensuring adequate training and knowledge development for committee members reflecting the breadth of issues covered and the rapid pace of evolution of these topics in the industry and refining the process for what matters should be escalated from supporting working groups and committees.

**Example 2:** Every proxy season provides an opportunity to sharpen proxy voting guidelines to better reflect our views on corporate governance matters. In 2022, as an example, we worked to harmonize our board diversity proxy voting guidelines and set a minimum standard for no single gender boards across all markets, effective 2023 onwards. This step forward is intended to help bolster board diversity for small companies and certain emerging markets. We also seek to mitigate tokenism as it undermines effective board governance. In developed markets, we have already established or enhanced expectations for board diversity, e.g., Continental Europe and UK requires at least 30% gender diversity.

# Structures, process, policies, and procedures supporting stewardship continued

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This change, along with any other changes to proxy guidelines, has been raised at the regional proxy committees with final dissemination and implementation made during our annual proxy guidelines update. Further, proxy voting guideline changes are shared across the other regional teams to identify opportunities to apply guidelines in a globally consistent manner.

**Example 3:** We continue to work on identifying efficiencies within our stewardship activities, and continue to re-engineer our proxy voting process including the removal of manual steps and standardization of practices across regions. Efficiencies involve the utilization of automation tools and the development of workflow tools within our proprietary investment platform Spectrum™. Additionally, we are using technology to enhance automated reporting of portfolio-level statistics to our clients. In 2022, we implemented a vote disclosure service via Institutional Shareholder Services, which is updated on a quarterly basis and contain the voting record, at company level, for all meetings voted for companies held in our European fund range globally in the preceding quarter. The voting reports are available [here](#). We are working to expand this to other in scope fund ranges and mandates globally and aim to have this established in 2023.

**Example 4:** In 2022, 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 offering to their needs, in 2022 we hosted a series of educational roundtables on Investment Stewardship with clients from each of our key distribution channels in UK and Europe. This was in response to client requests which asked us to provide interactive forums to develop their understanding of stewardship practices, priorities, trends and industry drivers.

## Managing risk

At J.P. Morgan Asset Management, our overall objective is to manage the business and its associated risks in a manner that balances serving the interests of our clients while protecting the organization's safety and soundness. We believe that a well-functioning financial system is critical for our successes as an organization and in fulfilling these objectives. As a responsible long-term investor, we are committed to contributing to well-functioning capital 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 J.P. Morgan Asset Management, we employ a multilayer risk management governance framework that operates by means of the three lines of defense.

The first line of defense is the line of business, including portfolio managers and the embedded risk teams. The portfolio managers have primary responsibility for the risk oversight of the client investments, they operate within guidelines and risk parameters and make active investment decisions to generate excess returns to the portfolio. As part of the first line, the portfolio managers also work with embedded risk teams whose full-time job is to help execute risk and performance oversight of the portfolio including the review and challenge of the investment process. The second line of defense is comprised of the independent risk management function that is responsible for providing independent oversight and effective challenge of the risk management process. The independent risk management team measures, monitors and manages risk thresholds to review the risk profile of the portfolio. The independent risk management team will also activate the stressed market protocol when appropriate. As part of its responsibilities, the independent risk management function has the ability to escalate risk matters to portfolio managers, chief investment officers and ultimately to the Asset Management CEO. The third line of defense is Internal Audit, responsible for providing an independent assessment on the adequacy and effectiveness of the investment processes, controls, governance and risk management.

# Structures, process, policies, and procedures supporting stewardship continued

We have established robust governance frameworks to manage different types of risks, including:

- **Investment risk:** Defined as the risk of investments declining in value due to economic developments or other events impacting the entire market.
- **Liquidity risk:** Defined as 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. Mutual fund liquidity risk results from the potential mismatch between the estimated liquidity of fund assets as compared to the potential size of fund redemptions.
- **Counterparty risk:** Defined as 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. In 2022, we launched the Sustainable Investing Risk Oversight Framework which aims to monitor materials ESG metrics and their consideration in the investment process of our strategies. In its initial stage, the framework has the objective to identify investment strategies with ESG and carbon metrics that are materially different versus 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 during periods of high market volatility and market crises, 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. In response to geopolitical events between Russia and Ukraine along with global sanctions implemented, we initiated the protocol in February 2022. (See case study below.)

## Case Study – Stressed Market Protocol and Geopolitical Events Between Russia and Ukraine

In response to the geopolitical events between Russia and Ukraine and the global sanctions implemented as a result, we activated the Stressed Market Protocol, which included:

1. A Rapid Response Report highlighting key metrics, regular discussions of key risk-related topics with AM leadership and real-time, deep dive presentations and product-specific updates led by various portfolio managers.
2. As the geopolitical events between Russia and Ukraine unfolded, we completed ad-hoc analyses and deep dives across all asset classes with a focus on key areas impacted by market volatility. We also focused on liquidity concerns for specific funds with substantial exposure to Russian securities, the ability to trade specific Russian securities and Russian/Ukrainian sovereign debt instruments, and the anticipation of any fund gating or suspensions.
3. We continued to provide our key function of properly identifying, measuring and reporting risks to fulfill our fiduciary duties as risk managers while looking after our clients' investments.

## Climate change

We view climate change as a core investment topic and one of the most significant market-wide and systemic risks that cannot be ignored. 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.



