UBS

# Invest for good

Seek returns and drive change through sustainable investing

# Your journey starts here

There is always a purpose behind financial investments.
What's yours?

Perhaps it's performance. Or preserving your wealth for the next generation. Or maybe you want your investments to reflect your values.

Whatever your purpose, sustainable investing may hold the answer.

But what opportunities and approaches are out there? We can help you get started.

# What sustainable investing is…

Sustainable investing is not about just another product line. It's an investment philosophy.

In a nutshell, Sustainable Investing (SI) is an investment philosophy with the intention to perform comparably to traditional investments, while at the same time having a positive impact on the environment and society.

There are many ways to start your SI journey and build up your portfolio over time.

**Our commitment**
UBS is committed to creating value for our clients, employees, investors and society.

We aim to be:
- a leader in sustainable investing (SI) for private and institutional clients
- a recognized innovator and thought leader in philanthropy
- an industry leader in sustainability

› Learn more on **ubs.com/insociety**

# …and why it’s relevant

SI takes into account the environmental, social and governmental challenges our world faces. For instance, this could relate to the overuse of natural resources, rising levels of pollution or the effects of increasing urbanization.

The pressure to change how we treat our planet and people is growing. So is the will to act more sustainably.

The United Nations has identified **17 Sustainable Development Goals**[1] (SDGs) to focus minds on common commitments for transformation.

Many institutional investors such as pension funds are already investing billions along these lines[2]. And increasing numbers of companies and institutions are working to solve these global challenges. This gives private investors more and more investment opportunities that are aligned with SI principles.

About 1 person in 5 in developed regions lives on less than **$1.25** per day

**57 million** primary-aged children remain out of school

Greenhouse gas emissions continue to rise and are now more than **50%** higher than their 1990 level

Water scarcity affects more than **40%** of the global population

On average, women in the labor market still earn **23%** less than men globally

As much as **40%** of the ocean is heavily affected by pollution, depleted fisheries, loss of coastal habitats and other human activities

Source: *www.undp.org*, January 2019

[1] Source: United Nations: *www.un.org/sustainabledevelopment*, 2019.
[2] Source: Global Sustainable Investment Alliance: “2018 Global Sustainable Investment Review (GSIR)”, 2018.

# What investors care about

Aspects of performance and risk management are critically important to investors. At UBS, sustainable investing may help you pursue these objectives while also seeking to generate benefits for society.

## Performance

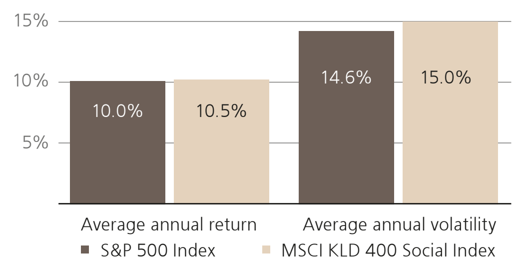
Sacrificing returns for positive social and environmental impact is not always necessary.

Sustainably managed companies may experience[1]:
– less exposure to certain environmental, social and/or governance risks, which can have a material impact on financial performance;
– improved operational efficiency, leading to long-term cost savings such as energy efficiency; and
– an improved reputation, which has been linked to greater customer loyalty, an ability to better attract talent, etc.

Comparing the historical returns of SI indexes and conventional indexes suggests that investing sustainably does not cause a drag on performance.

The following chart shows that the MSCI KLD 400 Social Index and the S&P 500 Index generated similar returns and volatility over the 29 years to June 2020.

Fig. 1 Average annual returns and volatility[2]




Performance is not guaranteed. The past performance of an index is not indicative of future results. An index reflects an unmanaged universe of securities and investors cannot invest directly in the index.
Please always read in conjunction with the risk information at the end of the document.

Data from April 30, 1990 to June 30, 2020
Investing involves risks, including the potential of losing money or the decline in value of the investment.
KLD (Kinder, Lyndenberg, Domini & Co) Research & Analytics. The MSCI KLD 400 Social Index is a capitalization weighted index of 400 US securities that provides exposure to companies with outstanding Environmental, Social and Governance (ESG) ratings and excludes companies whose products have negative social or environmental impacts. The parent index is MSCI USA IMI, an equity index of large, mid and small cap companies. The Index is designed for investors seeking a diversified benchmark comprised of companies with strong sustainability profiles while avoiding companies incompatible with values screens. Launched in May 1990 as the Domini 400 Social Index, it is one of the first SRI indexes. Constituent selection is based on data from MSCI ESG Research. (Source: MSCI, 2019)
The S&P 500 focuses on the large-cap sector of the market; however, since it includes a significant portion of the total value of the market, it also represents the market. Companies in the S&P 500 are considered leading companies in leading industries. (Source: Nasdaq, 2019)

[1] Source: Gunnar Friede, Timo Busch & Alexander Bassen (2015), ESG and financial performance: aggregated evidence from more than 2,000 empirical studies, Journal of Sustainable Finance & Investment.
[2] Source: Bloomberg, UBS as of June 30, 2020; Source of graph: Bloomberg, as of June 30, 2020.

## Risk management

When assessing investments, it's important to consider as many aspects as reasonably possible in seeking to minimize risks.

If you were to buy a company, for example, you would not look only at the financial statements. You'd want to know how the quality of the company's products and brands is perceived. Or how attractive the company is to employees. And whether there has been an accounting scandal in recent years or anything else that may have negatively impacted its reputation.

This is because you know that the way in which employees, investors and clients are treated affects a company's current and future value. The same principle should therefore apply to financial investments.

With SI, such factors are also taken into account.

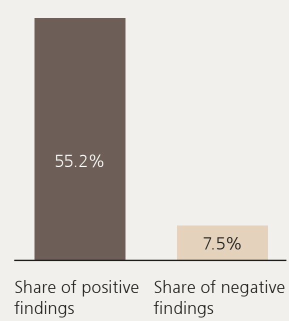
## Opportunities

The social and environmental challenges we face can seem overwhelming. By investing sustainably, you have the potential to turn those challenges to your advantage through new investment opportunities. Companies whose products or services address environmental or social needs may also benefit from long-term demographic trends such as population growth.

