For professional / qualified / institutional clients and investors

# A climate-driven investment approach

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UBS

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Authors:

**Karim Sayyad, CFA**
Research Analyst - Sustainable Investing

**Aarti Ramachandran**
Research Analyst - Environmental Thematic Lead

**Francis Condon**
Head of Thematic Engagement & Collaboration

Contributors:

**Karianne Lancee**
Research Analyst - Head of SI Portfolio Integration

**Eveline Maechler**
Investment Specialist - Sustainable Investing

**Kalliroi Prassa**
Investment Data Scientist - Sustainable Investing

**Henry Russell**
Research Analyst - Sustainable Investing

**Lucy Thomas, CFA**
Head of Sustainable Investing

**Allee Zhang**
Global Real Assets - Sustainability Specialist

# Foreword

**Lucy Thomas, CFA**
Head of Sustainable Investing UBS Asset Management

Our planet is getting hotter. Our people are at risk. The consequences of inaction are becoming increasingly severe and irreversible.

The current state-of-play today is insufficient to meet climate goals and the pace of the transition is far from where it needs to be. Political headwinds, geopolitical tensions, concerns about energy security and macroeconomic factors are creating obstacles to the transition. Delaying the costs of climate action will likely only exacerbate the challenge.

The dissonance between climate and capital represents a large blind spot; a failure in a system built to measure wealth, risk and opportunity. However, within this blind spot lies an opportunity – one that calls for a shift in perspective. As investors, we hold the tools not just to measure value, but to redefine it. Our industry has the potential to use levers that align economic growth with the health of people and planet. We can bridge the gap between financial markets and climate realities. Global GHG (greenhouse gas) emissions must fall dramatically to effectively address the risks of climate change and global warming: we believe there is a need for a coordinated and broad-based approach across a range of sectors.

In order to close the climate gap capital and investments need to be allocated at scale toward companies and projects which can help deliver a climate-aware future by developing new products and solutions. Around USD 90 trillion needs to be invested in infrastructure compatible with climate goals by 2030 and will be key to tackling the climate change challenge.[1]

Increasingly our clients around the world, have taken a critical interest in climate change and the energy transition to a low carbon world.

We are committed to partnering with our clients to incorporate climate goals in portfolios. This report outlines our approach to net zero and climate with key highlights including:

Some key takeaways:

1. We offer approaches for strategies with climate and net-zero ambitions such as climate solutions, energy transition, climate indexes and rules-based portfolios
2. Climate considerations are integrated in our investment processes and are designed to mitigate potential risks to returns, seek new opportunities stemming from the energy transition and to achieve real world outcomes
3. The investment tools and science that we are applying in a climate context are constructed to achieve both our clients' financial and sustainability goals
4. Published our newly revised, client friendly, semi-annual Stewardship update 2024 - How we engage with companies and vote at AGMs
5. Commitments and governance that UBS-AM has in place provide a constructive and verifiable results-oriented approach to investing with a climate lens

1 Source: UN

# Executive summary

As a USD 1.8 trillion asset manager, we believe it is important for us to support our client's investment goals as they navigate climate change and the transition to a low-carbon economy. Climate change is an important concern for UBS Asset Management from an investment risk, capital flow, value creation, reputational and fiduciary duty perspective.

UBS-AM has adopted a holistic approach to climate change defined by the following elements.

- **Helping our clients achieve their climate objectives:** We understand that our approach to climate investing is determined by our clients' choices. That said, we believe that we have an important role to play in helping our clients achieve their climate objectives, working collaboratively with them on climate-risk education, providing information about best practices, and offering approaches for strategies with climate and net-zero ambitions. We support clients with climate-informed portfolio construction, transparency on climate-relevant data metrics, thought leadership and education. UBS-AM offers strategies that encompass various climate objectives, such as climate solutions, energy transition, climate indexes and rules-based portfolios. Our offering includes investment strategies with net-zero ambition and is continuously expanding based on client preferences.
- **Managing climate risk & opportunities in our processes:** We recognize that climate change represents a material financial risk across a broad range of investments. These risks arise from regulation, changing business models and the physical risks on operating assets and supply chains. We integrate risk data and insights into our investment management processes across asset classes including active and rules-based equity and fixed income, multi-asset, as well as in our real assets investing activities.
- **Active ownership on climate change:** Our active ownership approach encompasses integration of sustainability-related factors into investment decision-making, engagement with investee issuers and asset operators, proxy voting where relevant, advocacy with standard setters, and collaboration with our clients and other institutions.

