

# 2021 Investment Stewardship Report

Investor-led, expert-driven

April 1, 2022

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**J.P.Morgan**  
ASSET MANAGEMENT



## Contents

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<b>4</b>	Foreword	<b>77</b>	Stakeholder management engagement and voting report – 2021
<b>5</b>	J.P. Morgan Asset Management – Who we are	<b>83</b>	Proxy voting – How we utilized our voting rights in 2021
<b>11</b>	Governance of stewardship	<b>86</b>	ESG integration at J.P. Morgan Asset Management
<b>15</b>	People and resources	<b>104</b>	Client and beneficiary needs
<b>18</b>	Our approach to engagement	<b>109</b>	Structures, processes, policies and procedures supporting stewardship
<b>34</b>	What we did in 2021 – Stewardship in review	<b>125</b>	Appendix 1 – J.P. Morgan Asset Management industry group memberships related to stewardship
<b>39</b>	Climate risk engagement and voting report – 2021	<b>126</b>	Appendix 2 – Biographies
<b>50</b>	Governance engagement and voting report – 2021	<b>129</b>	Appendix 3 – Sustainable investing research publications – 2021
<b>57</b>	Strategy alignment with the long-term engagement and voting report – 2021	<b>130</b>	Appendix 4 – Stewardship code mappings
<b>67</b>	Human capital management engagement and voting report – 2021		

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# Foreword

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On behalf of our clients, at J.P. Morgan Asset Management, we continue to consider how we can become better stewards of their capital in how we operate and how we invest, by leveraging the power of our perspective and expertise across global markets. As long-term shareholders in the companies in which we invest, we recognize our wider stewardship responsibilities to our clients as a major asset manager. We believe that sustainable investing, powered by our consideration of financially material environmental, social and governance (ESG) factors, plays an instrumental role in delivering long-term value creation for our clients.

Through a research-driven culture dedicated to collaboration, client service and active innovation, we seek to deliver stronger financial outcomes by focusing on the most critical ESG issues that impact the performance of companies in which we invest on behalf of our clients. We advocate for robust corporate governance and the sound and sustainable business practices core to long-term value creation for our clients.

As part of this, we remain committed to our stewardship responsibilities: active engagement with investee companies, exercising our voice as a long-term investor in industry participation and proxy voting.

Driven by career experts embedded across our business, our stewardship approach taps into a deeply resourced network of over 1,000 investment professionals globally, with investing teams and stewardship specialists working side-by-side to manage ESG risks and to systematically incorporate engagement insights into our investment decisions.

During the reporting period, we engaged with more than 1,000 companies globally to better understand and influence their approaches to matters impacting their businesses and their broader stakeholders, including evolving responses to the COVID-19 pandemic, overall financial prudence in the form of long-term capital allocation and executive compensation, climate change, measures taken to protect employee health, pay and well-being and customer relationships. In assessing this, and as part of our focus on driving long-term sustainable value for our clients, we have considered how companies have balanced the interests of their various stakeholders in their business practices.

Although active ownership is woven into our heritage, we must constantly evolve our business and our approach to keep pace with the changing requirements of our clients and regulators.

In response to clear opportunities to improve in 2021, we conducted an in-depth, root and branch review of our stewardship practices and have taken transformative steps to reform how we structure, govern and manage our efforts. This includes material changes

to our governance processes to enhance senior-level accountability, which we will outline in this report.

As the dedicated asset management arm of a larger financial services company, J.P. Morgan Asset Management is aligned to, and supported by, the broader mission of JPMorgan Chase & Co., which recognizes that our long-term business success depends on the success of the communities we serve.

For example, as part of our broader firm's strategy to help accelerate the shift to a more sustainable, low-carbon future, we are actively engaging with asset owner clients to accelerate the global transition to net zero. To support our clients with climate-aware investing, we became signatories in 2021 to the Net Zero Asset Managers Initiative. We have also materially increased our active engagement with investee companies on climate change and are actively participating in leading industry associations globally to collaborate with companies, investors and regulators on critical issues like climate risk.

While we hope you find the following report to be a helpful update on our activities, we remain continually committed to increasing transparency around our stewardship work, including sharing more information on how we are holding companies to account on key issues when it comes to using our voting power, where appropriate.

We hope you find our report useful in understanding our investment-led stewardship approach to sustainability and the critical role it plays in helping us generate better long-term returns for our clients.



**George Gatch**

Chief Executive Officer,  
J.P. Morgan Asset Management

# J.P. Morgan Asset Management

## – Who we are

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J.P. Morgan Asset Management, part of leading financial services company JPMorgan Chase & Co., is one of the largest asset managers globally. More information is provided below on how our business segments are organized.

### JPMorgan Chase & Co.

JPMorgan Chase & Co. (NYSE: JPM) is a leading financial services firm based in the United States of America (US), with operations worldwide. JPMorgan Chase & Co. had USD 3.7 trillion in assets and USD 294.1 billion in stockholders' equity as of December 31, 2021. 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 US and globally, including many of the world's most prominent corporate, institutional and government clients.

### 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 through its Asset Management and Wealth Management businesses. With combined overall client assets of USD 4.3 trillion and assets under management of USD 3.1 trillion as of December 31, 2021, we are one of the largest asset and wealth managers in the world.

J.P. Morgan Asset Management 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 USD 2.65 trillion in client assets under management globally as of December 31, 2021.

### Our purpose

At J.P. Morgan Asset Management, our purpose is to deliver outstanding investment performance to help our clients achieve better long-term outcomes.

As part of 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.

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. It can be used both to mitigate risk and unlock opportunities in an investment portfolio. ESG factors encompass a wide range of issues that are 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.

# 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.
- Through empowering our clients to make informed choices coupled with a relentless focus on helping them sustainably achieve their financial objectives.
- By embodying sustainability in our own operations and through our commitment to support the transition to a more sustainable future by supporting investing aligned with net zero.

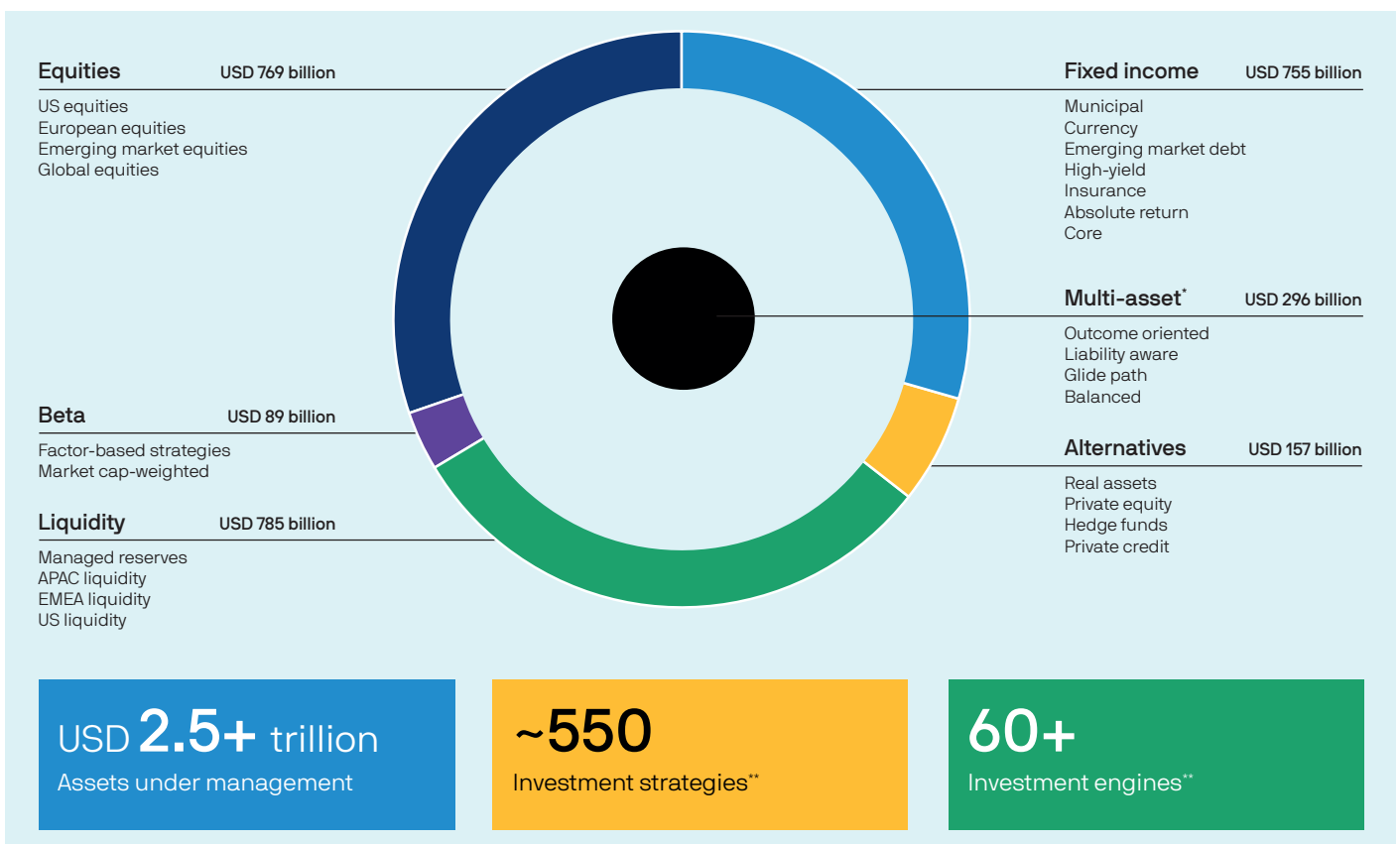
### Our business model and strategy

As a global asset manager, we provide investment services for institutions, intermediaries and individuals alike, including doing business with 56% of the world's largest pension funds, sovereign wealth funds and central banks<sup>1</sup>.

Our fiduciary commitment to client outcomes extends across the investment services we provide to all key client types we serve, including, but not limited to: Defined Benefit, Defined Contribution, Insurance, Endowments and Foundations, Sovereigns, Intermediaries and Fund Management, Health Care 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, Liquidity and Beta.

### Our investment platforms



Source: J.P. Morgan Asset Management, as of September 30, 2021. Due to rounding, data may not always add up to the total AUM. AUM shown do not include custom glide path and retail advisory assets. \* USD 25 billion belongs to solutions direct. \*\* Data is updated annually, as of December 31, 2020.

<sup>1</sup> JPMorgan Chase & Co., CEO letter to Shareholders, 2020 Annual Report.

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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 in order 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 our employees to act and think like long-term owners and partners, and are reinforced as part of our ongoing performance management.

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.

For example, more than 25% of our fund managers globally are women, managing or co-managing 39% of our total global assets as of the end of 2021. While there is more work to be done, we are committed to becoming the most diverse and inclusive asset manager, in order to remain a first-class, sustainable business. Directly linked to our role as investors, we believe this commitment reflects the opportunity we have to lead by example in encouraging practices that support diversity, equity and inclusion across our investee companies.

## Investment beliefs

As an active manager investing for the long-term future, sustainability is an important consideration in our investment decisions as part of our commitment to delivering investment performance.

Our investment teams globally are committed to focusing on understanding and prudently managing risks, including those related to sustainability. To do this, we rely on deeply resourced global fundamental research expertise, including extensive engagement with investee companies, making the exercise of our stewardship responsibilities central to our research process.

Our advocacy of sustainable investing<sup>2</sup> across our investment processes, including our commitment to ESG integration, has been formalized in our signatory status to the United Nations-supported Principles for Responsible Investment (UNPRI), to which we have been signatories since 2007.

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<sup>2</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 in order 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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As the spirit of UNPRI asks signatories to take ESG issues into account in investment analysis and decision-making, and to be active owners incorporating ESG issues into ownership policies and practices, we believe our overall investment approach demonstrates how our commitment to stewardship informs our company strategy. In 2020, J.P. Morgan Asset Management received an A+ on its response to the Strategy and Governance module of the UNPRI survey, based on information provided for the calendar year 2019. 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>3</sup>

We are driven by the belief that doing what is right for the environment, our people and the communities we serve helps us to deliver the best possible experience to clients. 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 and influence systemic industry developments that contribute to benefits for our clients and the communities we serve. 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 using our voice as active owners in our investee companies to strive to enact positive changes that advance the interests of long-term investors.

Throughout 2021, we have taken a number of specific 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 a number of key steps based on opportunities that we have identified to improve, such as the following activities:

- We have significantly expanded our dedicated global Sustainable Investing team, including adding 17 new hires to the team during the 2021 reporting period. As discussed at greater length in the *Governance* section, the team includes our stewardship pillar and works closely with investors and research analysts across our business to embed sustainable investing and stewardship in our investment processes. There were nine new hires in the Investment Stewardship team. We also established a newly created role of Global Head of Investment Stewardship.
- We have worked to advance the development of our proprietary data-driven ESG quantitative score as an additional input in our analysis of companies. This score is based on identifying key ESG factors across around 80 sub-industries and it leverages third-party ESG data to complement and challenge our fundamental research. The score provides J.P. Morgan Asset Management's portfolio managers and research analysts with additional useful underlying ESG information they might not otherwise have access to, in order to facilitate ESG integration and investment stewardship. In connection with rolling out the score, we have made

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<sup>3</sup> The UNPRI survey includes modules that solicit information from signatories, including J.P. Morgan Asset Management, on various topics including strategy and governance. 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 2020 form of strategy and governance module and assessment methodology is included in the following links:

[https://dwtyzx6upk1ss.cloudfront.net/Uploads/q/c/a/02a...sg\\_cc\\_2020\\_80624.pdf](https://dwtyzx6upk1ss.cloudfront.net/Uploads/q/c/a/02a...sg_cc_2020_80624.pdf)

<https://www.unpri.org/reporting-and-assessment/reporting-and-assessment-archive/6567.article>

Please note that publication of the UNPRI 2021 reports have been delayed due to changes in the UNPRI Reporting and Assessment process. Until release of the 2021 reports, the 2020 UNPRI report is the latest available.



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the score available to our portfolio managers and research analysts through our ESG Company Insights application and are continuing to educate our teams and incorporate it into other applications to promote accessibility.

- We have enhanced internal governance to create greater oversight and accountability of our sustainable investing activities, including the effectiveness of our stewardship efforts through the creation of the J.P. Morgan Asset Management Sustainable Investing Oversight Committee (SIOC) during the reporting period. Further information is detailed in the *Governance* section.
- As outlined in later sections of the report, during the reporting period we advanced our tools and technology that support systematic tracking of our engagement activities, enabling our internal platforms to better log and ultimately report to our clients on our activities. While these improvements are still being operationalized, they will aid our investment teams as well as our stewardship specialists in sharing information and knowledge with our clients and provide greater transparency that can influence our engagement activities as well as facilitate our investment decision-making.
- We have taken steps to deepen our climate research and the development of climate-scenario analysis tools as part of our commitment to helping our clients consider the investment risks and opportunities of climate change. This includes the hire of three dedicated climate scientists during the reporting period, as well as the intent in 2022 to produce our first report at an asset management level under the Task Force on Climate-related Financial Disclosures (TCFD) framework. We expect the reporting process to raise material opportunities for improvement on which we would expect to provide further transparency in due course.

- We continued to proactively advance thematic engagements aligned to our five global stewardship key themes, which are detailed further in our *Approach to Engagement*. This included alignment to themes brought into focus by the COVID-19 pandemic, such as human capital management best practices, which we found to be material to our investments in many sectors. As our practices and our team continue to evolve to reflect the priorities and expectations of our clients, we are committed in 2022 to refining our stewardship approach with a greater focus on societal outcomes and their impact on long-term sustainable value for our clients, with the intent to provide further reporting on these ongoing efforts.
- We developed and made available a number of dedicated sustainable products in collaboration with our clients, which placed significant emphasis on our stewardship activities and reflected increased investor interest in expressing their ESG values in investment portfolios.

Alongside these changes, we undertook an in-depth review of our stewardship practices led by our new Global Head of Investment Stewardship in 2021. This process included feedback from a wide range of stakeholders, including clients, not-for-profits and external consultants, alongside regulators and relevant oversight bodies such as the UK Financial Reporting Council. The outcome of this review highlighted a series of areas that we believed merited the strengthening of our practices. The most material areas where we improved our practices are highlighted in the table on the next page. It also shows areas for continuous improvement and potential further review in 2022. Full details can be found in the relevant sections of this report.

# J.P. Morgan Asset Management

## – Who we are continued

Key areas of reform	2021 improvement outcomes	2022 next steps
<b>Governance</b>	Established new governance structure to oversee sustainable investing and stewardship globally including the J.P. Morgan Asset Management Sustainable Investing Oversight Committee (SIOC)	Evaluate effectiveness of new governance set up and identify areas for improvement
<b>People and resources</b>	Expanded the Investment Stewardship team to 13 with nine new hires with relevant expertise and experience Appointed a Global Head of Investment Stewardship Established a dedicated Climate research team of three specialists to analyze transition and physical risks and opportunities	Develop net-zero alignment analytical tools to inform and shape our climate change investment and stewardship
<b>Client needs</b>	Conducted a survey of investment consultants on net zero and stewardship to inform climate change engagement and voting priorities Developed client mandate and fund-level engagement and voting reporting	Build on steps taken in 2021 to further expand our proactive outreach, communication and surveying of clients to shape our stewardship program and initiatives
<b>Engagement approach</b>	Further enhanced our engagement program beyond equities and into other asset classes Established system for systematically tracking engagement progress and milestones Expanded our reactive engagement approach to capture norms-based breach issues for a wide range of funds and mandates	Following COVID-19 pandemic, engagement has principally been conducted remotely. In 2022, we plan to conduct on-site visits and field trips to expand the breadth of interactions with investee companies
<b>Collaborative engagement</b>	Exhibited market leadership by leading industry groups and collaborative initiatives	Expand scope of companies engaged through collaborative initiatives
<b>Reporting</b>	Enhanced transparency of stewardship practices and performance. We hired external consultants to provide input and feedback. This resulted in significantly increased detail on our practices related to and supporting stewardship Provided more specific details in the annual Stewardship Report of our engagement actions, such as company names, and focused on explaining outcomes in reflection of 2021 market best practices as highlighted by stakeholders, including the UK Financial Reporting Council	Conduct a review of our reporting practices against industry best practices according to 2022 standards
<b>Proxy voting</b>	Strengthened voting records disclosure Published research document detailing our approach to climate change-related voting	Further improve transparency of our voting records

### Outcomes

The actions we have taken during the 2021 reporting period to further embed our stewardship commitments as an extension of our investment philosophy represent important steps in our ongoing journey. That said, there is more work to be done.

These initiatives 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 as sustainable investors, as well as to regularly assess how we can improve on the journey.

# Governance of stewardship

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**Stewardship is an important and integral part of how J.P. Morgan Asset Management delivers long-term investment value for our clients.**

As highlighted in the previous section, we reviewed our governance practices around stewardship and identified areas of strengthening in 2021. The review highlighted certain aspects of governance as challenges to be addressed immediately. This included an assessment that the existing governance practices, while long established and operating without major concerns, were nonetheless mostly regional and focused on corporate governance in scope.

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 globally and firm-wide across all asset classes, investment styles, client types and regulatory regimes.

In reflection of the size, scope and complexity of our company, a key recommendation was to establish governance practices at J.P. Morgan Asset Management around stewardship and sustainable investing that was global and across asset classes in remit, spanning the material sustainability and corporate governance issues in our investments.

The outcome of the review was to establish a governance framework for effective stewardship with clear accountability from the top of our organization, led by the Chief Executive Officer (CEO) of Asset Management and fellow senior executives.

The reform work resulted in the establishment of a J.P. Morgan Asset Management **Sustainable Investing Oversight Committee (SIOC)**. Committee members include the Chief Investment Officers (CIOs) of each asset class alongside the Global Head of Sustainable Investing, the Global Head of Investment Stewardship and heads of control functions such as risk and compliance. A direct line of senior accountability derives from two aspects:

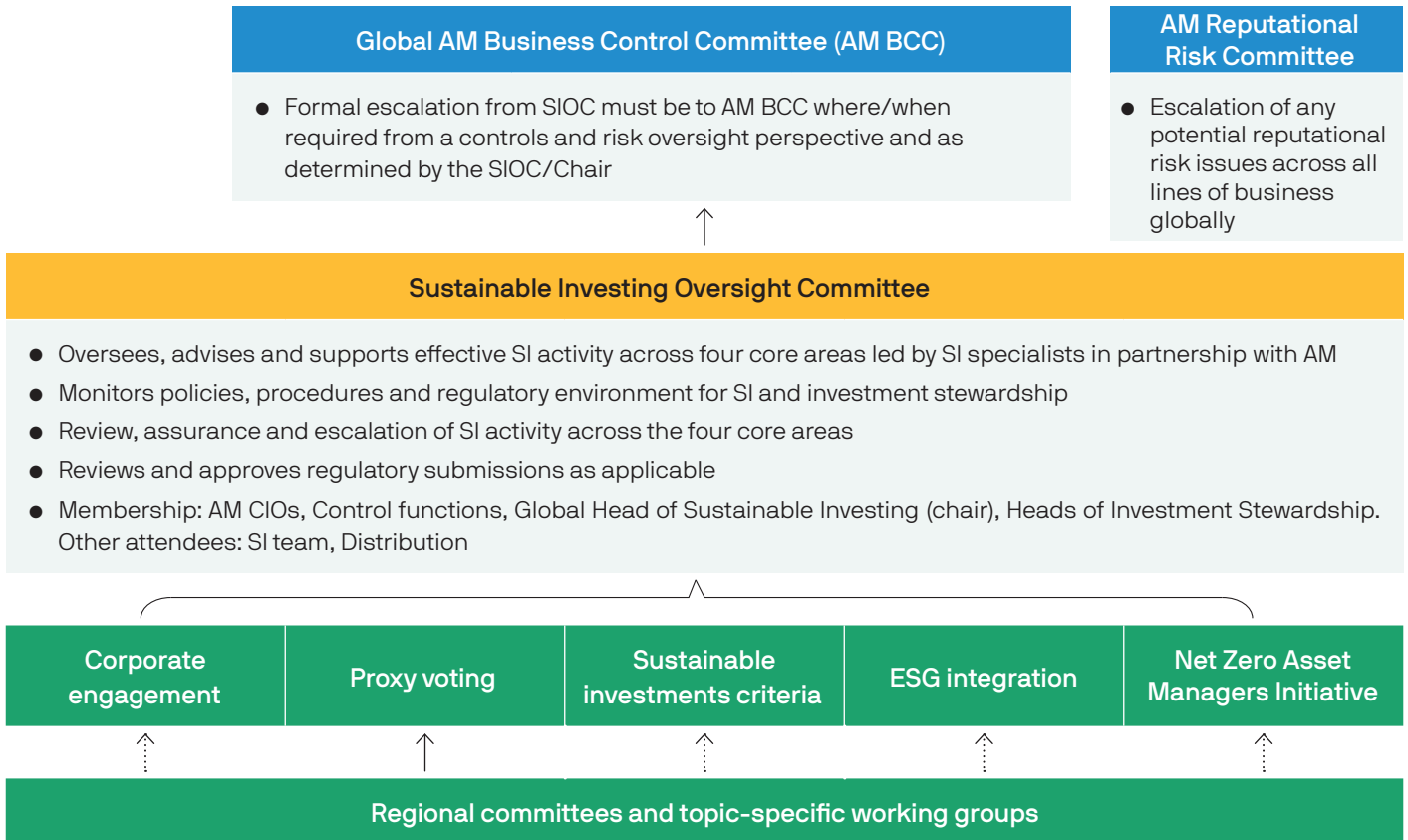
- Strategic oversight of sustainable investing activities provided to SIOC by the Chief Investment Officers of our investment platforms and the Global Head of Sustainable Investing through their participation in day-to-day management meetings across their asset classes and with senior management. This enables monitoring of stewardship effectiveness and key performance indicators, and establishes a clear line of escalation and accountability as members provide updates to SIOC where applicable.
- 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)**. This 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 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, oversight of ESG integration, oversight and review of implementation plans for the firm's commitment to the Net Zero Asset Managers Initiative, as well as regulatory developments. Related policies, programs, targets and performance are overseen by this group. It meets on a quarterly basis.

# 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, 2021.

In 2022, as part of our ongoing review and evolution of J.P. Morgan Asset Management’s transparency on sustainability issues, we are scheduled to publish our first climate report aligned with the Task Force on Climate-Related Financial Disclosures (TCFD) framework. Our parent entity, JPMorgan Chase & Co., has published TCFD reporting since 2019.

Ongoing review of our approach, policies and programs to assure effectiveness of processes is an important remit of the SIOC and the key committees and working groups (further described in the following pages) supporting it. It is their responsibility to review process, raise key 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.

As this is a relatively new governance structure, which was implemented in the second half of 2021, over the course of 2022 we will be evaluating its effectiveness as part of our ongoing evolution and enhancements to stewardship and sustainable Investing.

One aspect we are considering is a SIOC committee member evaluation with the objective of identifying obstacles to better performance and highlighting additional good governance practices. Please see the section later in this document on *Structures, processes, policies and procedures supporting stewardship* for further details regarding key policies and procedures, lines of defense and our assurance practices overall.

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## 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. The members of these are typically investment research analysts, portfolio managers, stewardship and sustainable investing experts and client-facing professionals.

### The key stewardship-related groups include:

- **Regional Proxy Oversight Committees** are long established in our five 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 voting policies and 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.
- **Engagement working groups** were set up in 2021 with the purpose of facilitating active discussion, information-sharing and coordination of engagement activities across asset classes. 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, with investment analysts with a view to conducting reactive engagements with investee companies in question.

### ESG Regulatory Change Working Group

Significant changes to ESG regulations have accelerated the shift toward integrating sustainability into every part of investing. The firm's regulation-dedicated global ESG working group focuses on helping business groups and functions transform their practices and processes to meet emerging

regulatory requirements, including operationalizing and implementing new and evolving sustainable investing 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 integration of the European Union's Sustainable Finance Disclosure Regulation into relevant product design and disclosures, and to ensuring business alignment to globally evolving climate risk-related regulations.

This has been one of the most active groups in 2021, with a broad representation from across the firm due to the increase in sustainable investing-related rules and regulations. The group will continue to play an important role in 2022 in responding to the rapid shifts in regulation and stakeholder expectations.

### Sustainable investing leadership working groups with relevance to stewardship

To further collaborate on supporting and advancing J.P. Morgan Asset Management's global leadership on responsible investing, a network of peer advisory working groups exists to connect expertise across our extensive platform of subject-matter experts. In order to bring together the relevant expertise to help our clients achieve their sustainable 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 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. There are working groups on:

- **The ESG Data and Research Working Group** is composed of senior investment professionals, such as Head of Research, portfolio managers, analysts and Sustainable Investing team delegates. This group works to develop our firm-wide ESG materiality framework, including vetting and reviewing our ESG integration investment process. It provides formal recommendations on the ESG-integrated status of our investment groups, encompassing new engines as well as periodic recertification of existing processes, based on our proprietary 10-point scoring criteria. Those recommendations are then formally reviewed and approved by SIOC. The ESG Data and

# Governance of stewardship continued

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Research Group also advises on the development of ESG-related research methodologies and on our proprietary data-driven ESG scoring system, which was approved by this group in 2021 and made available internally to investment professionals to enhance ESG insights. 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, developing effective marketing efforts and advancing key initiatives such as ESG educational and thought leadership efforts.
- In 2021, we took steps to establish our **climate leadership working groups** to reflect our deepening commitments to playing a part in solutions to climate change, including strengthening our climate research and climate-scenario analysis capabilities and actively engaging in focused industry actions, closely coordinated with our stewardship priorities related to climate change engagement. These groups include:
  - **Climate Research:** This sub-working group of our ESG Data and Research Working Group was established in 2021 and 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.