Electric cars, sustainable agriculture, access to financial services in developing countries are just a few examples of multi-billion-dollar industries that owe their success in part to businesses' efforts to become more sustainable.

More than 2,000 academic studies in the past 40 years have sought to identify the corporate and investment consequences of sustainable practices. More than half reported significant positive findings, while only 7.5% suggested a possible negative relationship.

Fig. 2 Impact of SI on returns




Source: Gunnar Friede, Timo Busch & Alexander Bassen (2015) ESG and financial performance: aggregated evidence from more than 2,000 empirical studies, Journal of Sustainable Finance & Investment

# What investors focus on

A recent UBS survey[1] on SI gathered the views of more than 5,300 investors in Brazil, China, Germany, Hong Kong SAR, Italy, Singapore, Switzerland, the UAE, the UK and the USA.

According to the survey, investors care most about the following six topics.

73%

### Pollution and waste

- Companies that reduce packaging and waste, limit toxic emissions.
- Governments that successfully manage their air and land resources.

71%

### Climate change

- Companies that successfully manage their carbon footprint.
- Governments that manage energy resources effectively.

70%

### Water

- Companies and governments that successfully manage their water resources and consumption.

› Learn more at **ubs.com/investorwatch-si**

## Products and services

70%

- Companies that source responsibly and contribute to society.
- Governments that facilitate this through strong regulation and robust infrastructure.

## People

66%

- Companies that retain and develop their employees and look after their staff throughout the supply chain.
- Governments that invest in education and health.

## Governance

61%

- Companies that are fair and transparent across executive pay, accounting and board independence.
- Governments that exercise prudent financial management.

Note: Percentages relate to the proportion of investors surveyed who expressed having a particular focus on the respective topic.
[1] Source: UBS Investor Watch 'Return on values,' September 2018.

# How to invest sustainably

Broadly speaking, SI contains three distinct approaches[1]—exclusion, integration, impact investing. At UBS Global Wealth Management, we focus on integration and impact investing.

## Exclusion

This traditional and still most commonly used approach involves excluding individual companies or entire industries from portfolios if their areas of activity conflict with an investor's personal values.

This process, called exclusionary or negative screening, can rely either on standard sets of exclusion criteria or be tailored to investor preferences. For instance, investors may wish to exclude companies with 5% of sales or more generated from alcohol, weapons, tobacco, adult entertainment or gambling—so-called "sin stocks."

## Integration

This approach combines environmental, social and governance (ESG) factors (see box below) with traditional financial considerations to make investment decisions. It involves understanding how companies handle environmental, social and governance risks that could entail significant costs or damage their reputations. It also involves assessing whether firms are well positioned to capture opportunities arising from major sustainability-related themes and trends that might give them a competitive edge.

## Impact investing

Impact investments are investments made with the intent to generate measurable environmental and/or social impact that seek attractive financial returns. Because the link between capital invested and actual impact generated is more difficult to establish in liquid public markets, in practice this means that impact investments tend to be private market investments. One notable exception to this rule is shareholder engagement, where investors may use their ownership stake in a company to drive measurable environmental and/or social change.

### A guide to E(nvironmental), S(ocial) and G(overnance)

| | **What kind of topics?** | **What's the potential impact?** |
|---|---|---|
| E | – Climate change, pollution and waste, environmental opportunities. | – Companies growing their business based on applying improved sourcing, production and |
| S | – Workplace safety, discrimination and diversity, supply chain, community controversies, human rights. | – Companies enjoying increased employee productivity and satisfaction levels, thereby beating industry margins and outperforming financially. |
| G | – Corruption, tax gaps, anti-competitive behavior, business ethics, board structure. | – Well-run companies implementing long-term strategic decisions that create economic value. |

[1] The UBS sustainable investing framework and categories align closely with the proposed standardized terminology introduced by the Institute for International Finance (IIF) in November 2019. See "IIF Sustainable Finance Working Group Report: The Case for Simplifying Sustainable Investment Terminology," November 2019.

## Exclusion

Excluding companies or industries from portfolios where they are not aligned with an investor's values.

**Desired primary outcome**

– Expectations of conventional market returns

**Targeted environmental and social outcomes**

– Low

⊕ Allows for the strictest application of aligning values with investments.

⊖ Automatically limits the options to invest. It also forgoes the opportunity to influence how companies are run.

## Integration

Integrating environmental, social, and corporate governance factors into traditional investment processes to improve portfolio risk / return.

**Desired primary outcome**

– Competitive risk-adjusted financial returns, outperformance

**Targeted environmental and social outcomes**

– Medium

⊕ Integrating ESG into corporate activities is the strongest lever on sustainability targets, while supporting returns.

⊖ Because the focus is more on *how* a company does things rather than *what* it does, certain industries might remain in your portfolio.

## Impact Investing

Investing with the intention to generate measurable environmental and social impact alongside a financial return.

**Desired primary outcome**

– Environmental and social impact plus competitive risk-adjusted returns

**Targeted environmental and social outcomes**

– High

⊕ Focuses on intentional investing to generate measurable and verifiable outcomes that would not otherwise occur.

⊖ Minimum investments in this area are often higher than under other approaches. Investments are often taken as private equity with higher associated risks.

# How sustainable investing comes to life

Once you are ready to invest, you'll find that an integration approach puts a broad and growing universe of options at your disposal.

## Development bonds[1]

Bonds issued by multilateral development banks (MDBs). MDBs are backed by multiple governments with the aim of financing sustainable economic development.

*Did you know?*
The World Bank has never defaulted on its bonds.[2]

## Green bonds[1]

Conventional fixed income instruments in which proceeds are earmarked specifically for projects with environmental value. Issuers include multilateral development banks, governments and corporations.

*Did you know?*
The green bond market is fast growing—issuance in 2018 was double that of 2017, according to Bloomberg Finance L.P.[3]

## ESG leaders corporate bonds[1]

Conventional bonds issued by companies that demonstrate good performance on key environmental, social and corporate governance (ESG) criteria relative to their industry competitors.

