Fostering dialogue

UBS Asset Management | Stewardship Annual Report 2018
Our approach to stewardship

It is UBS Asset Management’s firm belief that engagement and proxy voting are intrinsic parts of the investment process. That is why we have been reporting on our stewardship activities for over two decades, alongside our sustainable investing efforts. These activities are carried out by our research and stewardship team, who are also responsible for ESG integration. Their work spans the asset classes.

We firmly believe that an effective stewardship strategy can be instrumental in helping investors meet societal targets as well as offering a way of adding financial value.

UBS-AM makes a commitment to companies: to enter into a dialogue of the highest quality. We aim to build relationships with company management which foster a healthy two-way conversation and enhance performance across a variety of Environmental, Social and Governance (ESG) issues.

Through our engagements we share our expectations of corporate management and encourage best practice to enhance long-term value. We are committed to principles of good stewardship and are supportive of best practice codes such as:

- The International Corporate Governance Network (ICGN) Global Stewardship Principles
- UK Stewardship code
- The Japanese Stewardship code
- The Hong Kong SFC Principles for Responsible Ownership
- The investor led ISG Stewardship framework in the USA
- The Australian FSC Standard 23 on Principles of Internal Governance and Asset Stewardship

UBS AM’s engagement activities can be broken up into four main categories: thematic, reactive, proxy voting and proactive. Our stewardship activities cover both active and passive investment strategies and voting is a key component of our approach. Where we believe the effectiveness of engagement can be enhanced, we are willing to work both formally and informally with collective bodies or collaborate with other shareholders.
Our commitment on constructive dialogue

We believe in building relationships with the corporate management we engage with. We are asking our investee companies to be responsive to our invitations for dialogue and provide material and forward looking information to us. Equally, companies can expect the following behavior from us to allow for fruitful and effective conversations:

1. Ensure solid preparation
2. Develop local and sectorial expertise
3. Connect with investment decisions
4. Provide feedback
5. Share best practice
6. Show time and resource commitment
7. Collaborate with others

The four pillars of UBS-AM's stewardship activities

Dialogues within the first three pillars are generally conducted by the Sustainable and Impacting Investing (SI) team who will consult with the relevant analyst (in the case of companies actively held) to prepare for the meeting, align messages and conduct joint meetings when possible/relevant. Engagements driven by financial analysis are led by investment teams with support from the SI team to identify engagement objectives, develop an engagement plan and define voting decisions.

Active and Passive holdings

<table>
<thead>
<tr>
<th>Thematic</th>
<th>Reactive and issuer requested</th>
<th>Proxy voting related</th>
<th>Proactive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engagements on specific sustainability topics, including climate change and impact</td>
<td>Engagements on topical events and UNGC breaches</td>
<td>Engagements centered around shareholder meeting research</td>
<td>Engagements following identification of material ESG risks and opportunities</td>
</tr>
</tbody>
</table>

Source: UBS Asset Management
Engagement and proxy voting: an overview

Items related to business strategy and governance have been commonly raised in our meetings with companies. In addition, engagements have also focused on climate change action, human capital and the impact of products and services.

### Engagements in 2018

<table>
<thead>
<tr>
<th>Engagement type</th>
<th>Engagement method</th>
<th>Engagement themes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Individual</td>
<td>30% Governance</td>
</tr>
<tr>
<td>Proactive</td>
<td>Individual</td>
<td>30% Environmental</td>
</tr>
<tr>
<td>Proxy voting</td>
<td>Individual</td>
<td>10% Strategy and performance</td>
</tr>
<tr>
<td>Reactive</td>
<td>Individual</td>
<td>1% Impact</td>
</tr>
</tbody>
</table>

Source: UBS Asset Management

### Proxy voting

We have been voting on a discretionary basis on behalf of our clients since 1995. We implemented our first internal voting policy in 1998. In the 12 month period ending 31 December 2018, we submitted votes at 10,024 company meetings across 57 markets. This represented 94% of meetings where a vote could have been cast on behalf of at least one portfolio. The meetings we voted at during the period comprised 97,881 resolutions proposed by both company boards and shareholders. We declined to support the recommendations of management on 13,125 resolutions.