- **Net Zero Asset Managers Initiative Steering Working Group:** In 2021, we became signatories to the Net Zero Asset Managers Initiative. In 2022, this new group will be responsible for delivering the implementation of our climate commitments as a signatory to the initiative, including our commitment to supporting investment aligned with the goal of net-zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit global warming to +1.5 degrees Celsius.<sup>4</sup>

Responsibilities include determining and reporting on interim emissions reduction target-setting and managing engagement with investment teams and stakeholder coordination related to net-zero alignment. This group will regularly provide reports to the J.P. Morgan Asset Management Sustainable Investing Oversight Committee (SIOC), which is responsible for overseeing key decision-making and overall project governance. The insights and analytics developed within this group will have a fundamental role in driving our net-zero-aligned stewardship approach and will inform our engagement, proxy voting and transparency on the issue.

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<sup>4</sup> Such commitments are contingent on actions taken by clients, investee companies and governments. Net Zero Asset Managers Initiative (NZAMI) acknowledges that the scope for signatories to invest for net zero depends on the mandates agreed to with clients and client's and managers' regulatory environment. NZAMI acknowledges that such commitments are made in the context of an asset manager's legal duties to clients and applicable law.

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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 and 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 and transport, real estate, private credit and hedge funds.

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**Jed Laskowitz**  
Global Head of Asset Management Solutions

The group uses different asset classes to develop portfolios.

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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 firm-wide strategic efforts in sustainable investing, ESG integration, research and thought leadership, investment stewardship and the development of broader offerings of investment strategies. It is comprised of 33 specialists.

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**Yo Takatsuki**  
Global Head of Investment Stewardship

The Investment Stewardship team is responsible for driving the firm's efforts on engagement and proxy voting in close collaboration with investors from different asset classes. The team is a part of the wider Sustainable Investing division. As of March 1, 2022, it is comprised of 13 stewardship specialists.

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All of the above are members of the **Global J.P. Morgan Asset Management Sustainable Investing Oversight Committee**.

Our global Investment Stewardship team brings a variety of skills and experience in helping to deliver effective stewardship at J.P. Morgan Asset Management. Biographies of the team members and their experiences can be found in the Appendix.

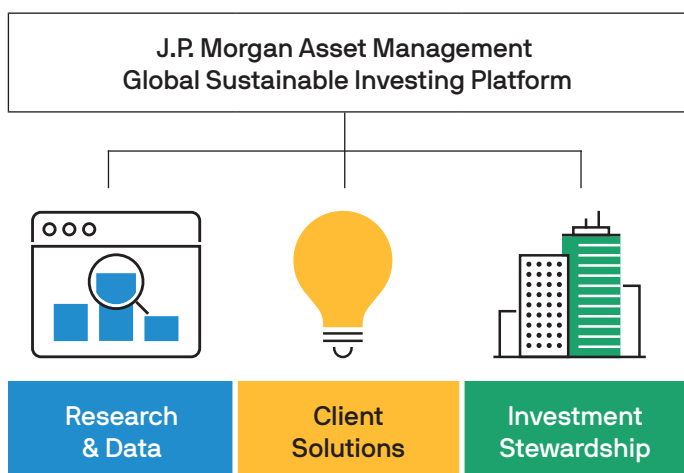
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## Sustainable Investing Division

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 December 31, 2021, the Sustainable Investing Division has 33 personnel. This has grown from 16 at the end of 2020.

This team drives ESG-related research across asset classes, seeks to develop and publish sustainable investing thought leadership 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 and Data** team is focused on developing dedicated ESG research by partnering with our investors across asset classes and data scientists. In 2021, we established a dedicated Climate Research team with the hire of three PhD climate scientists who specialize in transition and physical risks.
- The **Client Solutions** pillar partners with our investment and distribution teams to provide expertise and to develop ESG solutions to meet our clients' requests.

- The **Investment Stewardship** team is responsible for our investment-led, expert-driven stewardship approach, engaging with companies and voting proxies on behalf of clients. As of March 1, 2022, this team has 13 members covering four regions: North America (New York), EMEA (London), Asia excluding Japan (Hong Kong) and Japan (Tokyo). In 2021, we hired nine new members into this team. We also created a new role, the Global Head of Investment Stewardship. Their previous diverse experiences and qualifications in banking, equity research, ESG research and consulting, investor relations, public policy, financial journalism, proxy advisory and similar stewardship roles in asset management provide a breadth of ESG insights to investment teams to support J.P. Morgan Asset Management's active ownership of assets. While the diversity in terms of expertise, language and nationality supports on-the-ground stewardship activities, the global team structure furthers global ESG best practices sharing across the Investment Stewardship team, the investment teams and with investee companies.

## Other resources

The 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 and Holding to Account Service Providers*.

We recognize that ESG data quality and availability is an ongoing challenge for investors, and we have made continuous investments in this arena to overcome these issues. In 2021, J.P. Morgan Asset Management made a minority equity investment in MioTech, a fintech using artificial intelligence (AI) to provide Chinese ESG data and analytics to financial institutions and corporates. Alongside this, the Sustainable Investing team will continue to monitor the availability of Chinese ESG data sets.

# Our approach to engagement

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## Yo Takatsuki, Global Head of Investment Stewardship

J.P. Morgan Asset Management is an active investment manager. This means we have a deeply held conviction that in-depth 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 we consider engagement to be an integral part of our investment process across asset classes.

Engaging our investee companies in dialogue and encouraging positive change is a key component of how we deliver our stewardship strategy at J.P. Morgan Asset Management. Our engagement is based on our in-depth investment research on companies, alongside assessment of macroeconomic drivers, sectoral factors and ESG themes. This research insight enables us to act in a proactive fashion by engaging 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 stewardship activity, by delivering on positive change at our investee companies to preserve and enhance asset value. To frame this, our engagement is based on the following building blocks:

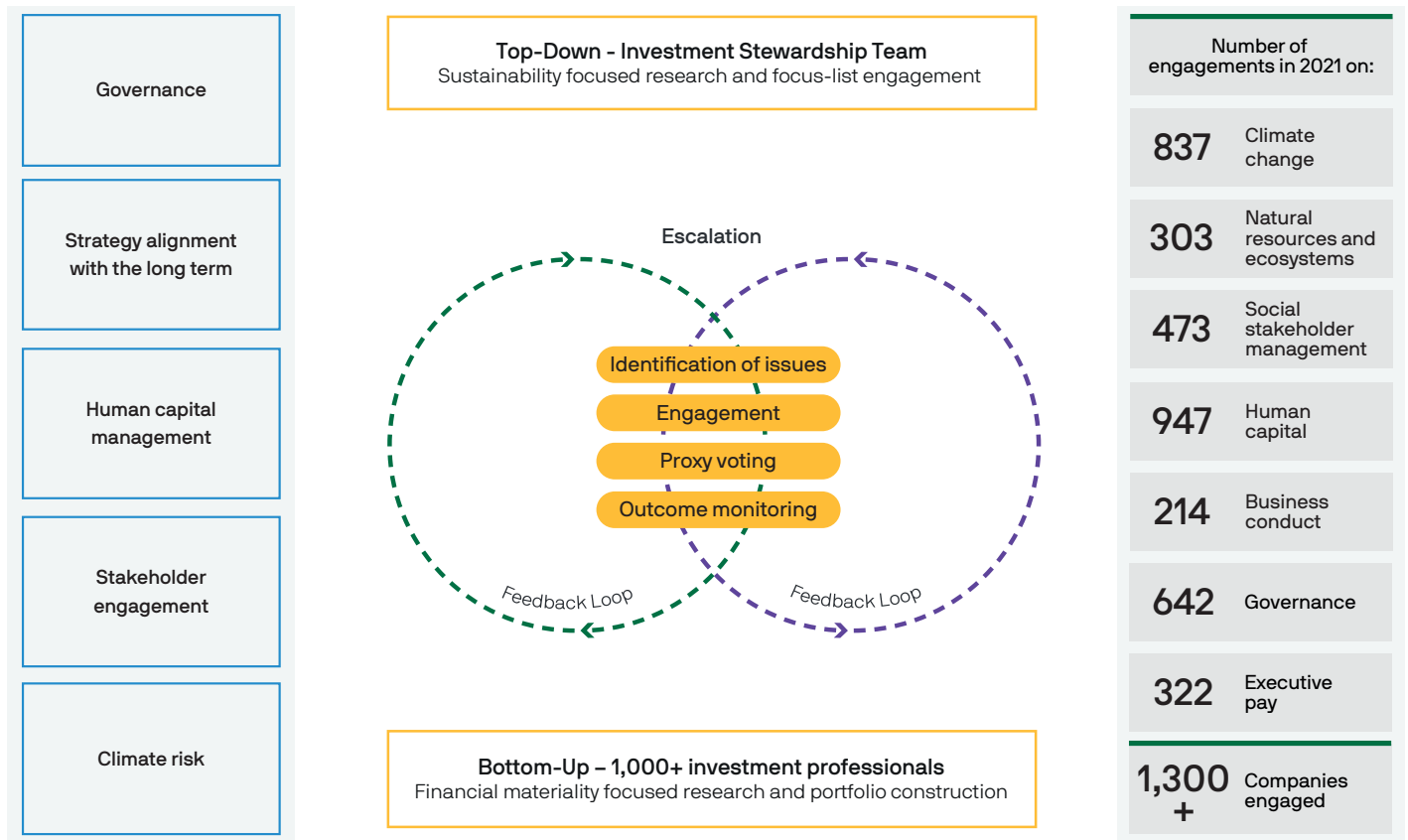
- **Intentionality:** We are determined to act in the best interests of our clients by encouraging investee companies to focus on responsible allocation of capital and long-term value creation.
- **Materiality:** We strive to understand how factors impacting sustainability are financially significant to companies over time, understanding that the regions, cultures and organizations in which we invest differ greatly.
- **Additionality:** We focus on strategic issues that are most urgently in need of our involvement to alter the status quo. We believe that as large investors, we have the ability to put our resources to work in a way in which they can move the needle and achieve the outcome we set out to do. It is not a box-ticking exercise.
- **Transparency:** We have to be clear about the stewardship work we do and take steps to be transparent to our stakeholders as we expect the same of investee companies.

## Investor-led, expert-driven

Our engagement model is built on an investment-led, expert-driven approach and leverages the expertise of more than 1,000 investment professionals around the world working in close collaboration with stewardship specialists. We believe this collaborative, well-resourced approach enables us to recognize significant risks early, identify new opportunities and better generate attractive risk-adjusted returns. It also utilizes the relationships our investment teams around the world have with investee companies locally. We have enjoyed longstanding relationships with many of our investee companies with whom we have regular interactions across the corporate hierarchy, including with board directors, board chairmen, senior executives and chief executives.

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 sustainable portfolios for our clients.

## J.P. Morgan Asset Management Engagement Model

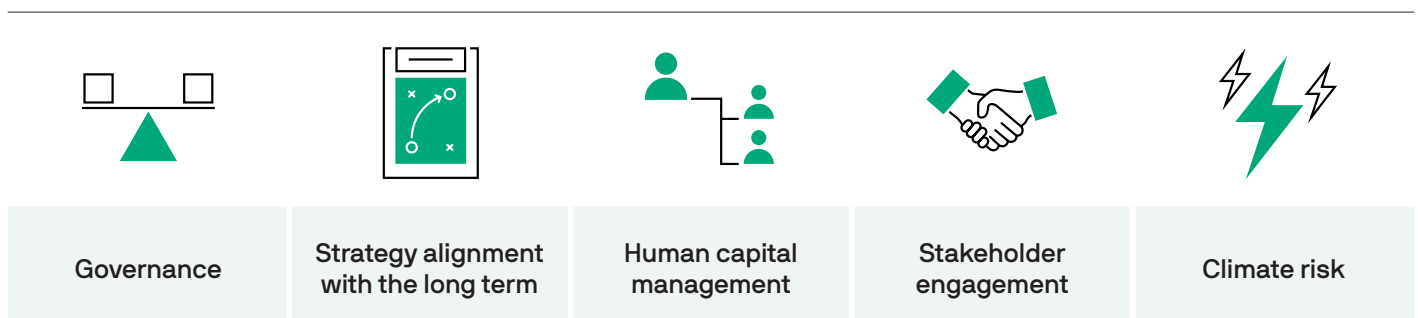


Source: J.P. Morgan Asset Management, as of December 31, 2021.

## J.P. Morgan Asset Management’s five investment stewardship priorities

We have identified five main investment stewardship priorities that we believe have universal applicability and will stand the test of time. We believe these are the ESG issues that pose the most significant long-term risks and opportunities to our investments.

Within each priority area, we have identified a series of related sub-themes that we are seeking to address over a shorter timeframe (18-24 months). These themes will evolve over time, as we engage with investee companies to understand issues and promote best practices. This combination of long-term priorities and evolving, shorter-term themes provides a structured and targeted framework with which to guide our investors and Investment Stewardship team globally, as we engage with investee companies around the world.



# Our approach to engagement continued

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We consider these to be relevant across asset classes, funds and mandates, geographies and stakeholders. Nonetheless, there are differences between asset classes, which we need to reflect. We recognize that the governance pillar, in particular, is focused on the rights and expectations of equity investors, but we also take the stance that good governance practices by investee companies and their boards of directors do, on the whole, benefit all investors in the company. We also incorporate bondholder-specific governance engagements topics, such as transparency of covenants, and conduct engagement discussions with bond-only issuers that do not issue public equities.

We also note that while we believe these stewardship priorities are broadly important across J.P Morgan Asset Management's investments globally, there are differences in engagement activities and specific asks across regions. These differences can be driven by multiple factors, such as differences in public market constituents, differences in regional priorities and localized events or controversies. For example, in the area of Human Capital Management, US engagements have focused on controversies faced by media and technology companies. Human capital engagements in Asia have focused in particular on the practices of companies involved in the global supply chain.

Similarly, within climate risk 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 state of methane regulation by environmental agencies. Discussions in emerging markets, on the other hand, may focus more on acknowledgment of climate as a business risk and 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.

As we delve deeper into each of these five priorities later in this report, we aim to highlight case studies that reflect some of these matters across all of our regions and provide more details on the stewardship activities conducted.

We also conduct engagements that are specific to the needs of a fund or a client mandate. An example of client mandate-specific sustainable nutrition engagement is provided in the *Meeting Client Needs* section later in this report.

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## Review and evolution of our engagement approach

Every year, we conduct hundreds of engagements with investee companies on ESG issues globally. This has been the case for many years. But following discussions with our colleagues, feedback from clients and input from key stakeholders, it became clear there were areas of our stewardship approach that required enhancing and updating.

We conducted an in-depth assessment of the effectiveness of our engagement approach in 2021 as part of a wider review into our stewardship approach (for details on the review and changes implemented to our governance structure, please refer to the relevant section earlier in this report). This was led by our new Global Head of Investment Stewardship.

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### Some of the main findings of current strengths and areas for enhancement are as follows:

- Existing strengths include strong asset class, local market and sector knowledge from a large number of analysts, and portfolio managers based on the ground around the world. They enjoy strong corporate access at the most senior levels of the company (C-suite and board directors) on a frequent basis.
- Rapidly evolving and strengthening approach to ESG research and analysis. This was backed by a growing provision of internally developed and externally sourced ESG research and data.
- Scope for better coordination across asset classes for engaging companies in certain sectors and collaborating across the firm on engagements internally.

### Key outcomes in responding to the review included:

- Established engagement working groups with members from investment analysts, portfolio managers and Investment Stewardship team experts. Please see *Governance* section for more details.
- Further enhanced our engagement approach by shifting the focus of our engagement to key issues and advocating for change on ESG themes that are more consistent in recommendations across regions, size of company and asset class. We developed a series of engagement frameworks with clearly stated objectives to improve the quality of engagement conducted across the firm, including for our key engagement activities driven by the Focus List and Thematic Projects (see next section).
- Implemented an approach to track engagement progress and record outcomes. Please see the section on *Engagement progress tracking* for details on how we took the first steps to implement this and how it will be an area of further enhancements to expand scope in 2022.
- Improved the transparency of our engagement and voting approach, and of our activities and outcomes. Provided more granular details of the stewardship work we are conducting across the firm.

# Our approach to engagement continued

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## Our engagement program

There are thousands of meetings taking place between our investment team members and stewardship experts with board directors, senior management and operational experts from investee companies. Within these standard engagements with companies, we discuss a range of issues including material ESG factors, and we highlight areas of good practices we expect them to aspire to. We assess their response to engagement and monitor over time the progress being made, especially around the transparency of sustainability practices.

However, we also recognized the 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 has identified to be of particular need. To do so, we put in place in 2021 an **Enhanced Engagement Program** to strive to meet the evolving expectations of our global investment teams across asset classes, and of our clients and stakeholders around the world, to drive meaningful change at investee companies that most merit our time and attention.

The three key pillars of our enhanced engagement program are:

**1. 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 issues. This list is agreed with the relevant 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 drive change over the course of 18-36 months, depending on the complexity of change required. Key focus issues are largely around our Five 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. We have Focus Lists in North America, EMEA, Asia and Japan. The list in 2021 consisted of 114 companies.

**2. Thematic projects:** Alongside the focus list, we run engagement initiatives on specific themes aligned with the Five Stewardship Priorities, where we target a broader number of investee companies on the same set of issues. This can also happen in conjunction with our work with collaborative industry initiatives. The aim is to engage 30-40 companies through the lifetime of the project. For example, in 2021, we started two net-zero emissions-focused projects. This involved one on climate risk with international oil and gas companies (fossil fuel supply-side) and one on fossil fuel demand-side companies. These are sectors reliant on fossil fuels for their business means, such as electric utilities, transportation and industrials. More details on this project are to be found in the *Climate Risk* engagement section.

**3. Reactive engagements:** While we endeavor to ensure that our proactive engagement can support our investee companies to be more resilient to ESG risks and more alert to capitalizing on opportunities, there are always controversies, norms breaches and matters arising from the proxy voting process that require reactive engagement. In 2021, we established a system to monitor controversies, and in particular, United Nations Global Compact<sup>5</sup> breaches. There are processes to assess the severity of these issues and consider whether engagement would be an effective approach by which to elicit a positive response from the company. For more details on this and specific case studies, 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 wider 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.

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<sup>5</sup> The United Nations Global Compact is a non-binding United Nations pact to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies and to report on their implementation. <https://www.unglobalcompact.org/>

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## 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 Five Stewardship Priorities. For example, with collaboration from 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 management firms, where permitted, and we consider it to be an effective approach to progress the engagement. Please refer to the section on *Industry Associations and Collaborative Engagements* 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 head of compensation, head of diversity, equity and inclusion or investor relations.

Increasingly, our ESG engagements are led by investment research analysts responsible for primary coverage of the company in equity and corporate bonds. They are supported by the thematic expertise on ESG issues by the Investment Stewardship team. We consider it to be a key part of our approach to ESG integration that investors should play an active and visible role in driving the engagements that shape the long-term investments they seek to have with investee companies. This is critical to our investment success, to 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 equity and fixed income investors generally have a shared interest in the long-term success of the company. This is now backed up by experience where there is growing collaborations on engagement between our colleagues on the Fixed Income and Equities teams. We note there are some issues on which they may diverge, such as capital structure or magnitude of buybacks. In recognition of such differences, we are transparent with the company.

Engagements involving annual stockholder meetings 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 when, despite prolonged engagement, our concerns 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 where permitted.
- 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 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 engagement continued

## Case study – escalation



AmerisourceBergen Corp

United States

### Issue

Faced with long-running opioid-related lawsuits and multi-billion dollar future liabilities, we have had concerns about potential pay versus performance misalignment at the US drug wholesale company. Issues focused around the extent to which the board-level Remuneration Committee considered the impact of these liabilities on long-term shareholder returns and incorporated it into their evaluation of performance metrics.

### Action

Long-term alignment is one of our key stewardship priorities and we have been expressing our concerns on executive pay through engagement with the company for a number of years. Due to limited progress with company representatives, we have escalated our engagement since 2019 by voting against the pay resolutions and the re-election of the Chair of the Compensation Committee. In 2021, the company had 48% of investors vote against say-on-pay at its annual stockholders' meeting. The Chair of the Compensation Committee was replaced, which we considered to be an appropriate response to the voting outcome and escalated engagements. After the AGM, we held an engagement call with the new Chair of the Committee to discuss the board's response to the most recent say-on-pay vote. In the meeting, we pointed out our concerns and shared examples highlighting the need for further oversight on the evaluation of performance metrics, resulting in unwarranted compensation gains by executives in previous years. We emphasized that any positive adjustments to performance measures should be judicious and reflect management accountability. Conversely, management should not be rewarded for windfall benefits.

### Outcomes and next steps

While we are encouraged by the appointment of a new Committee Chair and the tone of recent engagements have been positive, there is still work to be done by the board to fully improve the pay approach. The most recent dialogue was constructive, and we will monitor the actions undertaken by the new Chair of the Compensation Committee with respect to oversight. As next steps, we also suggest that pay-governance practices could be strengthened to have board members, who serve on the Compensation Committee, as well as Audit Committee, ensure that adjustments to compensation-related metrics are properly audited.



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## Collaborative engagement

As a long-term active asset manager, active engagement with investee companies is our primary stewardship responsibility. While adhering to all applicable rules and regulations, such as antitrust and competition laws, we recognize and embrace the concept that collaboration is necessary to meet certain industry-wide goals as the size and scope of the goals make them difficult to meet without collaboration.

Through regular, direct engagement, we have established valuable, long-term relationships with many companies in which we have invested for years. It is this relationship that allows trust to be built between us and the companies. We hope to carry this trust into collaborative engagement for issues that companies are finding more challenging to resolve.

While direct engagement with companies is essential for our investment stewardship, we believe collaborative engagement has an important role to play in fully realizing the potential of engagement. Collaborative engagement is a powerful alternative or supplement to direct engagement that may be more cost effective, as individual company engagement can be a very resource-intensive activity. It is, therefore, a unique form of engagement that is available, and indeed encouraged by regulators, in certain markets.

Our engagement is not restricted to listed companies. We also work with our peers, clients and other stakeholders to engage with regulators, non-profit organizations and government bodies. In our view, collaboration with like-minded peers and stakeholders is particularly critical for informing companies about market-wide and systemic risks. Governance, climate-related risk and human rights are among those risks that we have addressed in other sections in this report (please refer to the engagement and voting report sections aligned to each of our five investment stewardship priorities). Collaborative engagement could also be more effective than engagement on our own for policy and regulatory advocacy.

## When we collaborate

The substance of engagement activities matters. Regardless of the form of collaboration and our role of participation, whether as a lead, a co-lead or a collaborator, the objectives of the engagement should be clear and specific. The objectives are to work with companies on material issues, including mitigation of market-wide and systemic risks, to promote the long-term interests of our clients.

Under circumstances where we judge it necessary to take action, we may act collectively with other investors to protect the interests of our clients. For collaborative engagement, we usually select companies in which we have sizeable stakes and topics where we have in-house expertise. Otherwise, our contribution to the engagement may be of limited value. We are also open to collaboration on emerging topics and issues with which we seek to deepen our understanding.

Meetings are not the only channel for collaboration. Collaborative engagement can take place in a variety of channels and formats. Engagement meetings through working groups organized by industry bodies is just one way of engagement. Letters and position statements are other collaborative initiatives in which we have actively participated in 2021. Highlights of our participations are noted in this section.

In 2021, our review of stewardship activities highlighted collaborative engagement as an area where J.P. Morgan Asset Management could be more active and visible. This was in response to changing expectations from clients on how to utilize collaboration to seek engagement progress with investee companies. This led to an increase in participation in these forums around the world. We plan to further increase the number of companies engaged through these groups in 2022, as part of our continuous evolution.

**Climate risk** is a critical global issue that is causing systemic challenges, making it one of our five firm-wide stewardship priorities. We have been collaborating with other investors and stakeholders to engage with issuers that are generating significant greenhouse gas emissions. The aim is to drive these issuers to reduce their carbon footprint and to work toward net-zero emissions in recognition of the risks that climate change poses to these companies and investments held in our client portfolios.

# Our approach to engagement continued

In 2020, we started in climate-related collaboration by joining the Climate Action 100+ (CA100+) initiative. In 2021, we became co-lead in the engagement with Korea Electric Power Corp (KEPCO) and PT Aneka Tambang (ANTAM). We are also a collaborator in the engagement groups of POSCO (see *engagement case study in Priority 1: Climate Change* section), SK Innovation, ENEOS Holdings, Saudi Aramco and Toray Industries.

To further our efforts in climate-centric collaborative engagement, we joined the Asia Investor Group of Climate Change (AIGCC) in 2021 and its working groups. In the same year, AIGCC rolled out its first collaborative engagement program targeting the Asian Utilities companies. We have participated as a collaborator in the engagement of Tenaga Nasional and CLP Group, the largest power companies listed in Malaysia and Hong Kong, respectively.

In Europe, we are actively involved in climate-related initiatives. An example is the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Stewardship working group, which was set up in mid-2021. It is co-chaired by our Global Head of Investment Stewardship. This working group is focused on establishing best practices and tools for asset managers and owners to implement a net-zero stewardship program and net-zero aligned proxy voting. Through this work we are contributing to the development of a toolkit for conducting net-zero stewardship. We also supported collaborative engagement with proxy advisors to develop proxy advice solutions and research to enable investors to implement robust net-zero aligned proxy voting to help manage the systemic risks that climate change presents to our clients' investments.

Please refer to the *Climate Change Engagement* section to further understand more about our climate-related initiatives, including some of our collaboration efforts.

**Governance** is another topic where we are increasing our collaboration with other investors and stakeholders globally. We continue to work on different initiatives of the UK 30% Club Investor Group, of which we have been a member since 2012. We are also a member of Japan 30% Club Investor Group and its Best Practice Working Group. We shared our view of best practices in engagements with other members, and our case study is included in the Japan 30% Club 2021 report.

## Driving collaborations to further understanding of +1.5 degree alignment

We became a signatory to the Green and Social Bond Principles in early 2021 and joined the Working Group on Climate Transition Finance. This group has more than 100 members from across the capital markets including issuers, investment banks, investors, regulators and research houses. The Working Group had published the Climate Transition Finance Handbook to facilitate credible issuance of climate change financing fixed income instruments from corporate bond issuers. After the publication, the group sought feedback and the outcome was that the biggest challenge for market participants was assessing alignment of the issuer's climate strategy and related business expenditures/financing needs with the latest climate science and credible decarbonization pathway models. As the lead participant in the group, we are facilitating discussions within the group to educate market participants on the concept of science-based decarbonization targets and pathways aligned with +1.5 degree Celsius scenarios. This work is continuing into 2022.

Following the onboarding of our Asia ex-Japan stewardship specialists in 2021, we became proactive in investor collaborations in the region. We became a signatory of the Board Diversity Hong Kong Initiative with the aim to boost female representation, which was only at 14% in July 2020 among the boards in Hong Kong listed companies. As a member of the Korea Working Group of Asia Corporate Governance Association (ACGA), we participated in the collaborative engagement with POSCO, SK Innovation and Samsung Electronics. In those meetings, we pointed out the governance issues of the participating companies and shared our suggestions of best governance practices. We explained how research is increasingly showing the link between diversity and better investment outcomes.<sup>6</sup>

<sup>6</sup> Studies include "Diversity Wins" (2020) by McKinsey.

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

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. 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 our view, this form of collaborative engagement provides valuable opportunities for issuers to understand the importance of sustainability reporting, and to narrow the gap between the expectations of issuers and investors about ESG disclosure. We will continue to participate in this event series in 2022.

### **Using a position statement to address diversity and inclusion loud and clear**

The Parker Review expects one person of color to be appointed to FTSE 100 company boards by 2021. We take this into consideration when reviewing the boards of FTSE 100 companies and engage with those companies that are not adhering. Engagement will follow with FTSE 250 and FTSE 350 companies.

In 2021, we signed a UK 30% Club investor statement to encourage UK public companies to lead in efforts to address systemic inequities. This can be done by advancing diversity and inclusion efforts and enhancing transparency and accountability.