# Structures, process, policies, and procedures supporting stewardship continued

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Further, we are committed to understanding how climate change may drive or influence the risks and opportunities identify. 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 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. In 2022, as part of our ongoing review and evolution, we published our first climate report aligned with the Task Force on Climate-Related Financial Disclosures framework.

More in-depth detail 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 part of our commitment to being a responsible investor and playing an active and contributory role to continued development of a well-functioning and sustainable financial system, we undertake active engagement with regulators, governments, standard setters and nongovernmental organizations to advance good governance and responsible investment. This includes providing responses to consultation requests and surveys and meeting with regulators or others to express concerns or support for policies and practices in relation to good governance.

The Firm's political engagement and public policy activities are managed by global Government Relations and Public Policy (GRPP). GRPP reports to the Firm's Head of Corporate Responsibility, who is responsible for GRPP's legal compliance and reports regularly to the Public Responsibility Committee<sup>54</sup> about the Firm's political activity, expenditures and engagement. This organization and leadership helps us focus the Firm's political engagement efforts on those public policy issues most relevant to the long-term interests of the Firm.

We also commit our time and expertise as advisors to trade associations or bodies that advocate good stewardship practices, such as the UNPRI, the Investment Association, the Financial Reporting Council, Institutional Investors Group on Climate Change, International Corporate Governance Network and the Investor Forum.

We maintain a prudent approach in selecting initiatives we will participate in or support, dedicating time and resources in areas where we can leverage our expertise to have a material influence and impact consistent with our fiduciary duties.

For example, JPMAM supports the goal of facilitating enhanced and more consistent disclosure regarding ESG-related products and services by those asset managers that offer them. Investors that may be interested in strategies incorporating 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. For that reason, we share our views with both the Securities and Exchange Commission as well as the Financial Conduct Authority.

In addition to these, we are also signatories/members of a number of organizations and initiatives. More detailed information on this can be found in the *Appendix*.

## Case study

An example of our continuing work and contribution in promoting well-functioning markets is our participation in collective engagements through the European Leveraged Finance Association (ELFA). The ELFA is a trade association comprised of European leveraged finance investors that seeks to create a

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<sup>54</sup> The Public Responsibility Committee is a JPMorgan Chase & Co board committee that provides oversight of the Firm's positions and practices on public responsibility matters.

# Structures, process, policies, and procedures supporting stewardship continued

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more transparent, efficient and resilient leveraged finance market while acting as the voice of its investor community. The ELFA was co-founded by a member of our European High Yield team and various members continue to serve in different capacities such as ESG committee member, Disclosure and Transparency cochair and Executive Committee member.

We participated in collective engagements through the ELFA where we felt value could be gained to advocate on behalf of the wider market. Through the engagement committee of ELFA, we had calls with the Bank of England, the Financial Conduct Authority and European Securities and Markets Authority (ESMA) in order to discuss topics ranging from market liquidity to better financial disclosure and minimum standard for listing venue requirements.

In addition, we continued work on the following projects this year with the focus ranging from ESG to governance. We have:

- Consulted with the International Capital Market Association (ICMA) on enhancing the Sustainability Linked Bond Principles to take into consideration the characteristics of high-yield bonds that currently leave some instruments susceptible to greenwashing (ongoing project).
- Conducted a market survey regarding ESG-linked debt instruments in order to identify issues and feedback. We received 170 responses across asset allocators, ESG specialists and others in the high yield bond and leveraged loan market. The survey result was used in the insight piece described below and will continue to be utilized in further engagements with relevant market participants, industry bodies and regulatory agencies on ESG linked debt instruments.
- Published an insight piece on sustainability-linked bonds and ESG-linked leveraged loans, which highlighted the biggest challenges and ways to improve the credibility of the ESG-linked instruments.

Effectiveness in identifying and responding to market wide and systemic risks, and promoting well-functioning financial markets

J.P. Morgan Asset Management continues to play an important contributory role in a number of initiatives, industry associations and bodies in promoting well-functioning markets. As good practice, we review on a yearly basis the work we undertake both internally and

externally in responding to systemic risks and fulfilling our duties as responsible investors in supporting initiatives and regulation that supports the long-term interest of our clients.

As part of a review into the effectiveness of our work in promoting well-functioning markets and to further collaborate on supporting and advancing J.P. Morgan Asset Management's global leadership on sustainability, we strengthened our internal governance framework and in 2022, 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 robust internal coordination across the organization on all aspects of sustainability.

## Monitoring service providers

J.P. Morgan Asset Management uses multiple service providers to support our stewardship efforts including research, engagement, and proxy voting. They play a key role in facilitating the depth and breadth of our stewardship activities. Also, they help support efficiencies in data collection and operational matters.

We are also members of some industry organizations and collaborative initiatives to promote sustainable investing practices and increase the effectiveness of our engagements and improve the chance of successful outcomes. We consider them to be service providers as well, especially as in many cases we pay a subscription fee and conduct careful consideration ahead of joining.

Each service provider is considered carefully before the decision is taken to onboard them. 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 JPMC Corporate Third-Party Oversight (CTPO). We also assess alternative services and consider what a new provider would add beyond the current provision from existing providers. The evaluation then continues on an ongoing, periodic basis during the term of subscriptions to the service to ensure that the provider is delivering what was initially expected or promised.

