

# J.P. Morgan USD EM 0-5Y SRI Screened Diversified Bond Index

## Index Methodology and Profile

### Highlights

The J.P. Morgan USD EM 0-5Y SRI Screened Diversified Bond Index tracks US Dollar emerging market fixed and floating-rate debt instruments issued by corporate, sovereign, and quasi-sovereign entities. The index tracks instruments that are contained in the established J.P. Morgan EMBI Global and J.P. Morgan CEMBI Broad indices and combines them with a market capitalization-based weighting scheme by applying a cap of 5% at country level. The index applies a Socially Responsible Investing (SRI) screening methodology to exclude issuers involved in certain business activities or in violation of UN Global Compact principles. The returns and statistics are available since January 2018.

### Index Criteria

<b>Instrument Type</b>	<b>Includes:</b> Fixed-rate, floating and zero-coupon bonds, capitalization/amortizing bonds <b>Excludes:</b> Convertibles, inflation-linked instruments <sup>1</sup> and defaulted issues
<b>Remaining Maturity</b>	<b>Entry:</b> Only those instruments with at least 2.5 years until maturity are considered for inclusion in the EMBI Global and CEMBI Broad. Instruments with less than or equal to 5 years to maturity from the EMBI Global and CEMBI Broad are eligible for inclusion in the J.P. Morgan USD EM 0-5Y SRI Screened Diversified Bond Index. <b>Exit:</b> At each month-end rebalance, instruments that fall below 6 months to maturity are excluded from the index
<b>Minimum Issue Size</b>	Only issues with a current face amount outstanding of \$500 million or more are considered for inclusion <sup>2</sup>
<b>Currency Denomination</b>	Only USD denominated bonds are included. Instruments where the amount of coupon or redemption payment is linked to an exchange rate are not eligible for inclusion
<b>Issuers</b>	Corporate, sovereign and quasi-sovereign instruments are eligible in the index. Quasi sovereign entities are defined as being 100% guaranteed or 100% owned by the government. Corporate issuers must be one of the following: (1) headquartered in an EM country or (2) 100% of the issuer's assets are within EM economies, or (3) issuer must have 100% secured assets within EM economies
<b>Country</b>	<b>Sovereign and Quasi-sovereign entities:</b> Inclusion is limited to countries whose country's GNI per capita is below the J.P. Morgan Index Income Ceiling (IIC) for three consecutive years and country rating is IG. Countries are removed from the index if the IIC level and the country's sovereign credit rating is below BBB-/Baa3. <b>Corporate entities:</b> Must be domiciled as defined by J.P. Morgan Corporate Indices geographic categorization. <b>Excludes:</b> All Indian issuers (sovereign, quasi-sovereign and corporate) are excluded.

<sup>1</sup> Bonds with embedded options and warrants are eligible for inclusion if the options/warrants are attached to the instruments that would otherwise be included in the index and the prices are quoted cum options or warrants.

<sup>2</sup> A bond is removed from the index when its current outstanding amount falls below \$0.5 billion.

## SRI Screening Criteria

The J.P. Morgan USD EM 0-5Y SRI Screened Diversified Bond Index applies screens, using ESG data from Sustainalytics and Freedom House, in order to determine index eligible issuers. Issuers are excluded based on the below criteria:

