

# Sustainability Exclusion Policy

UBS Asset Management



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September 10, 2021; Any required portfolio management-related action based on this policy needs to be implemented within 3 months for portfolios in scope

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# 1. Introduction

## 1.1. Purpose

This policy describes the exclusion approach of UBS Asset Management ("UBS-AM") and details those company activities which are excluded from the investment universe. Exclusions are applied to certain UBS-AM collective investment schemes (e.g. funds) as outlined in the Scope section.

## 1.2. Sustainable Investing

At UBS-AM we define sustainability as the ability to leverage the Environmental, Social and Governance (ESG) factors of business practices seeking to generate opportunities and mitigate risks that contribute to the long-term performance of issuers ("Sustainability"). It is our belief that considering these factors will deliver better informed investment decisions. Sustainable investing incorporates material ESG considerations in the investment strategy and/ or process.

A fundamental element of sustainable investing is the role of stewardship. UBS-AM is committed to engaging with companies to help them transition to a low-carbon economy and foster social progress. In our view, acting as good stewards of our clients' assets can also entail the exclusion of investments in companies where the environmental and social risks of their activities outweigh the benefits of having an active exposure.

# 2. Exclusion areas

## 2.1. Controversial weapons

UBS-AM does not invest in companies involved in: cluster munitions, anti-personnel mines, chemical and biological weapons, nor does it invest in companies in breach of the Treaty on the Non-Proliferation of Nuclear Weapons. UBS-AM considers a company to be involved in controversial weapons if the company is involved in development, production, storage, maintenance or transport of controversial weapons, or is a majority shareholder (>50% ownership stake) of such a company.

Controversial weapons are regulated by the following international treaties and conventions:

1. Cluster munitions: The Convention on Cluster Munitions (2008) which prohibits the use, stockpiling, production and transfer of cluster munitions.
2. Anti-personnel mines: The Ottawa Treaty (1999) which prohibits the use, stockpiling, production and transfer of anti-personnel mines.
3. Biological Weapons: Biological Weapons Convention (1975) which prohibits the use, stockpiling, production and transfer of biological weapons.
4. Chemical weapons: The Chemical Weapons Convention (1997) which prohibits the use, stockpiling, production and transfer of chemical weapons.

5. Nuclear Weapons: The Treaty on the Non-Proliferation of Nuclear Weapons (1968) which limits the spread of nuclear weapons to the group of so-called Nuclear-Weapons States (US, Russia, UK, France and China).

In addition, Depleted Uranium Manufacturers are excluded, i.e. companies involved in the production of depleted uranium weapons, ammunition, and armour, including companies that manufacture armour piercing, fin stabilized, discarding sabot tracing rounds; Kinetic Energy Missiles made with depleted uranium penetrators; and depleted uranium enhanced armour, including composite tank armour.

## **2.2. Thermal coal mining and oil sands**

Companies that generate greater than 20% of their revenues from thermal coal mining (including lignite, bituminous, anthracite and steam coal) and its sale to external parties are excluded. Additionally, companies that generate greater than 20% of their revenues from oil sands extraction (reserves associated with extraction revenues and extraction) are excluded.

## **2.3. Thermal coal power generation**

Companies that generate greater than 20% of their revenues from thermal coal-based power generation are excluded.

## **2.4. Controversial behaviour**

Companies violating the United Nations Global Compact (UNGC) principles, who do not demonstrate credible corrective action will be excluded from the investment universe.

## **2.5. Controversial business activities**

Companies that generate greater than 5% of their revenues from tobacco (production or manufacture of tobacco products), adult entertainment (producer - producing, directing, or publishing adult entertainment materials) and gambling (own or operate gambling facilities) are excluded.

Companies that generate greater than 10% of their revenues from the production of conventional military weapons are also excluded.