# Structures, process, policies, and procedures supporting stewardship continued

It is the responsibility of the Investment Stewardship team to be the principal evaluator of the capabilities, objective and purpose of any engagement and voting-related service provider. This may take into account the alignment of the vendor/membership to help drive our J.P. Morgan Asset Management 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 ensure that only the most competent, competitive and secure service providers are used by J.P. Morgan Asset Management and helps to avoid financial, operational and performance risks.

## Case study – Renewing our use of third-party proxy research and vote execution services



Institutional Shareholder Services

United States

### Issue

Proxy research from third-party providers is an input into our decision-making. As part of our oversight of service providers, we review the services and information provided by our proxy research providers and proxy voting agent to determine competency, integrity and servicing as part of seeking to vote proxies in the best interests of our clients. In addition to annual reviews conducted by CTPO, we also conduct periodic reviews of our service providing including detailed review in connection with contract renewals.

### Action

In connection with renewing the agreement with ISS, we performed additional due diligence. Such due diligence focused on three key themes: management of ISS (business strategy and managing conflicts of interest), research quality and competency, and operational servicing. While we noted areas where we believed ISS could enhance the quality of their research (including say-on-pay and climate votes), we also considered ISS's response related to growing additional headcount during proxy season and specifically in Asia, as well as their level of expertise and technical competency.

### Outcome

Following the due diligence, we renewed our agreement with ISS and will continue our oversight of the services performed by ISS as part of the annual CTPO process as well as through local regional servicing calls and global strategic project reviews.

# Structures, process, policies, and procedures supporting stewardship continued

## Service providers supporting stewardship

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	<ul style="list-style-type: none"> <li>● Bloomberg</li> <li>● FactSet</li> </ul>	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	<ul style="list-style-type: none"> <li>● MSCI ESG</li> <li>● Sustainalytics</li> <li>● S&amp;P Global</li> <li>● CDP</li> <li>● Miotech</li> <li>● Sigwatch</li> <li>● Equileap</li> <li>● PATSTAT</li> <li>● Revelio Lab</li> <li>● Science Based Targets Initiative</li> </ul>	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	<ul style="list-style-type: none"> <li>● Institutional Shareholder Services (ISS)</li> <li>● GES International (Sustainalytics)</li> <li>● Glass Lewis &amp; Co</li> </ul>	Proxy voting research, recommendations and voting management. ISS also implements the J.P. Morgan Asset Management custom voting policies in each region.
Proxy vote execution	<ul style="list-style-type: none"> <li>● Institutional Shareholder Services (ISS)</li> </ul>	Vote execution platform and services.
ESG exclusions, minimum safeguards	<ul style="list-style-type: none"> <li>● Institutional Shareholder Services' ESG Platform (ISS-ESG)</li> </ul>	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- and/or values-based breaches.

## 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.

# Structures, process, policies, and procedures supporting stewardship continued

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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. J.P. Morgan Asset Management 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 J.P. Morgan Asset Management 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, we consider it to be important to assess and communicate on an ongoing basis with our service providers. This includes conducting due diligence when renegotiating contracts on expiry, as included in an earlier case study where we conducted a full review of one of our major service providers in 2022, but also day-to-day engagement with our service providers. As we consider the needs of our investment teams 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.

With a growing need from investment teams, stewardship specialists and clients for high-quality data to assess how companies are positioned for climate risk, and with new offerings from existing data providers, a key JPMAM focus for 2022 has been to engage with service providers on climate metrics. Another area of engagement with data providers has been for regulatory compliance, specifically to map indicators for Principle Adverse Impacts (PAIs) to third-party data as part of the EU Sustainability Finance Disclosure Regulation (EU SFDR). PAI indicators cover a broad scope of environmental and social metrics and allow investors to monitor the adverse impacts of the securities in which we are invested. As part of our mapping of third-party data to PAI indicators, we have engaged with data providers to assess methodology and appropriateness to meet both the regulatory lens and provide meaningful data by which to identify where we may face risks from our investments due to underperformance on PAI indicators. Companies identified as underperforming may then form part of our selection for engagement.

# Structures, process, policies, and procedures supporting stewardship continued



## Case study – Getting the most from climate data to limit risks and harness opportunities

### Issue

As mentioned throughout this report, understanding how climate change will impact the securities we invest in is important for identifying companies which can create long-term investor value for our clients. Ensuring our investors and stewardship specialists have decision-useful data that enables effective risk management, as well as assessment of companies which can help deliver value through climate opportunities, is one of the key criteria for our assessment of data providers.

### Action

One way to understand climate risk is by using Implied Temperature Rise (ITR), a forward-looking metric designed to estimate a company's alignment to a specific decarbonization pathway, say remaining below 2C. This can help identify whether a company's targets are sufficiently ambitious to align with a specific decarbonization pathway. Alignment could have a material impact on the growth potential, profitability, cash flow and balance sheets of investee companies.

While significant progress has been made towards standardizing ITR methodologies, there is still considerable divergence across data providers in how they apply the methodologies and the underlying assumptions they make, including about company-specific decarbonization projections and carbon budgets. We have engaged MSCI, S&P Global, CDP, ISS, PlanetView as well as the Transition Pathway Initiative (TPI)<sup>55</sup> to better understand their methodologies, the assumptions they make and the associated results. Specifically, we seek explanation from data providers where we have found the assessment of ITR to differ from expectations.