Our climate platform comprises many different strategies and levers to address climate change and the energy transition in order to help our clients meet their climate goals.

# Helping our clients to achieve their climate objectives

Climate-oriented investment strategies take climate considerations into account in various forms, across various asset classes and with different ambition levels.

## What we're talking to clients about

While the pace and scale of climate change and the energy transition is uncertain, there are compelling reasons that many of our clients want to invest with a client lens.

**01** **Climate risk represents investment risk**
Physical and transition risk may affect returns of an investment portfolio. A transition, adaptation or net-zero lens may protect assets by mitigating exposure to these risks.

**02** **Capital flows to sustainable assets**
We expect the flow of capital towards sustainable assets to continue, driven by underlying changes in regulation, society, technology and the broader economy.

**03** **Long-term value creation**
The energy transition presents growth opportunities in certain sectors such as energy efficiency technologies. This creates potential for investors to capture upside potential from well-positioned companies, assets and industries.

**04** **Reputation**
Climate change is raising serious reputational risks for companies, asset owners and investment managers, as the social and environmental impacts of operations, physical plants and products and services come under increased scrutiny as well as accountability for all actors. Climate investing may mitigate associated reputational risks and help to align expectations for outcomes with stakeholder objectives.

**05** **Fiduciary duty**
Climate change poses material financial risks that may affect long-term returns. By seeking to protect assets from transition and physical risks, and by capitalizing on opportunities in the low-carbon economy, investment managers can act in the best interest of beneficiaries.

While there are uncertainties about the speed of the energy transition, the long-term direction of policy, capital and societal trends suggest that climate change will play a defining role in shaping future economies and investment returns. It is important to note that investing with a climate lens does not mean completely excluding all carbon-intensive sectors like traditional energy. It is fundamentally a long-term risk management strategy that anticipates and incorporates the inevitable structural shift toward a lower-carbon economy. It balances short-term trade-offs that may align with risk mitigation and long-term growth opportunities.

## Challenges and opportunities in climate transition

Despite promising developments, ambitions and commitments, the investor community and the financial sector is far from providing the estimated USD 125 trillion needed to finance the transition to net zero by 2050.[2] Temperatures are increasing, emissions continue to grow, and fossil fuel consumption hit an all-time high in 2023.[3] Positive progress in the deployment of key technologies is not leading to notable results on the ground. This suggests a significant disconnect between commitments made and actions taken, making the window for change increasingly narrow. It is evident that these statistics paint a difficult picture for the climate transition.

2 Source: World Economic Forum, 2024

3 Sources: Statistical Review of World Energy, 2024 and World Meteorological Organization, 2024

Significant progress can however be seen in renewable energy and the core technologies for decarbonization. The scale that has been reached and the cost efficiencies achieved by these technologies create opportunities for companies. Globally in 2023, solar photovoltaics (PV) installations grew by over 80% compared to the year before.[4] On electric vehicles, there was a 35% increase in sales globally in the same time period, six times higher than in 2018.[5] Other technologies such as electrolysers for hydrogen production have seen a doubling in capacity over the last two years.[6] In terms of batteries, supply has outpaced demand as manufacturers are expecting more growth. There has been a scale-up and reorganization of supply chains at a pace not seen since World War II.[7]

As costs fall and improvements are achieved, decarbonization solutions reach new markets and tipping points can be triggered. Climate is a powerful catalyst, but not the only one. Affordability, efficiency and availability are strong forces as well, which are together driving the change from molecules to electrons.

Evidence from MSCI (2023) shows that companies that had a higher share of revenues from clean energy, energy efficiency and green buildings had much faster earnings growth than their sector peers over a seven-year period.

## Investing for net zero

The concept of net zero originated at the 2014 UN Intergovernmental Panel on Climate Change's (IPCC's) Fifth Assessment Report, which said, "concentrations of $CO_2$ in the atmosphere can only be stabilized if global [net] $CO_2$ emissions peak and decline toward zero in the long term."

In 2024, 28 countries representing over 80% of global emissions are covered by net-zero commitments. Counting all the countries that have made announcements and those that are also considering net-zero targets brings this number closer to 90%.[8]

To provide a firm foundation for our development of net-zero portfolios we have created a proprietary UBS-AM Net Zero Alignment Framework which is based on the The Institutional Investors Group on Climate Change (IIGCC) Net Zero Investment Framework.