## ESG engagement high-yield bonds[1]

An approach where fund managers take active bond positions in issuers with credit ratings below BBB- in order to engage company management to improve their performance on ESG issues and opportunities.

## ESG thematic equities[1]

A strategy that aims to identify specific social and environmental themes and invest in equity shares of companies that stand to benefit from or directly address them.

The above asset classes and investment instruments are indicative only; UBS reserves the right to change them at any time at its discretion. Past performance is not a reliable indicator of future results. Sources:
[1] UBS, Global Wealth Management (GWM) Chief Investment Office (CIO) as of October 2019.
[2] UBS, GWM CIO as of January 2020.
[3] Bloomberg Finance L.P., as of 2017.
[4] Nagy et al.: "Can ESG add alpha? An analysis of ESG Tilt and Momentum Strategies," MSCI ESG Research, 2015.
[5] Ocean Tomo "Annual Study of intangible asset market value," 2015.
[6] Ceres Resolution Database, data as of October 2017.

## ESG improvers equities[1]

Equity shares in companies that are demonstrating improving performance in employing strategies to minimize ESG risks, as well as take advantage of ESG opportunities, and that their momentum in this area is expected to continue.

*Did you know?*
A study from MSCI found that investors beat standard benchmarks if they invested in companies that improved their ESG ratings over the prior 12 months.[4]

## ESG leaders equities[1]

Equity shares in companies that are more successful than competitors in recognizing ESG challenges in their industry and employing strategies to minimize risks, as well as take advantage of opportunities that arise from them.

*Did you know?*
84% of US equity value can be attributed to intangible assets such as intellectual property and reputation. So if your investments consider intangible factors like ESG risks, they may be better able to weather reputational risks.[5]

## ESG engagement equities[1]

An equity investing strategy used by active fund managers who engage in dialogue with the companies they invest in as a core element of their approach to achieving an incremental financial, social and environmental impact.

*Did you know?*
Engagement works, based on data from Ceres. They looked at 779 climate-related shareholder resolutions filed between 2013 and 2017. They found that 36% were favorably resolved before the motion even went to a shareholder vote.[6]

Many companies and organizations have sustainability at the core of **what** they do. For instance, bio energy or sustainable agriculture companies. Investing in this type of company is a thematic ESG approach.

Many more companies focus on **how** they do things. This includes building sustainability considerations into their business practices, such as how they manage their supply chains, treat their staff and other stakeholders, and govern their risks and processes.

An analyst looking for companies that manage a range of ESG criteria better than their competitors could label these companies "ESG leaders."

Someone seeking to invest sustainably can focus on either of the above approaches, or on both.

# How impact investing can make a difference

Of the three approaches to SI (exclusion, integration and impact investing), we believe impact investing can best lead to measurable environmental and social impact as well as financial return.

In order to be considered impact investment, UBS requires three criteria to be satisfied.

1

UBS explores **intent**.
Those structuring the investment must have a stated intention to generate positive social and/or environmental impact in addition to sustainable financial performance.

2

UBS considers **impact measurement**.
It is important that the outcomes of the investment be tied to specific metrics and measured against a base case or benchmark. Examples of specific metrics might be the number of jobs created or liters of water purified.

3

UBS requires **verification**.
This means establishing proof that the invested capital or the investment approach itself is positively correlated with the intended outcome. For example, if the stated benefit is cleaner drinking water, and measurement includes the number of liters of available clean water, then supporting data showing proof that the investment made (e.g., in better quality pipes) led to this outcome would be important.

Source: UBS Global Wealth Management, CIO Impact Assessment Responsibilities for Impact Investing Products (July 2018); Impact Investing Due Diligence Questionnaire (2018).

# Myths around impact investing

As with any new investment approach, there are a number of myths around impact investing. Here's our view on them.

## "Impact investing is philanthropy"

Impact investing is investing with an expectation of financial return. It doesn't necessarily need to involve sacrificing financial returns for social or environmental benefits. In other words, it is not giving money away to solve social or environmental problems. It's neither philanthropy nor based on grant-making. It's also not dedicated to funding public sector projects. However, it can cater to different risk appetites within the same structure and draw investors from both the public and private sectors to encourage innovation.

## "Impact investing is small scale"

Impact investing has historically focused on driving targeted change through specific projects or geographic areas. Yet, the global scale of many social and environmental challenges requires significant investment. Impact funds are growing in size and reach, using commercially viable solutions to address large-scale opportunities.

## "High returns imply low impact"

Higher financial returns do not need to negatively affect the quality of the impact investment. In fact, a company may solve the problem much faster if it is highly profitable and able to scale quickly with impactful products.

## "Impact investing is only in poor countries"

Issues such as contaminated water supplies or slum dwellings make poverty more visible in rural sub-Saharan Africa than in Western Europe, for instance. But impact investing can address social or environmental challenges regardless of geography—such as in developed countries where the financial crisis resulted in high rates of youth unemployment in parts of Europe, cut off capital to many small businesses, or reduced investment in critical infrastructure.

## "Impact investing can only be done in private markets"

Investors wishing to create positive change typically invest in private equity or debt strategies, but solutions that aim to achieve similar outcomes in public markets are increasingly available. Shareholder engagement in particular can demonstrate the intent and follow-through to drive measurable social and environmental impact in public companies.

Source: UBS, Doing well by doing good—Impact investing, 2016.

# Ways you can approach sustainable investing

## Our priority is to help you find the best approach based on your conviction and appetite to engage in SI.

Take a look at the following possible starting points and let's discuss which one you feel is most appropriate to your needs.

### Add it on
You might be interested in focusing on a set of particular topics or themes, which you could add to your existing portfolio.

### Run it in parallel
You may wish to add an SI portfolio alongside your existing one. This will allow you to see how they both perform.

### Switch
If you would like to invest sustainably, we will support you in aligning your invested assets according to your preferences and values.

› Continue your journey online: **ubs.com/sustainableinvesting**

# External recognition

We work hard to make the world a better place and we are happy if our efforts are recognized. Here are some of the awards and recognitions we've received.

