

# Transitioning to a more sustainable future

Supporting your sustainable investment goals



“We are committed to bringing you the ideas and transparency you need to deliver on your investment priorities and values, without compromise.”



**Suni Harford**

President of Asset Management and UBS Group Executive Board sponsor for Sustainability and Impact, Member of UBS Group Executive Board

# Transitioning to a more sustainable future

## Supporting your sustainable investment goals

At UBS Asset Management, we focus on helping our clients achieve their sustainable investment and decarbonization objectives.

At UBS sustainability means thinking and acting with the long term in mind. It's an integral part of our business, from the products, services and advice we offer, to the way we work and operate in society. For UBS this is nothing new. For over two decades, we have had a focus on sustainable finance. Today, it is embedded in our firm, our external commitments and our client promise: we want to be the financial provider of choice, to help clients mobilize their capital towards the achievement of the United Nations' 17 Sustainable Development Goals and the orderly transition to a low-carbon economy.

To make sure we're creating an impact we've chosen to focus our efforts on the planet, people and partnerships. In concrete terms, this means taking climate action and supporting the transition to a net-zero world, addressing wealth inequality through our philanthropy and community affairs efforts in health and education, and working with our unrivalled network of partners around the world. Our Group Sustainability and Impact organization is driving these aspirations and delivering on our commitments, not least of which is our promise to reach net zero across all aspects of our operations and client activities by 2050. As a founding member of the Net Zero Asset Managers Initiative we've also committed to reaching net zero emissions across our clients' portfolios by 2050 and have established clear interim targets.

With over 20 years' sustainable investing expertise at UBS Asset Management, we continue to develop a range of sustainable strategies that are aimed at helping drive positive change, beyond just financial returns. UBS continues to integrate Environmental, Social and Governance (ESG) factors across our investments. Today, our traditional active products integrate ESG risk factors into our investment decisions utilizing a systematic ESG research process. Where possible, we continue to develop our integration approaches where it is not yet feasible, such as with third-party hedge funds.

Over the next few pages, we outline UBS Asset Management's sustainability ambition and our commitment to the low-carbon transition. This commitment was underscored recently when we were placed in the Top 10 in Continental Europe and #1 in Switzerland, and named an 'Avant-Gardist' in the Responsible Investment Brand Index 2021. This honor goes to asset managers who lead the way in commitment to sustainable investing.

# Our sustainability ambitions

## Turning aspirations into actions

In today's world, it is increasingly obvious that the consequences of climate change can no longer be ignored. We firmly believe that investors have the ability to effect real change, and that there doesn't need to be a trade-off between positive returns and sustainability. In fact, we believe sustainable investing can result in enhanced overall risk-adjusted outcomes for clients, primarily by protecting against downside risks and identifying

opportunities associated with environmental, social and governance-related issues.

Significant process enhancements were designed during 2021, largely driven by the desire to integrate the TCFD framework into our investment process. We believe that it is very important to measure and mitigate both physical and transition risk for the long-term benefit of our clients and the planet.

By determining long-term investment opportunities, anticipating and managing financially material risks, such as physical and transitional risk, engaging with relevant third parties, and creating products and services that take ESG considerations into account, we believe our investments will yield greater success for our clients while positively affecting society and the environment.

## Four key areas of focus

### 1. Delivering innovative sustainable solutions

- We are expanding our offering with the launch of new funds alongside the conversion of some of our existing shelf
- We center our product innovation around people and planet
- We are strengthening our leading customized ESG index solutions with proprietary methodologies
- We are working to provide increased transparency on sustainable outcomes through enhanced reporting

### 3. Leveraging our scale to drive positive change through stewardship and engagement at a global level

- We are extending our engagement program beyond climate to include other UN SDG themes
- We are leveraging our global scale and leading position as a passive investor to reinforce our engagement dialogues with companies and thereby drive progress towards meeting the UN SDGs
- Good governance is a central prerequisite for sustainable outcomes in all of our portfolios



### 2. Taking ESG integration to the next level

- We are enhancing our ESG methodology and data sets to align with the United Nations' Sustainable Development Goals and to identify issuer level impacts on growth opportunities.
- We have strengthened our exclusions policy to reinforce our commitment to the low-carbon transition and the UN Global Compact standards