### UBS-AM Net Zero Alignment Framework Principles

| | |
|---|---|
| **Target setting approach** | The strategy must implement one or several of UBS-AM approved target setting approaches and meet the target criteria.[9]<br>– Decarbonization<br>– Issuer alignment<br>– Temperature rating<br>– Climate solutions |
| **Real economy contribution** | The strategy must maximize efforts to achieve emissions reductions in the real economy, such as engaging with companies, partners, managers and borrowers. |
| **Offsets** | If using offsets to meet decarbonization targets, the strategy must invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions. |
| **Annual disclosure** | There must be annual reporting on progress. |

4 Source: IEA; 2024
5 Source: IEA; 2024
6 Source: IEA; 2024
7 Source: Rocky Mountain Institute, X-Change: Batteries, The Battery Domino Effect, 2023
8 Source: Climate Action Tracker
9 Data coverage must be meaningful by covering a significant share of financed emissions.

# Portfolio target-setting approaches & criteria

Our Net Zero Alignment Framework describes approaches which can be implemented in combination with efforts to drive reductions in the real economy, such as through our engagement and voting activities.

1. **Decarbonization**
   Decarbonization targets involve the reduction of the investment associated carbon emissions or carbon intensity at the portfolio level.

   Under our framework, the pathway of a portfolio is expected to be consistent with the IPCC Sixth Assessment Report 1.5˚C pathway (>50% with no or limited overshoot) or a comparable sector/regional pathway.

   For example, direct investments in real estate can apply the IPCC below 1.5˚C with no or limited overshoot scenario emissions reduction target range to guide the decarbonization of assets and portfolios where relevant. This decarbonization progress, at the asset and portfolio level, should be monitored on an ongoing basis.

   The framework also encompasses Paris Aligned Benchmarks (PABs) and Climate Transition Benchmarks (CTBs) given the decarbonization requirements contained within these methodologies. Principles of PABs and CTBs can be embedded in rules-based or index-based investment strategies.

2. **Issuer alignment**
   Issuer alignment is based on the concept of increasing portfolio exposure to investments in issuers that are aligned to net zero. UBS has developed a proprietary framework to assess a company's transition plan and progress based on multiple criteria and a maturity scale, called the "Company Transition Assessment Scorecard" (CTAS).

   A company transition assessment scorecard (CTAS) provides an assessment of a company's alignment towards a low-carbon economy by categorizing the company into one of the eight categories based on its transition progress and plan using multiple third-party data sources.

| Module | Factor | Unaware | Aware | Committed to aligning | Aligning towards net zero | Aligned targets & plans | Aligned | Achieving net zero | Climate solution |
|---|---|---|---|---|---|---|---|---|---|
| Emissions disclosure | Disclosure of GHG emissions | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Commitments & targets | Long-term net-zero commitment | | | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | Medium / short-term net-zero targets | | | | ✓ | ✓ | ✓ | ✓ | |
| | Net-zero commitment recognized by 3rd party | | | | | ✓ | ✓ | ✓ | |
| | Interim targets validated by 3rd party | | | | | ✓ | ✓ | ✓ | ✓ |
| Decarbonization plan | High-level plan | | | | ✓ | ✓ | ✓ | ✓ | |
| | Credible plan | | | | | ✓ | ✓ | ✓ | |
| Carbon performance | Carbon performance in line with pathway | | | | | | ✓ | ✓ | |
| | Carbon performance at (or close to) net zero | | | | | | | ✓ | |

The CTAS includes a set of more detailed sub-factors and corresponding questions that are related to each factor.

3. **Temperature rating**
   In this type of approach, a portfolio should align the temperature rating of a portfolio with net zero along a linear path to the stated goal by 2040. This methodology can follow the guidance of the Science Based Targets initiative (SBTi) criteria for financial institutions.

4. **Climate solutions**
   Climate solutions can be defined as activities, goods or services that contribute substantially to, and/or enable, emissions reductions to support decarbonization in line with credible 1.5°C pathways towards net zero.[10] Portfolios using this approach generally invest a significant majority of assets in such solutions.