## UBS Global Wealth Management awards

**Best Private Banking Services Overall 2020**
The Euromoney Private Banking Survey 2020 awarded UBS the main global prize "Best Private Banking Services Overall." UBS received several global awards, including the global prize for "ESG/Impact Investing."[1]

METHODOLOGY: The annual Private Banking and Wealth Management Survey provides a qualitative review of the best services in private banking, by region and by areas of service. The survey is completed by private banks and wealth managers to identify the firms that they consider to be their top competitors. Voters identify the country about which they have the most knowledge then nominate their top three peers in that country in each category. Euromoney then awards four, three and two points, respectively, to each of those nominations in that category and country. Neither UBS Financial Services Inc. nor its employees pay a fee in exchange for these ratings.

**Best Private Bank for Sustainable Investing and Best Global Private Bank**
In 2019, UBS won these two awards that are run annually by PWM[2] and The Banker, which are part of the Financial Times Group.

METHODOLOGY: The Global Private Banking Awards are conferred annually by The Banker and Professional Wealth Management magazines, both published by the Financial Times Group. The Awards' objective is to gather qualitative and quantitative information from private banking groups to be able to give a set of awards for excellence. Institutions highlight key achievements, changes or improvements made during the prior year in relation to their business and investment models, growth strategies, customer service, staff retention and other key areas. Winners are selected by an independent judging panel. UBS does not pay a fee in exchange for these rankings.

**World's Best Bank for Wealth Management 2018**
The Euromoney Awards for Excellence named UBS the World's Best Bank for Wealth Management in 2018, recognizing the bank's position as an industry leader in its core wealth management businesses and its ability to navigate difficult times while still delivering for stakeholders.

METHODOLOGY: Euromoney's Awards for Excellence are the awards that matter to the banks and bankers who matter. They were established in 1992 and were the first of their kind in the global banking industry. This year Euromoney received almost 1,500 submissions from banks in an awards program that covers 20 global awards, more than 50 regional awards, and best bank awards in close to 100 countries. The Euromoney awards were independently determined and awarded by the Euromoney editorial team. UBS did not pay a fee in exchange for these awards.

Accolades are independently determined and awarded by their respective publications. Neither UBS Financial Services Inc. nor its employees pay a fee in exchange for these ratings. Accolades can be based on a variety of criteria, including length of service compliance records, client satisfaction, assets under management, revenue, type of clientele and more. Past performance is no guarantee of future results. For information on a particular rating, please visit *ubs.com/us/en/designation-disclosures*.

Source: UBS AG, UBS Corporate Responsibility Management, UBS Global Wealth Management.
[1] ESG = Evironmental, Social, Governance.
[2] PWM = Professional Wealth Management.

## UBS Group AG wide awards

### DJSI Industry Leader

UBS was named industry leader in the Dow Jones Sustainability Index (DJSI) for the fifth consecutive year in 2019.

METHODOLOGY: The DJSI (Dow Jones Sustainability Index) tracks leading sustainability-driven companies based on RobecoSAM's analysis of financially material Environmental, Social, and Governance (ESG) factors and S&P (Standard & Poor's) Dow Jones Indices' index methodology. To ensure quality and objectivity of the CSA (Corporate Sustainability Assessment), RobecoSAM voluntarily appoints independent third party Deloitte to conduct an external audit of the assessment process each year. UBS did not pay a fee in exchange for this recognition.

### CDP A List

UBS was identified as a global leader in its response to climate change for the fourth year running, being awarded a position on the CDP's Climate A List. CDP is the nonprofit global environmental disclosure platform, which recognized UBS's actions to cut emissions, mitigate climate risks and develop the low-carbon economy.

METHODOLOGY: CDP (formerly the Carbon Disclosure Project) is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. The scoring methodology provides a score that assesses progress toward environmental stewardship as reported by a company's CDP response. CDP's annual A List names the world's businesses leading on environmental performance. This year, CDP recognized more than 150 corporates as the pioneers acting on climate change, water security and deforestation, and building our future economy. UBS did not pay a fee in exchange for this recognition.

### Sustainalytics

Environmental, social, governance (ESG) ratings and research analysts Sustainalytics is a leading independent global provider of ESG and corporate governance research and ratings to investors. It placed UBS in the 96th percentile as an industry leader.

METHODOLOGY: Sustainalytics analyzes and rates the performance of companies across 42 different peer groups (comparable sub-industries). Performance against ESG issues is analyzed by looking at core and sector-specific metrics, which are scored and weighted to determine a company's overall ESG performance. Underlying each industry template is a customized weight matrix that defines the relative importance of each indicator and reflects the emphasis on key ESG issues per industry. UBS did not pay a fee in exchange for this recognition.

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For illustrative purposes only.

# Development bonds

## Example

### Clean water and sanitation infrastructure in rural Southeast Asia[1]

As an example, the World Bank has lent money to projects that improve access to clean water and enhance sanitation-related infrastructure, potentially impacting millions of people in low-income communities.

Such an effort aims to significantly reduce child mortality by limiting exposure to contaminated water.

[1] Source: UBS, as of December 2018.
For illustrative purposes only.

## Schools in rural south Asian country[1]

Multilateral Development Banks (MDBs) like the World Bank have similarly provided education opportunities to thousands of children in remote rural areas in Southern Asia by delivering new learning centers to the region's most disadvantaged districts, funded by MDB debt.

As a result, target countries have witnessed primary school enrollment rates increase from 80% to almost 100% within 15 years. Secondary school enrollment increased from 45% to 54%, particularly improving for girls.[1]

With low-cost funding provided by the World Bank, development bonds provide emerging countries with access to capital that is cheaper than what is otherwise available, making development projects more viable.

[1] Source: UBS, as of December 2018.
For illustrative purposes only.

# Green bonds

## Example

### Asian car manufacturers[1]

As an example, an Asian car manufacturer could issue green bonds to raise capital purposed for the research, development and production of next generation hybrid and electric cars. These cars could provide environmental utility via improved fuel efficiency and reduced emissions.