### 4. Leading industry partnerships to maximize impact

- We actively seek opportunities to drive positive change through industry collaboration e.g. our role as a leading member of ClimateAction100+
- To drive innovation we collaborate with a number of clients with shared ambitions around climate and social impact
- As a founding member of the Net Zero Asset Managers Initiative, we partner with like-minded asset managers to promote the transition to a low carbon society

# How we integrate sustainability into the investment process

## Managing ESG risks

We identify the most financially relevant sustainability factors that impact investment decisions and use our proprietary ESG risk dashboard to identify those companies with material ESG risks. We then incorporate those ESG risks within the investment decision-making process, alongside traditional financial analysis. This ESG risk analysis is embedded in our 'UBS ESG Integration' and 'UBS Sustainable Investing' fund families (see overleaf).

## Identifying opportunities

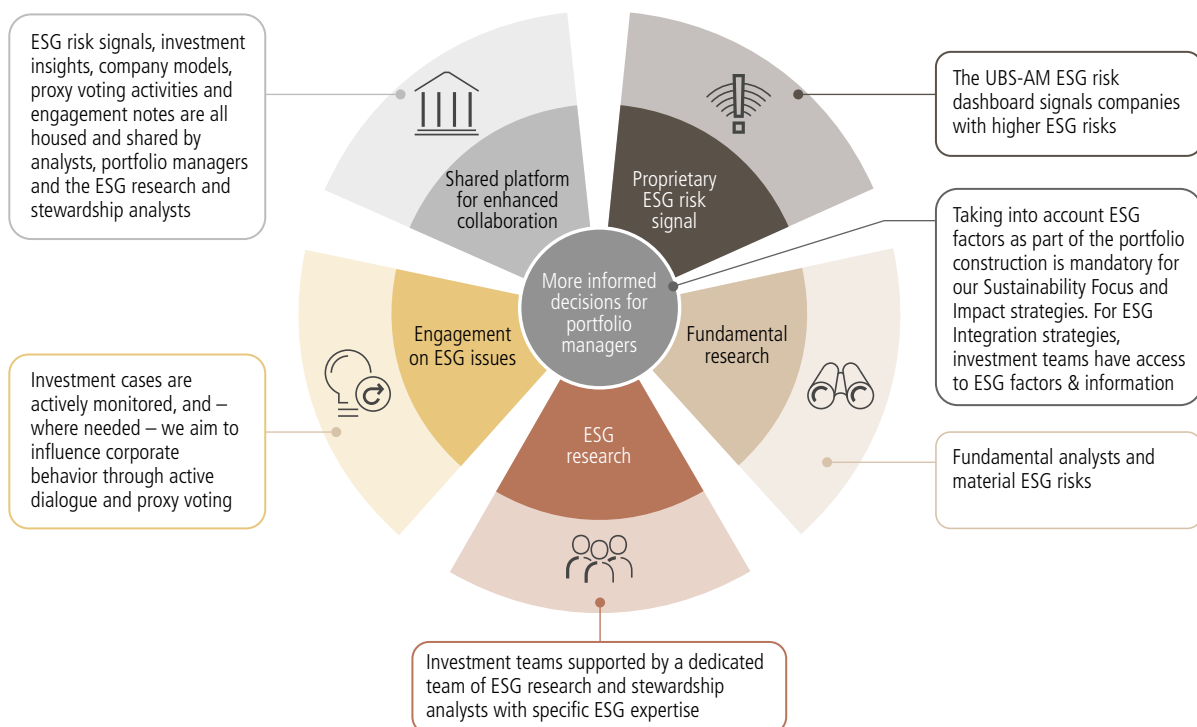
Our analysis of ESG factors draws on different ESG data sources, both qualitative and quantitative, covering a wide range of topics including carbon footprint, health and well-being, human rights, supply chain management, fair customer treatment and governance. We establish a comprehensive, forward-looking view where we believe the most important ESG risks and opportunities reside.

## Promoting change

An important part of our sustainability integration approach is the role of stewardship. We engage with companies to help them strengthen their commitments to better environmental and social outcomes. The COVID-19 pandemic has underscored the role businesses can play in society and raised expectations around the role of a good corporate citizen. We have seen a growing demand for companies to consider not just shareholder returns, but also the impact which their company has on the environment and the communities in which they operate.

