J.P.Morgan

Sustainable Fixed Income Strategy

SFDR Article 11(a) Periodic Report
From the period 10-March-2021 to 31-March-2022

To what extent were the environmental and/or social characteristics promoted by this financial product met during the most recent reference period?

The Sustainable Fixed Income Strategy (“SFIS”) promotes environmental and/or social characteristics within the meaning of Article 8 of the Sustainable Finance Disclosure Regulation EU 2019/2088 (“SFDR”). SFIS promoted environmental and/or social characteristics by primarily holding fixed income instruments with an SFDR designation of Article 8 (products which promote environmental and/or social characteristics) or Article 9 (products which have a sustainable investment objective). By proportionately holding more fixed income instruments rated by MSCI as MSCI ESG Leaders[1] relative to our reference fixed income benchmark (Barclays Global Aggregate Bond Index[2]), we have favored companies which are better at managing ESG related risks and opportunities, which goes toward achieving the promotion of environmental and/or social characteristics through SFIS.

Throughout the reference period, SFIS evaluated ESG factors using datasets coming from MSCI that continue to evolve. Specifically, the coverage and methodology of those factors was most mature for corporate bonds; hence, the research process was most meaningfully enhanced by the available data within that asset class. Throughout the reference period of 10-March 2021 to 31-March 2022, SFIS promoted the environmental and social characteristics of renewable energy and clean water by considering the alignment of the fixed income instruments invested in by SFIS via a number of indicators on the basis of data provided by MSCI. These include, but are not limited to, lower carbon risk[3], freshwater withdrawal intensity[4], exposure to high water risk[5] and fossil fuel reserves[6]. Therein, SFIS demonstrated a more favourable position relative to the benchmark regarding exposure to high water risk, board composition and fossil fuel reserves. SFIS performed less favourably against the benchmark regarding freshwater withdrawal intensity and carbon risk. During the reference period, SFIS did not evaluate indicators that explicitly consider data security, gender diversity, or community revitalization.

Based on the Article 8 or 9 SFDR classification of the fixed income instruments held by SFIS, the governance practices of the underlying investee companies followed during the reference period should be in line with those set out in SFDR (e.g. the underlying investee companies followed good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance).

Furthermore, SFIS has maintained a dialogue with the internal team performing manager due diligence on potential and/or existing investments. Furthermore, our due diligence process took into account governance considerations throughout the reference period, including how the fixed income instruments or their managers address considerations such as board diversity, business ethics, and anti-competitive practices.

This report is based on the current model portfolio for SFIS. Any customisations made to your portfolio, including any custom restrictions or exclusions applied at your request, may change the position of your portfolio as compared to the model portfolio.

EU Criteria for environmentally sustainable economic activities

SFIS does not take into account the EU criteria for environmentally sustainable economic activities.

[1] Fixed income instruments with an MSCI ESG rating of AAA or AA. The MSCI ESG Rating for funds is designed to measure the resiliency of portfolios to long-term ESG risks and opportunities. The most highly rated funds consist of issuers with leading or improving management of key ESG risks. The ESG Rating is calculated as a direct mapping of the ESG Quality Scores assigned by MSCI to letter rating categories. The ESG Quality Score measures the ability of underlying investee companies to manage key medium-to long-term risks and opportunities arising from environmental, social, and governance factors.
[2] For illustrative purposes only. The Barclays Global Aggregate Bond Index is a free float-adjusted market capitalization index that is designed to measure global investment grade, fixed-rate bond performance. The Barclays Global Aggregate Bond Index is not an ESG/Sustainable benchmark and was selected based on investment criteria only.
[3] Carbon risk measures exposure to carbon intensive companies. It is based on MSCI CarbonMetrics and is calculated as the portfolio weighted average of issuer carbon intensity. At the issuer level, Carbon Intensity is the ratio of annual scope 1 and 2 carbon emissions to annual revenue. Scope 1 emissions are those from sources owned or controlled by the investee company, typically direct combustion of fuel as in a furnace or vehicle. Scope 2 emissions are those caused by the generation of electricity purchased by the investee company.
[4] Fund weighted average freshwater withdrawal normalized to sales (cubic meters/USD million), which allows for comparisons between companies of different sizes. “Freshwater withdrawal” refers to the total water intake into a facility/process from all sources. “Freshwater” refers to potable, fresh surface, inland water sources, such as river, municipal water and groundwater.
[5] Company’s operations are exposed to areas where the percentage of total water withdrawn is high or extremely high based on the World Resources Institute’s Aqueduct Water Risk Framework tool.
[6] This field identifies companies with evidence of owning fossil fuel reserves regardless of their industries, including companies that own less than 50% of a reserves field. Fossil reserves are defined as proved and probable reserves (i.e. 1P and 2P) for coal and proved reserves (i.e. 1P) for oil and natural gas. Evidence of owning reserves includes companies providing the exact volume of reserves, and companies making a statement about their ownership of reserves.