[1] Source: UBS, as of December 2018.
For illustrative purposes only.

## European utility companies[1]

European utility companies have historically issued billions of dollars of green bonds to finance renewable energy projects, including wind, solar and hydro, to meet net installed renewables capacity targets.

## National banks[1]

National banks brought several multimillion-dollar green bond issuances to market, earmarking proceeds to finance or refinance portfolios consisting of wind farm projects, solar energy facilities and low-carbon transport infrastructure.

[1] Source: UBS, as of December 2018.
For illustrative purposes only.

# ESG engagement high-yield bonds

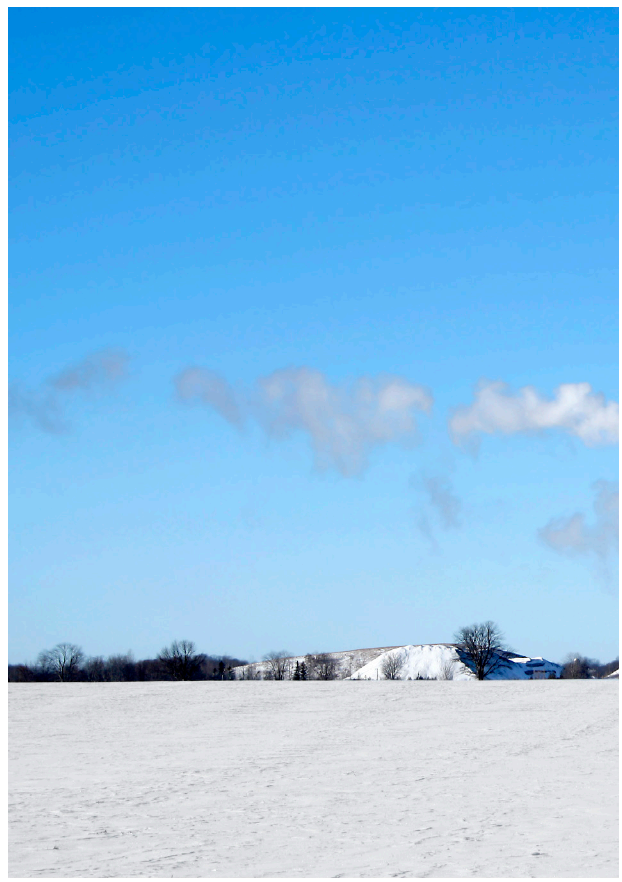
Example

## Construction materials[1]

Companies that produce cement and other construction materials demand significant amounts of energy and natural resources. Reducing carbon emissions caused by production and operations is an exceptional challenge, alongside other sustainability concerns: local air, water and land pollution; waste minimization and management; and the impact of the business on communities. With extensive supply chains and global operations, employee health and safety and fair and ethical employment standards are essential—particularly in developing regions.

Specialized investment management firms engage with the management of such companies to address the most pressing sustainability challenges.

For example, they press the company to develop and disclose science-based emission-reduction targets and monitor their progress. To achieve such reductions, the company can focus on procuring renewable energy for its operations, as well as innovate when it comes to product development and operations.



[1] Source: UBS, as of December 2019.
For illustrative purposes only.

The company also has the opportunity to capitalize on the emergence of new and alternative building materials that can provide environmental and social benefits, while managing the risks of existing products and their considerable carbon footprints, therefore marrying commercial and sustainable outcomes.

Across the materials and construction sectors, vast improvements in disclosures about the treatment of employees and working conditions can be made. To clearly demonstrate its contributions to employee well-being and send a positive signal to investors, the company can provide transparency about the wages, benefits and working conditions it provides, particularly in developing regions. In addition, the investment management firm would encourage thorough screening of the company's supply chains to identify similar challenges and act accordingly.

A number of academic publications[1] and practical evidence show that following ESG engagement strategies can lead to outperformance. When fund management companies are not involved in private dialogue, this appears to result in an underperformance of the SRI funds they manage.

[1] See for example: Hoepner, A. G. F. and Nilsson, M.A. (2017). Expertise among SRI fixed income funds and their management companies; Dimson, E., Karaka, O., & Li, X. (2015). Active ownership. The Review of Financial Studies, 28(12), 3225-3268.

For illustrative purposes only.

# ESG leaders bonds/equities

## Example

### Insurance companies[1]

Global insurance companies with a strategic commitment toward addressing Environmental, Social and Governance (ESG[2]) risks and opportunities could be classified as ESG leaders.

An ESG leader insurance company could be one that integrates ESG analysis into its own portfolio, using predefined ESG-related criteria and sustainability scores to diligence investments.

Alternatively, an insurance company could be considered an ESG leader if sustainable practices are embedded in its governance, including independent audits, compensation committees, and large, diversified boards that are optimized for effectiveness.

[1] Source: UBS, as of December 2018.
[2] ESG = Environmental, Social, Governance.
For illustrative purposes only.

## East Asian properties conglomerates[1]

Certain real estate conglomerates in East Asia have updated their long-term sustainable development strategies to focus on global leadership in sustainability. New targets include the pursuit of best-in-class green certifications for developments, and having all of their properties ISO45001[2] certified for reduced occupational hazards.

[1] Source: UBS, as of December 2018.
[2] ISO is the International Organization for Standardization. ISO45001 is a standard to essentially reducing occupational injuries and diseases. It is also a national standard in the US.
For illustrative purposes only.

# ESG thematic equities

## Example

### Water treatment solutions companies[1]

Certain water treatment solutions companies are seeking to better understand and optimize the sustainability of their facilities and water management initiatives. Companies that establish policies around sustainability and are thematically exposed to global development areas, such as clean water, can fulfill this theme for investors seeking exposure to sustainable water solutions. Companies in this vein may also invest in digital and data infrastructure, possibly improving their ability to monetize water data and build analytical water and process solutions.

Ivan Bandura, Unsplash

[1] Source: UBS, as of December 2018.
For illustrative purposes only.