**Sustainability disclosure and reporting** is a global issue where investors, companies and regulators are searching for solutions. The lack of material ESG information and the inconsistency of reported data are two major problems of sustainability reporting. To help resolve this, the Sustainability Accounting Standards Board (SASB) has developed a sustainability reporting standard using industry-specific material metrics. In our view, the SASB standards are well established and easy to understand.

We are a member of the SASB Investor Advisory Group (IAG) and seek to help companies acknowledge the importance of standardized sustainability reporting, explore the SASB standards and adopt them. In 2021, we participated in the IAG Corporate-Investor Dialogue event for Asia Pacific companies. This was a virtual meeting that connected listed companies with investors. We were invited to chair one of the small group engagements, sharing our view on the common issues investors found in sustainability reports and facilitated the conversation among issuers in the group.

# Our approach to engagement continued

The below table summarizes some of the key collaborative initiatives we participated in, in 2021.

Climate change	Social related
<ul style="list-style-type: none"> <li>● <b>Asia Investor Group on Climate Change</b> – Asian Utility Engagement Program (as collaborator of the engagement with Tenaga and CLP Group) and various working groups</li> <li>● <b>Climate Action 100+</b> – co-lead of KEPCO and ANTAM, collaborators of four other companies</li> <li>● <b>Institutional Investors Group on Climate Change</b> – Net Zero Stewardship Working Group (co-chair) and supporter of the state to call for Corporate Net Zero Transition Plans</li> <li>● <b>ICMA Green and Social Bond Principles</b> – Climate Transition Finance Working Group</li> <li>● <b>London Stock Exchange</b> – Sustainable Bond Market Advisory Group</li> <li>● <b>Net Zero Asset Managers Initiative</b> – signatory</li> <li>● <b>The Prince of Wales’ Sustainable Markets Initiative</b> – Asset Manager and Asset Owner Task Force – working group and supporter of the statement on Expectations for Shipping Transition to Net Zero Emissions</li> </ul>	<ul style="list-style-type: none"> <li>● <b>UK 30% Club</b> – signatory of the letter to address systematic inequities</li> <li>● <b>Signatory of the letter on conflict minerals to a group of technology companies through the Principles for Responsible Investment (PRI) collaboration platform</b></li> </ul>
<p><b>Governance</b></p> <ul style="list-style-type: none"> <li>● <b>Asian Corporate Governance Association</b> – signatory for the letter to Softbank</li> <li>● <b>UK Investor Forum</b> – signatory of the letters to Boohoo and Informa collaborative engagement</li> <li>● <b>UK Financial Conduct Authority</b> – consultation about the disclosure for Board Diversity and Ethnicity reporting</li> <li>● <b>Hong Kong Investment Funds Association</b> – collaborative engagement with Hong Kong Exchange about uplifting governance requirements</li> </ul>	<p><b>Other sustainability topics</b></p> <ul style="list-style-type: none"> <li>● <b>Global Real Estate Sustainability Benchmarks</b> – signatory of the letters to Asian property companies to encourage meeting about sustainability assessment</li> <li>● <b>JPMorgan Chase &amp; Co.</b> – joined the <b>Task-force for Nature-related Financial Disclosure (TNFD) Forum</b></li> <li>● <b>ShareAction</b> – case study: Boohoo</li> </ul>

## Engagement progress, milestones and failures

Following a review of our engagement approach in 2021, we implemented an approach to tracking engagement progress and recording milestones where objectives have been achieved. The aim is to make sure our engagements are impactful and investee companies are responding in a constructive fashion over time. It also allows us to identify areas where progress is slow and to enable constant improvement of our engagement methodology and framework to achieve better outcomes.

In 2021, we put in place the engagement progress tracking system for a subset of our engagements – the Focus List, where the most intensive dialogue is taking place with investee companies. We plan to expand the scope in 2022.

We identify 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 take action. In most cases, engagement can take time to progress. It takes time before the board or management acknowledge an issue and start to implement a roadmap of action to deliver meaningful change. Sometimes, our engagement asks can require 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 milestone tracking

In order to check our engagements are on track, we clarified the four stages in our engagement journey. The milestones 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 milestones are achieved**

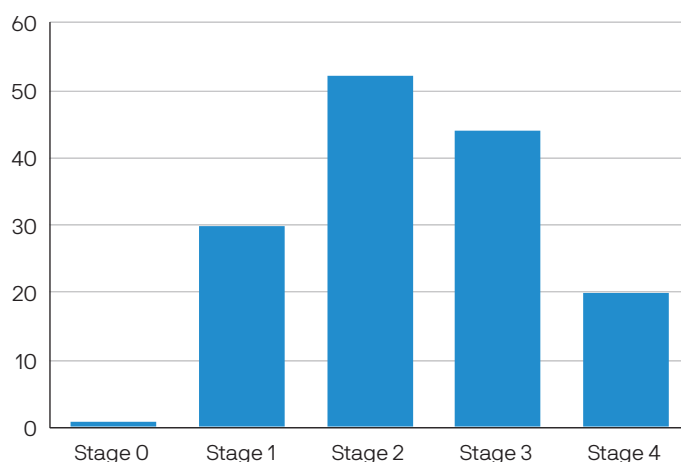
We have also identified scenarios where we have concluded that no positive outcomes can be expected in the given timeframe:

- 0 Engagement failed**

## Our Focus List engagement progress in 2021

In 2021, the global Investment Stewardship team engaged with 114 investee companies from our engagement Focus List, which we tracked the progress of, and we also had a number of the most significant reactive engagements, which we also included in scope. The chart below shows what stage different engagements were at by the end of 2021.

### Number of engagements by milestone



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

# Our approach to engagement continued

In 2021, we observed that companies are quicker to address investor concerns over remuneration (included in our engagements on strategy alignment with the long term). When asked to change structures to align pay and mid- to long-term performances or to introduce sustainability criteria, they have tended to be reflected in remuneration proposals at the shareholder meeting in a shorter timeframe.

We have also observed that in our engagements on themes related to human capital management and stakeholder engagement, where we address diversity and cybersecurity, companies seem to be adopting

steady changes as most companies tend to share awareness and take action to improve the level of disclosures. However, for climate risk, even though companies acknowledge the issue as material, formulating strategies to achieve ambitious targets can take more time. This issue is described in the *engagement case studies* section in more detail. With regards to governance, we found it is sometimes problematic to find common ground with companies on the theme of capital allocation in particular, where we note there has been one case of engagement failure.

## Table of 2021 engagement success examples

Company	Country	Priority	Milestone detail
China Gas	China	Climate Risk	Announced it joined the Oil and Gas Methane Partnership (OGMP). We had encouraged the company in our engagement to reduce methane emissions and participate in relevant industry-level discussions to tackle it. As a member of OGMP, the company will be required to report actual methane emissions figures from both operated and non-operated assets.
InterContinental Hotels Group	UK	Stakeholder Engagement	Established key performance indicators for measuring cybersecurity-related risk management. These included assessments on cyber security, high-risk assets, external threats, resources and budget spend. The company has agreed to adopt the latest best practices for managing cybersecurity talents, including regular performance checks, retention programs and personal development plans. It conducts reviews to ensure that the validity and stringency of their cybersecurity risk program is up to date.
Mondelez International	US	Long-Term Alignment	Incorporated sustainability targets into annual incentive compensation by evaluating the most important 2025 ESG goals as they relate to the company's strategy. These covered sustainability, diversity and inclusion, well-being and portion control. The company added these granular metrics and goals in the annual incentive plan to help drive progress on a yearly basis. We had engaged the company on its pay practices for a number of years and are encouraged by this development.
Pigeon	Japan	Human Capital Management	Appointed three female directors in 2021 with diverse experiences and relevant commercial expertise such as digital marketing, business management and social businesses in the developing countries. The company reports that the ratio of females in managerial positions also rose to 21% at the end of 2020 from 17% in 2019, compared with a ratio of female employees of 39% at the parent company, and the overall group figure for female managers is approximately 40%. We had engaged the company on diversity practices in 2020.
Rio Tinto	Australia	Governance	Published a social and communities report showing progress on reforms following the Pilbara indigenous caves blast. We had been engaging the mining company to provide clear accountability and transparency on responding to corporate failings since the controversy occurred in late 2020. This came alongside a series of ongoing broader management and corporate reforms.

## Case study – unsuccessful engagement



Singapore Exchange

Singapore

### Issue

The company, which operates the stock exchange in Singapore, announced plans to introduce a Scrip Dividend Scheme (scrip), whereby investors receive dividends in the form of shares instead of cash. In our view, scrip dividends may be merited for rapidly growing companies to fund growth, but not for a moderately growing and highly cash generative company such as the Singapore Exchange.

### Action

We engaged the company after the announcement and explained that we were not in support and wanted the plans to be dropped. This was because scrip dividends can optically inflate the dividend yield and lead to earnings dilution. We also said the exchange has a role to play in setting good corporate governance standards and upholding shareholder rights in the local market, as both the front line regulator and market infrastructure provider. It responded that the scrip dividend scheme is in the interests of shareholders by enabling those in receipt of the new shares to participate in the long-term growth of the company. It said that the company will not cut the dividend payout after it introduces scrip dividend and acknowledged that share buyback can be an alternative. We continue to believe that a different approach to dividends would serve investors better.

### Outcomes and next steps

At the company's annual general meeting in October this year, the exchange continued with its plans and proposed a scrip dividend scheme that allows up to a 10% discount. We escalated our action by voting against the resolution. The resolution still passed. We do not see any further steps in the short term to progress or escalate this engagement. While we consider our engagement for this topic unsuccessful, Singapore Exchange has taken other positive initiatives that could create value for shareholders. For example, it has a clear agenda to develop business opportunities coming from climate change and to become a leading transition finance and trade hub.

We will continue to engage with the company on other issues such as implementation of better governance practices for issuers listed on the exchange.

# Our approach to engagement continued

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## Reactive engagements

Our engagement program is largely based on proactive engagement. However, we also engage on a reactive basis in response to real-world events. These events can include corporate scandals, international norms breaches or even controversial voting issues at annual general meetings that merit follow-up.

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 around these high-profile matters, we have tended to engage multiple times and with greater intensity than we do for other proactive engagements. The case studies that follow illustrate examples of reactive engagements we have undertaken in 2021.

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

This year, we have also prioritized engagement with companies whose business practices have **breached international norms** set out by the UN Global Compact (UNGC). 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 severe UNGC violations.

Finally, we have engaged 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 in certain cases, ahead of a high-profile vote. Examples of these are included in the *Human Capital Management* section including engagements with Rio Tinto and Tesla and also the *Climate Risk* section – see the *case study on ExxonMobil*.



## Case study – reactive engagements



OCP

Morocco

### Issue

OCP is a Moroccan state-owned phosphate mining company and its bonds feature in emerging market debt indices. It does not issue any equity into the public markets.

OCP has extensive operations in the Moroccan-controlled Western Sahara region. We have had concerns that the company has not sufficiently demonstrated how its sourcing of phosphate from the Boucraâ mine is consistent with expectations on responsible business conduct for companies operating in conflict-affected areas. Ongoing issues regarding OCP's Western Sahara operations center on the non-disclosure of certain due diligence that OCP has stated it has carried out.

### Action

We engaged with the company several times in 2021. In our engagement with OCP on this topic, it was responsive and explained that it is in compliance with the UN framework in relation to its operations in Moroccan-controlled Western Sahara. The issuer contends that some of the criticisms it has faced have been politically charged. We have urged it to provide more details publicly beyond the Human Rights Policy on its website, and seek to take steps to reduce concerns that OCP's practices are tantamount to a breach of the United Nations Global Compact's Principles.

### Outcomes and next steps

We have seen OCP becoming more transparent in sharing its information on this issue with relevant stakeholders, which we welcome as important to promoting robust human rights-related protection.

# What we did in 2021

## – Stewardship in review

It is not clear today how 2021 will be remembered. Will it be considered the year when society emerged from the trauma of 2020 due to the rapid rollout of vaccines? Or will it be thought of as the second chapter of a multi-wave pandemic with no apparent end in sight? Surely, only time will tell.

Either way, the world felt different from the pre-COVID-19 times. But with every passing week, a sense of transition accelerated and we adjusted to the new normal.

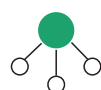
COVID-19 and COP26 were the defining issues of 2021. The two are inextricably linked because the United Nations Climate Change Conference in Glasgow had been delayed a year due to the pandemic and during this time, expectations grew that a stronger global political agreement could be reached to realistically limit global warming to +1.5 degree Celsius.

In reality, the final deal fell somewhat short of lofty expectations, but some notable progress was made and a lot of the pathways to these developments came as a result of the multi-year involvement of investors in the climate debate. These included the USD 130 trillion of capital committed to net zero by the Glasgow Financial Alliance for Net Zero led by Mark Carney, the UK government mandating climate reporting and

decarbonization plan publication by corporates and pledges on protecting forestry and natural capital. These all showed that investor engagement and collaborations are powerful, but results do not come quickly or easily. The purpose of this section is to explain the work we have done in 2021 on behalf of our clients. It is focused principally through the lens of our five stewardship priorities. This is intended to be a sample of work conducted, including successes and shortcomings. In stewardship, victories are rarely guaranteed and stumbling blocks are to be expected.

This year, we conducted a review and assessment of our stewardship reporting of the past years. We wanted to ensure a significantly higher quality and quantity of disclosure, including in many cases naming the companies with which we engaged. We also wanted to provide a clear picture of stewardship in 2021 as we saw it play out. This is an area of constant evolution.

### Engagement by ESG area



**1,393**  
Number of companies engaged  
**114**  
of which were 2021 Focus List companies



**59**  
Number of markets engaged



**25**  
Number of sectors engaged



**57**  
Number of engagements with board directors



**1,704**  
Number of engagements with senior executives

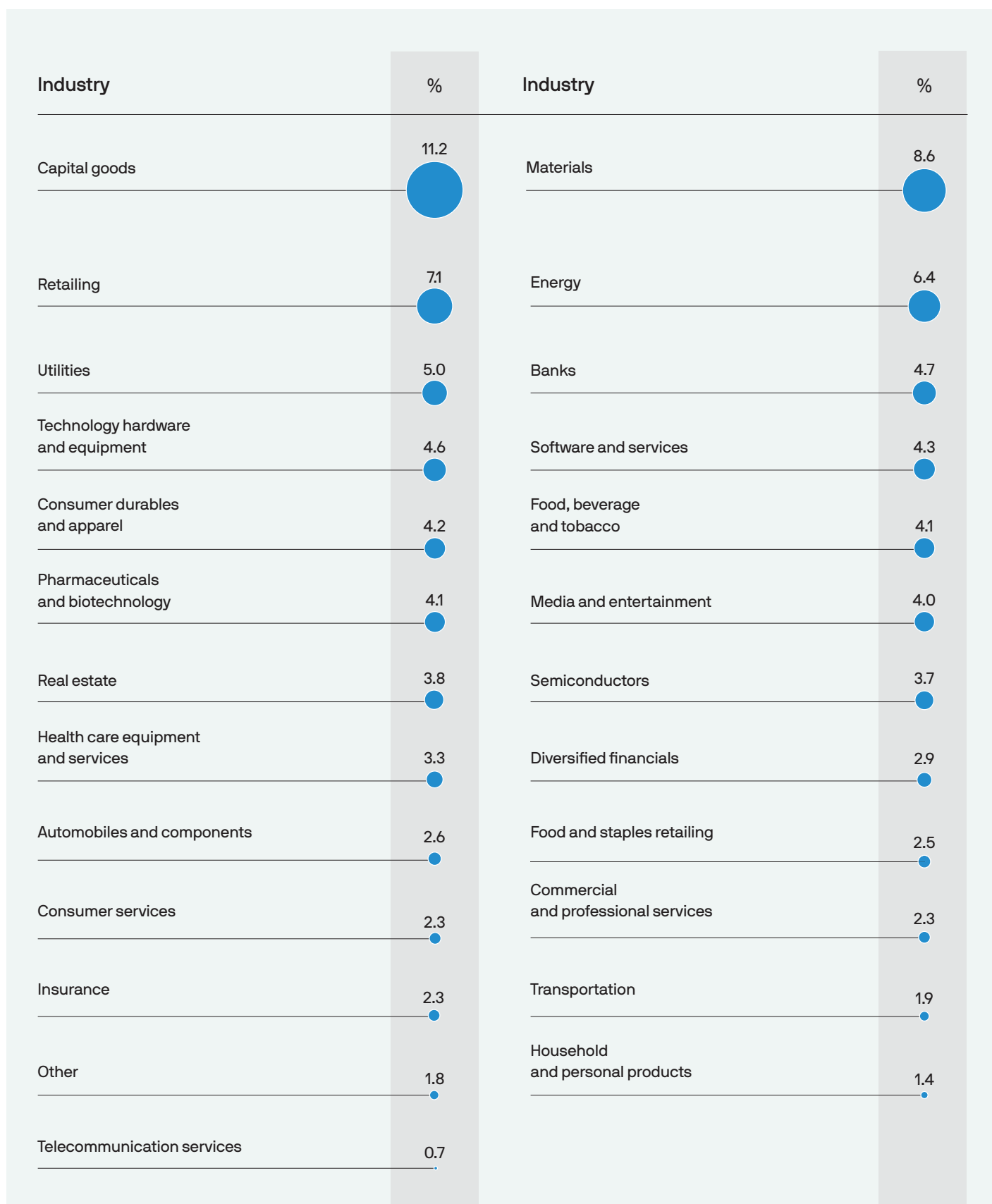


**381**  
Number of engagements with other company representatives including operational specialists and investor relations

### Engagement by ESG area

ESG area	Number of engagements	%	Number of companies engaged on ESG area
Environmental	994	31.7%	699
Social	1,336	42.7%	949
Governance	801	25.6%	620

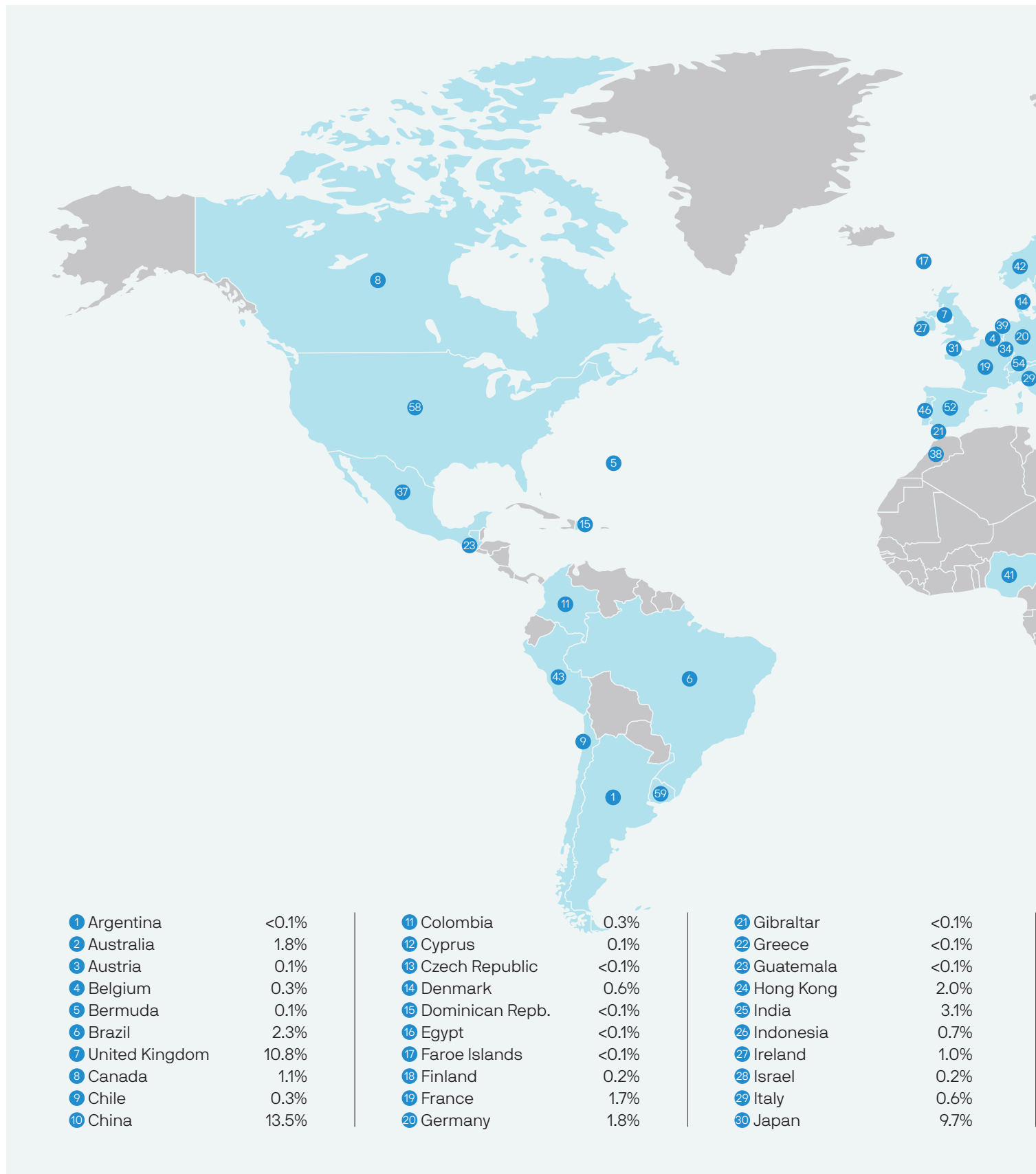
## Engagement by sector

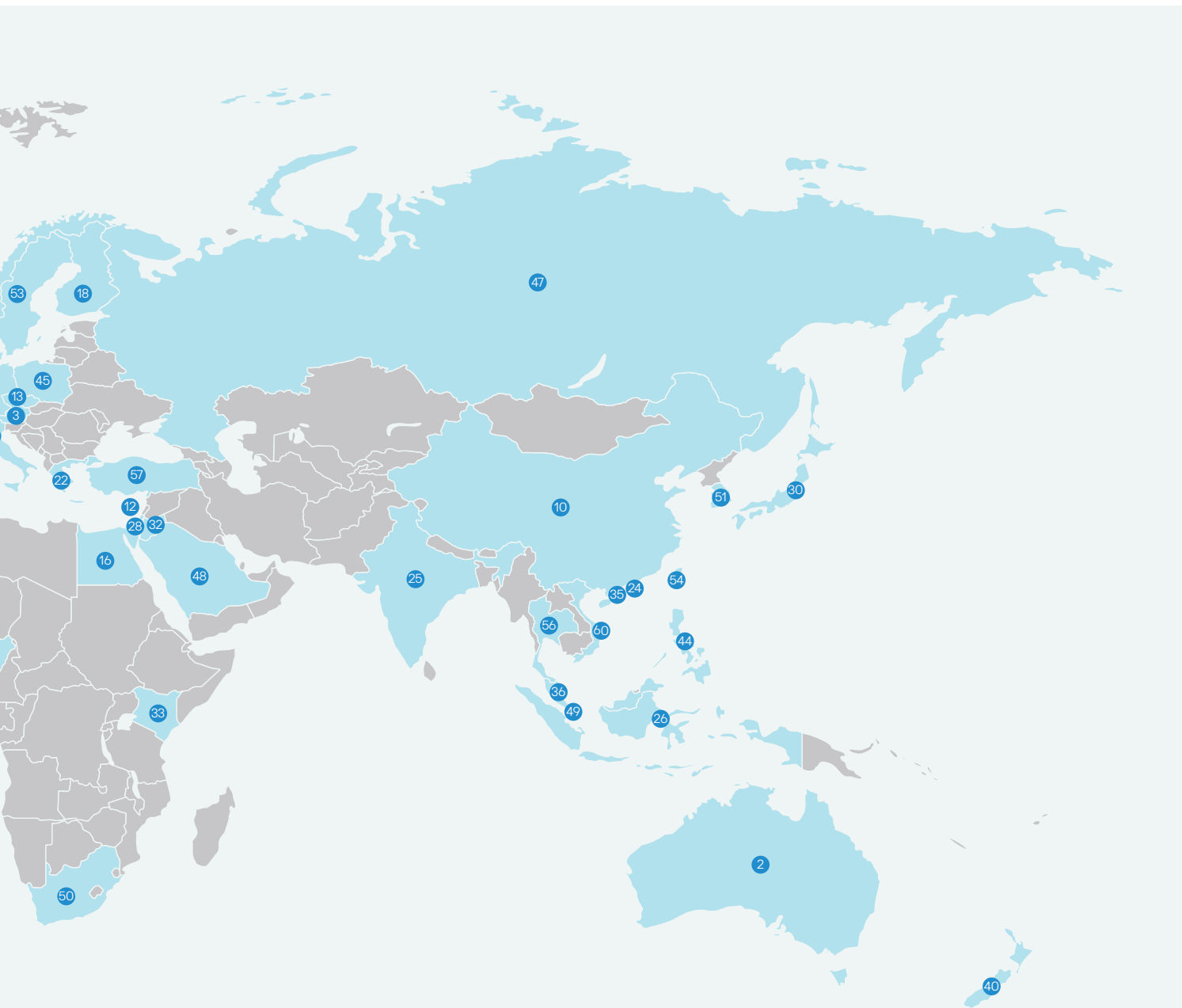


# What we did in 2021

## – Stewardship in review continued

### Engagement by market





31 Jersey	<0.1%	41 Nigeria	0.1%	51 South Korea	3.9%
32 Jordan	0.1%	42 Norway	0.5%	52 Spain	0.9%
33 Kenya	0.1%	43 Peru	0.1%	53 Sweden	1.2%
34 Luxembourg	0.3%	44 Philippines	0.3%	54 Switzerland	1.8%
35 Macau	<0.1%	45 Poland	0.3%	55 Taiwan	2.5%
36 Malaysia	0.7%	46 Portugal	<0.1%	56 Thailand	1.3%
37 Mexico	0.3%	47 Russia	1.0%	57 Turkey	0.4%
38 Morocco	<0.1%	48 Saudi Arabia	0.3%	58 United States	27.3%
39 Netherlands	2.0%	49 Singapore	0.9%	59 Uruguay	0.1%
40 New Zealand	<0.1%	50 South Africa	0.8%	60 Vietnam	<0.1%

# What we did in 2021

## – Stewardship in review continued

### Engagement by J.P. Morgan Asset Management Stewardship 5 Priorities

J.P. Morgan Asset Management Stewardship priority pillar	Number of engagements	%	Number of companies engaged on priority
Governance	642	17.0%	505
Long-term alignment	322	8.5%	277
Stakeholder management	473	12.5%	369
Human capital	947	25.1%	724
Climate change	873	23.1%	614
Other	517	13.7%	387

### Engagements by ESG theme

ESG theme	Number of engagements	%	Number of companies engaged on theme
Climate change	873	23.1%	614
Natural resources and ecosystems	303	8.0%	252
Social stakeholder management	473	12.5%	369
Human capital	947	25.1%	724
Business conduct	214	5.7%	167
Governance	642	17.0%	505
Executive pay	322	8.5%	277

# Climate risk engagement and voting report – 2021

The rise in global temperatures is a significant and ongoing challenge to our world. While climate change will clearly impact how we live, it also poses an important financial risk that investors cannot afford to ignore. As investors for our client accounts, we believe we have an important part to play in identifying and investing in companies that will benefit from the opportunities that arise from the rapid shift to a low-carbon world and identifying the risks of investing in companies unprepared to make this transition.

As long-term investors, we understand climate risk will continue to influence company strategies well beyond the tenures of companies' current managements and boards. Thus, creating a framework to encourage and facilitate long-term reporting is vital. We also note that companies that are able to get ahead of impending climate-change initiatives and work with governments to achieve their goals may benefit from first-mover advantage.