### Outcome and next steps

As we strive to identify meaningful information for ITR engagement with third-party providers on methodologies and underlying assumptions will continue to be an important feature of our engagement. We recommend service providers deliver clear and transparent methodology documents, including assumptions and company reported data.

On a more day-to-day basis, the Investment Stewardship team has regular relationship calls with service providers to consider capabilities including data quality and methodology, as well as client servicing, as part of day-to-day interaction with ESG data and service providers. 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.

As part of our stewardship work, we also regularly consider quantitative, company-disclosed KPIs such as companies' greenhouse gas emissions or share of female managers. We regularly engage with service providers to highlight new data that our analysts identify but that may not have been picked up by these data providers yet (for example, if a company recently issues a new Corporate Social Responsibility report and/or started reporting detailed Scope 3 greenhouse gas emissions data).

<sup>55</sup> TPI approach is not strictly speaking an ITR but inputs into their analysis are similar in that they compare companies' projected emissions against their sector decarbonization pathways.

# Structures, process, policies, and procedures supporting stewardship continued

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With regards to proxy voting research, we continuously evaluate accuracy of information from service providers for their benchmark research (which also affects our custom voting 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 and this has impacted proxy voting recommendations, we provide feedback to relevant proxy research providers so that they can ensure vote recommendations reflect accurately 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.

## Business conduct and integrity

Across JPMorgan Chase & Co., there is commitment to holding itself and its service provider community to the highest standards of business conduct and integrity. JPMorgan Chase & Co. expects its service providers to adhere to the strict guidelines of its Supplier Code of Conduct, which includes commitments regarding human rights issues, environmental compliance and sustainability objectives. More information is available [here](#) including our Supplier Code of Conduct

## Performance and compensation practices

The Firm provides market-competitive compensation and benefits programs to our employees. The Firm's compensation philosophy includes guiding principles that drive compensation-related decisions across all levels of the Firm. We believe our compensation philosophy promotes an equitable and well-governed approach to compensation, which includes pay-for-performance practices that attract and retain top talent in a competitive market, is responsive to and aligned with shareholders' expectations, reinforces our culture and Business Principles including the integration of risk, controls and conduct considerations. The Firm's commitment to diversity, equity and inclusion for all employees includes compensation review processes that seek to ensure that the Firm's employees are paid fairly and competitively for the work they do.

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.

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 with 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 (ESG) factors that are intended to be assessed in investment decision-making, per investment objectives.

# Structures, process, policies, and procedures supporting stewardship continued

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In addition to the above performance dimensions for investment professionals, the Firm-wide pay-for-performance framework 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.

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 Asset Management's 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(s). 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, we have policies and procedures that enable us to take 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);
- Clawback/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 circumstances, including the nature of their involvement, the magnitude of the event and the impact on the firm.



# Our approach to promoting diversity, equity, and inclusion

JPMAM believes inclusive cultures foster better outcomes – for our teams, our clients and our communities. Working to ensure inclusivity with effective diversity, equity and inclusion (“DEI”) programs positions us well to have diverse perspectives and differentiated thinking. We know our client relationships are stronger when our teams mirror the communities in which we work and invest.

## By the numbers



How does JPMAM tackle this issue? Our areas of focus are:

- **Accountability** – Executing on the Firm’s DEI commitments requires promoting accountability across the organization. Our Accountability Framework, which we continue to enhance over time since its launch in 2020, is used to evaluate senior leaders, including Operating Committee members, on behaviors, practices and progress toward goals related to the Firm’s DEI priorities, and to incorporate that into year-end performance and compensation assessments.
- **Recruitment and retention** – Increasing focus on the acquisition and retention of diverse talent. JPMAM’s goal is to maintain a diverse and inclusive workforce reflective of the communities we serve, and we are focused on hiring talent with a wide range of characteristics – including diversity related to gender, ethnicity, military service, LGBT+ status and disabilities, as well as diverse perspectives and skill sets. To find and select a diverse pool of talented candidates, we are committed to sourcing from under-represented communities and establishing strategic partnerships and programs to create new pathways for candidates with less traditional backgrounds.
- **Data** – Measuring progress to continue to improve. For example, our parent company, JPMorgan Chase & Co. periodically requests that its employees and Board members self-identify based on specified diversity categories.

# Our approach to promoting diversity, equity, and inclusion continued

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Across the Firm, we continually work to create and reinforce a culture of respect, equity, and inclusion. We do so by creating forums for employee engagement, initiatives to advance inclusion and elevate diverse perspectives, and education and training programs designed to identify ways that all our people can contribute to an inclusive culture.

## The Firm's Centers of Excellence

Our Firm has established DEI Centers of Excellence to take a unified and intersectional approach to delivering impact for employees, clients, customers and the communities we serve. The Centers of Excellence play an important role in supporting the Firm's commitments to advance racial equity and create lasting impact both internally and externally, leading our global strategies related to target populations and contributing to progress toward our Racial Equity Commitment. The Centers of Excellence also complement the role of the BRGs to strengthen our internal culture of respect, equity and inclusion and raise the visibility of the communities they represent.