## Education services companies[1]

Companies that provide education services like personal coaching schools and private preparatory schools, language education and translation services could be deemed an ESG[2] thematic issuer. Such companies may also operate other businesses and provide training and education, such as home nursing care services and nursing training and nursery management.

rawpixel, Unsplash

## Gender Equity Strategy[1]

Exchange Traded Funds (ETFs) that track baskets of securities constructed with a thematic area in mind, like gender diversity, without neglecting financial and growth prospects can also fall into the ESG thematic bucket.

In this example, an ETF would start with the thesis (and established consensus) that gender-diverse companies financially outperform and would invest in gender-diverse companies to capitalize on this idea.

[1] Source: UBS as of December 2018.
[2] ESG = Environmental, Social, Governance.
For illustrative purposes only.

# ESG improvers equities

## Example

### Video game console companies[1]

Some companies may not be considered leaders in sustainability but have still improved their performance on such considerations over the past decade. Some video game console companies, for instance, may have enhanced their employee benefits and training programs, resulting in a better employee retention rate than their peers, something that is particularly important for an industry that requires high-skilled labor. Other focus areas could include improved data security and privacy policies, which can help reduce compliance costs and reputational damage from data breaches.

[1] Source: UBS, as of December 2018.
For illustrative purposes only.

## Lighting solutions companies[1]

Some lamp producers have, in some cases, consistently improved their sustainability performance over the past few years. This could be through the substitution of older light bulbs and lamps with sustainable ones, dramatically reducing hazardous waste emissions. Such action could, in the future, position companies as industry leaders in high-growth, high-demand industries like clean tech. Other sustainability improvement efforts could manifest in modernized product quality management systems and heightened environmental efficiency.

The ESG[2] improvers equities strategy aims to capitalize on financial outperformance often generated by companies that are in the process of improving their standards, reducing risks and costs in their operations.

[1] Source: UBS as of December 2018.
[2] ESG = Environmental, Social, Governance.
For illustrative purposes only.

# ESG engagement equities

## Example

### Mining[1]

Mining companies that specialize in sourcing and distributing rough diamonds may be situated in isolated, water-stressed locations. Often, such companies are the primary economic contributors to local communities. They are therefore instrumental in the prosperity of remote towns and the sustainability of the immediate environment. Labor relations in the mining sector are often difficult, which may also include labor strikes.

Some specialized investment management companies are working with the management of such mining companies to address a range of issues, including strategies to reduce rates of HIV infection. These investment managers could facilitate partnerships between mining companies and pharmaceutical companies to introduce and promote Pre-emptive Exposure Prophylaxis (PrEPs) among workers and higher risk populations in the local area.

Such programs could be geared to break down cultural perceptions and misconceptions around HIV by educating local health clinics, educating workers and community members about the

[1] Source: UBS, as of December 2018.
For illustrative purposes only.

benefits of PrEP, as well as encouraging condom use and healthy living. The programs should provide resources for testing and support ongoing treatment and adherence to anti-retroviral programs. If successful, such initiatives can help build trusted relationships with workers and unions, and potentially saving lives.

To verify the impact of engagement, fund managers can partner with academic entities to document engagement processes and assess whether (a) these strategies are driving real change within companies and (b) whether these improvements lead to financial improvement.

ESG[1] engagement strategies aim to achieve outperformance by driving corporate action and improvement on a range of material ESG issues from traditional corporate governance issues to product innovation, supply chain risk, and human capital management. Empirically speaking, academic studies have found that successful shareholder engagement has been able to deliver 4.4% average outperformance in targeted companies.[2]

[1] ESG = Environmental, Social, Governance.
[2] Dimson, E., Karakaş, O. & Li, X. (2015). Active ownership. The Review of Financial Studies, 28(12), 3225–3268.
Source: UBS, as of December 2018. For illustrative purposes only.

# What are the 17 UN Sustainable Development Goals?

Per the United Nations, the Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice. Each Sustainable Development Goal includes clear targets and indicators to track progress toward these objectives.

The goals interconnect. To ensure that no one is left behind, the UN believes it is important that each goal and target is achieved by 2030.

From UBS's perspective, while not all the SDGs are appropriate for private, return-seeking capital, the scale of many of the related challenges gives rise to significant long-term investment opportunities[1].

## The 17 SDGs in more detail:


Economic growth must be inclusive to provide sustainable jobs and promote equality.


The food and agriculture sector offers key solutions for development and is central for hunger and poverty eradication.


Ensuring healthy lives and promoting the well-being for all at all ages is essential to sustainable development.


Obtaining a quality education is the foundation to improving people's lives and sustainable development.


Gender equality is not only a fundamental human right but also a necessary foundation for a peaceful, prosperous and sustainable world.


Clean, accessible water for all is an essential part of the world we want to live in.

[1] Source: UBS and United Nations as of December 2018.
For illustrative purposes only.

**7 AFFORDABLE AND CLEAN ENERGY**

Energy is central to nearly every major challenge and opportunity.

**8 DECENT WORK AND ECONOMIC GROWTH**

Sustainable economic growth will require societies to create the conditions that allow people to have quality jobs.

**9 INDUSTRY, INNOVATION AND INFRASTRUCTURE**

Investments in infrastructure are crucial to achieving sustainable development.

**10 REDUCED INEQUALITIES**

To reduce inequalities, policies should be universal in principle, paying attention to the needs of disadvantaged and marginalized populations.

**11 SUSTAINABLE CITIES AND COMMUNITIES**

There needs to be a future in which cities provide opportunities for all, with access to basic services, energy, housing, transportation and more.

**12 RESPONSIBLE CONSUMPTION AND PRODUCTION**

Ensure sustainable consumption and production patterns.

**13 CLIMATE ACTION**

Take urgent action to combat climate change and its impacts.

**14 LIFE BELOW WATER**

Careful management of this essential global resource is a key feature of a sustainable future.

**15 LIFE ON LAND**

Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss.

**16 PEACE, JUSTICE AND STRONG INSTITUTIONS**

Access to justice for all, and building effective, accountable institutions at all levels.

**17 PARTNERSHIPS FOR THE GOALS**

Revitalize the global partnership for sustainable development.