<b>Sovereign</b>	<ul style="list-style-type: none"> <li>• Issuers classified as “Not Free” by the Freedom in the World report published by Freedom House</li> <li>• Issuers not covered by Sustainalytics, or with a Country Risk Monitor (CRM) Score below 40</li> </ul>																																												
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<b>Corporate &amp; quasi-sovereign</b>	<ul style="list-style-type: none"> <li>• Issuers not covered by Sustainalytics, or with an ESG Rating below 40</li> <li>• Issuers not covered by Sustainalytics, or not in compliance with UN Global Compact (UNGC) principles</li> <li>• Issuers not covered by Sustainalytics<sup>1</sup>, or found to significantly harm one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 2020/852, specifically companies with controversies in the following events of category 4 (high impact) or category 5 (severe impact) in the following events: <ul style="list-style-type: none"> <li>○ Community relations (direct and supply chain)</li> <li>○ Land use and biodiversity (direct and supply chain)</li> <li>○ Emissions, effluents and waste (direct and supply chain)</li> <li>○ Energy use and GHG emissions (direct and supply chain)</li> <li>○ Water use (direct and supply chain)</li> <li>○ Environmental impact of products</li> <li>○ Carbon impact of products</li> <li>○ Lobbying and public policy</li> </ul> </li> <li>• Issuers not covered by Sustainalytics<sup>2</sup>, or with revenue from the following product involvements:</li> </ul> <table> <tr> <th>Category</th><th>Involvement</th><th>Description</th><th>Threshold</th></tr> <tr> <td rowspan="3">Adult Entertainment</td><td>Distribution</td><td>The company is involved in the distribution of adult entertainment materials.</td><td>5%</td></tr> <tr> <td>Production</td><td>The company is involved in the production of adult entertainment and/or owns/operates adult entertainment establishments.</td><td>5%</td></tr> <tr> <td>Overall revenue</td><td>The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.</td><td>15%</td></tr> <tr> <td rowspan="2">Alcoholic Beverages</td><td>Production</td><td>The company manufactures alcoholic beverages.</td><td>5%</td></tr> <tr> <td>Overall revenue</td><td>The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.</td><td>15%</td></tr> <tr> <td>Arctic Oil &amp; Gas</td><td>Exploration</td><td>The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.</td><td>0%</td></tr> <tr> <td rowspan="4">Controversial Weapons</td><td>Tailor-made and essential</td><td>The company is involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.</td><td>0%</td></tr> <tr> <td>Non tailor-made or non-essential</td><td>The company provides components/services for the core weapon system, which are either not considered tailor-made or not essential to the lethal use of the weapon.</td><td>0%</td></tr> <tr> <td>Significant ownership (tailor-made and essential)</td><td>The company is involved, through corporate ownership, in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.</td><td>-</td></tr> <tr> <td>Significant ownership (non-tailor-made and essential)<sup>3</sup></td><td>The company is involved, through corporate ownership, in providing components/services for the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.</td><td>-</td></tr> <tr> <td>Gambling</td><td>Operations</td><td>The company owns/operates a gambling establishment.</td><td>5%</td></tr> </table>			Category	Involvement	Description	Threshold	Adult Entertainment	Distribution	The company is involved in the distribution of adult entertainment materials.	5%	Production	The company is involved in the production of adult entertainment and/or owns/operates adult entertainment establishments.	5%	Overall revenue	The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.	15%	Alcoholic Beverages	Production	The company manufactures alcoholic beverages.	5%	Overall revenue	The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.	15%	Arctic Oil & Gas	Exploration	The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.	0%	Controversial Weapons	Tailor-made and essential	The company is involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.	0%	Non tailor-made or non-essential	The company provides components/services for the core weapon system, which are either not considered tailor-made or not essential to the lethal use of the weapon.	0%	Significant ownership (tailor-made and essential)	The company is involved, through corporate ownership, in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.	-	Significant ownership (non-tailor-made and essential) <sup>3</sup>	The company is involved, through corporate ownership, in providing components/services for the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.	-	Gambling	Operations	The company owns/operates a gambling establishment.	5%
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	Genetically Modified Plants and Seeds	Development	The company is involved in the development and/or cultivation of genetically modified seeds and/or plants.	5%
		Overall	The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.	5%
	Military Contracting	Weapons	The company manufactures military weapon systems and/or integral, tailor-made components for these weapons.	0%
		Products and/or services	The company provides tailor-made products and/or services that support military weapons.	5%
		Overall	The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.	5%
	Nuclear power	Production	The company produces nuclear power (capacity) $\geq 5\%$	
		Overall	The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.	15%
	Nuclear Weapons	Involvement	Category of involvement Id field for nuclear weapons	0%
	Oil & Gas	Generation Capacity	The company generates electricity from oil and/or gas (capacity) $\geq 30\%$	
		Generation	The company generates electricity from oil and/or gas (revenue).	30%
		Exploration and production natural gas	The company is involved in the exploration and production of gas.	0%
		Production exploration and production Oil	The company is involved in the exploration and production of oil.	0%
		Production	The company is involved in oil and gas exploration, production, refining, transportation, and/or storage.	0%
		Overall	The total (aggregated) revenue percentage of involvement in all categories of this PI area.	0%
	Oil Sands	Overall	The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.	0%
	Shale Energy	Overall	The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.	0%
	Small Arms	Civilian customers (assault weapons)	The company manufactures and sells assault weapons to civilian customers.	0%
		Civilian customers (non-assault weapons)	The company manufactures and sells small arms (non-assault weapons) to civilian customers.	0%
		Key components	The company manufactures and sells key components of small arms.	0%
		Military/law enforcement customers	The company manufactures and sells small arms to military/law enforcement.	0%
		Retail/distribution (assault weapons)	The company is involved in the retail and/or distribution of assault weapons.	5%
		Retail/distribution (non-assault weapons)	The company is involved in the retail and/or distribution of small arms (non-assault weapons).	5%
	Thermal Coal	Extraction	The company extracts thermal coal.	0%
		Power Generation	The company generates electricity from thermal coal (capacity) $\geq 10\%$	
		Power Generation	The company generates electricity from thermal coal (revenue).	5%
		Overall	The total (aggregated) revenue percentage of	0%

