

J.P. Morgan ESG DM Corporate High Yield USD Index

Methodology and Factsheet

Highlights

The J.P. Morgan ESG DM Corporate High Yield USD Index tracks corporate fixed and floating-rate debt instruments across developed market high yield issuers in U.S. Dollar currency only. The index applies an ESG scoring and screening methodology to tilt toward issuers ranked higher on ESG criteria and green bond issues, and to underweight or exclude issuers that rank lower. The returns and statistics are available since December 2012.

Baseline Index Criteria

Instrument Type:	Include: fixed rate, floating rate, hybrid, step-up, PIK, toggle, amortizers, perpetuals, Sukuk bonds, and all subordinated financial bonds except AT1 Exclude: structured bonds and credit enhanced bonds including credit linked, collateral trust and equipment trust bonds, dual currency bonds and bonds with non-transparent cash flows or atypical indices used to reset coupons
Issuer Type:	Include: Corporate Exclude: sovereign and quasi-sovereign issuers ¹
Collateral:	Exclude: covered, mortgage backed, asset backed, bank guaranteed, government guaranteed
Maturity:	Entry: Minimum 24 months till maturity; Exit: minimum 13 months till maturity
Amount Outstanding:	USD (\$) \$250mm
Holiday:	Levels published on all weekday. Pricing is based upon the US market calendar
Currency:	USD (\$) denominated bonds are allowed.
Country:	All countries across developed markets
Credit Rating:	Only HY (BB+ and lower) securities will be included. For index purposes, S&P, Moody's, and Fitch ratings will be considered. Credit rating will be determined based on the following rules: <ol style="list-style-type: none"> The middle rating of the Moody's, S&P, and Fitch ratings The lower rating when two ratings are available The sole rating when only one rating is provided
Defaulted Issues:	Upon default, the issue is removed from the index on the month-end after a grace period or following a bankruptcy filing, whichever comes sooner.

Source: JPMorgan Chase & Co.

JESG Overlay Criteria

ESG & Green Bond label providers:	Sustainalytics (Corporates) RepRisk (Corporates) Climate Bonds Initiative (Green bonds)
JESG Scoring methodology:	The absolute index scores are a blend of Sustainalytics & RepRisk on an equal weight basis. The scores range from 0 - 100, with 100 classified as the best possible score.
JESG Integration methodology:	Issuers with better overall ESG scores are assigned larger weights compared to the non-ESG baseline index.
Green bond treatment:	Increased weight allocation compared to a conventional bond from same issuer.

1 – Quasi-sovereign entities are defined as being 100% guaranteed or 100% owned by the national government.

JESG Ethical exclusions & Negative Screening:	<p>Issuers are excluded based on the below criteria.</p> <ul style="list-style-type: none"> • Issuers with any direct revenue from the following sectors: <ul style="list-style-type: none"> ○ Thermal Coal ○ Tobacco ○ Weapons • Issuers not in compliance with UN Global Compact principles as identified by both RepRisk and Sustainalytics • Issuers with JESG scores less than 20 are not eligible for index re-inclusion for 12 months
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Source: JPMorgan Chase & Co.

Index Characteristics and Methodology

Pricing:	Mid prices are taken from a third party pricing source, PricingDirect.
Aggregate Return:	Index level total return is calculated as a market-weighted average of bond returns using mid prices.
Rebalancing:	Last weekday of the month.
Coupon Treatment:	All coupons received are immediately reinvested into the index.
FX Rates:	All FX rates used for hedged/unhedged returns are as of 4pm London time provided by WM/Reuters.
Hedging Strategy:	Assume a 1-month currency forward position that begins on rebalance day and ends on next rebalance day.
Weighting:	Market capitalization based weighting, renormalized based on JESG Band scalar.
Bloomberg Ticker:	JPEIGCHY Index

Source: JPMorgan Chase & Co.

Appendix

Defining the Index Universe

Eligibility for the index will be determined on a continuous basis by monitoring the index criteria. Any changes to the composition or eligibility will be announced prior to rebalance with an estimated schedule to provide full transparency to the investor base.

Countries of risk for the instruments in the index will be determined based upon the below considerations:

1. The country with the largest source of revenue. Guarantees by other entities including subsidiaries or holding companies in other countries will also be considered.
2. The headquarters or the location of the issuer's majority assets will also be considered.

New Issue Timing

A new issue that meets the index admission requirements is added to the index on the month-end business date after its issuance, provided its settle date falls five business days before month-end. A new issue whose settlement date falls on or after month-end minus five is not eligible for inclusion until the following month-end rebalancing.

The exception to the timing of new issuance is for Reg-S securities. Instruments issued purely in reliance on Regulation S or "Reg-S" (without an accompanying 144A or registered tranche) or private placements (not registered instruments) are eligible for inclusion after a 40 calendar day seasoning period provided they meet all other index criteria. The date at which the seasoning restriction is lifted will effectively be the new "settlement" date.

ESG Methodology

The index applies J.P. Morgan ESG (JESG) issuer scores to adjust the market value of index constituents from the baseline global high yield corporate index. JESG issuer scores are a 0-100 percentile rank calculated based on normalized raw ESG scores from third-party research providers Sustainalytics and RepRisk. An issuer's finalized JESG score incorporates a 3-month rolling average. Corporate issuers with no coverage by either third-party research provider default to their region-sector average JESG score. The JESG scores are divided into five bands that are used to scale each issue's baseline index market value, with the band rebalance occurring with a one-month lag.

JESG Score Bands	Scalar
Band 1: Score > 80	1.00
Band 2: 60 < Score <= 80	0.80
Band 3: 40 < Score <= 60	0.60
Band 4: 20 < Score <= 40	0.40
Band 5: Score <= 20	0.00

Issuers in Band 5 will be excluded from the index and will not be eligible for twelve months. If an instrument is categorized as a "green bond" by the Climate Bonds Initiative, the security will receive a one-band upgrade. Green bonds by issuers already in Band 1 will not receive any further upgrades.

Weighting Methodology

While the weight of the instruments in the baseline DM Corporate High Yield USD index are market-weighted, the weight of each instrument in the JESG DM Corporate High Yield USD Index is determined by taking the issue's market value in USD, weighting by the ESG scalar, and then dividing by the total JESG market value of all JESG-eligible instruments in the index (US\$). The result represents the weight of the issue expressed as a percentage of the JESG DM Corporate High Yield USD Index. The market value of each issue is calculated by multiplying its face amount outstanding by the dirty price. Face amount outstanding for each issue is updated at each month-end in order to reflect market events (such as re-openings or buybacks) that have increased or decreased the issue's available supply.

For any questions or for additional information, please contact index.research@jpmorgan.com.

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