Investment Stewardship
Investment-led, expert-driven

What you need to know
Summary of our annual report 2020

J.P. Morgan Asset Management has a deep-rooted history of creating value for investors.

Our long-term, active approach to investment management is designed to address both risks and opportunities. We also integrate financially material environmental, social and governance (ESG) factors into our investment frameworks across asset classes.

The formal structure and process we have created to help us view and understand our portfolio companies' activities help us identify and mitigate the risks associated with them and preserve value for our clients.

We call this "investment stewardship."

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.

Identifying whether a risk or opportunity is substantial enough for us to act upon is a key element in our approach to investment stewardship. However, the global breadth of our investment universe means we cannot apply the same metrics or standards across the board.

Instead, our approach analyses securities, assets and situations in context, and we then decide how significant a particular event or circumstance may be, given that context. This allows us to gauge the financially material elements of a sector, industry or business model from a sustainability perspective, now and into the future.

At the start of 2020, we identified the five main investment stewardship priorities we believe have universal applicability and will stand the test of time. Within each priority area, we highlighted related themes as specific areas of focus for the year.

Investment stewardship priorities

- Governance
- Strategy alignment with the long term
- Human capital management
- Stakeholder engagement
- Climate risk

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Active engagement in 2020

Governance

We aim to ensure that board members and senior management teams are fully focused on their responsibilities as leaders of people and stewards of investor capital.

Board and management diversity: We engaged with companies on the composition of their boardrooms. Good governance needs challenge in the boardroom, and we believe this is best achieved by a diversity of views. When governance is good, it benefits the organization, CEO, shareholders and all other stakeholders.

Capital allocation: This topic has come into investor focus in recent years and is now one of the leading drivers of activist campaigns against boards. Directors play an important role in providing oversight of the capital allocation process over competing priorities and multiple time horizons. We engaged with boards on a range of issues around long-term plans and expenditure.

Strategy alignment with the long term

Executive remuneration: We engaged with boards and management to appropriately align remuneration packages. We believe incentive awards should be 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.

Human capital managment

Diversity in the workplace: Studies have demonstrated that a diverse workforce brings innovation and is in tune with a broader range of customers' changing demands—both of which can lead to better financial performance. Therefore, we engaged with companies to highlight workforce diversity as a critical aspect of a business's model, approach and outlook that can also give a strong indication of its corporate culture.

Stakeholder engagement

Cybersecurity: Generating long-term sustainable returns requires managing the interests of stakeholders. Boards should be accountable for key enterprise risks, such as cybersecurity and data security issues, and should have clear oversight of technology, data security and privacy policies. We engaged with boards on these ongoing and rapidly changing issues.

Climate risk

Disclosure: As long-term investors, we understand climate change will impact multiple sectors and industries in a complex way, and influence companies' strategies well beyond the tenures of their current managements and boards. We engaged with companies to highlight the importance of creating a framework to encourage and facilitate long-term reporting.

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ENGAGEMENT DISCUSSION	GOVERNANCE ISSUES	ENVIRONMENTAL ISSUES	SOCIAL ISSUES	MULTIPLE CATEGORY ISSUES

EXAMPLE CASE STUDY: EXECUTIVE REMUNERATION

WHY DID WE ENGAGE?

Following an extended period of poor business performance, this global food and beverage producer was subject to growing shareholder activism. This had been manifested in poor "Say on Pay" support for executive compensation packages in previous years.

At the same time, the company was undergoing significant boardroom changes.

The new executive management and reconstituted board revamped the company strategy to focus on sustainable value creation by driving profitable revenue growth across its global and local brands.

HOW DID WE ENGAGE?

We engaged with the board on its executive compensation program and linkage to the new strategy. The board took feedback from JPMAM and other shareholders on the matter and reduced the high weight given to personal goals, increasing the emphasis on objective measures of annual performance, among other things.

OUTCOME

The company:

- Made important changes to its annual executive incentive plan.
- Implemented several features that improve the plan. For example, by disclosing target levels against performance metrics, the company offers greater transparency than many.
- Built in further alignment by subjecting all vested awards to an additional year of withholding. Options make up a small proportion of long-term awards, and the company is also judicious in its valuation of options.

We are not claiming credit for the positive changes made by many of the companies with which we have engaged. Rather, this is an acknowledgment that we have either initiated discussions or added our voice to the existing dialogue on issues we believe are important to long-term performance.

We hope you find this article helpful in understanding our investment-led stewardship approach to sustainability and useful in explaining our ethos and approach to your clients.

For the full report and more information on our approach to investment stewardship please visit our website or speak to your usual J.P. Morgan Asset Management representative.

Building stronger portfolios

At J.P. Morgan Asset Management, collaborating with our clients in an effort to build stronger portfolios drives everything we do.

We are committed to sharing our expertise, insights and solutions to help make better investment decisions. Whatever you are looking to achieve, together we can solve it.

LET'S SOLVE IT®

RISK SUMMARY

Certain client strategies invest on the basis of sustainability/Environmental Social Government (ESG) criteria involves qualitative and subjective analysis. There is no guarantee that the determinations made by the adviser will be successful and/or align with the beliefs or values of a particular investor. Unless specified by the client agreement or offering documents, specific assets/companies are not excluded from portfolios explicitly on the basis of ESG criteria nor is there and obligation to buy and sell securities based on those factors.

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