We draw on a wide variety of data sources to inform our assessment of climate-related risk and opportunities and recognize that approaches to achieving net zero are likely to develop over time as both data availability and quality continue to improve. Consequently, we also expect our portfolio alignment approaches to evolve as further data and methodologies become available.

10 IIGCC Climate Solutions https://www.iigcc.org/resources/iigcc-climate-solutions-guidance

# Integrating climate risks and opportunities into investments

Changes to the climate, and related extreme weather events pose tangible risks to issuers and investment portfolios. The Taskforce on Climate-related Financial Disclosure (TCFD) separates climate risk into two categories: 1) risks related to physical impacts of climate change, and 2) risks related to the transition to a lower carbon economy.

Physical and transition risks could give rise to various types of financial risks at a micro and macroeconomic level. The impact of climate risk drivers on the traditional risk categories include credit, market, liquidity and operational risk. Understanding the link between climate impacts and financial risks can better inform issuer analysis and portfolio management.

## Physical risks

The International Sustainable Standards Board (ISSB) defines physical risks as: "Risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. These risks may carry financial implications for entities, such as direct damage to assets, and indirect effects of supply-chain disruption." Physical risks resulting from climate change can be broken down into:

- **Acute risk:** entailing climate events such as wildfires, cyclones, hurricanes, droughts and flooding.
- **Chronic risk:** longer-term shifts such as rising average temperatures, change in precipitation patterns, water stress, agricultural productivity, sea level risk and ocean acidification.

In addition, companies may face potential liability risks arising from claims from people or businesses that suffer from physical climate-related impacts.

## Transition risks

The Taskforce on Climate-related Financial Disclosure (TCFD) describes transition risks as the risks associated with transitioning to a lower-carbon economy. This includes policy constraints on emissions, imposition of carbon tax, water use restrictions, land use restrictions or incentives, changes in legislation and regulation, new low-carbon technologies, and market demand and supply shifts that will affect companies as the economy decarbonizes. This may lead to direct effects on operations, with potential second and third order effects on supply and distribution chains.

Transition risks may emerge from:

- **Carbon-pricing mechanisms:** the quantifiable effect of increasing coverage and cost of GHG emissions pricing, provides insights to potential financial risks at both issuer and portfolio level.
- **Policy actions:** changes at sector/issuer level which become part of an issuer investment case.
- **Market sentiment risks:** including rapid technology development or deployment displacing conventional systems and/or shifting market sentiment at sector and issuer level, which may impact future prospects of an investment.
- **Potential reputational risks:** failure to appropriately address transition risk adjustments such as those driven by changes in climate-related policy changes may directly increase reputational risks.

**Integrating climate risks into our research process across asset classes**

We integrate climate risk metrics into the investment management processes for active investments within listed equity, fixed income (corporate issuers), multi-asset investment areas and our private markets business. In our multi-manager due diligence, we include environmental and climate risk-related questions. For some investment activities such as syndicated loans and direct lending to private companies we perform an ESG assessment where we include considerations of climate and environmental factors where they are financially material.

We take a systematic approach across listed corporate issuers where climate data on physical and transition risks are integrated into our proprietary ESG dashboard. The dashboard enables identification and analysis of issuers with high-risk profiles. We leverage third-party metrics that are forward-looking estimates of the loss or gain issuers may be expected to experience from:

– Chronic and acute risks from higher average global temperatures (physical risks)
– Growing policy and legal risks including higher carbon prices (transition risks)

We utilize metrics such as 'exposure to climate hazards' (e.g., hurricanes, floods, heatwaves and wildfires) and 'unpriced carbon cost', or the difference between what the company pays today in carbon prices vs. what it may pay in the future due to a larger number of jurisdictions adopting carbon pricing regulation and the evolution of carbon prices themselves.

These metrics are provided across multiple future climate change scenarios and time horizons, derived from IPCC Representative Concentration Pathways and Shared Socioeconomic Pathways, and informed by the TCFD technical guidelines.

Assessing climate risk at the issuer level involves both quantitative and qualitative assessments.

When conducting physical climate risk research on issuers, we consider the following parameters as relevant:

**Risk assessment:**

– Concentration of risk: Is the company vulnerable to any level of concentration risk by geography, sector or climate hazards?