In addition, the Centers of Excellence amplify the work of the lines of business to deliver inclusive products, services and advice for clients and customers. They also work with a wide array of local and national organizations in the communities we serve, leveraging the Firm's business expertise and philanthropic resources to help advance racial equity and economic empowerment. Our seven Centers of Excellence are:

- **Advancing Black Pathways** – Focuses on strengthening the economic foundation of Black communities around the world. It seeks to address historical barriers to economic growth in Black communities through investments and programs focused on advancing career opportunities for Black talent, expanding and supporting Black-owned businesses, and improving financial health in Black communities.
- **Advancing Hispanics & Latinos** – Works on promoting the growth and success of Hispanic and Latino communities. Their efforts are focused on career opportunities, business growth & entrepreneurship, financial health and community development.

- **Women on the Move** – Provides women inside and outside of the Firm with opportunities to succeed in their professional and personal lives. Their efforts are focused on expanding women-run businesses, improving women's financial health, empowering women's career growth, and supporting women and girls in our communities.
- **Military and Veterans Affairs** – Honors those who have served and supports their long-term personal success and financial confidence. Their efforts are focused on attracting, retaining and developing diverse veteran talent; supporting veteran-owned businesses and entrepreneurs; increasing the financial health of veterans and military families; and supporting top veteran service organizations.
- **Office of Asian & Pacific Islander Affairs** – Leads the execution of global programs and initiatives for the Asian and Pacific Islander ("API") community, driving opportunity and progress for employees, customers and clients through investment, cultural understanding and collaboration.
- **Office of Disability Inclusion** – Leads strategy and initiatives aimed at advancing careers while helping the Firm aspire to be a bank of choice for people with disabilities. ODI's focus areas include driving workplace inclusion, financial health, community relationships, and business growth for small businesses and entrepreneurs with disabilities.
- **Office of LGBTQ+ Affairs** – Focuses on advancing careers and a culture of inclusion, supporting LGBTQ+ owned businesses, providing financial health awareness and education, and driving progress on equity and inclusion for the LGBTQ+ community globally.

## Dedicated DEI Team

Chief Executive Officer and Chairman Jamie Dimon and Global Head of DEI David Miree set diversity objectives for business heads of each JPMorgan Chase line of business ("LOB"), and the objectives are discussed as part of their regular business reviews. In addition, a variety of diversity councils active globally provide clear direction, leadership and focus on diversity activity. Our Firmwide Diversity Advisory Council meets monthly and includes regional and LOB DEI Leads, tasked with assessing and discussing progress on specific diversity initiatives

# Our approach to promoting diversity, equity, and inclusion continued

David Miree, managing director, is the Global Head of DEI at JPMorgan Chase, with responsibility for the Firm’s DEI strategy. He joined the Firm in May 2022 and reports to the President and Chief Operating Officer. David serves as the co-executive sponsor of the \$30 billion Racial Equity Commitment and the executive sponsor of the Second Chance Coalition. He is a member of the Consumer & Community Bank, Corporate & Investment Bank, Corporate Sector and Human Resources management teams. With an inclusive and intersectional approach, he is leading the global DEI organization to embed sustainable strategies and management accountability into the framework of how we do business – helping employees thrive, serving clients and customers, and uplifting external communities.

Ken Gladney, executive director, is the Manager of Diversity for JPMorgan Chase’s Asset & Wealth Management (“AWM”) line of business. In this role, he is responsible for driving the global DEI strategy for AWM, working closely with David and senior leaders to drive accountability and engagement relating to attracting, retaining and promoting a diverse and inclusive workforce.

## Advisory Council

JPMAM’s commitment to DEI is further embedded into the organization through paths such as the Asset Management (“AM”) Advisory Council. Formed in 2012, the council provides a platform to discuss global strategic and business issues, share best practices and identify any specific areas of interest or concern for the AM Operating Council (“AMOC”).

The members are a group of high-achieving executive directors and managing directors from all regions, businesses and job functions who are leaders in their respective areas. Members are nominated by AMOC and are rotated over a two-year period to help ensure we continue to get diverse and fresh perspectives.

AM Advisory Council members participate in two AMOC meetings a year and work between meetings on specific AMOC-assigned projects. Past projects include DEI, bureaucracy busting, and effective communication.

## Company Policy

We continually work to promote a culture of respect that allows every employee to feel safe and empowered at work. The Firm’s [Equal Opportunity, Anti-Discrimination and Anti-Harassment Statement](#) sets forth our policies and expectations for our employees; all employees (both full- and part-time) are required to take anti-harassment awareness training; and DEI is also covered in [JPMorgan Chase’s Code of Conduct](#). In 2022, our employees were required to complete the Firmwide diversity and inclusion training programs, including You Belong Here, Culture of Respect/Culture & Conduct, and Journey to Inclusive Teams for managers. Additionally, our annual employee engagement survey, the results of which are reviewed by senior leadership for potential program improvements, was expanded to have a deeper focus on inclusion. In 2022, 87% of employees participated in this survey.

JPMorgan Chase believes in transparency and offers a number of relevant disclosures, including a workforce composition disclosure and an Equal Employment Opportunity report over several years.