› Learn more on
**un.org/sustainabledevelopment**

[1] Source: United Nations, December 2018.
For illustrative purposes only.

# Philanthropy

Beyond sustainable investments, investors can also drive positive change with their capital through philanthropy, which provides many more options.

## Charitable giving

Making donations to nonprofits to enable them to achieve their vision. Hands off, no/low strategy, low resource intensity.

**Designed primary outcome**
– Perceived positive Environmental and Social (E&S) impact.

**Targeted financial return**
– None

**Targeted environmental and social outcomes**
– Low/Medium

## Strategic philanthropy

Strategic donations into a variety of solutions to help achieve their philanthropic vision. Hands on, robust strategy, high resource intensity.

**Designed primary outcome**
– Demonstrable positive Environmental and Social (E&S) impact.

**Targeted financial return**
– None

**Targeted environmental and social outcomes**
– High

## Social finance

Investing with the explicit intention to generate a measurable Environmental and Social (E&S) impact, alongside a (typically below market) financial return.

**Designed primary outcome**
– Environmental and Social (E&S) impact plus some financial return.

**Targeted financial return**
– Medium

**Targeted environmental and social outcomes**
– High

Source: UBS as of December 2018.
For illustrative purposes only.

# Helping clients maximize their philanthropic impact: UBS Optimus Foundation

A development impact bond (DIB) is a performance-based contract intended to finance development programs in low and middle income countries. It is an agreement between private investors and donors/governments to finance a particular development goal. In practice, investors receive financial returns on their capital if certain development targets are met—all of which will be rolled over into other philanthropic programs.

**Example:** UBS Optimus Foundation launched the world's largest education development impact bond to date to improve the quality of education in India.

Launched in 2018, the "Quality Education India" DIB is a program that aims to improve literacy and numeracy skills for around 200,000 children. This is an important undertaking as, despite the Indian government's commitment to education, just over 50% of Indian primary school pupils aged 10 (grade 5) reach a 2nd-grade reading level.[1]

It's funded on a payment-by-results basis, the core principle of DIBs. Paying for outcomes rather than services encourages innovative and effective delivery to maximize social impact and value for money.

In the DIB model, donors to the UBS Optimus Foundation are the "risk investors" that provide the working capital for the programs and will be repaid by the outcome funders once verified outcomes have been achieved, enabling donors to recycle their funds into further impact programs. The outcome funders are the Michael & Susan Dell Foundation and the British Asian Trust.

The UBS Optimus Foundation fully belongs to UBS. UBS covers all the costs for the administration, planning, review and continued development of programs. Therefore 100% of philanthropic giving goes toward maximizing impact. It also may fund projects alongside philanthropists. Through the foundation we're taking a leading role in driving impactful philanthropy that delivers breakthrough solutions to pressing social issues.

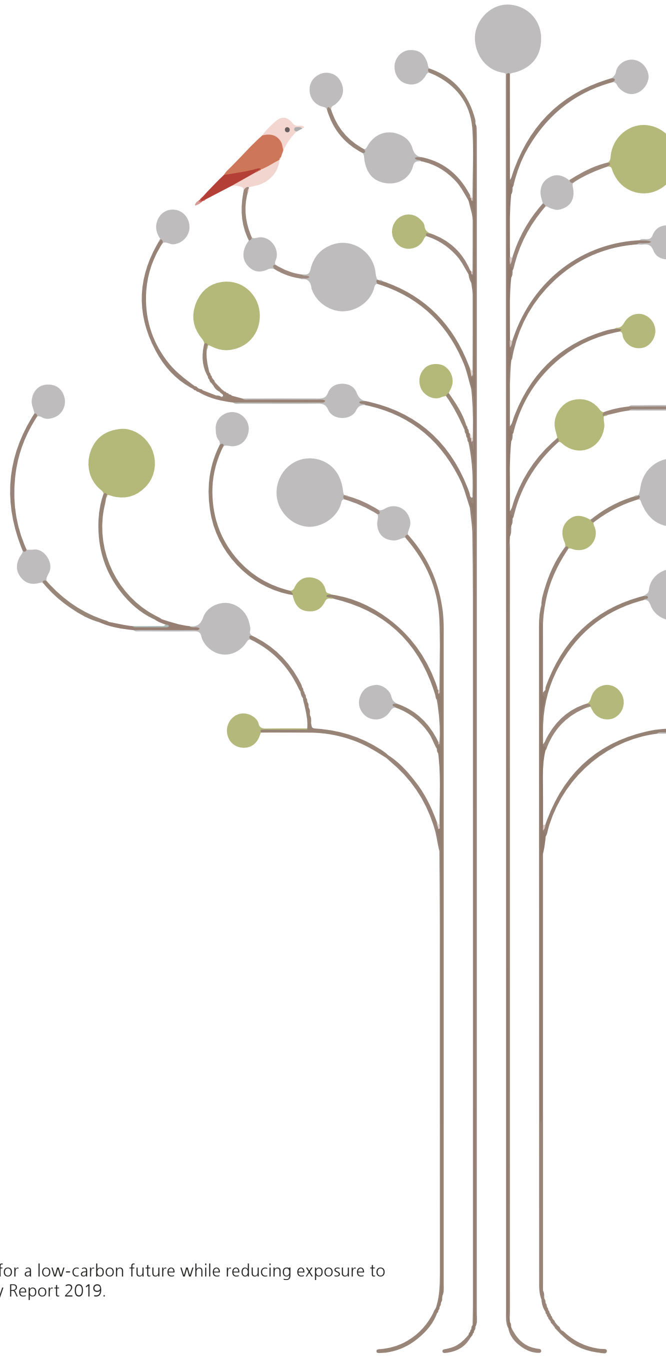
But we know that solving social problems requires collaborative initiatives that make real impact on a large scale. So, we're taking smart risks on evidence-based, scalable solutions with diverse partners, improving health, education and child protection systems—as this is the best path to solving a wide range of the world's most pressing social issues.