**Risk awareness:**

– Identification: Does the company identify physical climate risk impacts?
– Time horizon: Over what time horizon does the company assess its risk impacts?
– Material assets: Does the company disclose the geolocation and business segment of its most material assets?
– Recent weather impacts: Does the company disclose information on the impacts of recent extreme weather events?

**Risk management:**

– Board oversight: Does the company clearly disclose how physical risk is discussed and overseen at the board level including a climate resilience strategy?
– Resilience: Does the company disclose actions and spending towards improving climate resilience?
– Stakeholder engagement: Does the company's risk management strategy include engagement with its upstream (suppliers), downstream (customers, key distributors) and local stakeholders (local and national governments)?

**Opportunity:**

– Adaptation: Does the company disclose any products or services related to adaptation opportunities?

For the relevant issuers, the climate-risk assessment is an additional consideration in the overall ESG assessment of the issuer, providing a forward-looking view that can inform portfolio manager investment decisions.

In our global real assets business, climate risk integration is embedded throughout the investment lifecycle for underlying assets of portfolios, where relevant and possible. Once at the acquisition stage, climate risks and opportunities are assessed, where relevant, during the due diligence process and captured in Investment Committee proposals. The tools and approaches used to do this vary across asset types, according to availability of data and best practice.

Figure 1: UBS-AM research process on issuers that demonstrate high risk exposure on physical risk metrics

On an ongoing basis for real estate, standardized risk processes are run by our independent risk teams quarterly and include indicators on physical and transition risk exposure among the sustainability metrics that may be assessed. This process uses the latest available data to identify high risks and mitigation options and is incorporated into the annual business planning process. Where necessary high risks are escalated to investment decision making bodies. We consider key transition risks using a proprietary in-house dashboard which measures the performance of directly controlled real estate assets performance against science-based pathways and targets, where data is available and the portfolio is participating in the Global Real Estate Sustainability Benchmark (GRESB) processes.

We use GRESB data to assess and benchmark the sustainability performance of our real estate and infrastructure investments to make sound, sustainable investment decisions and identify engagement priorities.

In infrastructure investing, the assessment of transition risk applies the International Energy Agency (IEA) framework to some direct infrastructure investments.

In our multi-manager investment business we use standardized due diligence questionnaires to understand climate risks at fund and asset level where possible. In addition, our multi-manager real estate business independently assesses physical risk and transition risk using S&P Trucost and Carbon Risk Real Estate Monitor (CREEM) decarbonization pathways, respectively.

# Active ownership: how we engage on climate change

Our active ownership approach encompasses integration of sustainability-related factors into investment decision-making, engagement, proxy voting, advocacy with standard setters and collaboration with industry groups and our clients.

When it comes to climate change, we recognize that the climate transition of investment portfolios requires real-economy emission reductions, and we want our active ownership strategy to encourage companies to effectively address climate-related and financially material risks and opportunities.

Our engagement covers investee companies, real estate and private markets assets, multi-asset portfolios and interactions with industry associations, standards setters and policymakers.

## How we engage with investee companies

We regard engagement to be a two-way mutually beneficial dialogue with a company, with the objective of sharing information, enhancing understanding and improving business performance.

We focus on the outcomes of our engagement, not the quantity of discussions we have. And we seek to provide clear messaging to companies about what we expect of them: we believe this promotes consistency between engagement dialogue, voting outcomes and investment goals and returns.

We recognize that the transition of investment portfolios requires real-economy emission reductions, and we want our active ownership strategy to encourage companies to effectively address climate-related and financially-material risks and opportunities.

We have run a dedicated climate engagement program since early 2018 focused on companies in high emitting sectors. We engage with these companies to encourage development of transition plans that achieve emission reductions in line with a 1.5˚C net-zero pathway where we believe climate change represents a material financial risk. We report annually on our program outcomes in our stewardship report.

Effectively managing climate risks and the transition to a low-carbon economy requires a significant shift in how companies operate. By focusing on climate transition, adaptation and resilience within our active ownership strategy, we see the potential to generate long-term value by encouraging and helping companies to better manage climate-related risk and opportunities. Given the implications of climate change and energy transition as well as the related physical and transition risks to company business models, revenue generation and capital allocation, we also see engagements as complementing considerations of investment performance.

Our climate engagement with listed issuers focuses on the highest-emitting companies across our investment universe that contribute meaningfully to emissions. This includes sectors that drive supply and demand for fossil fuels due to their business activities, including oil and gas, utilities, diversified mining, steel, chemicals, construction materials, as well as the banking sector, which finances conventional and transition-related businesses.