This section outlines how we leverage our shareholder rights pro-actively through direct engagement with companies on climate risk and opportunities, having engaged with 614 companies on climate risk in 2021. 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 their climate transition strategies.

## Engaging companies on climate risk



**381**  
Number of engagements on climate change



**614**  
Number of companies engaged on climate change



**47**  
Number of markets engaged on climate change



**25**  
Number of sectors engaged on climate change

## Top 10 markets engaged on climate risk

Country	# of engagements	%
1. United States	195	22.3%
2. United Kingdom	111	12.7%
3. Japan	99	11.3%
4. China	68	7.8%
5. South Korea	38	4.4%
6. India	26	3.0%
7. Taiwan	23	2.6%
8. France	22	2.5%
9. Netherlands	22	2.5%
10. Germany	21	2.4%
11. Australia	21	2.4%
12. Switzerland	21	2.4%

## Top 10 sectors engaged on climate risk

Industry	# of engagements	%
1. Capital goods	127	14.5%
2. Materials	114	13.1%
3. Energy	105	12.0%
4. Utilities	95	10.9%
5. Banks	47	5.4%
6. Real estate	43	4.9%
7. Technology hardware and equipment	41	4.7%
8. Food, beverage and tobacco	34	3.9%
9. Semiconductors	27	3.1%
10. Diversified financials	26	3.0%

Some countries and sectors are more carbon intensive than others and will need to make more transformative changes in the transition to a low-carbon economy. Our approach to engagement on climate risk is to focus on sectors and companies where, in our view, climate risk poses the greatest material risk to our clients' investment.

# Climate risk engagement and voting report – 2021 continued

## Engaging fossil fuel suppliers

For the energy sector, and in particular fossil fuel suppliers, climate risk is material. We do not expect every renewable or new technology energy company to be winners over existing suppliers, and we recognize that fossil fuels will remain a substantial component of the energy mix in almost all scenarios looking to 2050. However, incumbents that do not recognize and adapt to the transition could destroy significant value.

Many oil companies in Europe have set agendas to deplete, divest and avoid hydrocarbon investments in an effort to dramatically reduce Scope 1, 2 and 3 emissions, while investing in low-carbon technologies. Engagements in Europe typically center on gaining granularity on the strategy and financial planning underlying these ambitions. In other regions, a generally more conservative approach persists, with companies seeking to reduce the greenhouse gas (GHG) intensity of their own operations. Engagements tend to focus on the rigor of companies' targets and asking companies to consider their resilience under different future scenarios.



Phillips 66

United States

### Issue

We have raised concerns regarding actions taken to address climate risk and climate risk reporting at the American multinational energy company. Issues focused on the company's reporting, which, in our opinion, did not sufficiently address the risks associated with changes to petroleum product demand, as part of the low-carbon transition, and did not include disclosure on lobbying activities.

### Action

In 2021, we contacted Phillips 66 again to understand progress made since we last met with the company in 2020 and raised concerns about the company's reporting on climate change risk. The meeting took place after two climate-related shareholder proposals received strong support at the company's Annual General Meeting, and subsequently the company announced targets to 1) reduce Scope 1 and 2 emissions intensity by 30% by 2030 relative to 2019 and 2) reduce Scope 3 emissions intensity by 15% in the same time period. We engaged the company to also understand its plans to achieve its new targets.

Improvements to the company's TCFD reporting since our last engagement included additional detail on the scenarios used by the company, its R&D efforts focused on low-carbon solutions and its efforts to manage the competitiveness of its existing refining business by improving efficiency and GHG intensity. It also significantly enhanced its lobbying disclosures.

### Outcomes and next steps

While the company has made progress with respect to its climate reporting, we noted to the company that its peers still provide more detail including more comprehensive asset resiliency studies. We will continue to monitor its reporting progress next year as well as ask for further detail around its decarbonization plans.



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## In focus: International oil companies

This year, we have launched a proactive engagement campaign, writing to the chairmen of international oil companies (IOCs) across Europe, North America and Asia specifically around climate risk.

We have asked companies specifically to:

- Report GHG emissions from non-operated assets and incorporate these into decarbonization strategies.
- Measure methane emissions directly and set targets for methane emissions reductions, including both intentional and unintentional (leaked) emissions.
- Illustrate how the company's business model may change over time as users of energy, and by 2050, seek to be net-zero emissions themselves. Also consider the company's resilience to the IEA's Net Zero scenario.
- Report annually on their decarbonization strategy, in line with the TCFD recommendations.

We have followed up our letters with engagement meetings with the companies targeted. This approach has facilitated focused engagement meetings specifically targeting the points outlined. The companies we have met with have acknowledged the issues raised, and we will work in 2022 to track the progress of the companies on the engagements asks we have outlined.

## Engaging with users of fossil fuels

In partnership with our investment analysts and portfolio managers, we are actively engaging with companies that are users of fossil fuels (demand-side companies) on how they are managing the risks of climate change. GHG emissions remains a major focus of our stewardship efforts (see *Shin Etsu case study*).

We applaud companies for setting ambitious long-term net-zero targets, however, this intentionality alone is not enough. Through our climate change engagement framework, we ask companies with whom we engage to align targets with the latest climate science, form robust strategies with intermediate milestones and to disclose consistently and transparently on progress.

### Our climate change engagement framework asks companies to:

- ③ Establish a climate transition strategy, which is embedded into company strategy, and ensure it is overseen at the highest levels of the organization.
- ③ Implement action on climate that aligns with business model environmental materiality.
- ③ Set strategy (including targets and pathways) that is grounded in the science underlying the Paris Agreement.
- ③ Report transparently on the implementation of the low-carbon transition strategy.

# Climate risk engagement and voting report – 2021 continued



Shin Etsu Chemical

Japan

## Issue

The chemical and petrochemical sector is responsible for over 5.8% of global GHG emissions, and the industry faces significant risks from tightening legislation if it fails to decarbonize swiftly. We raised concerns around the Japanese chemical company's climate targets as well as its climate-risk reporting.

## Action

Concerns that Shin Etsu's emissions reduction target (set to achieve 55% reduction in carbon intensity in 2025 compared with 1990) has a difference in approach than the Paris Agreement led us to engage the company in 2020, asking it to review and update its target. We also urged the company to deepen its analysis of climate change scenarios at that time, so that investors can better understand its climate-related risks, opportunities and strategies.

In 2021, the company published an updated climate disclosure, and we had a follow-up engagement to assess the progress made. Some progress had been made with regards to its scenario analysis as the company presented a risks/opportunities analysis based on 2 degree and 4 degree scenarios, and the impact of these issues were rated in terms of scale (small/medium/large), with major countermeasures listed.

With regards to target setting, it explained the reason why the company has not yet committed to carbon-neutral targets is because management is reluctant to do so before there is credible strategy for achieving them at present. While we believe the corporate culture takes commitment-setting very seriously, we suggested that the company should present realistic and ambitious targets within a timeframe to which management could commit.

The company is examining how to reduce scope 1 emissions in a cost-effective way, including through the use of carbon-neutral natural gas.

## Outcomes and next steps

We note the positive progress the company has made, and we believe there is sufficient momentum for further improvements in 2022. As next steps for the company, we suggested it would be useful if it provided the breakdown of GHG emissions by line of business and a more concrete explanation to the market of the planned roadmap ahead.

## In focus: Engaging companies in emerging markets on climate risk

The rapid increase in emissions over the last three decades has been mainly driven by emerging markets, with GHG emissions from rapidly developing countries surging, for example, by 300% and 217% respectively in China and India. However, in emerging markets we have the opportunity to support companies to leap frog the developed markets on their decarbonization journey and innovation in low-carbon technologies.

Developments in these markets have been notable this year, with China pledging to end the construction of overseas coal power projects at COP26 in November following the launch of its emissions trading scheme (ETS) in July 2021, for example. We have also seen roadmaps for more stringent climate-risk disclosure requirements from Hong Kong, China and Singapore regulators. Engagements with emerging markets companies this year have covered target setting (see *PTT Plc case study*) and reporting, encouraging companies to align with national commitments as a start.

**Issue**

Thai state-owned oil and gas company PTT Plc presented us with concerns in regards to its emissions intensity targets, which seemed misaligned with the emissions reductions required to meet the Paris Agreement and suggested a long-term reliance on fossil fuel-based energy.

**Action**

We spoke with the company in May 2021. Representatives walked us through the company's emissions reduction targets. We questioned the company's Scope 1 to 3 emissions intensity targets, which, at the time, aimed to limit its total scope 1 and 2 emissions to below 40.2 million tons of CO<sub>2</sub> equivalent in 2030, which was a 25% increase relative to its actual emissions in 2020. We expressed our concern around the targets and any rapid expansion of oil and gas production that may accompany them. The company explained its early plans to diversify into non-energy businesses.

**Outcomes and next steps**

Later in the year, the company presented to investors its updated vision, including new targets for carbon reduction and clean energy. This included commitment to a 15% reduction of total Scope 1 and 2 emissions by 2030 from 2020 levels, and net-zero emissions by 2070. The targets are significantly more progressive than prior ones. In addition, the company aims to have a 12 gigawatt (GW) capacity target for renewable energy and to increase its capital spending allocation for renewable energy and new non-hydrocarbon business from 20% to 36% for 2021-2030.

We welcome PTT's advanced commitment to climate-risk mitigation and will continue to engage to understand its plans to deliver on its targets and to encourage greater alignment of goals with the Paris Agreement. We will seek continued information around the risks and financial return for the company in investing in sectors relatively unrelated to its core business.

**In focus: Engaging high-yield companies on climate risk**

High-yield clients are increasingly interested in aligning their portfolios with their own carbon goals. Embedding such objectives into high-yield portfolios can be challenging, as we seek companies that have attractive investment fundamentals and a willingness to affect positive change. As bondholders, while we do not have voting rights per se, as capital providers we value a direct line of communication to management and conduct engagements around climate risk where this is material to the companies to which we are providing credit. Engaging high-yield issuers is important given these companies are often earlier in their journey around managing ESG risks. This year, we have engaged a number of energy sector companies in North America around their efforts to measure their emissions and to consider their resilience to climate risks (see *Cheniére case study*).

# Climate risk engagement and voting report – 2021 continued



Cheniere

United States

## Issue

Cheniere is a liquefied natural gas (LNG) company based in Texas. We had raised concerns around the adequacy of the company's climate change risk disclosure, specifically around both the risk to physical assets and its plans to manage transition risks.

## Action

In 2020, we had raised our concerns that it was not providing adequate disclosure around the potential risks to the company's physical assets in hurricane-prone locations and potential demand decline for gas. We encouraged Cheniere to produce a TCFD report, including climate scenario analysis.

In June 2021, the company released its Corporate Social Responsibility report, which included an improved TCFD section and a separate scenario analysis report. In addition to this, in the last 12 months the company has: published a peer-reviewed life cycle analysis assessment for better emission accounting; discussed its quantify, monitor, report and verify (QMRV) initiative with five other natural gas producers to evaluate GHG emissions performance at over 100 wells; and shared future plans to evaluate cost effectiveness of different methodologies to measure emissions (e.g. drone based, aerial, planes, satellites, etc.) and explored cargo emissions tags, which are intended to enhance environmental transparency by quantifying the estimated emissions of LNG cargoes from wellhead to the cargo delivery point.

Welcoming these outcomes, we then had a follow-up engagement with the company to understand its path forward on climate. We encouraged the company to start socializing the efforts it is taking around QMRV to promote common standards. We encouraged the company to consider the IEA's net-zero scenario in its analysis next year, given it is a widely cited roadmap for the global energy sector to reach net zero by 2050.

## Outcomes and next steps

We are encouraged by the positive progress the company has made and will continue to monitor its progress in 2022. We will review future reporting for net-zero scenario analysis and outcomes of its QMRV initiatives and for establishment of emissions targets for Scopes 1 and 2 emissions. We recognize, however, that the nature of its assets means that it will likely take longer to set these goals than more mature companies.

## Collaborating to achieve climate goals

While most of our engagement is conducted alone, we believe that collaborating with other investors and stakeholders that share common values with us can help reinforce and, where needed, escalate our engagement efforts. J.P. Morgan Asset Management is a member of Climate Action 100+, and this year we have co-led two and collaborated in four company engagements through that initiative (see *POSCO case study*).

We are actively involved in investor networks focused on climate change. In Europe, our Global Head of Investment Stewardship co-chairs the IIGCC's Net Zero Stewardship working group. This group is focused on establishing best practices and tools for implementing a net-zero stewardship program and net-zero aligned proxy voting.

This year, we have also participated in the Asset Manager & Asset Owner Task Force sub-group of 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 with the shipping industry on decarbonization. Using this statement to strengthen our engagements with shipping companies will be a focus of 2022.

**Issue**

We are members of the Climate Action 100+ investor initiative, which engages with the largest 100 emitting companies. The group, which represents more than USD 47 trillion in AUM, has been engaging with POSCO, and we joined the collaborative engagement effort in 2021, leveraging our longstanding relationship with the company, to raise the investor voice asking POSCO to share more detail on its decarbonization strategy and capital planning.

**Action**

In 2021, the Institutional Investors Group on Climate Change (IIGCC) issued a report, “Global Sector Strategies: Investor Interventions to Accelerate Net Zero Steel,” outlining specific challenges the sector faces in closing the gap to net zero and proposes actions that companies and other stakeholders can take. In our role on the collaborative engagement, we met with the company to discuss the report and the company’s decarbonization plans.

Despite the cost challenges, the company acknowledged the opportunity around increased demand for low-emissions steel and explained it has been collaborating with peers to invest in hydrogen technology for steel making. The company has shared this knowledge through the Hydrogen Iron & Steel Making Forum 2021, the world’s first international forum on hydrogen steelmaking. We asked for an update on the company’s HyRex project (R&D that was started more than 10 years ago, using 100% hydrogen as iron-reducing agent).

The company asked investors to consider Asia’s challenging landscape for developing renewable energy infrastructure and moving away from coal-fired power. We recognized that government policies in Korea are not favorable for renewable energy, but we pointed out that the cost of development for wind and solar has come down drastically, making them much more competitive. We suggested the company take a longer-term view and highlighted the business risks in the mid-to-long term of inaction/slow reaction to climate change risks. We encouraged POSCO, other energy users and suppliers to work together with the government for an all-win solution.

We also shared that we want greater clarity on POSCO’s capital planning toward net zero by 2050, noting the importance of transparency.

**Outcomes and next steps**

We note that the company was receptive to investors’ feedback and intends to consider the feedback in its sustainability plan. We are monitoring progress on how this further develops.

# Climate risk engagement and voting report – 2021 continued

## Stewardship as part of low-carbon investment solutions

Investment teams engage companies on climate risk and opportunities. The latter includes the positive impact the companies are having on commercially resolving the climate change challenge (see *Aker Carbon Capture case study*). We note that, in 2021, we launched our Climate Change Solutions strategy, which invests in companies that J.P. Morgan Asset Management believes are developing and scaling solutions to address the drivers of climate change.



### Aker Carbon Capture

Norway

#### Issue

One of the major issues around the transition to a low-carbon economy is that many sectors are limited in what they can do by both practical and technological limitations. The cement industry, for example, emits CO<sub>2</sub> as part of its production process (the input material of limestone is 44% CO<sub>2</sub> by weight). The iron and steel industries face a similar issue where the use of oxygen as a reductant results in CO<sub>2</sub> being emitted. Both of these sectors would find it impossible to move to net zero as the solutions do not exist or are currently uneconomical.

#### Action

In search of a solution to this, we engaged with Aker Carbon Capture to learn more about how its proposition can help. The company offers a solution that directly removes CO<sub>2</sub> from the waste gasses of a company's production processes and bottles it ready for long-term storage underground. The reason for our engagement with the company was to understand whether they offered a truly cost efficient and a proactively effective way to tackle CO<sub>2</sub> emissions.

Though currently at the early stages of implementing its technology in a practical setting (the technology behind it is based on over 20 years of research), Aker Carbon Capture has indicated that it is already achieving significant results with its latest project, Norcem's cement factory in Brevik, the world's first large-scale carbon-capture plant at a cement producer, capturing 400kT of CO<sub>2</sub> annually. The project will help to lower the cost of carbon capture to a level comparable to current European carbon prices.

#### Outcomes and next steps

We believe that the company is making a tangible positive impact in the development of carbon-capture technologies.

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## Our own commitment to net zero

We are pleased to announce that in October 2021, J.P. Morgan Asset Management became a signatory to the Net Zero Asset Managers Initiative (NZAMI), through which we have committed to support investing aligned with the goal of net-zero greenhouse gas emissions by 2050 or sooner. From 2022, we will partner with our asset owner clients on their transition to net zero, set targets for assets that we determine can be managed within net-zero pathways and accelerate our corporate engagement, stewardship and policy advocacy on climate risk.

Thoughtful government policy, investments in low-carbon technologies and collaboration between public and private sectors are all pre-requisites to a transition to a low-carbon world. Asset managers, together with our clients, also have an important role to play, and we are pleased to have joined the initiative as we seek to work with clients to deliver products and solutions that support their net-zero ambition.

## Voting on climate risk

We leverage our shareholder rights pro-actively, through direct engagement with companies on climate change risk, but we also express our views through our proxy voting activity. We will consider voting against director elections, executive compensation or other management resolutions where we are not satisfied with the steps taken by the company on climate risk, the quality of the engagement discussion or its progress (see *ExxonMobil case study*).

Voting on climate change shareholder proposals is another important way of expressing our views where we think management could better manage climate risk. In 2021, we voted in favor of approximately 27 climate-related shareholder resolutions. Climate resolutions are complex. We tend to support votes on governance and strategy transparency, climate-risk disclosure and lobbying. We also recognize some industries have characteristics that do not suit broad brush, top-down action, which means we consider certain types of climate resolutions on each case's merits. Votes against shareholder resolutions can result from companies being pressed to implement an overly prescriptive or unrealistic business strategy on an unreasonable timeline (see *Woodside Petroleum case study*).

This year, we have also seen the emergence of so-called "say-on-climate" votes, whereby companies are putting forward their climate action plans for shareholder approval. Investors need to ensure that targets set by companies are meaningful and properly implemented, and that action can be taken when this is not the case. In light of this, this year we co-signed the IIGCC's investor position statement, **A Call for Corporate Net Zero Transition Plans**, alongside other investors calling on companies to: i) disclose a net-zero transition plan, ii) identify the director responsible for the plan and iii) provide a means for investors to vote annually on progress against the plan.

Long term, the usefulness of these votes in ensuring a company's business plans are scientifically credible will depend on investors' ability to assess business plans against the Paris Agreement and the latest climate science. The lack of standardization in climate commitments made to date poses a challenge for investors. However, we believe that boards and senior management should be accountable on the issue of climate change and, to date, we have generally voted in support of management proposals to acknowledge the companies' commitment to transparency and accountability on climate issues (see *Royal Dutch Shell case study*). From 2022, we will be heightening our analysis of these votes as we develop our internal climate change analytical capabilities, allowing us to better assess the scientific credibility of company transition plans and analyze how investee companies will deliver long-term value creation.

For more information on our approach to climate voting, see our paper **Our approach to climate risk votes**.

# Climate risk engagement and voting report – 2021 continued



Royal Dutch Shell

Netherlands/United Kingdom

## Voting issue – climate risk and say-on-climate

At this year's AGM, a shareholder proposal was filed by Follow This for the oil and gas company to set, and publish, targets consistent with the goal of the Paris Climate Agreement. This followed the company's announcement earlier in 2021 that it would accelerate the transition of its business to net-zero emissions and presented its plan to do so. The board of Shell also filed a "say-on-climate" management proposal to seek shareholder approval for its energy transition strategy.

## Action

We have had extensive ESG engagement with Royal Dutch Shell over the years, including a discussion on climate with the chief executive in 2Q 2021. This included discussion of the company's plans to raise the ambition of its targets to reduce the carbon intensity of energy products sold by 6-8% by 2023, 20% by 2030, 45% by 2035 and 100% by 2050.

## Outcomes and next steps

Having carefully considered the two separate climate proposals and the progress seen in our engagement dialogue, we voted in support of the management proposal to acknowledge Shell's commitment to transparency and accountability on climate issues. This resolution received 88.7% support from shareholders. We did not support the shareholder proposal as we assessed that it would not necessarily be additive to Shell's existing strategy on climate, nor in shareholders' best interests at this time. This resolution received only 30.4% support from shareholders.



ExxonMobil

United States

## Voting issue – climate risk and director elections

A decade of stock underperformance and balance sheet deterioration raised questions about the strategy from the management and board oversight at oil and gas company ExxonMobil. At the company's 2021 AGM, activist hedge fund Engine No. 1 put forward four of its own nominees for the board.

## Action

ExxonMobil's high capital intensity strategy created concerns in its core business: spending was geared toward long-cycle investments that would be exposed to energy transition risks, given the long duration and broad range of oil and gas demand and price outcomes. Also, the company's exposure to decarbonization technologies was not of sufficient scale for it to potentially thrive as part of the solution to climate change. Commercial progress has been slow in the new low-carbon businesses it has been working on for two decades.

## Outcomes and next steps

After significant due diligence on Engine No. 1's positions and nominees, in addition to our longstanding engagement with ExxonMobil's board and management team, we voted for three of activist Engine No. 1's director nominees at ExxonMobil. We supported three nominees who we believe possessed the energy experience and expertise required to help the company navigate this period of structural change in the energy industry. All three director nominees we voted for were elected to the board.





## Woodside Petroleum

Australia

### **Voting issue – climate risk and shareholder resolutions**

A climate-related shareholder resolution was filed by Market Forces at the company's AGM in April 2021. The proposal asked the company to disclose how its capital expenditure and operations will be managed consistent with the Paris Agreement.

### **Action**

The company had announced updated short- and medium-term emissions reduction targets in November 2020 and reported against the TCFD framework in its annual report in 2020. It also appointed a climate expert reporting directly to the CEO to lead the company's work on climate transition. We welcome the steps the company has taken to strengthen its climate reporting and targets.

### **Outcomes and next steps**

The shareholder proposal specifically requested the company to disclose plans to manage down its oil and gas production assets. We disagree that this pathway is the only one consistent with the achievement of the Paris Agreement. We therefore decided to vote against the resolution, which we felt was overly prescriptive. We will reach out to the company for a follow-up discussion on its climate work, especially related to its scope 3 emissions, as well as its climate advisory vote at the 2022 AGM.

# Governance engagement and voting report – 2021

For companies to be sustainable, a well-functioning corporate governance system that provides a high level of transparency, accountability, oversight and respect for investors and key stakeholders is imperative. J.P. Morgan Asset Management has 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. In 2021, J.P. Morgan Asset Management carried out 642 engagements with regards to Governance. This section demonstrates how we are advancing engagement with investee companies on these topics.

## Engaging companies on governance



**642**  
Number of engagements 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	# of engagements	%
1. United States	171	26.6%
2. China	82	12.8%
3. United Kingdom	74	11.5%
4. Japan	69	10.7%
5. South Korea	26	4.0%
6. India	22	3.4%
7. Brazil	17	2.6%
8. France	14	2.2%
9. Netherlands	14	2.2%
10. Germany	12	1.9%
11. Taiwan	12	1.9%
12. Switzerland	10	1.6%

## Top 10 sectors engaged on governance

Industry	# of engagements	%
1. Capital goods	61	9.5%
2. Materials	53	8.3%
3. Retailing	49	7.6%
4. Banks	47	7.3%
5. Energy	42	6.5%
6. Software and services	39	6.1%
7. Real estate	38	5.9%
8. Media and entertainment	33	5.1%
9. Technology hardware and equipment	29	4.5%
10. Utilities	27	4.2%

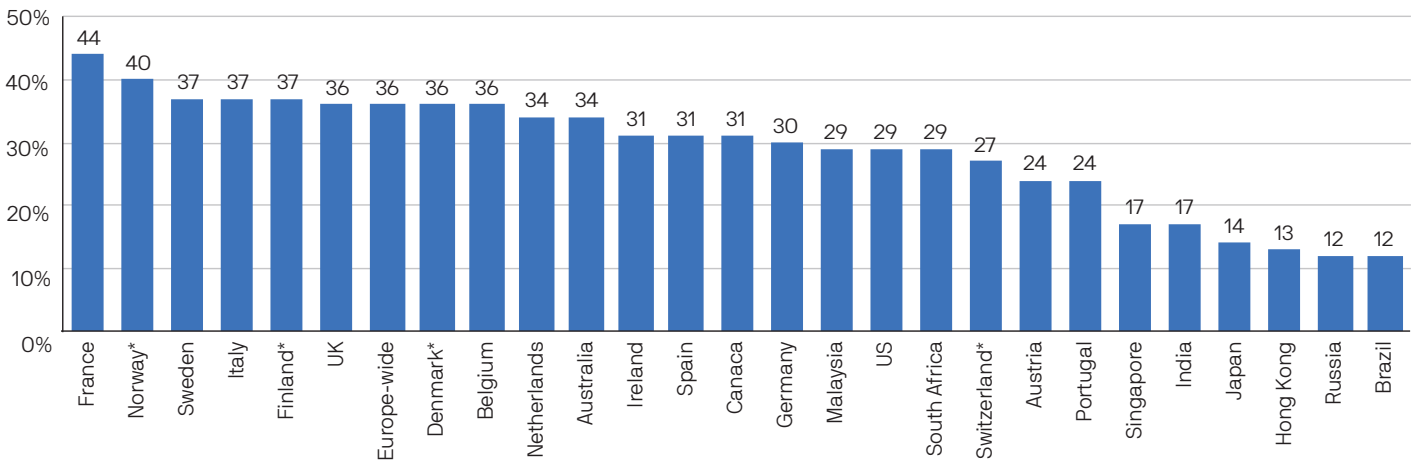
## Engaging companies on board and management diversity

We believe an independent and diverse board equipped with the relevant knowledge and experience generates effective discussion, challenges management, better enables objective decision-making and facilitates long-term shareholder value creation. We expect directors to take measures to not only promote board diversity, but also diversity throughout the entire company.

Over the past few years, many countries have taken measures to promote diversity of boards and senior management by introducing quotas and voluntary targets, or requiring the disclosure of diversity policies. The Singapore Stock Exchange requires companies to disclose diversity policies in their annual reports. The revised Corporate Governance Code in Japan asks companies to examine gender and other diversity and skills in director nominees, and to disclose their goals and policies for human resource development and diversity in management positions. This year, Hong

Kong Exchanges and Clearing proposed requiring a minimum of one director of a different gender in its consultation paper on the review of the corporate governance code. The appointment of female directors was mandated for large companies in South Korea. The Securities and Exchange Commission in the US introduced a rule requiring disclosure regarding human capital if it is material to understanding a company's business taken as a whole. It also approved new listing standards submitted by NASDAQ requiring all NASDAQ-listed companies to publicly disclose consistent, transparent board diversity statistics and to have at least two diverse directors, including one who self-identifies as female and one who self-identifies as either an underrepresented minority or LGBTQ+ on a "comply-or-explain" basis. In the UK, the Parker Review recommended ensuring diversity of races at the board of directors.

### Average percentage of women on boards



Source: BoardEx, "Global Gender Balance Report 2021." \* Countries that do not normally appoint executive directors.

# Governance engagement and voting report – 2021 continued

As outlined in our engagement case studies that follow, positive outcomes involved addressing the nomination process and encouraging companies to ensure executive-level representation (see *Heidelbergcement case study*) and advance board-level diversity (see *Pan Pacific Holding case study*) and by effectively combining our engagements with our voting. Our global participation in collaborative initiatives to advance diversity has also helped us leverage our investor voice and increase corporate awareness.



## Heidelbergcement AG

Germany

### Issue

We had noted the lack of female representation at the executive level at construction and materials maker Heidelbergcement. We believe that cultivating a diverse talent pipeline to feed into leadership roles is an important aspect of companies demonstrating good governance, and we have engaged on this topic over the past two years.