			involvement in all categories of this product involvement area.	
	Tobacco	Production	The company manufactures tobacco products.	0%
		Overall	The total (aggregated) revenue percentage of involvement in all categories of this product involvement area.	5%
<sup>1</sup> Issuers not covered by Sustainalytics are excluded from 1 June 2022.				
<sup>2</sup> Issuers not covered by Sustainalytics are excluded from 1 June 2022.				
<sup>3</sup> Significant ownership (non-tailor-made and essential) is applied from March 2024				
Sustainalytics entity ID to JPM Index Issuer Ticker mapping is defined from March 2024 and used historically from 2018 for Sustainalytics’ product involvement screens.				

Source: JPMorgan Chase & Co.

## Index Characteristics and Methodology

<b>Pricing</b>	Bid and Ask prices are taken from a third-party pricing source, PricingDirect
<b>Aggregate Return</b>	Weighted average of bond returns using mid prices
<b>Rebalancing</b>	Rebalances on the last business day of the month as per US EMTA calendar
<b>Coupon Reinvestment</b>	All coupons received are immediately reinvested into the index
<b>FX Rates</b>	All FX rates used for hedged/unhedged returns are as of 4pm London time provided by WMR/Refinitiv
<b>Hedging Strategy</b>	Assume a 1-month currency forward position that begins on rebalance day and ends on next rebalance day
<b>Weighting</b>	Market capitalization-based weighting, subject to a 5% capping at country level
<b>Holiday Calendar</b>	Follows US bond market calendar set by Emerging Markets Trader Association (EMTA)

## Appendix

### Defining the universe of eligible countries

For sovereign and quasi-sovereign entities, following the 2018 Index Governance Review, a country will be eligible for the EM sovereign suite of indices if it either meets the GNI per capita-based Index Income Ceiling (IIC) criterion or the PPP-based Index PPP Ratio (IPR) criterion. J.P. Morgan defines the Index Income Ceiling (IIC) as the GNI per capital level that is adjusted every year by the growth rate of the World GNI per capita, Atlas method (current US\$), provided by the World Bank annually. An existing country may be considered for removal from the index if its GNI per capita is above the Index Income Ceiling (IIC) for three consecutive years and the country's long term foreign currency sovereign credit rating (the available ratings from all three agencies: S&P, Moody's & Fitch) is A- /A3/A- (inclusive) or above for three consecutive years.