The basis of our engagement on climate transition is a research framework which enables us to assess companies and establish objectives based on the net-zero convergence of their transition plans. The framework draws on market-leading industry and sector-specific approaches. It includes parameters critical to assessing the strength of transition planning, including climate governance, target setting, decarbonization levers, lobbying and policy advocacy, the use of offsets, and finally, performance across emissions and strategy.

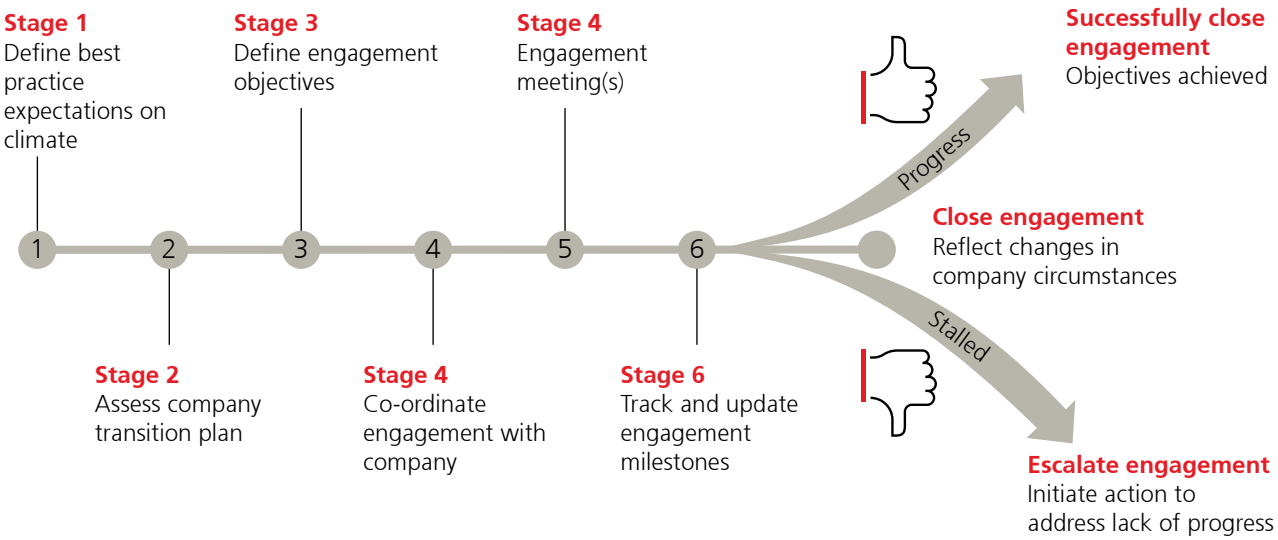
We have synthesized these standards to focus on investment-relevant information. We use this information to assess company transition plans to identify leaders and laggards on decarbonization.

We use this framework to set our expectations for companies on best-practice transition planning across specific sectors. By benchmarking company performance against sector expectations, we develop a comprehensive view of a company's climate transition strategy, as well as its performance compared to peers. We use outputs from this process to inform detailed, evidence-based engagements with companies and to provide company and sector-level insights to our fundamental analysts and portfolio managers.

Our discussions with companies take place bilaterally as well as through our involvement with collaborative initiatives. In our view, investor network engagement platforms can support long-term value for companies through efficient communication of aligned expectations: our own experience shows that engagement helps provide companies with an aligned set of market expectations on systemic risks like climate-risk management and strong transition planning. It also can contribute to the long-term success and value creation of investee companies for asset owners by identifying climate market risks shared by a broad base of investors, providing a platform for sharing these perspectives with company boards and management teams.

## Figure 2: Journey through the engagement lifecycle

From assessment of company transition plans to escalation, up to exclusions




We set and track time-bound objectives to assess the outcomes of our discussions with companies.

Where we find that discussions are not constructive or have not led to successful outcomes, we may employ a toolkit of measures to escalate our dialogues, starting from private measures such as letters to the board and votes against management and extending to excluding companies from a subset of portfolios.

We use proxy voting where relevant as one tool to further engagement objectives. Through our proxy voting policy we provide a transparent outline of our expectations for how companies manage climate-related risks.