### Action

In 2020, we engaged with management in order to address our concerns. The company explained that in the cement business it remains difficult to attract a strong female pipeline, but that it was seeking to address this issue. It had set targets for women to be in senior management roles and had recently hired a new female HR director who would be leading diversity projects. While the company lacked representation at executive level, the Supervisory Board had 42% female representation, and so we continued to engage and monitor the evolution of the company's female talent pipeline.

We subsequently engaged Heidelbergcement in 2021, where the company noted that it had appointed the first female member of the Group Managing Board to take on the newly created role of Chief Sustainability Officer with responsibility for ESG, global research and development and new technologies. The company highlighted the background of the new appointee, which included being the Chief Sustainability Officer at another firm and being a trained ecologist and chemical engineer. At a subsequent meeting, the company highlighted that two areas of focus for the next few years will be sustainability and digitalization.

### Outcomes and next steps

Heidelbergcement has demonstrated that it has taken into account feedback from shareholders in the appointment of its first female member of the Management Board. We welcome the positive trajectory on its diversity program. We will continue to monitor and engage the company concerning diversity within the broader business over the coming years.



## Pan Pacific International Holdings

Japan

### Issue

We have raised concerns around the structure and composition of the board at this Japanese retailing group. Issues focus around both the size of the board and its lack of diversity, which we feel could impede effective functioning and sustainable value creation.

### Action

In 2021, against the backdrop of our vote against the elections of all directors at the AGM in 2020 due to concerns over the size of the board and lack of diversity, we sought to engage the company to address these concerns.

In the engagement meeting, the company explained that its corporate code of conduct endorses diversity and it has promoted the advancement of female employees in many occupational areas. Additionally, the company explained it has undertaken initiatives to support employees from different nationalities and this is of particular importance as the company has been growing its businesses across the Asian region. With this in mind, the company had just set up a Diversity Management Committee to systematically promote diversity in the workplace and had nominated the first female executive director as the chair of the committee.

We urged the company to enhance its board diversity and to address this issue at the newly established advisory nomination committee.

### Outcomes and next steps

At the company's 2021 annual meeting held in September, the company proposed to reduce the number of directors on the board and to appoint the chair of the Diversity Management Committee as the first female executive board director. We consider this positive progress in line with our engagement requests, and we will continue to engage to encourage further diversity at the board level and throughout the business.

## Collaborating to achieve board-level diversity goals

As long-standing members of the UK 30% Investor Group, we have been using its work on gender diversity in our engagements with companies for many years. In 2020, we wrote to four executive search firms as a collaborative engagement to learn about their internal practices on the appointment process for executive management and board members and their commitment to the Voluntary Code of Conduct for Executive Search Firms. These engagements continued in 2021.

In 2021, 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. In Hong Kong, we participated in 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.

After joining the Japan 30% Club in 2020, this year we have participated in its Best Practice Working Group of the Investor Group to share best practices in engagements. In 2021, we also updated our proxy voting guidelines for Japan to require all companies to have at least one female director by the next fiscal year (2022) or we would vote against executive director re-elections. We will start to vote against directors, where necessary, in 2022.

# Governance engagement and voting report – 2021 continued

## Engaging companies on capital allocation

We think planning of capital allocation needs to be aligned with the long-term value creation strategies of a company and should also incorporate economic, societal and regulatory changes from a broader perspective. The board should articulate a clear approach to achieving a sustainable balance of capital allocation among competing priorities of different stakeholder groups (see *Akzo Nobel case study*), while respecting minority shareholder rights (see *SK Innovation case study*).



**Akzo Nobel**

**Netherlands**

### Issue

The issuer announced a proposal to acquire a Finnish coatings company, Tikkurila, with the acquisition being both strategically attractive and having significant cost synergies. Subsequently, a counter acquisition proposal was submitted by a third party with the offer price above that proposed by the company.

### Action

While we appreciated the company's proposed offer for Tikkurila, noting the strategic attraction of gaining access to leading market positions and brands in the Nordic and Baltic regions, as well as potentially significant cost synergies being accrued, the counteroffer submitted by PPG, with the offer price significantly above that proposed by the company, caused us some concerns. As a result, we wrote a letter to the chairman of the board to encourage the company not to raise its initial offer price. We believed that the company raising its offer further would result in value destruction. We expressed our belief that future shareholder value creation would best be achieved through executing on the current strategy and a balanced capital allocation policy that prioritizes internal investment and return of cash to shareholders, with scope for small acquisitions that complement the existing portfolio.

### Outcomes and next steps

The company announced that it no longer intended to pursue the acquisition as the transaction no longer met the company's criteria for superior value creation.

**Issue**

We have observed a series of corporate restructurings of South Korean industrial conglomerates in recent times. In July, SK Innovation (the listed energy, petrochemical and battery arm of SK Group) announced its intention to split off its fast-growing battery business. There have been issues with share price underperformance potentially attributed to concerns about the holding company discount (when a holding company's market capitalization is less than the sum of the investments and other net assets that it holds), stranded asset risk and the potential for unfair treatment of minority shareholders.

**Action**

In light of this, we engaged the company to discuss the restructuring prior to its EGM to approve the split off. Although the company acknowledged the importance of addressing the holding company discount, we did not consider sufficient action had been proposed to resolve this matter. In addition to this, we wrote a letter to the independent board chairman suggesting a number of actions to address concerns raised, including that the company offer new shares in the subsidiary, if any, on a pre-emptive basis to existing shareholders and cancel the existing treasury shares. We also suggested the company disclose the newly established ESG board committee's activities and how it considers minority shareholders' rights and interests in the ESG checklist, and disclose board evaluation details to demonstrate board effectiveness.

**Outcomes and next steps**

Given our concern that the holdco discount would deepen over the long term, we escalated our action by voting against both management proposals at the EGM including the split-off resolution. Despite our voting action, the resolution passed. However, since then, we have been encouraged by the board chair's letter in response and acknowledgement of the issues faced. In early 2022, the company announced a new board-approved shareholder return policy, which includes an annual dividend payout ratio at 30% or above from fiscal year 2021 to 2023. We welcome the company's and the board's consideration of shareholder value, and look forward to its further action to enhance governance practice and improve shareholder return.

# Governance engagement and voting report – 2021 continued

## Voting on governance

In our voting guidelines, we support majority independence and boards with a diverse skill set. We may utilize our voting power to bring about change where boards are lagging in gender or racial/ethnic diversity. In 2021, we voted against 136 management proposals for the lack of diversity and supported three 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 First Community Bankshares Inc., Badger Meter Inc. and First Solar Inc. In 2022, targeted voting on racial diversity will be an increasing focus in the UK market.



### Kardex Holding

Switzerland

#### Voting issue – board and governance

We had identified issues with the governance structure and lack of female representation on the board of this Swiss machinery company.

#### Action

The existing all-male board of six currently consists of four independent directors, a significant shareholder owning approximately 23% of the company's share capital and the former CEO, who is chairman of the board. The company has no female board representation, resulting in a lack of gender diversity. Due to concerns that the company had not articulated a strategy to improve gender diversity, we voted against the Chair of the Nomination Committee.

#### Outcomes and next steps

While the board members received shareholder support at the company's AGM in March of this year, we will continue to monitor progress at the company including development of a strategy to improve female representation.



### Wuxi Biologics Inc

Hong Kong

#### Voting issue – board and governance

We have raised issues regarding the lack of female representation on the board of this Hong Kong-listed biologics company.

#### Action

We engaged with the board secretary of the company and were pleased with the company's recent positive corporate governance developments. These include the appointment of the company's first female board director with experience in the industry.

#### Outcomes and next steps

We voted to support all management proposals at the company's June AGM. We will continue to engage the company on governance issues such as board independence, further diversity reforms and remuneration.



# Strategy alignment with the long-term engagement and voting report – 2021

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 toward realizing long-term outcomes. In addition to challenges of business uncertainty, there are other challenges in designing plans (see adjacent box: *Challenges in designing compensation plans*).

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. Throughout this section, we discuss some of those that we encountered this year. 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.

## Challenges in designing compensation plans

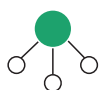
- **Choosing metrics well correlated with long-term share performance.** In recent years we have seen a proliferation of performance share units (PSUs) in long-term equity plans that are driven by operational and financial metrics in lieu of shareholder returns over the performance period. Picking one 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 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-year 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.

# Strategy alignment with the long-term engagement and voting report – 2021 continued

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



**322**  
Number of engagements on long-term alignment



**277**  
Number of companies engaged on long-term alignment



**28**  
Number of countries engaged on long-term alignment



**25**  
Number of sectors engaged on long-term alignment

## Top 10 markets engaged

Country	# of engagements	%
1. United States	162	50.3%
2. United Kingdom	35	10.9%
3. Japan	33	10.2%
4. China	12	3.7%
5. South Korea	12	3.7%
6. Switzerland	10	3.1%
7. Germany	7	2.2%
8. Netherlands	6	1.9%
9. Brazil	5	1.6%
10. France	5	1.6%
11. Australia	5	1.6%
12. Hong Kong	4	1.2%
13. Ireland	3	0.9%

## Top 10 sectors engaged

Industry	# of engagements	%
1. Capital goods	32	9.9%
2. Pharmaceuticals, biotechnology	24	7.5%
3. Real estate	22	6.8%
4. Software and services	21	6.5%
5. Materials	20	6.2%
6. Retailing	19	5.9%
7. Media and entertainment	19	5.9%
8. Banks	17	5.3%
9. Consumer services	16	5.0%
10. Insurance	15	4.7%
11. Health care equipment and services	14	4.3%

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## Engaging companies on long-term pay for performance alignment

As long-term investors, we believe management's primary focus should be ensuring the long-term success and viability of the business. Boards, therefore, need to design compensation plans that reward management for behavior that contributes to this objective. There are several practices that we believe tend to lead to longer-term thinking.

We support compensation plans that are heavily weighted toward long-term equity incentives over cash-based annual incentives. Equity awards have the double benefits of 1) longer performance periods and 2) the value of the award fluctuates with the share price.

We support performance-based share awards that vest based on achievement of goals over time periods of at least three years. We also support vesting conditions that go beyond the performance period, which help reinforce alignment with shareholders.

We are less supportive of plans with "long-term" equity performance periods of one year, or that have been broken into pieces with different durations. A number of these aspects are demonstrated in the Biogen case study below.



**Biogen**

**United States**

### Issue

We had concerns about compensation practices at this US biotechnology company. We identified issues around severance benefits paid to the outgoing CFO, as well as the complicated nature of ongoing compensation plans and whether these appropriately align management with shareholders.

### Action

At the company's 2021 annual meeting, we voted against the compensation plan, which failed to garner significant shareholder support with only 51% of shareholders supporting the plan. The Compensation Committee underwent necessary refreshment with a long-time board member joining the committee in 2020 and becoming its chairman in 2021. We engaged with Biogen to improve its program and develop better long-term alignment with shareholders.

In engagement with the company, we highlighted three issues with Biogen's long-term incentive plan:

- The awards are too complicated: in any given year, seven different tranches are granted. This makes it challenging to track how awards are being paid out.
- Part of the awards are settled in cash rather than stock.
- Awards have tranches that use one-, two- and three-year performance periods. This results in awards overweighting the first year and overemphasizing short-term performance.

We recommended they simplify the plan, remove cash-settled payouts and move to three-year performance measures.

### Outcomes and next steps

The company appreciated our feedback and demonstrated positive reforms. We will evaluate plan changes made and anticipate a plan more aligned with shareholders.

# Strategy alignment with the long-term engagement and voting report – 2021 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 (e.g., five-year or more performance period compared to typical performance share units 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 *Marathon Petroleum Corp case study*). We also disfavor one-off awards predicated upon performing duties that would be considered a normal part of an executive's job.



### Marathon Petroleum Corp

United States

#### Issue

We raised concerns with the granting of a significant one-off equity award to the outgoing CEO at this energy company. When companies grant one-off awards, we would seek to engage to better understand the rationale for such grants.

#### Action

The company provided the outgoing CEO a USD 6 million equity award the day before his retirement in recognition of the progress he made advancing the divestiture of a business. The company also noted the award was meant to promote his continued support for the executive leadership transition. We engaged with the company, both before and after the annual meeting in April 2021, to understand better the rationale behind the grant and express our point of view that those responsibilities fell inside the normal duties for a CEO and should, therefore, not require a special grant. We also noted that the divestiture appeared to be at risk at the time of the grant of award. We commended the company on the positive changes it had made to its compensation program, such as better defining its peer group, eliminating a discretionary portion of the annual bonus, incorporating ESG metrics into compensation and increasing the use of PSUs. However, we continued to note our concern on the one-off award.

#### Outcomes and next steps

While we acknowledged the positive changes made by the company, the special grant was unjustified in our view and we escalated our concerns by voting against the executive compensation resolution. Despite our actions, the resolution was passed. Following board refreshment and transitions in the CEO and CFO positions, however, the board has made changes to the compensation program that we believe improves the alignment with shareholders.

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## Engaging companies on mega grants

Mega grants are defined as 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 IAC 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.



IAC/InterActive Corp

United States

### Issue

This US-based company that acquires, develops and spins off internet-based businesses proposed to grant its CEO a significant compensation package valued at approximately USD 200 million as an equity grant tied to his new employment agreement. The grant of significant, upfront equity to CEOs to incentivize long-term performance can often be contentious.

### Action

We engaged with the company to better understand the rationale for the plan grant, in order to determine how it was aligned with shareholders' interests. It was noted that the executive would only fare well if shareholders did too. We emphasized that the company should not make annual grants indefinitely during our engagement with the company.

### Outcomes and next steps

While the amounts involved are significant, we voted in support of the compensation package given the track record of the company in generating shareholder value and setting performance targets. We also recognized that, unlike other such plans where shares could vest due to sporadic volatility, these shares will only be realized if the closing prices exceed the threshold at period end. We will continue to monitor company performance and executive compensation.

# Strategy alignment with the long-term engagement and voting report – 2021 continued

## Engaging companies on COVID-19 modifications

In 2021, we also saw a significant number of intra-year modifications/adjustments to compensation plan metrics and targets due to the financial impact from COVID-19. These were common in the travel and travel-related industries (e.g., cruises/airlines), restaurant industry and mall-based retail among, other areas. We evaluated modifications on a case-by-case basis to determine if they were reasonable and in-line with the interest of long-term shareholders. We engaged with a variety of companies to help make these determinations. In some cases, we concluded modifications were acceptable. This was often when the company was significantly impacted by COVID-19, compensation committees exercised discretion to cap compensation at target or below and executive retention was a legitimate concern. In other cases we were uncomfortable with the modifications (see *Veolia Environment case study*). This was typically when the business was not tremendously affected by COVID-19, multiple years of long-term compensation were modified or executives earned above target compensation while workers were laid off and share price and financial performance were subpar.



### Veolia Environnement

France

#### Issue

We had concerns with a number of companies making modifications and adjustments to compensation plan metrics and targets due to the financial impact from COVID-19. This French utility company was impacted by the COVID-19 pandemic, which resulted in it lowering its financial targets and drawing on state support through the crisis.

#### Action

The company's share price underperformed the wider market and its industry peers. Despite this, the board proposed a significant pay award to its chief executive officer for 2020 performance. We were not satisfied with the way that the revised financial goals enabled a significant outperformance by the CEO versus these new, lower targets. The company capped the maximum payout, but we still considered the pay high and misaligned with the shareholder experience. We engaged the company before the vote to hear its explanation, including on the determination of the lower targets and payout to the CEO. We were not sufficiently convinced of the rationale by the company in relation to the adjustments made.

#### Outcomes and next steps

As a result of our concerns, we determined to escalate our engagement by voting against the CEO pay at the AGM. However, despite our concerns, the resolution was passed at the AGM. Following the vote, we engaged further with the company to request that compensation policies provide clear visibility and confidence for shareholders in the long-term planning of the company, as well as to establish targets that cannot be adjusted mid-plan. We will continue to monitor and engage the company ahead of the next AGM.

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## Engaging companies on ESG metrics in compensation plans

As consideration of material ESG factors rises in prominence, boards have begun including metrics tied to ESG measures in compensation plans. 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 practices will look like. We also note that inclusion of these metrics may mean that other metrics are being weighed less. Engaging companies more around this will be a focus in 2022 as we refine our voting approach to reflect emerging good practices.

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, such as 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 financial metrics should not be used: management of transportation companies are already incentivized to reduce fuel consumption, because those savings will improve earnings.
3. ESG goals that management has identified as material to the long-term success of the business strategy. We want these ESG metrics prioritized in compensation plans.



### Mondelez International

United States

#### Issue

The incorporation of ESG metrics into compensation plans is becoming increasingly prominent. Many boards have begun including metrics tied to ESG measures in compensation plans, including this US food and beverage producer.

#### Action

We had discussed with the issuer its decision to incorporate ESG metrics into compensation to better understand which metrics it was planning to use and the rationale for its choices. The company explained that it is now including sustainability goals in annual incentive compensation while taking a gradual approach. The company further noted that similar to the financial metrics, it was evaluating the most important 2025 ESG goals as they relate to the company’s strategy. These will likely relate to sustainability, diversity and inclusion, well-being and portion control snack share. The company elected to put ESG goals into the annual incentive to help achieve progress on a yearly basis. The company noted that goals apply to the business unit level.

#### Outcomes and next steps

We believe the company is taking a thoughtful approach to introducing ESG metrics into its compensation plan and are generally supportive of this measured approach to incorporation of ESG metrics. We encouraged the company to expand disclosure on how it is progressing against these goals. We will review the next proxy statement and monitor company progress and continued appropriateness of these ESG goals and metrics.

# Strategy alignment with the long-term engagement and voting report – 2021 continued

## In focus: Use of proxy advisors

Proxy advisory firms provide company general meetings with voting-related research and recommendations. While we use such research and analysis as an input into the voting process, it is not determinative. Our research and analysis in many instances ultimately determines how we vote on a particular proxy issue. 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.



**Southwest Airlines**

**United States**

### Issue

We identified potential concerns with the compensation arrangements, including the modification of performance share unit targets, at this US airline company. However, we noted the general support of compensation arrangements by various research providers.

### Action

Following the sharp decline in air travel in 2020, and its deleterious impact on airline performance, most performance share units awarded to airline executives did not pay at target. We believed that modifications that would significantly raise the PSU payouts for 2018-20 were not warranted in most cases; these declines were in line with the shareholder experience as airline shares had suffered steep declines. Moreover the industry had received significant support from the government, further supporting our belief that above-target payouts were not justified.

While reviewing compensation arrangements, we noted that most proxy statements from airline peers had explicit disclosure on PSU payout. Southwest Airlines' proxy did not include explicit disclosure. We determined to delve deeper into the compensation arrangements at the company. Our research and analysis showed that modifications made to the PSU plan had allowed executives to earn shares significantly higher than the target level.

### Outcomes and next steps

Based on our concerns around the modification made to the PSU plan by the company, we voted against executive compensation at the company. Despite our actions, the resolution was passed at the company's general meeting in May, with the compensation resolution also receiving support and a positive vote recommendation from the proxy advisor. As next steps, we will continue to review compensation plans on a case-by-case basis, but we will also seek to review these and similar cases with the research providers.



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## Voting on strategic long-term alignment

This section 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. This year, we voted against management on compensation on 1,591 occasions (18% of the time). Additional case studies demonstrating our voting activity specifically in relation to high-profile executive compensation cases at 2021 AGMs follow here.



**Starbucks**

**United States**

### **Voting issue – executive compensation**

The issuer granted the CEO a large performance-based cash award. The use of cash for such a large award raised some concerns at the international coffeehouse.

### **Action**

The CEO was granted a significant performance-based cash award. Pay out under this award was based on three-year relative total shareholder return (TSR) versus the S&P 500 Index, with a target pay out of USD 25 million for a relative TSR in the 65th percentile. Although the award came with performance conditions, we were concerned about the use of cash, when equity would better align the CEO with shareholders and would allow the board to create additional retention mechanisms such as delayed vesting. In our opinion, the company did not provide an adequate rationale for this decision.

### **Outcomes and next steps**

As a result of our concerns, we voted against the executive compensation resolution at the company's AGM in March. We will continue to monitor compensation practices at the company and seek to encourage what we believe to be better alignment with shareholder interests.

# Strategy alignment with the long-term engagement and voting report – 2021 continued



AstraZeneca

United Kingdom

## Voting issue – remuneration policy

The issuer sought shareholder approval for a new remuneration policy just one year after receiving shareholder support for the previous iteration of the policy. The changes included a significant increase in potential variable compensation for the CEO.

## Action

This was the second year that the company requested investors to shift the forward-looking pay proposal (the remuneration policy) with the current policy having only been approved by shareholders for a three-year term at the 2020 AGM. We prefer these pay policies to be longer-term and survive three years. The variable pay opportunity was being increased significantly. While there is acknowledgement of the CEO's performance, we did not believe performance justified an increase from 650 percent to 900 percent of salary in two years.

## Outcomes and next steps

Despite the important role of AstraZeneca in the COVID-19 vaccine research, development and global roll-out, we along with 40% of investors voted against the pay proposal at the May annual general meeting. We will seek to engage the company ahead of the 2022 AGM to understand the company's response.

# Human capital management engagement and voting report – 2021

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Effective management of human capital is critical to an engaged and productive workforce. How companies manage their employees, often referred to as human capital management (HCM), is increasingly seen by investors as material to long-term performance and risk mitigation. It is also a key aspect of integrated business reporting that unifies financial and non-financial risk disclosures. As long-term investors, we will continue to advocate for robust human capital practices and improved disclosures.

The COVID-19 pandemic deepened our conviction that human capital is one of a company's most valuable assets. Companies with sustainable business practices, particularly those that focused on supporting the needs of their workforce, demonstrated greater resilience throughout the crisis.<sup>7</sup>

Failure to manage human capital risks and opportunities can affect a company's relationship with its workforce and other stakeholders and can potentially impact shareholder value. In our article, [Why social factors matter when investing in emerging markets](#), authored by our portfolio managers in Emerging Markets and Asia Pacific Equities, we present a case study on how employee and customer satisfaction are key to the investment case at Tata Consultancy Services.

Human capital management issues are particularly pertinent in certain sectors and geographies and this sector demonstrates how we have targeted engagements in key sectors to address these issues where they are particularly material. In 2021, we engaged with 724 companies on human capital-related topics. Priority themes included diversity in the workplace as well as human rights, inclusive of labor rights within the supply chain and within companies' own businesses. Human rights considerations have also led us to engage companies around the needs of their wider stakeholder base, including their customers.

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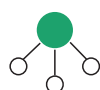
<sup>7</sup> <https://www.brookings.edu/blog/future-development/2021/03/31/are-better-managed-firms-more-pandemic-resilient/>.

# Human capital management engagement and voting report – 2021 continued

## Engaging with companies on human capital management



**947**  
Number of engagements on human capital management



**724**  
Number of companies engaged on human capital management



**43**  
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	# of engagements	%
1. United States	277	29.3%
2. China	144	15.2%
3. United Kingdom	119	12.6%
4. Japan	75	7.9%
5. South Korea	33	3.5%
7. Taiwan	29	3.1%
8. India	29	3.1%
9. Hong Kong	20	2.1%
10. Netherlands	20	2.1%
11. Germany	19	2.0%
12. Switzerland	19	2.0%
13. Brazil	15	1.6%
14. South Africa	13	1.4%

## Top 10 sectors engaged on human capital management

Industry	# of engagements	%
1. Capital goods	114	12.0%
2. Retailing	102	10.8%
3. Materials	75	7.9%
4. Technology hardware and equipment	63	6.7%
5. Consumer durables and apparel	61	6.4%
6. Semiconductors	49	5.2%
7. Food, beverage and tobacco	43	4.5%
8. Banks	41	4.3%
9 = Pharmaceuticals, biotechnology	39	4.1%
9 = Software and services	39	4.1%
10 = Food and staples retailing	34	3.6%
10 = Automobiles and components	34	3.6%

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## Engaging companies on workforce diversity

We believe the recruitment, development and retention of the right personnel are critical to the successful execution of a company's overall strategy, and there is growing evidence a diverse workforce is key to achieving it. We engage with company management across a range of sectors around workforce gender diversity reporting (see *Daikin case study*), including remuneration policies, which are important tools to further these objectives. Discussions are also being expanded to encourage a broader scope of diversity considerations, including race and ethnicity, across all levels of an organization to ensure diverse viewpoints are heard and incorporated (see *Rio Tinto case study*). We encourage companies to create an environment in which employees at all levels feel valued and can bring their own diverse experiences and perspectives.



Daikin

Japan

### Issue

Daikin is a Japanese manufacturer of air-conditioning equipment. Despite the CEO's emphasis on diversity, we noted its low female representation at the managerial and executive level.

### Action

We engaged the company in 2021 to express our concern that despite the CEO's stated intentions and a number of female advancement projects since 2011, female managerial representation had increased from 2.1% in 2011 to only 6.0% in 2020, remaining low. We wanted to understand the company's plans to increase female representation at senior levels.

Daikin shared that it had established new targets to promote female participation, including committing to appointing one or more female executives and to increasing the number of female managers. We felt that this target was a good start, but also wanted to encourage the company to have strategies in place to achieve its new targets.

While acknowledging that there are still few female senior management members, the company explained that it appointed its first female executive in May, who has been a member of the women advancement project from the start, to lead human resource development. It also appointed a female independent director on the board. Daikin explained its efforts to expand the female employee base by increasing the number of female hires and developing the total pool of female students who will pursue careers in science and technology fields. The company has been promoting STEM education among female students, not only at universities but at high schools as well. We emphasized the importance of building a pipeline and appointing young professionals to managerial positions at an early stage.

### Outcome and next steps

We will continue to monitor the company's progress on its female representation at the managerial and executive level as well as ratio of new male to female hires in 2022.

# Human capital management engagement and voting report – 2021 continued



Rio Tinto

Australia/United Kingdom

## Issue

In 2020, the expansion of Rio Tinto's iron ore mine at Juukan Gorge resulted in the destruction of a 46,000-year-old sacred site to the traditional owners. Concerns were raised over certain internal processes, including the representation of indigenous professionals in the company.

## Action

We engaged extensively with the board and senior management at Rio Tinto over 2021. We engaged the newly appointed CEO in July to request that the company strengthen its governance practices and internal processes, as well as its cultural heritage program. The CEO described engagement with indigenous people to understand their views and how he has set diversity as a key goal for the company as part of its reform measures, pledging to place women and indigenous people in leadership roles.

## Outcome and next steps

Over the course of our continued engagement with management teams in 2021, we believe the company has strengthened its policies in the following areas: 1) renewed mine plans with revised cultural heritage assessments, 2) new consultation procedures around mine expansion and development, 3) ongoing engagement with indigenous groups and, with a focus on diversity, 4) increasing employment opportunities for indigenous groups at all levels of the company. The company has invested USD 50 million to increase the number of indigenous professionals in the company, aiming to employ 50 managers from an indigenous background. We will continue to monitor progress on further reform implementation of these aspects in 2022.

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## In focus: Enhancing diversity disclosure in emerging markets

Companies should report transparently on human capital management. Many companies conform to regulatory and industry standards set by International Organization for Standardizations (ISO), Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI). We consider the SASB materiality framework to be a helpful tool for companies considering enhancing their disclosures on industry-specific human capital metrics. Our engagements with companies therefore focus specifically on enhancing disclosure in these areas, particularly in emerging markets where disclosure is typically lacking.



**Tencent**

**China**

### Issue

Workplace diversity data provides useful information for investors, but also for companies' own analysis of their performance. However, disclosure of this information has typically been lacking for emerging market companies, partially because of the lack of regulatory requirements and peer pressure in the past. This is a key aspect that we have encouraged companies, including Tencent, the Chinese internet company, to improve on.