For the IPR, it is calculated, as below, from the one-year lagged GDP data available in IMF's World Economic Outlook publication. The EM IPR threshold is an indexed number which mimics the changes to the World IPR. 
$$\text{IPR} = \text{GDP (current prices, USD)} / \text{GDP (current prices, PPP dollars)} * 100$$
 IPR criterion states that a country's IPR should below the EM threshold for three consecutive years, to be eligible.

Corporate entities must be domiciled as defined by J.P. Morgan Corporate Indices geographic categorization.

### Instrument type

The J.P. Morgan USD EM 0-5Y SRI Screened Diversified Bond Index includes both fixed and floating rate instruments, as well as capitalizing/amortizing bonds. Bonds with embedded options and warrants are eligible for inclusion if a) the options/warrants are attached to instruments that would otherwise be included in the index and b) the quotation convention—as recommended by the Emerging Markets Traders Association (EMTA)—is for instrument prices to be quoted cumulative options or warrants. Convertible bonds are not eligible for inclusion into the index. All defaulted securities, sovereign, quasi-sovereign, and corporate are excluded from the index.

### Issuer type

The J.P. Morgan USD EM 0-5Y SRI Screened Diversified Bond Index contains instruments issued by corporate, sovereign and quasi-sovereign entities from index-eligible countries. Historically, any quasi-sovereign issue was considered eligible for inclusion. As of May 31, 2002, we strengthened our definition of “quasi-sovereign” as an entity that is 100% guaranteed or 100% owned by the national government and resides in the index eligible country.

### Weighting Methodology

The J.P. Morgan USD EM 0-5Y SRI Screened Diversified Bond Index combines the 0-5 year portion of the J.P. Morgan EMBI Global and the J.P. Morgan CEMBI Broad using a market weighted approach. For determining weights, instruments from China and Hong Kong are treated as one country. The weight of each instrument in the J.P. Morgan USD EM 0-5Y SRI Screened Diversified Bond Index is then determined by dividing its market capitalization by the total market capitalization for all the index's instrument allocations. The result represents the weight of each issue expressed as a percentage of the index. Finally, a threshold (a maximum cap of 5%) is applied at the country level to improve diversification, i.e., sum of all the issuer weights within the country must be equal to or less than the maximum cap/threshold. Excess weight is re-distributed to other countries below the threshold. The maximum cap/threshold will be reviewed on a periodic basis and adjusted accordingly. By allocating their portfolios according to these exact instrument weights, and accounting for coupon reinvestments and instrument allocation changes, investors can replicate the performance of the J.P. Morgan USD EM 0-5Y SRI Screened Diversified Bond Index.

### New Issue Timing

A new issue that meets the J.P. Morgan USD EM 0-5Y SRI Screened Diversified Bond Index admission requirements is added to the index on the first month-end business date after its issuance, provided its settlement date falls before the last US business day of the month. Prior to January 2021, the cut-off date for bonds to settle to be eligible for inclusion on the same month-end was the 15th of the month.

The first exception applies to a new issue that is released as part of a debt exchange program. At the month-end rebalancing date immediately following this event, the amount of debt retired in this exchange would be removed from the index, and the new issue would be added to the index (provided official exchange results are made available in a timely manner AND the issue settles by month end).

The second exception concerns Reg S securities. An instrument that is issued purely in reliance on Regulation S of the US Securities Act of 1933 and not pursuant to Rule 144A will be ineligible for inclusion in the index until it is seasoned (that is, until the expiration of the relevant Regulation S restricted period). The date at which the seasoning restriction is lifted will effectively be the new “settlement” date.

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