Our voting policy includes a provision to generally support proposals that require companies to report to shareholders (at a reasonable cost and excluding proprietary data) information concerning their potential liability from operations that contribute to global warming, their policies on climate risks and opportunities and specific targets to reduce emissions.

Specific to this process, we have outlined minimum expectations for companies with respect to the management of financial risks related to climate transition planning and criteria for management 'say-on-climate' proposals. We vote against the reelection of directors at carbon-intensive companies that do not meet our minimum expectations on climate transition planning.

**Escalation options for consideration**

| | |
|---|---|
| **Private Actions** | Writing formal private letters to board chair, CEO, CFO, other board members, or the whole board to formalize our concerns and set related expectations |
| | Initiating or participating in discussions with other investors |
| | Escalation of on-going collective group engagement through industry groups and fora, including via letters |
| **Public Actions** | Voting against management proposals, or supporting shareholder proposals, at shareholder meetings, including the election of board candidates, or items correlating to our concerns, for example relating to climate. |
| | Presenting a statement and/or questions at shareholder meetings |
| | Making pre- or post-vote statements |
| | Public disclosure of voting actions after shareholder meeting |
| | Filing/co-filing of shareholder resolutions at shareholder meetings |
| **Portfolio Actions** | Implementing restrictions on new holdings or increasing positions |
| | Decreasing or exiting a position |

There may be occasions when lack of progress on engagement objectives, or where our concerns have not been sufficiently addressed, when we consider shareholder value to be at risk.

In the first instance, we will seek to discuss our concerns with the company through further direct interactions with senior executives and non-executive board members, or the board chair. This could be complemented with or followed up by a formal, private letter to the chair, CEO or the whole board, a first step in an escalation process.

There are further steps we may choose to take. We regard these steps as options that depend on the specific circumstances of the engagement or a specific engagement program. We use some of the options regularly, others more rarely or only on an exceptional basis.

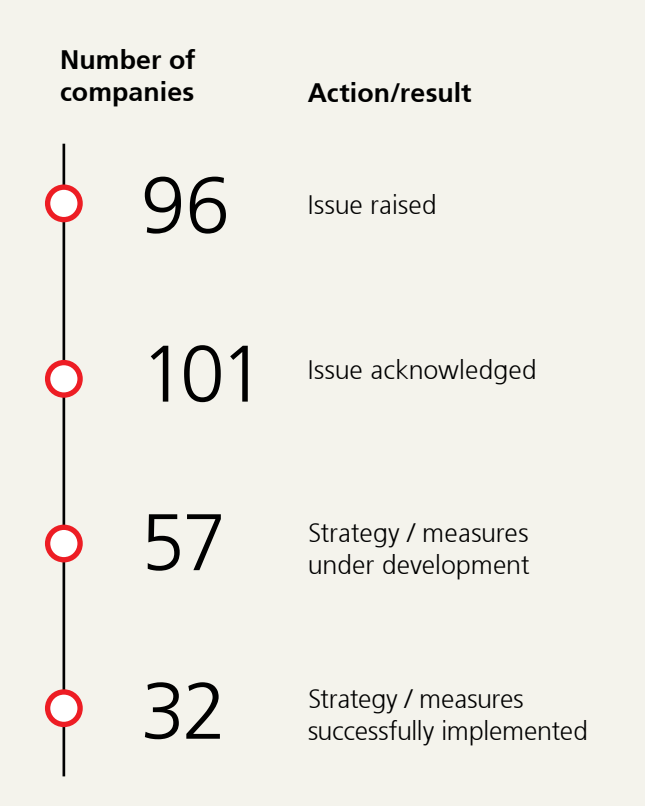
Paramount to our approach is the use of appropriate escalation options depending on the particular circumstances of the engagement we are acting on to protect the value of our clients' investments. In some cases, the risks identified may have an impact on our ability to invest in the company for specific investment strategies.

Our climate program is in its seventh year with 67% positive progress against preset engagement objectives. Climate change was the most frequently engaged topic in 2024 across our entire engagement program set.

Throughout the year we engaged with 153 companies in total on climate change, both through our dedicated climate program and additional engagement as part of our regular investment processes.

The figure below provides an illustration of how we monitor progress using individual milestones.