### Action

We engaged the company after reviewing its updated ESG disclosures in its 2020 annual report. We provided feedback to the company on its updated disclosures. We commended the company for disclosing significantly more human capital data than before. They include gender (29% female), age (40% under 30) and turnover (12%). Going forward, we asked that the company consider our feedback and report back on its conclusions and next steps. We also highlighted to the company best practices in ESG reporting we have seen at other companies for its reference.

### Outcome and next steps

The company acknowledged the importance of human capital management, and we will monitor how the company's reporting improves next year.

## Engaging companies on human rights

### Supply chain management in the apparel sector

The USD 2.4 trillion garment and footwear industry employs millions of workers worldwide and has a history of poor working conditions and unfair treatment of workers. The COVID-19 pandemic effects have been felt particularly acutely by workers in the apparel sector. Clean Clothes Campaign (CCC), a global network dedicated to improving working conditions and empowering workers in the global garment and sportswear industries, estimates that in the first three months of the pandemic alone, garment workers around the world were owed between USD 3.19 billion and USD 5.78 billion in wages. This is complicated by the lack of living wages in many garment-producing countries. These issues can result in reduced morale and productivity, worker attrition and reputational damage to companies and their long-term value.

# Human capital management engagement and voting report – 2021 continued

In light of this, we ask the following questions when we engage with apparel companies to assess their management of these risks (see *Boohoo case study* to see this implemented in practice):

- **Working practice policies** – What is the company’s approach to working practices and human capital management throughout the supply chain?
- **Risk assessment and controls** – How comprehensive is the company’s understanding of the scale and threat of labor exploitation in the supply chain? How effectively does the company mitigate the risks identified?
- **Commitment to improve** – How ambitious is the company in working with other businesses, suppliers and contractors to drive up standards and encourage good working practices?
- **Communication and transparency** – How successful is the company at communicating its culture, principles and standards for working practices and ethical supply chain management?



**Boohoo**

**United Kingdom**

## Issue

Concerns have been raised around a number of labor allegations at online clothing retailer Boohoo over the last 18 months. Specific “failings,” found by an independent review that was conducted by a senior external lawyer, included the identification of low pay and poor working conditions for its employees.

## Action

We have engaged with the company multiple times over the last 18 months, both one-to-one and through collaborative engagements via the Investor Forum. Collaborative engagement enabled us to advocate a strong and consistent message to the company as an industry, in addition to continuing our own in-house engagement with management and board members. The collaborative engagement included engagement meetings as well as formal letters detailing the reforms that investors required from the company. We asked the company for: 1) a supply chain review and a review of its purchasing practices, 2) disclosure of full findings of the independent review, 3) report on ESG in a sustainability report and 4) refreshment of the board with independent directors and to appoint a director with relevant experience on key ESG issues. We asked the company for these changes as well in our one-to-one engagements where the same message was reinforced to the company.

## Outcome and next steps

Boohoo has laid out six steps it is taking to improve governance, including the formation of two committees to oversee risks to the business and its supply chain compliance. In early 2021, Boohoo published a list of its 100 UK and international suppliers on its website. In addition, it has developed new tech solutions, adapted processes and invested resources and funds to support garment workers. It announced it is launching a “manufacturing center of excellence” in Leicester to demonstrate best practices within its warehouse spaces. Boohoo has appointed a non-executive director with ESG expertise.



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## Labor rights in the technology sector

Diversity, equity and inclusion, labor rights (including pay, safety and social benefits) and conduct and culture are concerns in the technology sector globally. This was evidenced this year by Chinese regulators' summoning more than 10 tier-1 online platforms to address social security and labor rights matters in September 2021, as well as a swathe of new local regulations on big tech companies. These issues can result in reputational and financial damage to companies and create an urgency for us to engage.

On the other hand, we observe that practices are improving, and we have seen some companies incorporating human capital management as part of their wider human rights assessment. For example, we welcome Amazon's human rights impact assessment to identify key human rights risks. When engaging technology companies around labor rights, we seek acknowledgement of these issues and look for concrete evidence of companies upholding labor rights (see *Tesla case study*).



Tesla

United States

### Issue

We have engaged with Tesla for a number of years regarding social and governance issues with labor being a focus area. Concerns have been raised around the company's treatment of union activity following its appeal of a US National Labor Relations rule that stated, in 2017, it violated US labor laws by interfering with union activity at its manufacturing facility in Fremont, California.

### Action

In 2021, we engaged the company to clarify its progress on labor issues. We had dialogues with the board chair, investor relations, the associate general counsel for employment and senior director of employee relations during the year. Tesla representatives reported that they verbally addressed the issue with its employees, updated its human rights policy, appointed a head of ESG, trained leaders on employee rights and more frequently engaged with the employee base through surveys and focus groups.

### Outcome and next steps

While the steps taken assuage some concerns, we have requested further evidence that Tesla is clearly articulating unionization rights to its employee base, such as incorporating such language in a company document after the resolution of the NLRB case appeal. We will continue to evaluate the company's human capital management disclosures and have encouraged Tesla to release engagement scores to provide transparency on employee sentiment.

# Human capital management engagement and voting report – 2021 continued

## Consumer rights in industrial sectors

The industrial sector is often associated with health and safety risks to employees. In response to such risks, in January 2021, the South Korean government enacted the Serious Accidents Punishment Act, under which any failure by business owners and/or executives to implement occupational health and safety measures for serious accidents can be deemed a criminal offense. The sector can also be associated with health and safety risks posed to consumers and, this year, we have engaged companies with the objective of protecting customer safety (see *UK house builder case study*).



### UK house builders

United Kingdom

#### Issue

Since the tragic events of Grenfell Tower in 2017, UK house builders have been under pressure to remediate ACM (Aluminum Composite Material) cladding within high-rise buildings due to the associated fire safety risks and risks to human life.

#### Action

We have engaged with house builders, such as Barratt Developments, Persimmon, Taylor Wimpey, Countryside Properties and Berkeley Group, on these issues. We also wrote a letter to the CEO of Bellway Homes asking them to effectively communicate to the stakeholders involved details of remediation actions in the pipeline. We asked for the company to continue working with building holders and stakeholders on how they can contribute to remediation through each individual building, and provide transparency on where they are not able to provide remediation.

#### Outcome and next steps

The companies engaged have now provisioned hundreds of millions of pounds between them to help remediate former customers. In addition, the sector has been levied with a new “Residential Property Developer Tax,” which will be utilized to fund the UK government’s “Building Safety Package.” This will fund the remediation of older properties where no current developer has clear responsibility. We will continue to engage with these companies to understand if provisioned funds are quickly deployed and that communication with all stakeholders continues.

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## Voting on human capital management

J.P. Morgan Asset Management directly engages with companies on human capital management and also expresses its views by voting proxies in the best interests of our clients. This year we supported 14 human capital-related shareholder proposals.



### Union Pacific Corporation (UNP)

United States

#### Voting issue – diversity and inclusion

Concerns were raised that the issuer’s reporting was insufficient for investors to determine the effectiveness of its human capital management programs. As a result, two shareholder proposals were filed at the company requesting annual disclosure of Equal Employment Opportunities (EEO-1) data and an annual report assessing diversity and inclusion efforts.

#### Action

The company has made commitments around its hiring practices and provides information on its recruiting partnerships and steps to achieve diversity goals. However, the company currently does not articulate how these efforts are overseen by the board and integrated into strategy, and the company had not shared recruitment, retention and promotion data by gender, race or ethnicity.

#### Outcomes and next steps

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% shareholder’s support, respectively, and UNP subsequently disclosed EEO-1 data and shared. We will continue to evaluate UNP’s disclosures and improvement in workforce diversity over time.

# Human capital management engagement and voting report – 2021 continued



Tyson Foods

United States

## Voting issue – diversity and inclusion

The issuer struggled to contain the number of cases of workers getting COVID-19 at its Waterloo facility in Iowa. As a result, a shareholder proposal was filed at the company's February AGM requesting the company to prepare a report on its human rights due diligence.

## Action

The company has had to contend with large numbers of COVID-19 cases at its Waterloo facility in Iowa, which has many immigrant and refugee workers. The facility has had over 1,000 cases and six deaths due to COVID-19. The Waterloo plant has around 2,800 employees in total. It faces a lawsuit that includes allegations its management lied to interpreters for those workers about the risks related to the facility and falsely claimed that nobody had tested positive while confirmed cases had appeared as early as March 2020. In December, seven managers at the plant were fired for running a cash betting ring over the number of cases that would occur at the facility.

## Outcomes and next steps

As a result of these concerns, we supported the shareholder resolution on human rights risk assessment at Tyson Foods in order to better ascertain how the company is handling its human rights-related risk. While the resolution ultimately did not receive majority shareholder support, we will continue to engage on this topic.

# Stakeholder management engagement and voting report – 2021

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 operate. 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.

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.

## Engaging with companies on their stakeholder management



**473**  
Number of engagements on stakeholder management



**369**  
Number of companies engaged on stakeholder management



**39**  
Number of markets engaged on stakeholder management



**25**  
Number of sectors engaged on stakeholder management

## Top 10 sectors engaged on stakeholder management

Industry	# of engagements	%
1. Pharmaceuticals, biotechnology	42	8.9%
2. Retailing	37	7.8%
3. Media and entertainment	33	7.0%
4. Health care equipment and services	31	6.6%
5. Food, beverage and tobacco	30	6.3%
6. Materials	30	6.3%
7. Software and services	29	6.1%
8. Banks	26	5.5%
9. Capital goods	25	5.3%
10. Technology hardware and equipment	23	4.9%
11. Real estate	21	4.4%
12. Insurance	21	4.4%

## Top 10 markets engaged on stakeholder management

Country	Count	%
1. China	102	21.6%
2. United States	99	20.9%
3. United Kingdom	49	10.4%
4. Japan	30	6.3%
5. South Korea	23	4.9%
6. India	22	4.7%
7. Australia	14	3.0%
8. Germany	12	2.5%
9. Taiwan	12	2.5%
10. Netherlands	12	2.5%
11. Switzerland	11	2.3%
12. Hong Kong	8	1.7%

# Stakeholder management

## engagement and voting report – 2021 continued

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### Engaging companies on cybersecurity

Cybersecurity risks are ever present and are a key risk for almost all businesses. According to 2021 research by Gartner,<sup>8</sup> 88% of company boards view cybersecurity as a business risk, up from 58% in 2016. It is also one of the top 10 risks to the global economy over the next decade, according to the World Economic Forum's Global Risks Report. We attribute this to the increasing online presence of companies and the increase in number and sophistication of cybersecurity breaches.

Companies may argue that data protection and cybersecurity are two separate issues, but given the vast amount of valuable and sensitive data collected and kept by corporations, we view data privacy and security as related issues. To ensure data is properly collected and protected, the EU introduced General Data Protection Regulation (GDPR) in May 2018. In 2021, two high-profile companies were charged under GDPR. Amazon was fined by the Luxembourg National Commission for Data Protection for €746m by allowing customer data to be exposed to third parties. WhatsApp also received a €225m fine from the Irish Data Protection Commission (DPC).

Other countries have referenced the GDPR for making similar regulations. In the United States, the California Consumer Privacy Act took effect on January 1, 2020. Other states have passed or are considering similar acts. In Asia, China commenced a Data Security Law in September 2021, on top of its Cybersecurity Law enforced since June 2017.

Information technology and data usage considerations have been infused into the business in depth and breadth. Ensuring cybersecurity and data protection will only become more complicated and material to managing business risks. With this in mind, and with the expectation of more regulations to govern these issues, companies need to regularly review and enhance their cybersecurity and data protection. Board governance of the subject is becoming crucial.

Some industries are affected more than the others by cybersecurity risks. Given the vast amount of valuable personal data they process and own, large retailers also encounter regular cybersecurity threats. Kroger, one of the largest retailers in the United States by revenue, was a victim of an extensive data breach in 2021.

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<sup>8</sup> <https://www.gartner.com/en/newsroom/press-releases/2021-11-18-gartner-survey-finds-88-percent-of-boards-of-directors-view-cybersecurity-as-a-business-risk>.



**Issue**

American grocery store retailer The Kroger Company has seen two significant security breaches in the last two years. The most recent breach happened in early 2021 and was the result of a breach at one of the company’s third-party vendors.

**Action**

Accellion, a third-party vendor providing secure file transfers, notified Kroger of an unauthorized access to its data in 2021, due to a vulnerability in Accellion’s file transfer service. We engaged the company to request better disclosure of the data breach, including efficacy of its vendor management program and the steps taken to safeguard against similar issues.

Kroger informed us of some of the key elements of its data privacy and cybersecurity program and governance. Kroger shared that it was currently in litigation with Accellion and thus was limited in the information it could share about this incident. The company has already discontinued the use of Accellion product. It conducted a forensic investigation to identify the full impact of the breach. It has also started to notify individuals whose data may have been compromised and has set up a monitoring program for individuals impacted by the breach.

We expressed our concerns for heightened cybersecurity risk at traditional retailers given their access to large volumes of data. In addition to the vast amount of sensitive customer data, which makes them a target for cyberattack, their further entry into online sales and delivery has exposed them to new sources of cybersecurity risks as they collaborate to expand their online presence.

**Outcome and next steps**

We expect Kroger to disclose key learnings from this incident and the steps it has taken to mitigate this risk in its next ESG reporting. We also encourage more disclosure around data ownership and control when the company enters into a collaborative relationship.

**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:

- Having board oversight of cybersecurity risks.
- Integrating cybersecurity resilience and data privacy into corporate strategy.
- Having key personnel accountability for cybersecurity.
- Disclosing budgets and spending on cybersecurity.
- Establishing a framework for analyzing cybersecurity risk.
- Having a clear audit process for cybersecurity risk.
- Providing training to the board and wider workforce on cybersecurity.

(See *IHG case study*, which demonstrates these engagement requests in action). In addition, we expect companies to report cybersecurity incidents in a consistent and structured manner. Cybersecurity incident reporting is highly fragmented across industries and jurisdictions, according to the Financial Stability Board (FSB). A detailed plan is now in development by the FSB with the aim to harmonize reporting. The material could be valuable information to incorporate in our engagement with companies on this topic in 2022.

# Stakeholder management engagement and voting report – 2021 continued



InterContinental Hotels Group (IHG)

United Kingdom

## Issue

InterContinental Hotels Group (IHG) was the focus of a cyberattack in 2017. The incident involved customer payment card-stealing malware. We have continued to engage the company around its cybersecurity procedures since the incident.

## Action

In 2017, attackers installed malware on the company's servers, compromising the hotels' payment card processing systems, which in turn ingested information contained in credit card tracks such as cardholder names, card numbers and internal verification codes. The leaked information enabled card cloning and fraudulent payments.

In 2021, we engaged the company to ask for an update of its cybersecurity program, including the new measures being taken to alleviate cybersecurity risk and the governance of the board on this subject. The company reported that, on average, each employee spends two hours annually on cybersecurity risk training. IHG further reported that it has adopted the latest best practices for managing cybersecurity talent, including regular performance checks, retention programs, and personal development plans. The chief information security officer is in charge of the implementation of the firm's cybersecurity strategy and the board receives cybersecurity risk metrics on a quarterly basis. IHG reported that the 2021 budget for cybersecurity was over USD 30 million, largely in-line with the 2020 budget.

IHG indicated that its global privacy program covers a wide range of responsibilities, including ongoing monitoring of new privacy developments, regular privacy reporting to the board's audit committee and update of privacy notices. In 2021, the initiatives IHG focused on included data minimization and removal and compliance of new privacy requirements in different countries. The company has adopted KPIs for measuring cyber security, high-risk assets, resources and budget spend, external threats and other areas.

IHG has indicated that practices are internally and externally audited and reviews are conducted to ensure that the validity and stringency of its cybersecurity risk program is kept up to date.

## Outcome and next steps

We note IHG's implementation of an enhanced cybersecurity risk platform and practices to manage cybersecurity and data protection.



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## Engaging companies on supply chain management

All companies pursuing sustainable growth have to consider the sustainability of their supply chain. There are many issues involved in the supply chain and companies should have measures to govern their direct suppliers. Among all settings, we view ethics and compliance as the most important attributes of suppliers that companies need to monitor.

In regards to ethics and compliance, we encourage companies to:

- Understand prospective suppliers before doing business with them.
- Set clear procurement policies and supplier codes of conduct.
- Publish the policies and codes on websites and make sure suppliers understand them.
- Audit suppliers regularly and provide them useful feedback.
- Hold suppliers accountable for their actions and incentivize them accordingly.
- Disclose suppliers' audits to open sources (e.g. websites, annual and sustainability reports).

Responsible procurement is increasingly important for producers of consumer goods as buyers' behaviors have evolved. Many surveys indicate that more consumers, particularly those in developed markets such as North America and Europe, want to know the origin of their products. Consumers are now more willing to compromise on price and convenience of purchase to ensure that the products they buy are ethically sourced and produced. This preference for sustainable sourcing has accelerated due to the COVID-19 pandemic. The management of suppliers has become an engagement priority, particularly with producers of consumer goods (see *Hitachi case study*).



Hitachi

Japan

### Issue

Technology companies are particularly vulnerable to forced labor in their supply chains due to extensive use of migrant labor in the manufacturing of technology and electronics products in emerging markets, and the protracted supply chains of many ICT products. The sector has faced increasing scrutiny around its failure to adequately address labor abuses connected to products sold to millions of customers across the world.

### Action

We engaged Hitachi on how it addresses the risk of forced labor in its global supply chains and asked the company to enhance its management of this issue. Hitachi established a Human Rights Policy in 2013 that stated clearly its respect for human rights in its Sustainable Procurement Guidelines. The company explained that it had been briefing its suppliers to ensure they were aware of the policy and the guidelines. The company sought implementation of the guidelines by its major suppliers, requesting self-inspections using a check sheet, and providing feedback on the results to the internal procurement department.

We asked the company to disclose the status and results of supplier audits, particularly regarding the on-site audits, and to disclose how the results would mitigate the risk of forced labor. We believe the number of reviews conducted was small, that the scope of reviews had been limited and, thus, the risk could persist in its supply chain.

### Outcome and next steps

We suggested the company increase the frequency and scope of its supplier monitoring program with regards to human rights and will check for improvements in 2022.

# Stakeholder management engagement and voting report – 2021 continued

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## Collaborating to achieve supply chain management goals

We embrace collaborative engagement as a tool to tackle complicated global issues, such as supply chain management, that touch a comprehensive network of stakeholders.

Together with 155 other investors representing a total of USD 6.4 trillion of assets under management, we co-signed a letter focusing on responsible sourcing and conflict minerals through the Principles of Responsible Investment (PRI) collaborative engagement platform. We support the asks for technology companies to develop and invest in technological solutions to improve traceability of minerals, to increase transparency and reporting on minerals from mine to product, to encourage and participate in industry-wide collaboration to improve industry practices, to impose and enforce harsher sanctions on non-compliance and to reduce demand for new materials by improving recycling initiatives.

Supply chain management is an example of an issue that is difficult to resolve without collaboration among manufacturers on a global basis. While we collaborate with our peers to advocate for better practices, we also encourage manufacturing companies to work together to make the global supply chains more sustainable. An example of coalition is the Responsible Business Alliance (RBA), which services mainly the global electronics industry. RBA and the three key initiatives it launched – Responsible Minerals Initiative, Responsible Labor Initiative and Responsible Factory Initiative – provide standards and guidance for supply chain management. We encourage companies to reference the materials provided by RBA and to engage in the coalition to drive positive changes in their supply chain.

## Voting on stakeholder engagement

Voting on stakeholder engagement issues is less common than other ESG factors. However, in certain cases where we believe a company's leadership has not sufficiently accounted for the needs of their broader network of stakeholders, we will vote against board directors.

# Proxy voting – How we used our voting rights in 2021

2021 was defined by companies struggling to regain some semblance of normality as the world continued to navigate the global pandemic. It is becoming clearer that for COVID-19, “aftermath” may not be an immediate, straightforward prospect and that we will live with some form of this virus for a while yet.

This has shaped a large part of the governance and related proxy voting work carried out by our investment and stewardship teams in 2021. We believe that the need to effectively use voting rights is particularly heightened at a time of crisis when rapid changes can take place to corporate practice. We have seen over the past year and a half many companies taking important, positive steps to protect investors, employees, customers and stakeholders in the pandemic by continuing to operate under very difficult and unpredictable circumstances. However, we have also seen other companies use the pandemic to attempt to force through shareholder-unfriendly moves, which would have negative consequences long after the pandemic has passed.

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.

The growth in the number of resolutions globally on environmental and social issues has resulted in the scope and impact of proxy voting expanding in recent years. With this trend, the responsibility has increased for us to carry out voting in a considered manner, using insights from our research and engagement with companies. We see that the importance of voting is growing. 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 sustainable value of the companies in which we invest. To facilitate this, we have well-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 shareblocking. 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.

## 2021 voting

In 2021, J.P. Morgan Asset Management voted on 87,508 proposals across 8,567 meetings and opposed management (either voting against or abstaining) approximately 11% of the time.

J.P. Morgan Asset Management voted with management on 80,027 proposals and voted against management on 7,481 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 883 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 1,903 proposals.

## J.P. Morgan Asset Management voting globally in 2021

Number of meetings	8,969
Number of meetings voted	8,567
Number of proposals (voted)	87,508
Number of shareholder proposals voted FOR	883
Votes with management	80,027
Votes against management	7,481
Abstain	837
Withholds	1,066

# Proxy voting – How we used our voting rights in 2021 continued

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Some key voting trends from the year include:

- Many companies maintained their approach of holding their general meetings virtually in 2021 due to the COVID-19 pandemic, and we saw an uptick in companies proposing article amendments to allow for the holding of only virtual meetings. While recognizing the need in the current situation, we continue to consider that companies should return to holding in-person meetings with virtual online capabilities once the situation allows for it. We prefer a so-called “hybrid meeting” rather than a virtual-only meeting, and if companies hold virtual-only meetings, we would like companies to specify, in their article of incorporation, under what conditions virtual-only meetings are allowed.
- Climate remained a critically important topic during this year’s voting season with a wave of companies putting their climate transition action plans to a shareholder vote, so called “say-on-climate” votes. Climate remains one of the most pressing issues and, in 2021, we published a detailed description of how we approach climate change and voting.<sup>9</sup>
- The many challenges faced by companies in 2021 has meant increasing pressure on boards to demonstrate skills and experience that are well placed to deal with these risks and systemic challenges, the steps taken to address any skill/knowledge deficiencies and committee creation to deal with such issues.
- A number of remuneration committees proposed amendments to executive remuneration schemes to reflect the impact that COVID-19 had on company financials and variable remuneration-related performance targets. We continued to use our engagement and voting to express dissent on the most egregious examples of these amendments.

All of the trends mentioned link to our Stewardship five priorities: Governance and Management Diversity, Strategy and Long-term Alignment, Human Capital Management, Stakeholder Engagement and Climate Risk. Please see the relevant sections for further engagement and specific voting examples.

As we look to 2022, much of the focus will be on how companies continue to address our key themes, including on employee safety and human capital management, climate change risks and opportunities, executive pay and wider ESG considerations, data privacy and cybersecurity and on effective board oversight. Other areas we will be focusing our attention include:

- While in recent years we have seen companies in many markets define a corporate purpose, in 2022, we will be pushing companies to disclose how they measure the impact of their purpose, the success, or need for improvement, of their strategy in meeting their stated purpose and how and if their purpose remains appropriate.
- We will continue to push for companies to better evidence and tell the story of how diversity permeates throughout organizations from “shop floor” to C-suite, and how companies deal with challenges as the focus on diversity, including in some markets on diversity of ethnicity, remains a focal point.
- We will increase scrutiny of the auditors used by companies to ensure they are adequately reflecting the financial risks of the climate crisis in their accounts, as pressure from regulators continues to rise in ensuring companies are being clear with investors about their exposure to climate risks.
- We will also push companies to explain how executive compensation takes account of material non-financial metrics. These are increasingly being used to demonstrate credibility on key ESG topics by linking some element of pay to appropriate related targets. We will push companies to focus on the right issues and set appropriate targets.

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<sup>9</sup> [Climate change voting – Our approach](#)

## 2021 voting in detail\*

	Global	%	EMEA	%	United States	%	Japan	%	Asia ex-Japan	%
Number of meetings	8,969		5,938		3,520		2,190		1,629	
Number of meetings (voted)	8,567	95.52%	5,825	98.10%	3,518	99.94%	1,910	87.21%	1,616	99.20%
Number of proposals	105,364		66,933		31,551		25,859		15,780	
Number of proposals (voted)	87,508	83.05%	64,991	97.10%	31,535	99.95%	20,299	78.50%	15,651	99.18%
Number of shareholder proposals voted FOR	883		728		261		221		207	
Votes with management	80,027	91.45%	60,196	92.62%	29,131	92.38%	18,479	91.03%	13,866	88.60%
Votes against management	7,481	8.55%	4,795	7.38%	2,404	7.62%	1,820	8.97%	1,784	11.40%
Abstain	837	0.96%	789	1.21%	17	0.05%	107	0.53%	63	0.40%
Withholds	1,066	1.22%	203	0.31%	1,021	3.24%	79	0.39%	14	0.09%
Abstain and withholds aggregated	1,903	2.17%	992	1.53%	1,038	3.29%	186	0.92%	77	0.49%

## Management proposals

	Director-related	Capitalization	Compensation	Mergers/ acquisitions and reorganizations
Total number of proposals voted	47,173	7,032	8,905	2,666
Votes against management	3,283	699	1,591	354
Votes against management %	6.96	9.94	17.87	13.28

## Shareholder proposals

	Environment	Social	Governance
Total number of proposals voted	146	34	1,414
Shareholder proposal voted for	39	9	750
Shareholder proposal voted for %	26.71	26.47	53.04

\* Please note some inconsistencies within the methodology, as regional totals may not sum to global totals due to some meetings being included in multiple regions. Similarly, vote categorizations within a region may not sum to the total number of votes due to individual proposals being voted in different ways by different funds, in some cases.

# ESG integration at J.P. Morgan Asset Management

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For certain strategies that the adviser determines to be ESG integrated, the adviser integrates financially material environmental, social and governance (ESG) factors as part of the fund's investment process (ESG integration). ESG integration is the systematic inclusion of ESG issues in investment analysis and investment decisions. ESG integration is dependent upon the availability of sufficient ESG information for the applicable investment universe. In addition, in order for an actively managed strategy to be considered ESG integrated, the adviser requires:

1) portfolio management teams to consider proprietary research on the financial materiality of ESG issues on investments; 2) documentation of the adviser's research views and methodology throughout the investment process; and 3) appropriate monitoring of ESG considerations in ongoing risk management and portfolio monitoring. ESG determinations may not be conclusive and securities of companies/issuers may be purchased and retained, without limit, regardless of potential ESG impact. The impact of ESG integration on performance is not specifically measurable as investment decisions are discretionary regardless of ESG considerations.

## Introduction

As an asset manager, we are guided by our duty to act in the best interests of our clients. That commitment means we consider the impact of decisions we make on behalf of our clients on their portfolios. We believe consideration of financially material environmental, social and governance (ESG) factors is an important part of the investment process.

At J.P. Morgan Asset Management, we define ESG integration as the systematic inclusion of financially material ESG factors (including sustainability risks) as additional inputs into investment analysis and investment decision-making, where possible and appropriate. ESG factors encompass a wide range of issues including (but not limited to) climate risk, natural resource use, human capital management, diversity, business conduct, governance practices, shareholder rights and executive compensation, as they can impact negatively the value of an investment.

J.P. Morgan Asset Management considers financially material ESG factors when assessing an investee company's performance. ESG integration is used to support mitigating risk and can unlock opportunities in an investment portfolio.

By considering financially material ESG factors, we believe ESG integration can inform better long-term investment decision-making and can help build stronger portfolios for our clients. We view ESG integration and stewardship as complementary practices working in tandem to encourage investing in a way that ultimately benefits clients. Our assessment of the financial materiality of ESG factors is dependent on the region, sector and time horizon of an investment.