## Firm Employee Driven Business Resource Groups (BRG’s)

Our BRGs are also an important part of how we do this. BRGs are forums for employees to voice their opinions freely, share ideas and collaborate with like-minded colleagues at all levels across the Firm, around the globe. Through events, networking opportunities, career development initiatives and more, our BRGs are designed to enhance the experience of our employees and continue to foster a culture of openness and inclusion. Our BRGs are:

 <p>Access Ability Disability Resource Group</p>	 <p>Adelante Hispanic and Latino Business Resource Group</p>	 <p>AsPIRE Asians and Pacific Islanders Reaching for Excellence</p>	 <p>BOLD Black Organization for Leadership Development</p>	 <p>NEXTGEN Leadership Development for Early Career Professionals</p>
 <p>PRIDE Lesbian, Gay, Bisexual, Transgender, &amp; Ally Resource Group</p>	 <p>Sage Administrative Professionals Resource Group</p>	 <p>VETS Voices for Employees That Served</p>	 <p>WFN Working Families Network</p>	 <p>Women on the Move Interactive Network</p>

# Appendix 1 – J.P. Morgan Asset Management industry group memberships related to stewardship

## Environmental

Asia Investor Group on Climate Change  
CDP (Carbon Disclosure Project)  
Climate Action 100+  
FAIRR  
Institutional Investors Group on Climate Change (IIGCC)  
Net Zero Asset Manager's Initiative (NZAMi)  
Transition Pathway Initiative

## ESG Standards

UN's Principles for Responsible Investment initiative ("PRI")  
Australian Sustainable Finance Institute (ASFI)  
UK Financial Reporting Council - (UK Stewardship Code)  
Sustainability Accounting Standards Board (SASB)

## Governance

The Taskforce on Pension Scheme Voting Implementation (TPSVI) - FCA Vote Reporting Working Group  
Asian Corporate Governance Association (ACGA)  
Focusing Capital on the Long Term (FCLT)  
Global Institutional Governance Network (GIGN)  
Harvard Program  
International Corporate Governance Network (ICGN)  
Japan Stewardship Initiative (JSI)  
UK Corporate Governance Forum

## Industry Standards

Asia Securities Industry & Financial Markets Association (ASIFMA)  
CFA UK  
European Fund and Asset Management Association (EFAMA)  
Global Impact Investing Network (GIIN)  
Hong Kong Investment Funds Association (HKIFA)  
ICMA Green and Social Bond Principles  
Investment Company Institute (ICI)  
Investor Stewardship Group (ISG)  
London Stock Exchange's Sustainable Markets Advisory Group  
Pensions for Purpose  
Responsible Investment Association Australasia (RIAA)  
The Investor Forum  
UK Investment Association

## Social

Principles for Responsible Investment (PRI)'s Advance Program  
Workforce Disclosure Initiative  
30% Club Investor Group  
AI Asia Pacific Institute

# Appendix 2 – Biographies

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## Global Stewardship Team Biographies



**Yo Takatsuki**  
Global Head of Investment Stewardship  
Executive Director, London  
Experience (industry/at J.P.Morgan AM): 11/2

Yo leads our global Investment Stewardship team. He has been a stewardship practitioner for more than a decade and has led collaborative industry initiatives such as on Net Zero Stewardship, Climate Transition Finance and Access to Medicine Index. Prior to J.P. Morgan Asset Management, he led engagement at two other asset managers.

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**Minal Davé**  
Investment Stewardship Specialist  
Vice President, London  
Experience: 19/16

Minal has been at J.P. Morgan Asset Management for over 15 years. She specializes in engagement on diversity issues and governance and is a member of the 30% Club's Investor Steering Committee and the International Corporate Governance Network.

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**Lara Jackson**  
Investment Stewardship Specialist  
Vice President, London  
Experience: 9/2

Lara is a climate change specialist, joining J.P. Morgan Asset Management after four years as a sustainability and climate change consultant advising corporates. She also has prior experience in the not-for-profit sector supporting companies on agricultural commodity production in South East Asia.

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**Irfan Patel**  
Investment Stewardship Specialist  
Vice President, London  
Experience: 9/2

Irfan specializes in corporate governance and voting activities. He previously worked as a corporate governance analyst at another investment manager and as proxy research analyst at Institutional Shareholder Services (ISS).

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**Jemma Ockwell**  
Investment Stewardship Specialist  
Vice President, London  
Experience: 8/8

Jemma is a specialist in engaging on natural capital. Prior to joining the Investment Stewardship team this year, Jemma has over 8 years' experience at JPMAM covering internal strategy, regulatory issues and controls. Most recently Jemma was the business manager for the Sustainable Investing team since 2020. Jemma is a CFA charterholder.

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## Appendix 2 – Biographies continued

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**Lisa Kladitis**  
Investment Stewardship Specialist  
Associate, London  
Experience: 4/<1

Lisa specializes in climate change. She has prior experience as an Impact Investment Analyst at another investment manager, where she focused on research and engagement for listed equity impact strategies.

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**Nishesh Kumar**  
North America Head of Investment Stewardship  
Managing Director, New York  
Experience: 25/23

Nishesh leads our Investment Stewardship team in North America. His experience includes focus on governance and climate topics. He also spent two decades as an equity research analyst covering the energy sector in addition to transportation and consumer discretionary sectors.