## Figure 3: Progress indicators for our engagements on environmental issues, including climate change (December 2024)[11]




A few examples of outcomes achieved by companies we engaged in 2024 through the climate engagement program include:

- In its new CTAP, BHP enhanced its Scope 3 strategy disclosures, including its view on steelmaking technologies and pipeline of abatement projects. The customers it is partnering with account for 20% of global steelmaking capacity, so any potential reduction could have a broad impact.
- Maersk has validated its targets with the Science Based Targets initiative (SBTi) and introduced decarbonization metrics in executive compensation. The company has also improved its disclosure, for example, reporting on metrics such as the number of customers opting for eco delivery.
- PEMEX announced its inaugural climate transition strategy in March 2024, setting interim targets across its operations with a net zero by 2050 ambition. PEMEX's climate transition strategy marks a significant step forward for the NOC.

10 Progress is measured across a rolling three year period which means we include the objectives and latest milestones that have been set in the three years leading up to the metric date. Older objectives and milestones are excluded from the calculation.

## How we engage for real estate assets

As a manager of real estate assets, we often have direct ownership of the building. In these cases, it is in our control to positively influence the ESG credentials of the property, in close collaboration with our tenants, communities and other stakeholders. At the center of the activities lies a constructive dialogue and the ongoing cooperation with our property manager, facility managers and/or our tenants in pursuit of our sustainability aims for our properties; and to seek their alignment with our objectives.

As an indirect real estate owner, we engage with underlying managers and exercise influence on sustainability during due diligence and ongoing monitoring of our investments.

In the infrastructure equity business, we generally aim to seek majority or controlling rights over our portfolio companies where possible and to have board seats (or aim to seek control over a project company board as applicable). For minority stakes, we seek to have governance rights that allow us to protect and enhance our investment. Sustainability action items may include elements such as leadership, policies, reporting, risk management and stakeholder engagement.

Our private markets business and its employees are active members and working group members of various committees, standard setters, and industry bodies to enhance knowledge and contribute to the implementation of sustainability and governance initiatives.

## How we engage for multi-asset portfolios

We apply similar expectations of active ownership across multi-asset portfolios, whether allocating to internal or external portfolio strategies. Climate-related questions are part of the due diligence process in assessing third-party managers.

In our real estate and private markets multi-manager business, we also engage with underlying managers and exercise influence on sustainability during due diligence and ongoing monitoring of our investments.

## Our macro engagement

We recognize the importance of contributing to a policy environment that can help accelerate the transition to a net-zero economy. We have a role in shaping market improvements and developments, through collaboration with peers and discussions with policymakers and standard setters.

It is our ambition to support the development of appropriate regulatory standards globally. We seek to achieve this through interaction with trade associations, regulators and other policymakers. At UBS-AM, we are an active participant in regulatory consultations, including through our industry associations. We are represented in association working groups aimed at enhancing standard setting related to sustainability, ESG and stewardship topics. For example, in the EU, we are members of the European Fund and Asset Management Association (EFAMA) and have been involved on initiatives such as the EC's Consultation to review the Sustainable Finance Disclosure Regulation, the ESMA Fund Names Rules and development of the EU Corporate Sustainability Reporting Directive. In the UK, we are members of the UK Investment Association and have been involved in consultations on the UK Sustainability Disclosures Regime (SDR) and the Climate-related Disclosures Requirements for Asset Managers. In Switzerland, we have worked with the Asset Management Association Switzerland (AMAS) and with the Swiss Finance Ministry on the development of the AMAS Sustainable Investing Disclosures Regulation v.2.0, as well as with the Swiss Government on the development of the Swiss Climate Scores.

Our climate macro-engagement activities include engaging with policymakers overseeing state-owned oil companies. We also encourage corporations to set an emissions reduction target validated by the Science Based Targets initiative.

We also participate across the industry to actively contribute to the development of new ideas, technologies, methodologies and increased transparency.

# Governance

**Divisional governance**
Within UBS-AM, we have established a clear structure for planning and executing our climate approach and responsibilities, integrated into the existing governance. The AM SI Methodology Forum has oversight of methodological changes, frameworks and data integration across investment portfolios. The Stewardship Committee has oversight of proxy voting standards, controversies and engagement, including the exclusions following climate-related engagements. Within our private markets business, we have a long-established monthly forum governed by its own Terms of Reference, with clear responsibilities and membership.

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**For investor educational purposes only: not an investment recommendation.**
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Source for all data (if not indicated otherwise): UBS Asset Management.

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