Visit our Sustainable and Impact Investing [website](#) for more details of our sustainability commitment, product offerings, and sustainable investing insights.

## Integration and stewardship: an intrinsic part of our traditional active investment decision-making process





# How we approach stewardship

We proactively monitor companies' ESG performance, engage with decision makers on identified risks and opportunities and use our voting activities to help drive positive change

We are committed to engaging with companies to help them transition to a lower carbon future and play an important role in solving today's climate change emergency.

Stewardship is an integral part of our traditional investment process. We firmly believe that engagement is a two-way dialogue through which we can work to influence a company's behavior.

We prioritize corporate engagement based on an assessment of financial exposure, high ESG risks, poor performance on thematic issues of concern and presence of controversies.



**295**  
companies engaged

In 2021, our active engagement covered 295 companies across regions and

sectors (+6.5% from 2020), 7% of these engagements were collaborations with other investors.



**12,244**  
shareholder meetings

For the 2021 calendar year we submitted votes at 12,244 shareholder meetings, and upon 117,373 separate resolutions. This covered 98% of shareholder meetings where we held an eligible position to vote.

The votes covered a range of ESG issues.



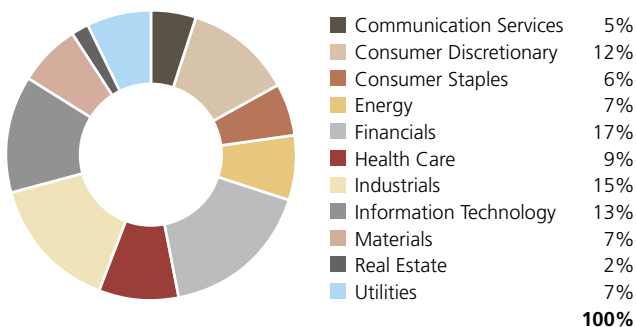
we voted against  
**18,941**  
proposals

We voted against management recommendations for at least one proposal at 62% of meetings. This resulted in a total of 18,941 proposals voted against (16.1% of total resolutions voted).

We strive to collaborate with companies on improvements. Where companies show insufficient progress on climate issues, we have an escalation process which may lead to exclusion from our sustainable and Climate Aware strategies.

As at the end of December 2020 we received an 'A' leadership band for engagement and voting on climate from Influence Map, and A+ or A across all modules of the UN Principles of Responsible Investment Annual Assessment (including an A+ in Stewardship).

## Percentage of companies engaged by sector in 2021



Source: UBS Asset Management 2022. For illustrative purposes only

## Level of access to companies during 2021

Level of representation	Number of meetings	Percentage of the total
CEO/CFO and other C-Suite	167	39%
Chair and Non-Executive board members	135	31%
Corporate secretary or legal counsel	94	22%
Investor Relations	372	87%
ESG expert	121	28%
Other	40	9%

Note: Engagement meetings can have participants of more than one group mentioned above. Thus, representation percentage does not sum up to 100%. Overall, there were 430 unique meetings with 295 companies in 2021. Reading example: In 39% of the 430 unique engagement meetings C-Suite participants were present.