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**Jonathan Steinmetz**  
Investment Stewardship Specialist  
Executive Director, New York  
Experience: 26/2

Jonathan focuses on executive pay. He has more than 20 years of experience including as an equity research analyst covering the North America automotive industry.

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**Aidine Rivera**  
Investment Stewardship Specialist  
Executive Director, New York  
Experience: 16/12

Aidine specializes on social issues including human capital management and diversity. Prior to joining the Investment Stewardship team, she worked at J.P. Morgan Asset Management for more than a decade covering regulatory issues, internal controls and audit exam management.

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**Bennett Rosenbach**  
Investment Stewardship Specialist  
Vice President, New York  
Experience: 8/8

Bennett is a governance and voting specialist. He has experience as an equity research analyst covering the energy industry.

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## Appendix 2 – Biographies continued

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**Felix Lam**  
Asia ex-Japan Head of Investment Stewardship  
Executive Director, Hong Kong  
Experience: 18/2

Felix leads our Investment Stewardship team in the Asia ex-Japan region. His experience includes climate and governance topics. He worked as an equity research analyst for over 16 years with a primary focus on energy and material industries including renewable energy, oil and gas, metals and mining and construction materials.

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**Janet Wong**  
Investment Stewardship Specialist  
Vice President, Hong Kong  
Experience: 8/2

Janet leads social issues including supply chain and human rights. Prior to J.P. Morgan Asset Management, she worked in London at another asset manager focusing on engagement, proxy voting and public policy advocacy and subsequently returned to Hong Kong to lead the Asia Pacific ESG, M&A and corporate governance advisory team at a consulting company. Janet is also a board advisor of an APAC research institute advocating for trusted artificial intelligence (AI). She is a CFA charterholder.

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**Su Sang Yoon**  
Investment Stewardship Specialist  
Associate, Hong Kong  
Experience: 6/2

Su Sang is a governance specialist. He has experience providing advice to Asian and Australian corporations on governance, shareholder engagement and ESG matters. He also served as a governance research analyst at ISS with a focus on Korean company meetings.

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**Shizuko Ohmi**  
Japan Head of Investment Stewardship  
Executive Director, Tokyo  
Experience: 31/2

Shizuko leads our Investment Stewardship team in Japan. She specializes in climate and governance. Shizuko joined J.P. Morgan Asset Management from another asset manager, where she served nearly two decades as an equity research analyst, covering Japanese industrials and then as Head of ESG in Japan.

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**Konomi Fujimori**  
Investment Stewardship Specialist  
Vice President, Tokyo  
Experience: 16/2

Konomi is a specialist on social issues. She has more than 10 years of experience as an investor relations manager at numerous Japanese companies including in the retail, health care, factory automation and broadcasting sectors. In those roles, she worked on corporate governance and sustainability-focused reporting.

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# Appendix 3 – Sustainable Investing research publication - 2022

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Please find below a list of ESG related research publications in 2022. These can be found on our website at <https://am.jpmorgan.com/gb/en/asset-management/institutional/investment-strategies/sustainable-investing/>

## January

Explaining the European Union Taxonomy Regulation (EU TR)  
Real Assets Outlook: Infrastructure, Transport and Timber  
ESG Outlook 2022: The future of ESG investing

## February

JPMorgan Funds – Europe Sustainable Equity Fund: Five years of sustainable returns  
A new supercycle – the clean tech transition and implications for global commodities  
What does the Social Cost of Carbon mean for investors?  
Where are the opportunities in sustainable food and water?

## March

ESG Outlook 2022: Asset class views  
Climate change investment risks: What investors need to focus on  
Where's the snow? The climate is changing in ski regions  
What are the opportunities in sustainable transportation?

## April

ESG social factors: Accessing the “S” in ESG  
Achieving net zero: The path to a carbon-neutral world  
The ESG issues at the heart of supply chain disruption  
How do geopolitics highlight the need for more sustainable innovation?  
What are the investment opportunities in recycling and re-use?

## May

Deep roots and new branches: A strategic perspective on timber investing  
Social factors are a key differentiator for companies fighting the Great Resignation  
Investing in forestry: The case for timber allocations in insurance portfolios  
The economic importance of biodiversity: Threats and opportunities  
Climate change voting – Our approach  
Crowding-in, feedback loops and tipping points: The self-sustaining case for ESG  
What are the investment opportunities in renewable energy?

## June

TCFD report  
What are the investment opportunities in sustainable construction?

## July

China equity and ESG investing: China's sustainable future  
Explaining the Task Force on Climate-related Financial Disclosures (TCFD) recommendations  
Building better carbon transition fixed income portfolios  
EU SFDR Explained: A guide to the EU Sustainable Finance Disclosure Regulation for investors  
Sovereign emissions: Facts, uncertainties, and best practices

## August

Sustainable transport: Uncovering the investment opportunities in electric vehicles  
Explaining the impact of EU MiFID II regulation on Sustainable Investing  
Alternative assets and climate change



# Appendix 3 – Sustainable Investing research publication - 2022 continued

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## September

The evolution of the ESG investment landscape  
ESG Explained: 7 Essentials You Need to Know

## October

Europe's energy crisis: What are the options?  
Red hot inflation is not distracting the central banks from going green  
Taking a byte out of GHG emissions