› Learn more on **ubs.com/optimus**

[1] ASER (Annual Status of Education Report) 2018.
The "DIB Program" featured in this brochure has been selected based on the criteria mentioned in the insert. However, while they may be part of the UBS Optimus Foundation, this was not a basis for the selection process to be featured in the insert. For illustrative purposes only.

# How we're driving change that matters

We're using our expertise, knowledge and connections to create a positive future for all of us and the generations to come.



From finding innovative solutions to partnering and leading by example, we're making it happen in finance, philanthropy, communities and business:

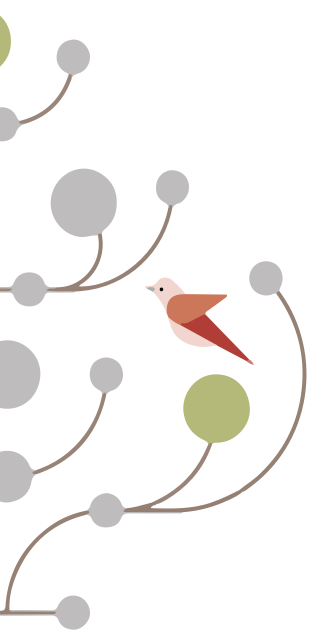
## Reshaping finance

We help you broaden your options as a private investor. Innovative financing can be good for society, good for the environment, and give good returns. In fact, we think they all go hand in hand.

- USD 488 billion—Core sustainable investments AuM, UBS AG[1]
- USD 3.9 billion raised toward commitment to direct at least USD 5 billion of client assets in SDG-related impact investments by 2021[1]
- USD 3.1 billion of invested assets in our Climate Aware Strategy[2]
- More than USD 10 billion in sustainable investment mandates (AuM), Global Wealth Management[3]

› Learn more on **ubs.com/insociety**

[1] UBS Sustainability Report 2019, as of 31 December 2019.
[2] Climate Aware is the portfolio oriented toward companies better prepared for a low-carbon future while reducing exposure to companies with higher carbon risk, to engage with them, UBS Sustainability Report 2019.
[3] UBS AG.
For illustrative purposes only.



## Promoting education and entrepreneurship

Our employees have valuable skills and knowledge. They want to use them to make a difference in their communities, and we encourage them to put their expertise to good use and give financial support to local programs.

- 280,858 beneficiaries reached globally in 2019[1]
- USD 45 million direct cash contributions in 2019[1]
- 38% employees volunteered in 2019. That's over 27,000 persons[1]
- 40%—our goal for employee volunteering for 2020[1]

## Partnering for good

You want to make your mark on the world (or at least contribute by making a positive difference). Whatever legacy you want to leave, we can help you pursue it. With advice from our philanthropy experts and carefully selected programs through our Optimus Foundation, your money could make a meaningful—and measurable—difference.

- 3.3 million children reached by the UBS Optimus Foundation in 2019[1]
- USD 89.5 million raised in 2019[1]
- Three Development Impact Bonds (DIBs) in education and healthcare[2]

## Leading by example

Actions speak louder than words. And it's not only about what we do. It's about challenging ourselves and our peers to raise the bar, work in sync with each other, and be open about the impact our actions have on society and the environment. That's the way to make a lasting change.

- 100%—Electricity sourced from renewable energy by mid-2020[1]
- Less than 1% exposure to carbon-related assets on our balance sheet (decreasing from 1.6% in 2018)[1]
- 71% total reduction of greenhouse gas emissions by 2020 (vs. 2004)[1]

[1] UBS Sustainability Report 2019, as of 31 December 2019.
[2] The world's largest education DIB enabled 30% more students to overcome learning gaps.
For illustrative purposes only.

BOTTLETOP
#TOGETHERBAND

UBS

Founding partner

**What is #TOGETHERBAND[1]?**

Together with sustainable fashion brand BOTTLETOP, UBS has been co-launching the #TOGETHERBAND initiative, setting out to engage the world and raise awareness of the 17 United Nations Sustainable Development Goals (SDGs).

The 17 different bands, symbolizing support for the SDGs, will come in packs of two: one to wear and one to share with someone else. The ethically produced bands are made from upcycled ocean plastic and humanium, recycled steel created from seized illegal firearms. And 100% of proceeds will fund organizations working to achieve the UN SDGs. The campaign will use creativity and culture to raise awareness and inspire action through sustainable fashion, contemporary art, music and film.

Recycled Ocean Plastic TOGETHERBAND in regular size (Goal #14 Life Below Water)

**The band: a symbol of commitment**

The sustainably sourced and ethically produced #TOGETHERBAND is the centerpiece of the campaign. Bands are available in the colors of the 17 SDGs. All bands have been available since April 2019, despite the 17 official band launches bringing awareness specifically to each goal.

Recycled Ocean Plastic TOGETHERBAND in small size (Goal #15 Life on Land)

Source: UBS as of December 2018.
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# SUSTAINABLE DEVELOPMENT GOALS

**United Nations—Sustainable Development Goals**

In 2016, the UN announced 17 Sustainable Development Goals (SDGs), which are an urgent call to action to improve health and education, end poverty, reduce inequality, tackle climate change, and preserve our oceans and forests. Yet in spite of the considerable appetite to consume and operate sustainably, the resources flowing into projects that tackle sustainability challenges, as measured by the SDGs, remain grossly insufficient

**What is our commitment?**

UBS is committed to raise awareness of the SDGs as the founding partner of #TOGETHERBAND, along with BOTTLETOP—a sustainable fashion brand founded by Cameron Saul, son of Mulberry founder Roger Saul.

This initiative is publicly supported by Sergio Ermotti. #TOGETHERBAND, which launched in April 2019, sets out over the next three years to raise awareness of global environments, social and governance challenges, captured by the SDGs. Each SDG will have an ambassador and an SDG expert.

TOGETHERBAND.org is the official #TOGETHERBAND campaign page where you can discover and buy your bands, learn about the background behind the movement and info on how they are made. Visit also the *ubs.com/togetherband* website.

Join the movement on the #TOGETHERBAND socials
Instagram: @togetherbandofficial
Facebook: togetherband

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