# An overview of our Sustainable Investing Shelf Framework at UBS Asset Management

UBS Group SI Classification	Traditional Investing		Our Sustainable Investing Offering			
			Sustainability Focus		Impact	
ESG/SI Category <sup>1</sup>	Non-ESG	ESG Integration		Sustainability Focus		Impact
EU SFDR	Art. 6	Art. 6	Art. 8	Art. 8	Art. 9	Art. 9
Naming convention <sup>2</sup>	*Sustainable / ESG* not part of name			*Sustainable or thematic reference* generally part of the name		*Impact or thematic reference* generally part of the name
Financial Goals	Compared to an applicable peer-group, competitive risk-adjusted financial returns					
Non-financial Goals	Identify and assess material environmental, social and governance risks					
	Benefit the environment and society					
				(Financially) support selected environmental and/or social topics	(Financially) support selected environmental and/or social topics, applying higher standards to the targeted achievements	Contribute to generate positive measurable and verifiable (societal) outcomes
Client expectation		Clients seek protection from downside risk by considering ESG aspects alongside traditional financial metrics in the research process	Clients seek to improve risk-adjusted returns and realize sustainability objectives by investing in leading or improving sustainable companies and avoiding controversies	Clients seek to make sustainable investments aligned with specific environmental and/or social objectives	Clients intend to generate positive, measurable social and/or environmental impact alongside a financial return - linking investments and/or investor actions to these outcomes	
UBS Asset Management Sustainability Exclusion framework <sup>3</sup>	Controversial weapons (Ethix)					
	Depleted Uranium					
	Thermal coal mining / extraction, oil sands-based extraction					
	Controversial behavior (UN Global Compact fails without credible corrective action)					
	Thermal coal-based power generation					
	Controversial business activities (production): tobacco, adult entertainment, gambling, conventional military weapons					
ESG Risk integration	UBS AM engagement-based exclusions					
	ESG risk integration incorporated into research process <sup>4</sup>					
Stewardship	ESG risk screening incorporated into portfolio construction (see also "Portfolio construction") <sup>4</sup>					
	UBS AM policy-driven voting and/or engagement					
Have a general risk-based and/or thematic voting and/or engagement	UBS AM policy-driven voting and/or engagement					
Use strategy-specific voting and/or engagements to generate company and/or investor impact						yes
<b>Portfolio construction</b>						
Specific sustainability goals drive investment selection			yes	yes	yes	yes
Sustainability goals and investment universe linked to UN Sustainable Development Goals or other impact frameworks						yes
Commit a proportion of "sustainable investment"				> X%	>> X%	>> X%
Reference to regulatory "taxonomy-aligned" investments					> X%	>> X%
Apply "Do no harm" and "Good governance" principles			yes	yes	yes	yes
UBS Asset Management Fund Shelf	Active Equity Funds	Active Equity ESG Integration Funds		Active Equity SI Funds	Active Equity SI Funds	Impact Funds <sup>5</sup> e.g. aligned to People and Planet topics like Climate, Health, Diversity, Inclusion
	Active Fixed Income Funds	Active Fixed Income ESG Integration Funds		Active Fixed Income SI Funds	Active Fixed Income SI Funds	
	Active Multi-Asset Funds	Active Multi-Asset ESG Integration Funds <sup>5</sup>		Active Multi-Asset SI Funds <sup>5</sup>	Active Multi-Asset SI Funds <sup>5</sup>	
	Passive Funds/ETFs	Passive ESG Integration Funds/ETFs <sup>7</sup>		Passive SI Funds/ETFs <sup>7</sup>	Passive SI Funds/ETFs <sup>7</sup>	
	Alternative Funds	Alternative ESG Integration Funds <sup>6</sup>		Alternative SI Funds	Alternative SI Funds	
	Private Markets Funds	Private Markets ESG Integration Funds		Private Markets SI Funds <sup>6</sup>	Private Markets SI Funds <sup>6</sup>	

As at April 2022

<sup>1</sup> UBS AM nomenclature, not necessarily aligned to any specific regulatory nomenclature; see UBS sustainability report for more details.

<sup>2</sup> Principle-based naming convention. In general, the naming of our passive funds/ETFs is based on the naming of the underlying index/benchmark they replicate. A true and fair representation of a fund's core investment strategy always takes precedent.

<sup>3</sup> Please note this exclusion framework applies to active UBS AM funds with UBS AM as portfolio manager only. Sustainable passive funds/ETFs will apply the exclusions of the indices that they are tracking. Refer to the UBS AM sustainability exclusion policy for more information of any out of scope asset classes e.g. passive funds/ETFs which track a benchmark. Actively managed UBS AM funds in alternative asset classes and investments in funds of external asset managers apply similar exclusion criteria, but without specifying the data providers and sources or the exact operationalization of the criteria ("equivalency principle").

<sup>4</sup> Applies to actively managed UBS AM funds (liquid and alternative asset classes) and to investments in strategies of external asset managers. For selected fixed income sectors, e.g. securitized instruments, ESG integration approaches are industry-wide still in development.

<sup>5</sup> This framework generally applies to UBS AM managed products. Compared to the UBS AM sustainability standards defined for actively managed equity and fixed income strategies, similar sustainability criteria are applied to investments in strategies of external asset managers, but without specifying the data providers and sources or the exact operationalization of the criteria ("equivalency principle").

<sup>6</sup> Planned.

<sup>7</sup> We consider the ESG/Sustainability classification framework, sustainability data and criteria provided by the index provider when classifying products.

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