### Total number of meetings voted by region in 2018

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>3000</td>
</tr>
<tr>
<td>APAC, ex-Australasia, ex-Japan</td>
<td>2000</td>
</tr>
<tr>
<td>Europe, ex-UK</td>
<td>1000</td>
</tr>
<tr>
<td>Japan</td>
<td>1000</td>
</tr>
<tr>
<td>Rest of World</td>
<td>1000</td>
</tr>
<tr>
<td>UK</td>
<td>1000</td>
</tr>
<tr>
<td>Australasia</td>
<td>1000</td>
</tr>
</tbody>
</table>

Source: UBS Asset Management

Following the launch of our Climate Aware strategy in Q1 2017, we reviewed our voting principles, and since then we have expected companies to have a strategy for reducing greenhouse gas emissions, to be clear about goals, and to report on progress.
Fostering policy dialogue through collaboration

While we prefer to engage privately and directly with our investee companies, we see a strong benefit in working with others, particularly if we believe the effectiveness of engagement and the chance of success can be increased. That is why we have allocated resources to participate in the following initiatives:

– PRI working group on SDGs in active ownership
– IIGCC working group on scenario analysis
– Climate Action 100+

Another key element of our stewardship activities is meaningful discussions with policy makers, as they ensure we can provide feedback on changes that could detrimentally affect our clients’ interests or rights.

In this report we highlight two particular topics we shared our comments on with policy makers in the last 12 months:

– Consultation on UK Corporate Governance Codes
– Joint investors’ statement on climate change
Proxy voting case study

<table>
<thead>
<tr>
<th>Case study</th>
<th>What does our voting in practice look like?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>US</td>
</tr>
<tr>
<td>Voting matter</td>
<td>Climate change targets</td>
</tr>
<tr>
<td>Description</td>
<td>The company received a shareholder proposal requesting the adoption of quantitative targets on greenhouse gas emissions. We voted to support this proposal which would enhance the company’s approach to managing climate risks.</td>
</tr>
</tbody>
</table>
For marketing and information purposes by UBS. For professional / qualified / institutional clients and investors.

This document does not replace portfolio and fund-specific materials. Commentary is at a macro or strategy level and is not with reference to any registered or other mutual funds.

Americas
The views expressed are a general guide to the views of UBS Asset Management as of October 2019. The information contained herein should not be considered a recommendation to purchase or sell securities or any particular strategy or fund. Commentary is at a macro level and is not with reference to any investment strategy, product or fund offered by UBS Asset Management. The information contained herein does not constitute investment research, has not been prepared in line with the requirements of any jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The information and opinions contained herein and based upon information obtained from sources believed to be reliable and in good faith. All such information and opinions are subject to change without notice. Care has been taken to ensure its accuracy but no responsibility is accepted for any errors or omissions herein. A number of the comments in this document are based on current expectations and are considered “forward-looking statements”. Actual future results, however, may prove to be different from expectations. The opinions expressed are a reflection of UBS Asset Management’s best judgment at the time this document was compiled, and any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class or market generally, nor are they intended to predict the future performance of any UBS Asset Management account, portfolio or fund.

EMEA
The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith, nor is it a complete statement or summary of the securities, markets or developments referred to in the document. UBS AG and / or other members of the UBS Group may have a position in and may make a purchase and / or sale of any of the securities or other financial instruments mentioned in this document.

Before investing in a product please read the latest prospectus carefully and thoroughly. Units of UBS funds mentioned herein may not be eligible for sale in all jurisdictions or to certain categories of investors and may not be offered, sold or delivered in the United States. The information mentioned herein is not intended to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units. Commissions and costs have a negative impact on performance. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency fluctuations. This information pays no regard to the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient.

The details and opinions contained in this document are provided by UBS without any guarantee or warranty and are for the recipient’s personal use and information purposes only. This document may not be reproduced, redistributed or republished for any purpose without the written permission of UBS AG.

This document contains statements that constitute “forward-looking statements”, including, but not limited to, statements relating to our future business development. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

UK
Issued in the UK by UBS Asset Management (UK) Ltd. Authorised and regulated by the Financial Conduct Authority.

APAC
This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in APAC. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in your jurisdiction. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of your jurisdiction.

Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered “forward-looking statements”. Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management’s judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed.

You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Australia
This document is provided by UBS Asset Management (Australia) Ltd, ABN 31 003 146 290 and AFS License No. 222605.

Source for all data and charts (if not indicated otherwise): UBS Asset Management

The key symbol and UBS are among the registered and unregistered trademarks of UBS.

© UBS 2019. All rights reserved. www.ubs.com/am

For professional / qualified / institutional clients and investors.