## November

The ESG landscape in Europe: Investment trends 2022  
The role of nuclear power in the energy transition  
LTCMA Survey Takeaways  
Climate scenarios: What are they, why are they important, and how they are applied to investment portfolios

## December

COP27: A patchwork of progress  
Sticking with sustainability  
Investment Stewardship Priorities

## Appendix 4 – Stewardship code mappings

This report has been reviewed and approved for publication, by J.P. Morgan Asset Management’s Sustainable Investment 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. Please find the mapping of this report’s content to the 2020 UK Stewardship Code’s Principles 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.	p.5–10, p.133–137
Principle 2	Signatories’ governance, resources and incentives support stewardship.	p.11–20, p.116–132, p.151–155, Appendix 2
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	p.138–140
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	p.143–146
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	p.138, p.140–143
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	p.133–137
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfill their responsibilities.	p.21–35, p.116–132
Principle 8	Signatories monitor and hold to account managers and/or service providers.	p.146–151
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets.	p.21–35, p.36–108
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers.	p.27–30
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers.	p.25–26
Principle 12	Signatories actively exercise their rights and responsibilities.	p.109–115

Source: [https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code\\_Dec-19-Final-Corrected.pdf](https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf)

### Taiwan Stewardship Principles for Institutional Investors

Principle	Signatory actions	Pages
Principle 1	Establish and disclose stewardship policies.	p.5–10, p.116–132
Principle 2	Establish and disclose policies on managing conflicts of interest.	p.138–140
Principle 3	Regularly monitor investee companies.	p.21–35, p.42–108
Principle 4	Maintain an appropriate dialogue and interaction with investee companies.	p.21–35, p.42–108
Principle 5	Establish and disclose clear voting policies and voting results.	p.109–115
Principle 6	Periodically disclose the status of fulfillment of stewardship responsibilities .	p.11–20, p.36–40, p.138–152

Source: Taiwan Stock Exchange  
<https://cgc.twse.com.tw/docs/Revision%20of%20Stewardship%20Principles%20for%20Institutional%20Investors-20200810.pdf>

# Appendix 4 – Stewardship code mappings

## 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.	p.5–10, p.116–132
Principle 2	Investors should monitor and engage with their investee companies.	p.21–35, p.42–108
Principle 3	Investors should consider and establish clear policies on when they will escalate their engagement activities.	p.24–25
Principle 4	Investors should have clear policies on voting guidance.	p.109–115
Principle 5	Investors should be willing to act collectively with other investors where appropriate.	p.27–40, p.156
Principle 6	Investors should report to their stakeholders on how they have discharged their ownership responsibilities.	p.11–20, p.36–40, p.138–152
Principle 7	When investing on behalf of clients, investors should have policies on managing conflicts of interests.	p.138–140

Source: [https://www.sfc.hk/-/media/EN/files/ER/PDF/Principles-of-Responsible-Ownership\\_Eng.pdf](https://www.sfc.hk/-/media/EN/files/ER/PDF/Principles-of-Responsible-Ownership_Eng.pdf)

## Australia Principles of Internal Governance and Asset Stewardship

Principle	Signatory actions	Pages
Principle 1	Monitoring of company performance on financial and non-financial matters.	p.116–132, p.138–152
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.	p.41–108
Principle 3	Approach to considering environmental, social and governance factors (risks and opportunities) and whether these considerations influence investment decision-making and company engagement.	p.21–35
Principle 4	Proxy voting.	p.109–115
Principle 5	Collaborative engagement with other investors including involvement with industry groups and associations.	p.27–40, p.156
Principle 6	Principles used for policy advocacy including participation with industry groups and associations.	p.27–40
Principle 7	The approach to client engagement, education and communication regarding asset stewardship.	p.133–137

Source: FSC Australia (<https://www.fsc.org.au/web-page-resources/fsc-standards/1522-23s-internal-governance-and-asset-stewardship>)

# Appendix 4 – Stewardship code mappings continued

## Singapore Stewardship Principles 2.0

Principle	Signatory actions	Pages
Principle 1	Develop and articulate stewardship responsibilities and governance structures	p.5-10, p.11-15, p.116-132, p.138-152
Principle 2	Monitor investments regularly.	p.21-35, p.42-108, p.116
Principle 3	Stay active through constructive and purposeful engagement.	p.42-108
Principle 4	Uphold transparency in managing conflicts of interest.	p.138-140
Principle 5	Exercise rights and responsibilities on an informed basis.	p.109-115
Principle 6	Report stewardship activities periodically.	p.11-20, p.36-40
Principle 7	Take a collaborative approach in exercising stewardship responsibilities where appropriate.	p.27-40, p.156

Source: <http://www.stewardshipasia.com.sg/sites/default/files/2020-09/Section%20%20-%20SSP%20%28Full%20Document%29.pdf>

## 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.	p.5-10, p.116-132
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.	p.138-140
Principle 3	Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation toward the sustainable growth of the companies.	p.21-35, p.42-108
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.	p.21-35, p.42-108
Principle 5	Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.	p.109-115
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.	p.11-20, p.36-40, p.137
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.	p.11-20, p.27-40, p.156

Source: <https://www.fsa.go.jp/en/refer/councils/stewardship/20200324/01.pdf>

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For more information on our approach to Investment Stewardship, contact your J.P. Morgan Asset Management representative.

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