In addition, our process for ESG integration incorporates J.P. Morgan Asset Management's five stewardship priorities laid out in this report. Across regions, time horizons and investment groups, we seek to consider the company's oversight of ESG risk factors pertinent to those priorities. Following are some examples of ESG factors that are regularly taken into account during our investment and engagement processes.

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## ESG factors that we consider



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### Environmental

- Air pollution
- Waste-water management
- Biodiversity impacts

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### Social

- Product safety
- Diversity and inclusion
- Local community impacts

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### Governance

- Board composition
- Executive remuneration
- Capital allocation

Our processes for ESG integration for a variety of our asset classes are described later in this paper.

Active ownership is a key component of both our standard investment processes and our commitment to ESG integration. We use it not only to understand how companies or issuers consider issues related to ESG but also to try to influence their behavior and encourage best practices, for the purpose of enhancing returns for our clients. 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.

There are four key reasons why we believe consideration of financially material ESG factors 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 factors 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>10</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>11</sup>

The practice of integrating financially material ESG factors 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 materiality of ESG factors 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 factors to the specific investment style, such that the integration of ESG information contributes to investment performance.

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<sup>10</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>11</sup> MSCI, "ESG and the Cost of Capital" (2020) <https://www.msci.com/www/blog-posts/esg-and-the-cost-of-capital/01726513589>

# ESG integration

## at J.P. Morgan Asset Management continued

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As a global active manager using a variety of investment styles, we integrate financially material ESG factors 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 that share a common investment process and ESG integration approach.<sup>12</sup> Because of the variety of actively managed investment strategies, types of investments and investment processes, financially material ESG factors 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.

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 where possible.
- 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.

**Please note:** ESG determinations may not be conclusive. Securities of companies or issuers may be purchased and retained, without limit, by the investment manager regardless of their potential ESG impact. 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 integration 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. In addition, there is no indication that an ESG or impact-focused investment strategy or any exclusionary screens will be adopted by a financial product.

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.

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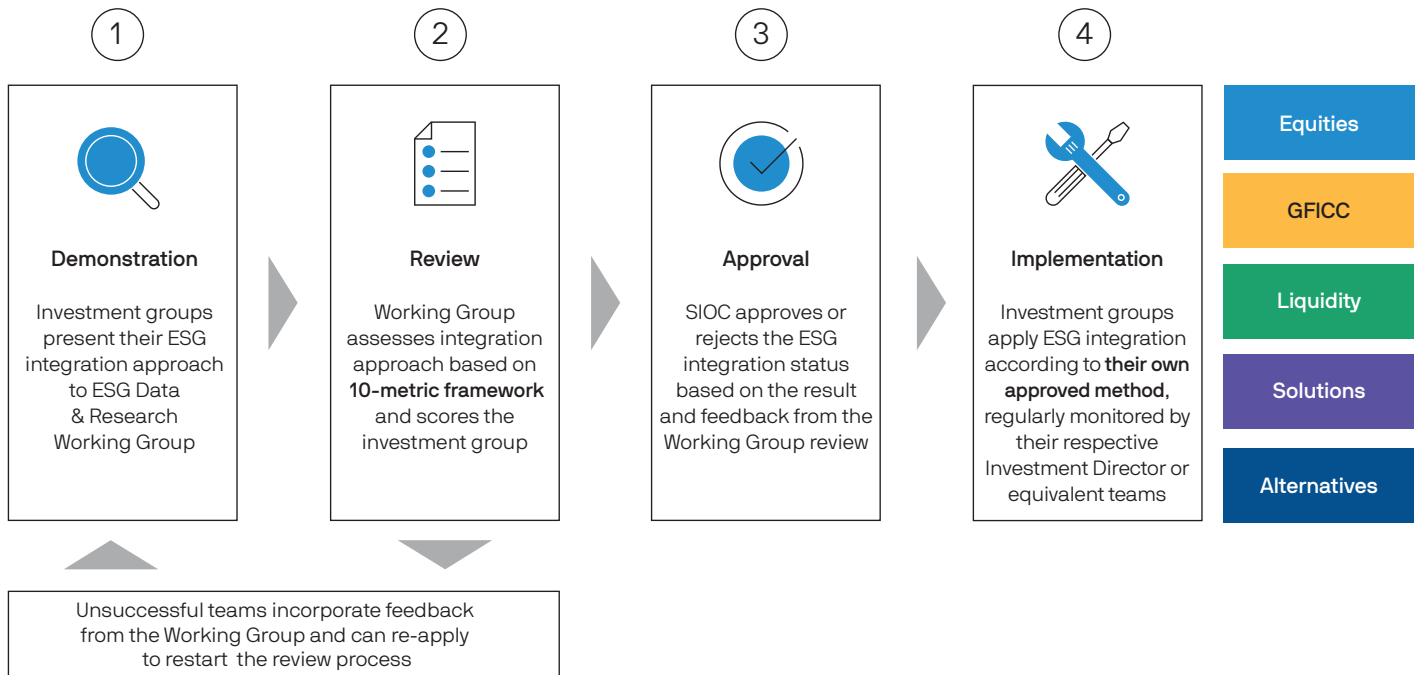
<sup>12</sup> For further details on strategies that are ESG integrated, please reach out to your local J.P. Morgan Asset Management representative.



## 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, 2021. For illustrative purposes only.

Our ESG Data and 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 Data & 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.

# ESG integration

## at J.P. Morgan Asset Management continued

The systematic consideration of ESG factors 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 92) 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.

### 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’ 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 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 Data and Research Working Group.

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Although the firm-wide 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 Data and 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 factors 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 2020, J.P. Morgan Asset Management received an A+ for its response on the Strategy and Governance module of the UN Principles for Responsible Investment (UNPRI) survey based on information provided for calendar year 2019. 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 ESG issues into asset allocation.<sup>13</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, region- and asset class-specific 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 engines 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.

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<sup>13</sup> The UNPRI survey includes modules that solicit information from signatories, including J.P. Morgan Asset Management, on various topics including strategy and governance. 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 2020 form of strategy and governance module and assessment methodology is included in the following links:

[https://dwtyzx6upk1ss.cloudfront.net/Uploads/q/c/a/02a...sg\\_cc\\_2020\\_80624.pdf](https://dwtyzx6upk1ss.cloudfront.net/Uploads/q/c/a/02a...sg_cc_2020_80624.pdf)

<https://www.unpri.org/reporting-and-assessment/reporting-and-assessment-archive/6567.article>

Please note that publication of the UNPRI 2021 reports have been delayed due to changes in the UNPRI Reporting & Assessment process. Until release of the 2021 reports, the 2020 UNPRI report is the latest available.

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

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## Resources we share across the firm

### 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 the firm. 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 material ESG issues that arise. Research is therefore a key part of both ESG integration and stewardship, enabling us to maintain oversight of a company's activities and engage where we feel it would be beneficial to our clients.

J.P. Morgan Spectrum™ (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 factor is deemed to be 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

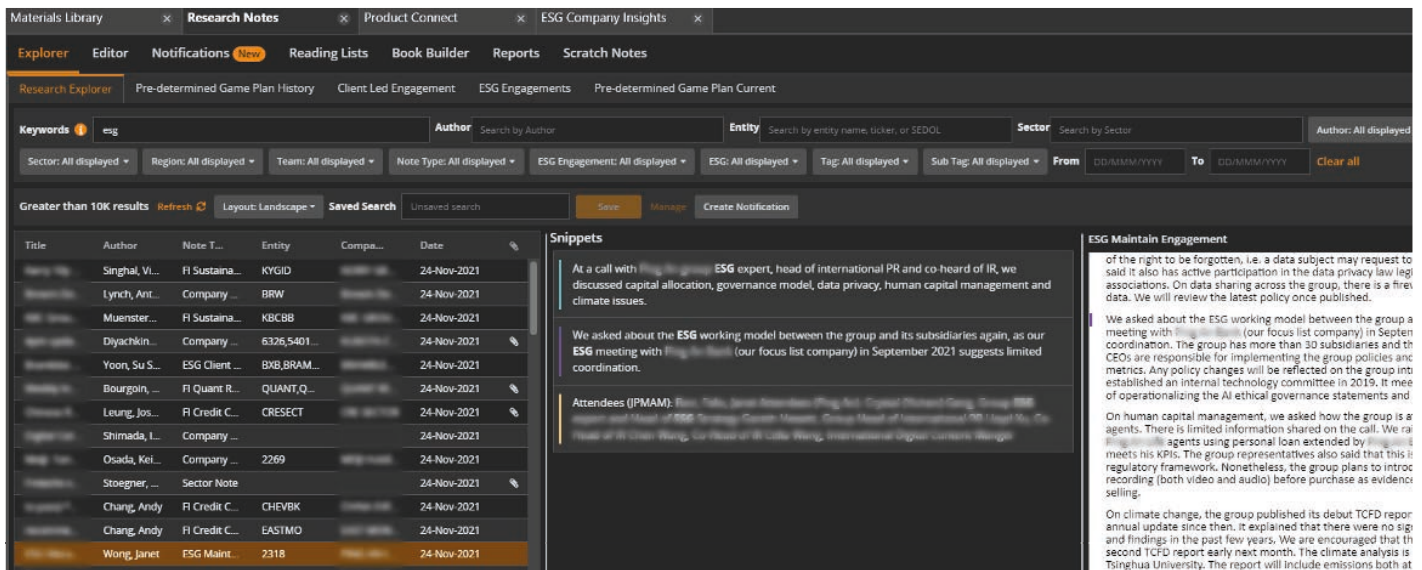


Image source: J.P. Morgan Asset Management Spectrum™.

- 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 J.P. Morgan Asset Management proprietary data-driven ESG score, as well as the underlying metrics from which the score is derived. Investors are also able to access a historical view of overall ESG scores over the last five years.
- Portfolio management systems:** Spectrum™ is also used as a portfolio management tool by many investment teams. Within the respective system, both the proprietary ESG assessment and third-party data are embedded so that the information can be referenced to inform investment decisions. For further details on this, please refer to individual asset class sections in the following pages.

## Illustration of Spectrum™ “ESG Company Insights” dashboard

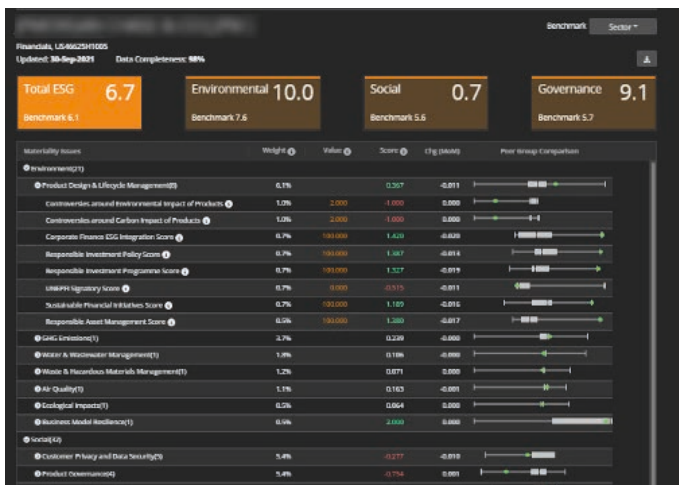
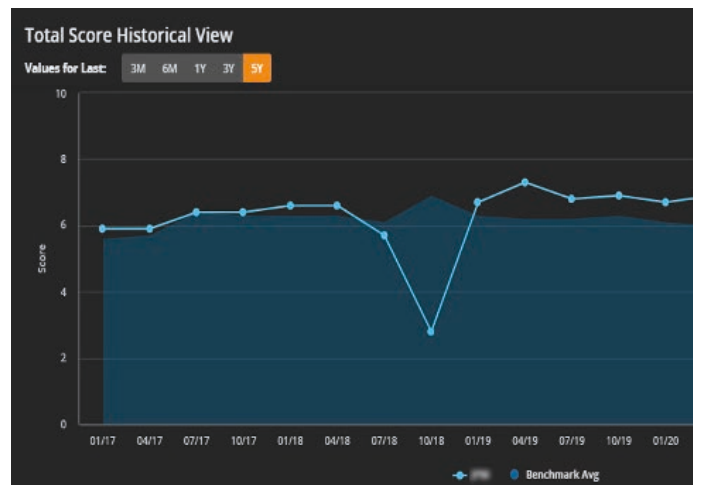


Image source: J.P. Morgan Asset Management Spectrum™.



# 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 factors 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:** We have over 30 dedicated specialists supporting ESG integration from the perspectives of proprietary ESG and climate research, investment stewardship and products and solutions innovation. Over the last few years, our Sustainable Investing researchers have worked on the development of a proprietary, data-driven ESG scoring framework, which is designed to contribute to our understanding and application of a variety of ESG information in our research and investment processes. The team is currently leading the implementation of the scoring framework and the further build-out of our analytical capabilities around climate change.

- **Dedicated Investment Stewardship team:** As of March 1, 2022, we have 13 investment stewardship specialists globally who work in collaboration with our portfolio managers and research analysts to direct interactions with companies/issuers across our Five Investment Stewardship Priorities and the specific research frameworks utilized by each asset class. The firm-wide Five Investment Stewardship Priorities have been selected as the corporate engagement principles that we believe have universal applicability and will stand the test of time. They provide top-down, high-level guidance to our Stewardship team and to investors in each asset class to help set engagement agendas and prioritize and manage engagements on a wide range of ESG issues. The priorities are: Governance, Strategy Alignment with the Long Term, Human Capital Management, Stakeholder Engagement and Climate Risk. More detail on the five priorities and how they are applied in practice can be found in the *J.P. Morgan Asset Management's five investment stewardship priorities* section of this report.

## ESG data

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.

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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, data-driven ESG scoring system that is being made available to our portfolio management and research analyst teams through Spectrum™. The aim of this internal tool is to support the investment team’s quantitative ESG analysis and also to help inform qualitative assessments of individual companies.

Work on the proprietary scoring system has been completed, and we are currently at the stage of socializing it with investment teams ahead of targeting its more general implementation over the coming year. In addition, for most strategies, a combination of quantitative scoring and qualitative judgements will continue to be used during analyst assessments and portfolio construction. 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 will provide 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.

Our **proprietary data-driven ESG score** assesses the extent to which companies face and manage financially material ESG risk and opportunities. This score is evolving 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. Having been developed in collaboration with the Sustainable Investing team’s Data & Research group, 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.<sup>14</sup>

- This 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 material ESG factors 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>15</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.

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<sup>14</sup> With respect to J.P. Morgan Asset Management’s proprietary system, 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 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. 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.

<sup>15</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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- 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 factors 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 looks set to continue into 2022 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 material ESG factors within their ESG integrated strategies. Our [Sustainability Risks Policy](#) summarizes the integration of sustainability risks in the investment process. This forms part of an existing, regular investment review system.

For example, the Investment Director teams in Equity, Global Fixed Income, Currency & Commodities and Multi-Asset Solutions oversee performance and risk oversight of portfolio management. They do this to maintain discipline around investment objectives and process in the context of client objectives or fund guidelines, performance, risk position and ESG profile. The Investment Director teams monitor the relative ESG exposures of each strategy, looking at overarching trends and reviewing outliers. They oversee the level of integration from both a qualitative and quantitative angle. The qualitative angle would be captured through regular review meetings, typically once a quarter, with the portfolio managers, while quantitative factors would include measurable metrics on ESG items or exposure across the portfolios.

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 is developing a framework to monitor the consideration of financially material ESG factors in the investment process of our active strategies. This process has the objective of identifying investment strategies with ESG factor 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.



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## 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. Our process has been recently updated to require that the ESG Data & Research Working Group recertify the ESG integration approach of ESG-integrated investment groups against the consistent 10-metric framework every 3 years. Following the introduction of these recertification reviews, the investment groups are asked to provide updates on any significant changes and to demonstrate the enhancements made since the previous vetting/review session – a process we started in 2021. The ESG Data & Research Working Group will verify that the group has made the necessary improvements and is maintaining a good standard of integration practices while continuously seeking to enhance their process. Should the ESG Data & 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 Data and Research Working Group will be shared with SIOC for formal approval.

- In 2021, investment groups including Global Equities, Global Fixed Income, Currency & Commodities and Global Liquidity were reviewed for recertification.
- Key changes that were presented as part of the recertification process included the extension of our **40-question ESG checklist**. This is used by both Global Equities and Global Fixed Income, Currency & Commodities.
  - The Global Equities team recently updated the checklist and related materiality frameworks, with the aim of enhancing them for the purposes of ongoing monitoring and targeted corporate engagement.
  - New questions around supply chain environmental risks, workforce diversity and disclosure on social and diversity issues have been added, as well as detailed guidance as to how analysts should think about responding to these questions.

- The materiality element of the checklist, revised in collaboration with the Investment Stewardship team, helps to identify leaders and laggards in the key ESG issues for each sub-sector. This brings more depth to our ongoing ESG research and serves as helpful guidance for more focused ESG engagement with companies.
- In addition, in 2021 the 40-question ESG checklist was also implemented by Global Fixed Income, Currency & Commodities for the corporate bond market, with some fixed income specific questions.

## 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 so are not the sole driver of decision-making.

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

- A **40-question ESG checklist** applies the same detailed questions to more than 3,000 companies under coverage globally. The ESG checklist asks 12 questions specifically addressing environmental considerations, 14 on social and 14 on governance. Analysts across Equities and Fixed Income collaborate on the questionnaire, resulting in one set of responses on environmental and social matters as we believe these are consistent across the capital structure. The governance questions differ slightly by asset class. The checklist includes both negative and positive questions, 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.

# ESG integration

## at J.P. Morgan Asset Management continued

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Recently, the Investment Stewardship team worked closely with research analysts to update the 40-question ESG checklist and related materiality frameworks, 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 issues have been added, as well as detailed guidance as to how analysts should think about responding to these. The materiality element to the checklist, revised in collaboration with the Investment Stewardship team, helps to identify leaders and laggards in the key ESG issues for each sub-sector. This 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.

- Our **proprietary data-driven ESG score** assesses the extent to which companies face and manage financially material ESG risks and opportunities. This score is evolving to draw on granular, outcomes-focused data, making full use of the significant increase in ESG disclosures and available data over recent years. For further details, please see the section on *ESG data*.
- A **fundamental materiality framework** for 2,000+ companies was implemented in 2020 by our Emerging Markets and Asia Pacific team and in 2021 by many of our global equity teams. The basis of “materiality” is to identify the ESG issues that are most likely to have a material negative financial impact on a company were it to be mismanaged, or conversely, the material positive impact in the case of good management. Across each of 57 different sub-industries, material issues are identified by research analysts within our 100+ strong global network, who come together to share perspectives with their sector group peers. Every company receives a score from 1 (best) to 5 (worst) on each of the material issues 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 for 2,000+ companies. These classifications provide a rating (Premium, Quality, Trading and Structurally Challenged) for stocks, based on our judgment of the quality of the business; ESG is an explicit part of the rating process.

### Engagement

Active engagement with companies has long been an integral part of our approach to investment and ESG. We use it not only to understand how companies consider issues related to ESG but also to try to influence their behavior and encourage best practices, for the purpose of enhancing returns for our clients. Engagement is a collaboration between portfolio managers, research analysts and the Investment Stewardship team. Each brings a different perspective to our interactions with companies across our five investment stewardship priorities and our research framework.

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

Methods of engagement typically include regular meetings, video conferences or email exchanges with senior executives and non-executive management. Proxy voting is also a valuable means of communication. Where our concerns are not adequately addressed by our initial engagement, we will consider an escalation of our approach using the various means at our disposal. Decisions to escalate will always be made on a case-by-case basis. More formal approaches include private meetings with the chairman or other board members, formal letters to the chairman and board or collaborative action where we believe that working together across the industry and unifying our voice has a better chance of delivering real life outcomes (where permissible under local laws and regulations). Examples of this collaboration include Climate Action 100+ and the 30% Club.

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## 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 factors. As part of this in-depth fundamental research, credit analysts assess the impact of ESG risks and opportunities on issuers' current and future cash flows. If the analysis of ESG factors shows that they are 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. We have developed a proprietary materiality matrix, which highlights the key ESG-related risk factors across all fixed income markets. This tool serves to guide analysts' research efforts to the specific topics within each sector that have the most impact.

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 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.

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 relevant ESG factors. We also regularly meet with originators of securitized products and regulators. During these engagements, research analysts raise issues they have identified as material and relevant, including ESG concerns, in an effort to positively influence issuers to adopt best practices.

We also aim to contribute to positive change by participating in industry forums and regularly consulting with third-party data providers. For instance, we have board representation on industry bodies, such as the 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.

# ESG integration

## at J.P. Morgan Asset Management continued

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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.

### 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.

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

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

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

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

For a more detailed review of the research/due diligence process, please refer to the *GFICC* section of this report.

#### Engagement

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

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

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The ESG integration approach described above relates to the Quantitative Solutions investment strategy. Unless otherwise indicated in product-specific disclosures, the products following the aforementioned investment strategy do not promote environmental or social characteristics.

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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.

## **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 ESG considerations influence the capabilities of the underlying manager/strategy and the investment process. The emphasis is on understanding how ESG factors 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 five 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-dive 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.

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

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## Quantitative Solutions

### Research/due diligence

- In order to integrate 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 both pre-trade and on an ongoing basis. We assess 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, while our framework for sovereigns leverages some of the ESG topics from the UNPRI guide to sovereign debt investing. The portfolio managers have discretion to add further ESG topics they believe could be relevant 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. The final analysis is documented for reference and 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 ESG scores, the component parts and the scores for the broader universe. We also leverage the norm-based scoring assessment from ISS-ESG, referring to its red/amber/green flags. In addition, the proprietary J.P. Morgan Asset Management data-driven ESG score, being developed by the Sustainable Investing team will provide further breadth of ESG data using our proprietary methodology in the future.

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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 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 factors across 25 categories in relation to their operational and investment processes. We apply the full framework to every manager while recognizing that the 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 factors 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 factors 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. J.P. Morgan Alternative Asset Management prides itself on helping to drive ESG principles in the industry. The platform has helped many hedge fund managers to incorporate ESG factors into their businesses and investment processes. Notably, over 90% 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 6,500 institutional accounts and over 575 funds in over 35 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, 2021, our total assets under management was USD 2.65 trillion, broken down as follows by asset class, geography and client type:

## Asset class

Total assets under management (in USD millions)	
Equity	\$727,533
Fixed Income	\$1,416,762
Multi-Asset	\$309,693
Alternatives	\$199,883
<b>Total</b>	<b>\$2,653,872</b>

## Client region

Total assets under management (in USD millions)	
United Kingdom	\$163,043
Europe ex-UK	\$351,778
North America	\$1,824,992
Japan	\$31,549
Pacific ex-Japan	\$142,033
Other	\$140,477
<b>Total</b>	<b>\$2,653,872</b>

## Client type

Total assets under management (in USD millions)	
Institutional	\$1,441,146
Retail	\$1,212,726
<b>Total</b>	<b>\$2,653,872</b>

## Seeking the input and feedback of our clients

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. Obtaining additional insight from clients and stakeholders as we continue to enhance our engagement and stewardship was one of the recommendations of the in-depth review into our stewardship activities, which was led in 2021 by our new Global Head of Investment Stewardship.

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 firm-level 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, engagement activity breakdowns and voting records, among others. This provides significant insight into the extent sustainable investing-related issues matter to the client. In the past, this type of detailed information request used to be principally from the European institutional client base, but is beginning to expand across client channels globally now.

For existing clients, relationships are managed on an ongoing basis by our dedicated teams of client advisors around the world, who meet regularly with clients in order to keep them informed of engagement and voting activities and updates. We also seek to gain their feedback on how they consider that we have been effective and transparent stewards of their assets.

Client feedback is also sought on a more ad hoc basis, through industry events, training webinars and due diligence feedback. Over the last few months, we have worked to strengthen the communication channel with our sales and distribution teams, which will allow us to more efficiently and systematically collect feedback on how our stewardship practices correlate with clients' needs.



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## Survey on net-zero stewardship

In late 2021, we ran a client survey to seek the views of our global institutional investment consultant partners on how they, and their underlying asset owner clients, are considering climate change investment and stewardship. In particular, we focused on concepts of setting scientifically credible net-zero targets and implementing portfolio decarbonization. We sought the feedback of investment consultants as we do a lot of important business through this channel, and they represent a wide breadth of asset owner clients around the world with a range of views and rapidly evolving needs on sustainable investing.

We found through the survey that a majority of the consultants surveyed consider stewardship to be the key component in enabling net-zero ambitions within both investment portfolios and their underlying holdings in investee companies. At this stage, the incorporation of explicit decarbonization targets and pathways into investment portfolios was not the most immediate priority.

Survey responses highlighted that the preferred action was direct one-to-one engagement with those companies showing insufficient progress on climate commitments. They also pressed the need for engagements to be timebound with a fixed deadline for material progress to be achieved against objectives to which companies could be held to account.

In terms of the most important engagement objectives, the call for corporate reporting to follow TCFD recommendations regarding carbon footprint measurement, forward target setting and reporting on progress was high on most respondent's agenda. All survey respondents considered the most important recommended disclosure was time-bound, externally verified, science-based decarbonization targets in line with the latest climate science. A number of respondents felt that the most important governance consideration for companies adopting net-zero commitments was the incorporation of clear climate-related performance metrics within executive compensation plans.

The exercise was important in helping us evaluate our climate stewardship across sectors, countries and asset classes in 2022. We consider this survey exercise to have been effective in achieving our aims to help consider client views in our engagement prioritization

efforts. The main outcome of this is that it has provided us with a structured way to consider the views of our clients and a beneficiary base on ESG engagement and voting, to collect evidence (alongside those collected through meetings and events) on the most important areas that our stewardship program needs to focus on to protect and enhance clients' assets in the broader context of the transition to a low-carbon economy. We are planning similar client feedback collation exercises for the coming year.

Related to this survey we recognized the challenge asset owner clients face in incorporating climate change considerations into investments and to evidence alignment with net-zero targets. A key takeaway from a webinar-based discussion with UK local government pension funds was the challenge of understanding increasingly complex greenhouse gas emissions data and how this could be used in forward-looking scenario analysis.

Given the importance of climate change considerations in investments and stewardship, J.P. Morgan Asset Management hired a dedicated team of climate science specialists in 2021 to research climate transition pathways and to develop tools to help clients align investments with decarbonization goals. The research and tools developed by this group will provide significant support to climate engagement and voting in the future. It will provide proprietary decarbonization assessment and scenario analysis models to bolster our research into companies on emission-reduction progress against targets.

## 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, has spent the last two years holding training sessions on ESG issues and conducting ESG teach-ins globally for all J.P. Morgan Asset Management employees.

# Client and beneficiary needs continued

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We have developed an online Sustainable Investing Academy with a broad curriculum, containing around 40 modules and more than 700 hours of content. It has had more than 500 users to date. We also support this online education with 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.

In 2021, these internal educational efforts were extended beyond J.P. Morgan Asset Management to our clients and end-beneficiaries. 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. We published regular sustainable investing-themed papers and shared content for client education, based on proprietary research on a range of ESG topics. A list of publications can be found in the Appendix.

We hosted and participated in events with clients with this aim in mind. We hosted webinars, including our “ESG 360” series in 2021. The series included episodes on tackling the “Social” in ESG and why it matters to investment outcomes, incorporating sustainability considerations for real estate investors and identifying key technologies enabling the green transition.

## 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. Given that key sustainable themes such as climate change and the transition to a low-carbon future are among those regularly discussed with clients, in 2021, we launched Climate Change Solutions investment strategies, and this is in addition to the Carbon Transition investment strategies launched late in 2020.

## 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 2021 is our recent decision to sign onto a collaborative engagement statement, coordinated via the Principles for Responsible Investments’ engagement platform, on tackling conflict mineral content in the semiconductor supply chain. Our discussion with clients had highlighted to us an interest on this issue. We assessed the engagement as a meaningful effort to highlight poor labor practices and environmental management, which could harm investee company value, and acted accordingly. We recognize the importance of collaboration to achieve meaningful change, and this includes understanding client views on specific issues.