## **2.6. Engagement-based exclusions**

UBS-AM periodically conducts thematic engagements with companies on selected ESG topics, for example Climate. UBS-AM defines specific engagement objectives per each company and assesses progress over the time of dialogue with management. UBS-AM excludes companies which it determines are not adequately progressing against set objectives after a pre-defined period of time. These exclusions are monitored and reviewed on an annual basis, and published in our annual Stewardship Report.

## **2.7. Additional exclusions by product**

Additional exclusions for specific products are outlined in the relevant product offering documentation.

### 3. Scope

- Controversial weapons exclusions apply to actively managed funds and rule-based Climate Aware funds under the direct investment management of UBS-AM.
- Depleted uranium exclusions, applies to actively managed fixed income and equities funds as well as rule-based Climate Aware funds under the direct management of UBS-AM. \*
- Thermal coal mining and oil sands exclusions apply to actively managed fixed income and equities funds as well as rule-based Climate Aware funds under the direct investment management of UBS-AM. \*
- Controversial behavior exclusions apply to actively managed fixed income and equities funds under the direct management of UBS-AM that are classified by UBS-AM as Article 8 of the Sustainable Finance Disclosure Regulation (SFDR), “Sustainability Focused” or “Impact”. \*
- Thermal coal power generation exclusion applies to actively managed fixed income and equities funds under the direct investment management of UBS-AM that are classified by UBS-AM as “Sustainability Focused” or “Impact”. \*
- Controversial business activities exclusions apply to actively managed fixed income and equities funds under the direct investment management of UBS-AM that are classified by UBS-AM as “Sustainability Focused” or “Impact”. \*
- Engagement-related exclusions apply to actively managed fixed income and equities funds as well as rule-based Climate Aware funds under the direct management of UBS-AM that are classified by UBS-AM as “Sustainability Focused” or “Impact”. \*

Exclusions noted under this policy are not applicable to O’Connor, Hedge Fund Solutions, Real Estate & Private Market, third party funds where UBS AM only serves as a sub-advisor or where UBS-AM is not the management company or the Sponsor of the fund (unless otherwise agreed with the Sponsor), US collective funds managed by UBS Asset Management Trust Company, and other US funds unless such exclusions are disclosed in the funds’ offering documents.

(\*) Fixed income scope includes Money Market funds but does not include Fixed Maturity Funds, unless the exclusions are noted in the offering documents of such funds. Investments in other funds (including ETFs and single investor funds / mandates) and derivatives on indices are excluded from these rules. Derivatives on single names are included in these exclusion rules.

### 4. Exclusion process

UBS-AM applies investment restriction rules on a pre-trade basis in portfolio management systems to prohibit investment in companies or issuers based on the exclusion criteria. Exclusion criteria are largely based on a Company List or data indicators from third party data providers. Engagement-related exclusions are based on the results of the UBS-AM engagement program as measured against pre-defined objectives. Any changes to the company list affecting current holdings in

portfolios are implemented by the responsible Portfolio Managers. Portfolios also undergo regular post-trade compliance checks performed by an internal independent guideline monitoring function.

## 5. Definitions

“UBS-AM”: the business division of UBS Group AG and its legal entities in those jurisdictions from which it operates.

“Exclusions”: Securities issued by investee companies determined to meet the criteria outlined in the policy which will no longer be actively purchased by UBS-AM portfolio managers.

“Stewardship”: the activities undertaken by UBS-AM as an investor to monitor and, where necessary, intervene on matters that may affect the long-term value of investee companies.

“Actively Managed Funds”: funds under the investment management of UBS-AM where the investment strategy is not tied to an underlying reference benchmark or index.

“Company List”: Externally and internally sourced information regarding the activities of investee companies which are used to determine appropriate exclusions as per this policy

“Third Party Data Providers”: Data which is collected and/or provided by an entity which is not a UBS Group entity.

“United National Global Compact (UNGC) Principles”: Please refer to the UNGC website for the definition: <https://www.unglobalcompact.org/what-is-gc/mission/principles>

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