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Another example of our engagement with client concerns around climate is our recently announced membership in the Net Zero Asset Managers Initiative (NZAMI). J.P. Morgan Asset Management's new commitments to align in-scope portfolios with the goal of net zero by 2050, responds to the findings highlighted earlier in our surveying of, and discussions with, consultants and clients on this topic. We note that some of our clients have also made net-zero investment commitments of their own and have joined similar industry groups. A clear outcome of this was that in 2021, our engagement and voting activity on climate change became increasingly aligned with the aims of net-zero commitments and initiatives in the best interest of clients. For full details please refer to our section on *Climate Change Engagement and Voting in 2021*.

### **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 reasonable time horizon that drives accountability and transparency. 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.

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 further focus in 2022, 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 has 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 five stewardship priorities.
- ESG fund reports for certain funds.

# Client and beneficiary needs continued

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In 2021, we reviewed our disclosures and reporting. Through evaluations conducted via our Sales and Distribution teams, we learned that clients would like to see our reporting become more detailed, tailored to their particular concerns and consistent across different asset classes. Both institutional and retail clients are becoming ever more sophisticated in their awareness of ESG issues, such that reporting practices that might previously have been satisfactory may not now respond to clients in a manner consistent with their expectations. As an outcome of this review, we took steps to further strengthen the quality our existing reporting. Key initiatives to strengthen our practices included:

- Developing a client mandate and fund-specific engagement and voting report. This aligns with the UK's Pension and Lifetime Savings Associations expectations.
- Establishing a taskforce to develop technologies to scale up client reporting, especially statistical reporting on engagement (please refer to the case study in the *Monitoring service providers* section for more details).
- Publishing a detailed engagement and voting report for certain of our Sustainable Funds, which highlights key engagements and how actions drove improvements across the five investment stewardship priorities.

## Action plan for 2022<sup>16</sup>

Following on from the steps taken this year, we will be undertaking an exercise to evaluate the effectiveness of our actions to date and to identify areas for development. Key priorities we will be working on include:

- Building on the technology development in 2021 to enhance engagement and voting reporting to clients. This will result in more granularity regarding the ESG engagement statistical metrics we provide for client reporting. We will be seeking feedback from clients as we evolve the quality and scope of our reporting on stewardship and further develop our approach through the year.
- Providing further insight into our sustainable investing and stewardship-related work conducted in non-listed private assets. This is an area of growing client and stakeholder interest. More information on our approach to the stewardship of assets other than listed equities can be found under the *asset class-specific* sections of this report.
- Assessing how to improve our future client survey on ESG investment and stewardship issues (the net-zero consultant survey) and considering what aspects we would change for the next one, such as timing, ESG theme, client type and geography.

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<sup>16</sup> [Sustainable Equity Funds – Annual Sustainability Report](#).

# Structures, processes, policies and procedures supporting stewardship

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## Stewardship policies and procedures

J.P. Morgan Asset Management has a robust 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, it 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, processes, policies and procedures supporting stewardship continued

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## Firm-wide supplement

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.

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 voting service, 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.
- 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, however, they 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 5 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 J.P. Morgan Asset Management affiliate being an investment banker and having rendered a fairness opinion with respect to the matter that is the subject of the proxy vote.

In the US, where there are larger volumes of such activities and therefore a perceived heightened risk, we have an added control of deferring the vote to another independent voting service, Sustainalytics. However, J.P. Morgan Asset Management may request an exception to this process to vote against a proposal where we believe the proposal is not in the clients' best interest.

#### **Example of an actual Conflict**

In 2021 a US listed company sought shareholders' approval for a merger with another company advised by a J.P. Morgan Asset Management affiliate. After confirming support with our investors, we deferred the vote to Sustainalytics, an independent voting service provider we utilize, to avoid the conflict, i.e. supporting the resolution because of our affiliate's involvement as an advisor to the merger. Note, had the investment team not been supportive of the proposal, we may have sought an exception to this process to vote against the merger.

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 2021, there were 94 meetings deferred to Sustainalytics. We retain records of delegated Conflicts in our internal system.

# Structures, processes, policies and procedures supporting stewardship continued

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## 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 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.
- **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, establishing governance to monitor and escalate risk or control matters, etc. For example, as referenced earlier, the Investment Stewardship team undertook an in-depth review of our practices and made a number of improvements to processes including the newly formed J.P. Morgan Asset Management Sustainable Investing Oversight Committee (SIOC), which we will evaluate over the coming year.
- **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 test relevant controls to ensure design control 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 are 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.



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## 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 nine funds that hold the Belgian “Towards Sustainability” label and four of those nine also 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 2021.
- **External audit:** J.P. Morgan Asset Management has operations that span the globe and as a result of 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. For example, in the EMEA region, as part of the International Standard on Assurance Engagements 3402 (ISAE 3402), practices are reviewed twice annually and oversight of the broader engagement process is verified in accordance with an AAF (Audit and Assurance Faculty) as part of the monitoring stipulated by the UK investment trusts.

## 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 detail in earlier sections, we undertook an in-depth review of our stewardship practices led by our new Global Head of Investment Stewardship in 2021. One of its recommendations was to further strengthen our global, firm-wide 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 newly established J.P. Morgan Asset Management Sustainable Investing Oversight Committee (SIOC). Additionally, key improvements to our engagement

approach resulted in key changes including the establishment of engagement working groups as well as a more formalized approach to tracking progress and outcomes. Please refer to the relevant sections for greater details on those improvements.

**Example 2:** Every proxy season provides an opportunity to sharpen proxy voting guidelines to better reflect our views on corporate governance matters. In 2020, as an example, the North America Investment Stewardship team clarified our views on board composition and added, “We will generally vote against the chair of the Nominating Committee when the issuer does not disclose the gender or racial and ethnic composition of the board. Aggregated diversity data will be considered as adequate in instances where individual directors do not wish to disclose personal identification. We will generally vote against the chair of the Nominating Committee when the issuer lacks any gender diversity or any racial/ethnic diversity unless there are mitigating factors. Mitigating factors include, among other factors, recent retirement of relevant directors, a relatively new public company, and an ongoing search for a director.” This change, along with any other changes to proxy guidelines, would have been raised at the North America proxy committee 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 are always looking at processes to enhance efficiencies within our stewardship activities, and thus a project was undertaken in 2020, and is still underway, to re-engineer our proxy voting process including the removal of manual steps and standardization of practices across regions. Efficiencies will 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. The next phase of this effort will involve providing greater transparency around engagement commentaries on an automated basis.

**Example 4:** In late 2021, we ran a client survey to collate the views of our global institutional investment consultant partners on how they and their clients are approaching the climate change-related investment

# Structures, processes, policies and procedures supporting stewardship continued

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and stewardship concepts of net-zero targets and implementing scientifically credible portfolio decarbonization projects. The exercise helped us to strengthen our two-way dialogue, giving us a deeper insight into how our voting stance and engagement priorities align with the views of our clients and how we can effectively protect and enhance clients' assets in the context of the transition to a low-carbon economy. Please see the section on *Meeting client needs* for further details.

## 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 firm'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 to 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 multi-layer 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.

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) factors with the objective to build stronger portfolios for our clients.

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 macro 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 daily 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 and operational concerns in real time.

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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 COVID-19 market conditions, we initiated the protocol in March 2020. (See case study below.)

### **Case Study – Stressed Market Protocol and COVID-19:**

In response to the COVID-19 crisis, we activated the Stressed Market Protocol, which included:

- A Rapid Response Report highlighting key metrics, daily discussions of key risk-related topics with AM leadership and real-time, deep dive presentations and product-specific updates led by various portfolio managers.
- As the COVID-19 pandemic unfolded, we completed ad-hoc analyses and deep dives across all asset classes with a focus on key areas impacted by market volatility.
- 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.

We have implemented best practices and lessons learned as a result of the Protocol invoked in response to COVID-19 market turbulence.

### **Climate risk**

We view climate change as a core investment topic. Climate change represents one of the most significant market-wide and systemic risks that cannot be ignored. Every part of the business recognizes the significant risk that climate change poses. We have an important role in identifying the risks of investing or remaining invested in companies unprepared to make the transition to a low-carbon world 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 risk at J.P. Morgan Asset Management including, as noted in this report targeting to finance and facilitate more than USD 2.5 trillion over 10 years to advance climate action and sustainable development, becoming a signatory in 2021 to the Net Zero Asset Managers Initiative and materially increasing our active engagement with investee companies on climate change.

Further, we are committed to understanding how climate change may drive or influence the risks we identify and manage. 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. We are actively integrating climate risk scenario analysis into the risk management practices of the firm, which will enable us to assess the materiality and loss impacts associated with a range of transition and physical risk drivers across various pathways and severities. A centralized Climate Risk team provides expertise on climate-related risk management practices.

In 2021, we also took steps to establish climate leadership working groups to reflect our commitments to playing a part in solutions to climate change, including strengthening our climate research and climate scenario analysis capabilities and actively engaging in focused industry actions, closely coordinated with our stewardship priorities related to climate change engagement. 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 are scheduled to publish our first climate report aligned with the Task Force on Climate-Related Financial Disclosures framework, building on our existing JPMorgan Chase & Co.'s group-wide TCFD reporting.

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.

# Structures, processes, policies and procedures supporting stewardship continued

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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.

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 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 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 co-chair 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 have worked 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.
- Published a sustainability-linked bonds best practices disclosure guideline aimed at enhancing analysis of these instruments and improving the transparency of SLB structure and KPI goals. This has been made available to all investors, underwriters and issuers.
- Consulted with the International Accounting Standards Board (IASB) on proposed changes to financial reporting under International Financial Reporting Standards (IFRS) and made the case for what could simplify and improve standards for credit investors. Most recently this included successful advocacy for improved disclosure standards of supply chain financing arrangements.

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## 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. In 2021, this included the strong work we led or contributed to including on global issues such as climate change, becoming a signatory of the Net Zero Asset Managers Initiative, leading working groups as part of our membership to the IIGCC and Climate Action 100+, being member of the Sustainability Accounting Standards Board (SASB) and enhancing our climate-related engagement and stewardship framework.

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 in 2021 in order to ensure that we bring together market-leading intellectual capital to better help our clients achieve their sustainable objectives. This strengthened governance framework enables more robust internal coordination across the organization on all aspects of sustainability. More information on the enhancements we made to the internal governance can be found in the *Governance of stewardship* section.

## 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 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 alongside face-to-face meetings and collaborative initiatives to share our views with the board on key issues where we have concerns. This helps encourage further dialogue with nonexecutive directors on important corporate governance matters.

In 2021, J.P. Morgan Asset Management voted at 8,567 meetings, representing 95% 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.

# Structures, processes, policies and procedures supporting stewardship continued

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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 five investment stewardship priorities sections of this report.

J.P. Morgan Asset Management publicly discloses its voting. It is updated on a quarterly basis and contain the voting record, at company level, for all meetings voted globally in the preceding quarter. These reports are available at:

<https://am.jpmorgan.com/asset-management/institutional/about-us/investment-stewardship/voting-records/>

## Proxy voting rules and oversight

We have comprehensive proxy voting guidelines<sup>17</sup> in each region, covering 1) North America; () Europe, the Middle East, Africa, Central America and South America; 3) Asia ex-Japan; and 4) Japan. These include 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 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 by visiting:

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

## Client voting and overriding house 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 as well as client considerations 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 do not differ. In a minority of cases, we may see split-voting examples as clients within a segregated mandate may request a voting policy that differs from the J.P. Morgan Asset Management voting policy.

## 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 and lodged 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 providers* section.

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<sup>17</sup> [Global Proxy Voting Guidelines](#)

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### **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.

In 2021, there were 7 meetings where we either gave some form of consent or exercised our voting rights as bondholders; for example, approval of a re-organization plan of a company's debtors, which included J.P. Morgan Asset Management.

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. Please refer to the *OCP reactive engagement case study* earlier in the report as an example.

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.

### **Stock or securities lending**

In regions where we are authorized to do so, certain funds participate in a securities lending program on behalf of our clients. As title passes in a securities lending transaction, client accounts will not be permitted to vote proxies where the securities are out on loan over the record date. In order to identify material proxy votes where possible, procedures include the ongoing monitoring of stock lent, retaining securities in the account for monitoring purposes and identification of significant proxy matters to the extent that they can be identified prior to the record date

The decision on whether to recall securities on loan to vote is taken based on the best interest of our clients.

In the event of a particularly important or close vote where we have knowledge of the proxy vote prior to the record date, we may recall stock on loan, in certain regions, if we determine it is in the client's best interest to vote the securities. For routine voting, we may take the view that the revenue derived from lending activities will be of more value to our clients than the ability to vote at meetings where standard resolutions will be passed with large majorities. In addition, we may on occasion place a block on a particular security being lent if we feel that there is a risk of lent stock being used in a manner that may impede or undermine ongoing engagement activity or otherwise harm our client's best interests.

### **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. We also conduct periodic internal audits of our stewardship activity, which includes proxy voting.

In addition, certain voting activity is audited by an external auditor biannually. Our proxy voting activity in some regions as required are regularly audited by an independent external auditor as part of the International Standard on Assurance Engagements 3402 (ISAE 3402) review, and oversight of the broader engagement process is verified in accordance with an AAF (Audit and Assurance Faculty) as part of the monitoring stipulated by the UK investment trusts. 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 *Assurance* section.

# Structures, processes, policies and procedures supporting stewardship continued

## 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 to 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.

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 – fund-level stewardship reporting

Clients have been increasingly requesting granular engagement reporting for funds and mandates. This was proving a challenge for us to facilitate at large scale. To help resolve this matter, we assessed a number of external technology providers that offered engagement client reporting solutions and software in 2021. We spoke with a number of vendors about the subsequent due diligence process included the Investment Stewardship team, investment research directors and technology teams. We also discussed this extensively with our client teams especially in Europe where the demand was greatest.

Ultimately, we have decided to develop a technology solution internally as the evaluation assessed that it best met the increasingly specific and evolving needs of our clients regarding engagement reporting. Separately, for proxy voting reporting, we are working with our existing proxy voting execution platform provider on a tech-driven reporting solution.



## 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 to 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 Trucost</li> <li>● CDP</li> <li>● Miotech</li> <li>● Sigwatch</li> <li>● Equileap</li> <li>● PATSTAT</li> <li>● Revelio Lab</li> </ul>	Environmental, social and governance research and data on companies used as part of the J.P. Morgan Asset Management proprietary quantitative ESG score to enhance data-driven approach to ESG scores and 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 pre-defined 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, processes, 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

In 2021, we onboarded four new ESG data and research providers. This included:

- Climate emissions data specialists such as Trucost (a division of S&P Global), which was selected to meet our growing need from investment teams, stewardship specialists and clients for broad coverage and high-quality information.
- Chinese ESG data specialist and technology provider Miotech, which uses an artificial intelligence-driven approach to provide more information from a market where corporate disclosure standards on sustainability vary. We had identified enhancing ESG expertise and data science capabilities in China as steps to better meet needs of investment teams, stewardship specialists and our clients.

Also, our assessment of current key service providers for stewardship was that they are meeting our expectations broadly. We will be conducting a full review of one of our major providers in 2022 ahead of a contract renewal.

Beyond the in-depth due diligence and review conducted at the time of onboarding new providers and renegotiating with existing providers at the expiry of their contract, we consider it to be important to assess and communicate on an ongoing basis with our service providers.

The Investment Stewardship team has regular relationship calls with service providers to consider capabilities including data quality and methodology, as well as client servicing. For instance, J.P. Morgan Asset Management enhanced its practices in the US to obtain additional information for proxy in response to SEC guidance to registered investment advisors, including receiving updated information on staffing. 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.



## Case study – getting the most from service providers

It is important we understand the value of our stewardship-related service providers, and one key aspect of this is understanding if a wide range of our colleagues are using the service and fully understanding how it can be used for research and engagement. For instance, we have used ISS ESG's norms-based research for exclusion screening in our sustainable funds range for some years. In 2021, we expanded the screens for our funds meeting the European Union's Sustainable Finance Disclosure Regulation Article 8 and 9 criteria. This meant that a far wider group of investment teams needed to start using the research service.

We provided ISS ESG with feedback that our analysts needed support to understand the assessment methodology as well as how issuers and other stakeholders are contributing to their ratings. ISS ESG organized a series of education and training calls for our investment research analysts globally to understand their norms-based research approach. They also organized calls between their researchers and our analysts to discuss specific companies. We believe these discussions have added value to our research process in relation to these funds and improved engagement dialogue between issuers and our analysts. We also were able to facilitate discussion between ISS ESG and companies where we had good existing corporate relationships.

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).

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 on the website below including our Supplier Code of Conduct: <http://www.jpmorganchase.com/corporate/About-JPMC/ab-supplier-relations.htm>

# Structures, processes, policies and procedures supporting stewardship continued

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## Performance and compensation practices

Our company's performance development process actively manages the performance of its employees through the year, taking into account both what has been accomplished and how it was accomplished. To that end, J.P. Morgan Asset Management uses both quantitative and qualitative criteria to assess performance and to then inform individual compensation determinations. With regard to select employees in the portfolio management population, these remuneration policies are also consistent with the integration of sustainability risks within the scope of the Sustainability Risk Integration Policy – J.P. Morgan Asset Management, which requires consideration of ESG factors, and through joint collaboration between investment teams and the Investment Stewardship team, can help deliver effective stewardship outcomes.

The Firm's disciplined pay-for-performance framework focuses on total compensation – base salary and incentive pay – so that pay is commensurate with the overall performance of the Firm, respective businesses and individual performance. This includes a balanced discretionary approach to assess the employee's performance throughout the year against four broad dimensions: business results; client/customer/stakeholder; teamwork and leadership; and risk, controls and conduct.

Incentive (variable) compensation is primarily delivered through the Firm's Annual Incentive Compensation Plan, a discretionary compensation program that aligns with the key tenets included in the Firm's compensation philosophy. The plan serves to motivate and reward employees for delivering sustained results and demonstrating a heavy focus on risk, controls and the Firm's Business Principles.

When conducting the balanced assessment of performance for select employees in the portfolio management population, regard is also given to the performance of relevant funds and strategies. Each investor's performance is evaluated annually based on a number of factors, including, but not limited to:

- Blended investment performance relative to the competitive indices or peers, with investment performance generally weighted more to the long term.
- Individual contribution relative to the client's risk and return objectives.
- Adherence with the Firm's compliance, risk, regulatory and client fiduciary responsibilities, including adherence to the Sustainability Risk Integration Policy – J.P. Morgan Asset Management, which contains relevant environmental, social and corporate governance (ESG) factors that are intended to guide robust investment decision-making and effective stewardship.

An individual performance assessment using the criteria above, in addition to the overall performance of the relevant business unit and investment team, is integrated into the final assessment of compensation for an individual investor as part of the assessment of business results.

# Appendix 1 – J.P. Morgan Asset Management industry group memberships related to stewardship

## Corporate governance

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  
Workforce Disclosure Initiative

## Environmental

Asia Investor Group on Climate Change  
Ceres  
Climate Action 100+  
Institutional Investors Group on Climate Change (IIGCC)  
Net Zero Asset Managers Initiative (NZAMI)  
Task Force on Climate-related Financial Disclosures (TCFD)

## Social

30% Club Investor Group  
Conflict Minerals  
Hong Kong Board Diversity Investors Initiative

## ESG standards

Australian Sustainable Finance Institute (ASFI)  
Sustainability Accounting Standards Board (SASB)  
UN's Principles for Responsible Investment Initiative (UNPRI)

## Industry standards

Asia Securities Industry and Financial Markets Association (ASIFMA)  
CFA UK  
European Fund and Asset Management Association (EFAMA)  
Global Impact Investing Network (GIIN)  
Hong Kong Investment Funds Association (HKIFA)  
ICAM Green and Social Bond Principles  
Investment Company Institute (ICI)  
Investor Stewardship Group (ISG)  
London Stock Exchange's Sustainable Markets Advisory Group  
Responsible Investment Association Australasia (RIAA)  
The Investor Forum  
UK Investment Association

# 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): 10/1

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.



**Minal Dave**  
Investment Stewardship Specialist  
Vice President, London  
Experience: 18/15

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.



**Lara Jackson**  
Investment Stewardship Specialist  
Vice President, London  
Experience: 8/<1

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.



**Irfan Patel**  
Investment Stewardship Specialist  
Vice President, London  
Experience: 8/<1

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).



**Nishesh Kumar**  
North America Head of Investment Stewardship  
Managing Director, New York  
Experience: 24/22

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.



**Jonathan Steinmetz**  
Investment Stewardship Specialist  
Executive Director, New York  
Experience: 25/<1

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.



**Aidine Rivera**  
Investment Stewardship Specialist  
Executive Director, New York  
Experience: 15/11

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.



**Bennett Rosenbach**  
Investment Stewardship Specialist  
Vice President, New York  
Experience: 7/7

Bennett is a governance and voting specialist. He has experience as an equity research analyst covering the energy industry.



**Felix Lam**  
Asia ex-Japan Head of Investment Stewardship  
Executive Director, Hong Kong  
Experience: 17/1

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.

## Appendix 2 – Biographies continued

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**Janet Wong**  
Investment Stewardship Specialist  
Vice President, Hong Kong  
Experience: 7/<1

Janet focuses on 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.



**Su Sang Yoon**  
Investment Stewardship Specialist  
Associate, Hong Kong  
Experience: 5/<1

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.



**Shizuko Ohmi**  
Japan Head of Investment Stewardship  
Executive Director, Tokyo  
Experience: 30/1

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.



**Konomi Fujimori**  
Investment Stewardship Specialist  
Vice President, Tokyo  
Experience: 15/<1

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.



# Appendix 3 – Sustainable investing research publications – 2021

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Please find below a list of ESG-related research publications in 2021.

## January

Understanding a fund's carbon footprint  
Understanding the ESG fund report  
ESG-aligned transport investing  
What does the Biden presidency mean for the global climate agenda?  
Global Alternatives Outlook: Green tech – a key driver for transport investments

## February

Global Long Term Capital Market Assumptions (LTCMA) client survey.: Key takeaways on the role of alternatives, bonds, and ESG  
Building carbon-transition fixed income portfolios  
Sustainable income from sustainable sources

## March

The case for ESG integration when investing in EM  
Sustainable investing: How to identify ESG leaders poised for long-term growth  
Explaining the Sustainable Finance Disclosure Regulation (SFDR)  
Europe dominates offshore wind power  
What's my carbon risk premium?  
Green bonds: Finding sustainability, finding value  
The impact of ESG factors on portfolio returns

## April

Sustainable fashion: Why it matters, and how to identify the winners  
Achieving net zero: The path to a carbon-neutral world

## May

Climate change voting – our approach  
Introduction to climate change scenario analysis  
The implications of carbon pricing initiatives for investors

## June

Considering the portfolio implications of COP26  
ESG investing in China: Overcoming the ESG data challenge  
Renewable energy: Standing on its own two feet

## August

Green and pleasant land: Decarbonising American electricity  
Explaining the European Union Sustainable Finance Disclosure Regulation (SFDR)  
Sovereigns and ESG: Taking a stance in a complicated world

## September

ESG explained: 7 essentials you need to know  
July ESG360: The social factor – unfairly underrated  
ESG: It's time for the S to shine  
What is COP26 and why does it matter  
Getting ahead of COP26 and what it means for investors

## October

The global carbon market: How offsets, regulation and new standards may catalyse lower emissions and create opportunities  
Building climate-aware stress tests  
ESG360: Buildings Reimagined: Why carbon-neutral property is the future of real estate  
Why social factors matter when investing in emerging markets

## November

Doing good and doing well: ESG trade-offs in investing  
COP26: Not a failure, not a success  
Understanding carbon exposure metrics

## December

Selecting stocks for an environmentally sustainable future

# 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.104–108
Principle 2	Signatories’ governance, resources and incentives support stewardship.	p.11–17, p.86–103, p.124, Appendix 2
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	p.109–111
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	p.114–117
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	p.109, p.112–114
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	p.104–108
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfill their responsibilities.	p.18–33, p.86–103
Principle 8	Signatories monitor and hold to account managers and/or service providers.	p.120–123
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets.	p.18–33, p.39–82
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers.	p.25–28
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers.	p.23–24
Principle 12	Signatories actively exercise their rights and responsibilities.	p.83–85

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)

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## Taiwan Stewardship Principles for Institutional Investors

Principle	Signatory actions	Pages
Principle 1	Establish and disclose stewardship policies.	p.5–10, p.86–103
Principle 2	Establish and disclose policies on managing conflicts of interest.	p.109–111
Principle 3	Regularly monitor investee companies.	p.18–33, p.39–82
Principle 4	Maintain an appropriate dialogue and interaction with investee companies.	p.18–33, p.39–82
Principle 5	Establish and disclose clear voting policies and voting results.	p.83–85, p.117–121
Principle 6	Periodically disclose the status of fulfillment of stewardship responsibilities .	p.11–17, p.34–38, p.112–129

Source: Taiwan Stock Exchange

(<https://cgc.twse.com.tw/docs/Revision%20of%20Stewardship%20Principles%20for%20Institutional%20Investors-20200810.pdf>)

## 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.86–103
Principle 2	Investors should monitor and engage with their investee companies.	p.18–33, p.39–81
Principle 3	Investors should consider and establish clear policies on when they will escalate their engagement activities.	p.23–24
Principle 4	Investors should have clear policies on voting guidance.	p.83–85, p.117–121
Principle 5	Investors should be willing to act collectively with other investors where appropriate.	p.25–28, p.125
Principle 6	Investors should report to their stakeholders on how they have discharged their ownership responsibilities.	p.11–17, p.34–38, p.112–129
Principle 7	When investing on behalf of clients, investors should have policies on managing conflicts of interests.	p.109–111

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)

# Appendix 4 – Stewardship code mappings continued

## Australia Principles of Internal Governance and Asset Stewardship

Principle	Signatory actions	Pages
Principle 1	Monitoring of company performance on financial and non-financial matters.	p.86–103, p.112–117
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.39–82
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.18–33
Principle 4	Proxy voting.	p.83–85, p.117–121
Principle 5	Collaborative engagement with other investors including involvement with industry groups and associations.	p.25–28, p.125
Principle 6	Principles used for policy advocacy including participation with industry groups and associations.	p.25–28
Principle 7	The approach to client engagement, education and communication regarding asset stewardship.	p.104–108

Source: FSC Australia (<https://www.fsc.org.au/web-page-resources/fsc-standards/1522-23s-internal-governance-and-asset-stewardship>)

## The Singapore Stewardship Principles

Principle	Signatory actions	Pages
Principle 1	<b>Take a stand on stewardship</b> Responsible investors establish and articulate their policies on their stewardship responsibilities.	p.5–10, p.86–103
Principle 2	<b>Know your investment</b> Responsible investors communicate regularly and effectively with their investee companies.	p.18–33, p.39–82
Principle 3	<b>Stay active and informed</b> Responsible investors actively monitor their investee companies.	p.18–33, p.39–82
Principle 4	<b>Uphold transparency in managing conflicts of interest</b> Responsible investors make known their approach to managing conflicts of interest.	p.109–111
Principle 5	<b>Vote responsibly</b> Responsible investors establish clear policies on voting and exercise their voting rights in a responsible fashion.	p.83–85, p.117–121
Principle 6	<b>Set a good example</b> Responsible investors document and provide relevant updates on their stewardship activities.	p.11–17, p.34–38, p.112–129
Principle 7	<b>Work together</b> Responsible investors are willing to engage responsibly with one another where appropriate.	p.25–28, p.125

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.86–10
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.109–111
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.18–33, p.39–82
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.18–33, p.39–82
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.83–85, p.117–121
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.11–17, p.34–38, p.107–108
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.11–17, p.25–28, p.34–38, p.125
Principle 8	Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.	Not applicable

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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