What could a warmer world mean for investors?

Answering the climate challenge
Climate change

It’s one of the most significant, but most misunderstood risks facing companies, financial organizations and individuals today.

Its potential impacts are physical, regulatory and technological. They will all be felt in the short term but are expected to have an even greater impact over the long term. To address climate change and avoid a climate crisis, urgent change is needed.

In 2015, the historic UN Climate Change Paris Agreement pledged to reduce greenhouse gas emissions, limit global average temperatures to a maximum of 2°C above pre-industrial levels and accelerate the transition to a lower-carbon economy.

This transition is creating risks but also investment opportunities which are poised to affect every sector and industry across the globe.
Climate investing: it’s an imperative

Current policies and commitments suggest average temperatures will increase 3°C by the end of this century. Do nothing and that figure rises to 4°C.

Climate risks are two-fold: physical and transitional. We’re already feeling the physical effects of a warmer world. Rising greenhouse gas emissions meant 2016 – 2018 were the hottest years on record. Extreme weather events doubled between 2001 – 2018, while droughts and wildfires increased exponentially. Not only are these physical effects seriously impacting the world we live in, they’re also having significant financial consequences as well. Average annual insured losses from catastrophic climate related events have already hit an all-time high of USD 65 billion this decade and this looks set to continue unless we can bring rising temperatures under control.

Meanwhile, transitional risks include increasing levels of climate-related regulation as governments try to limit the impact of climate change and meet their Paris commitments. The EU taxonomy on sustainable finance, which encourages investors to take account of Environmental, social and governance (ESG) criteria in their investment processes is one example. Another is the Task Force on Climate-related Financial Disclosures (TCFD). It explicitly advises investors and companies to undertake climate change scenario analysis as a way of understanding the effects of climate risk on their investments.

Mitigating these risks means:

1. Global GHG emissions must fall dramatically to effectively address the risks of climate change and global warming. So a coordinated and broad-based approach across a range of sectors is called for.
2. We need to close the climate finance gap. This means re-allocationing capital and investments at scale toward those companies who can help deliver a climate smart future by developing new products and solutions. Over USD 90 trillion needs to be invested by 2030 and will be key to tackling the climate change challenge.

3 Swiss Re Institute: Natural catastrophes and man-made disasters in 2018: “secondary perils on the frontline February 2019
4 https://www.local2030.org/story/view/117
A changing landscape

If we don’t take action to avoid a climate crisis now, then by the end of this century our planet will be warmer than at any other time in human history. Increased public awareness of climate change and its consequences are influencing societal preferences and behaviors and this is directly impacting companies’ cost of capital.

When we think about coal versus renewables, any company that’s emitting CO₂ faces the risk that at some stage regulation will force them to pay fines (e.g. carbon tax), which will impact their bottom line. Over time, high carbon intensity companies might not survive the climate change transition.

But this will create opportunities for other businesses to step in and provide economically viable solutions that can help tackle climate change. Winners and losers will emerge.

Benefiting from a climate smart future

Evolving opportunity set

Aligning to 2°C warming

- Economic opportunities generated by the transition to a low-carbon economy could be as much as USD 26 trn¹
- Carbon adaptation can generate significant opportunities in renewable energy

Portfolio benefits

Risk management and strong tailwinds support a climate-aware approach

- A 2°C scenario leads to enhanced projected returns versus 3°C or 4°C for nearly all asset classes, regions and timeframes²
- Investors have a fiduciary duty to their beneficiaries to ensure they promote and safeguard their interests

The new normal

Climate investing becomes a ‘must-have’

- Trending popularity as flows for climate finance increased 25% in a single period between 2015–2018³

1 Source: https://wri.org/blog-series/the-26-trillion-opportunity
2 Source: Mercer “Investing in a time of climate change – the sequel”, 2019
Addressing the climate challenge

But do investors still need convincing when it comes to the urgent challenges of climate change?

A global UBS-AM survey of 600 institutional investors showed most asset owners believe environmental factors will matter more than traditional financial criteria over the next five years.¹ In the private wealth space, a client survey revealed the majority think sustainable investing will become the norm in the next decade.²

With ESG now much higher on the agenda, and with investors increasingly recognizing the investment opportunities presented by climate change, we have developed the Climate Aware framework. It is designed to help investors align their portfolios to their chosen climate targets. We are committed to delivering sustainable outcomes for current generations and those to come. And that’s why we’re developing a suite of dedicated products across asset classes to meet the needs of our investors.

¹ Source: ESG: Do you or Don’t You. Responsible Investor and UBS Asset Management, 2019)
Our climate aware investment framework

Our framework takes a balanced view of how our economy will evolve towards a low-carbon future. It rests on three pillars:

**Climate adaptation**
- Companies with products and services that provide solutions to a low-carbon future
  - Industrials, technology and renewable energy companies are providing the essential technologies to shift businesses and consumers' practices
  - We are looking for innovation, exciting climate technologies and real impact

**Climate transition**
- Companies in carbon-heavy industries that are transforming their existing business models into a lower carbon version
  - Investors cannot ignore the most polluting sectors when it concerns climate
  - Some companies are part of the solution and our investment, with engagement, should support that transition

**Climate mitigation**
- Companies that are addressing climate change risks and are becoming more efficient in their own operations
  - The climate challenge requires all sectors to act – banks to direct investment towards green projects or retail to manage overconsumption and waste
  - We are looking for climate risk management and leadership in sustainability

Underpinning those pillars is the crucial role of active engagement

Engagement and proxy voting are essential tools in our investment process in order to understand and influence the actions and progress companies are making in adaptation, mitigation and transition toward a low carbon future.

In particular, we aim to actively engage with companies in the transition category, as it is critical to drive the business model transformation and commitments towards a low-carbon future.

These efforts are part of our DNA: they’re supported by UBS Group climate change commitment and augmented by our stewardship actions across UBS-AM.
Why UBS for climate change: actively pursuing our sustainable principles

Long commitment to environmental finance
- First environmental certification in 1999
- UN Global Compact since 2000
- Founding signatory of the Carbon Disclosure Project
- One of the first signatories of UN Environment Program

Strong resources
- Dedicated SI Research team with 20 employees working with over 900 investment professionals
- USD 48 billion⁠¹ in a range of Sustainable Investing focused strategies
- 100% of Active Equities and Fixed Income integrate sustainability

Calling for action to create change
- Data focused approach to allocate to climate-friendly initiatives
- Adoption of the Task Force on Climate-related Financial Disclosures (TCFD) by companies
- Simplification and standardization of sustainable investment standards

Climate aware strengths
- Firm-wide Climate Engagement strategy
- Developed award-winning Climate approach with leading UK pension fund
- Engagement in coordination with Climate Action 100+, lead on 8 company engagements

¹ Assets under management as of 30 June 2020
Our climate aware investment solution

Building on the success of our rules based climate aware strategy launched three years ago, we’ve extended our range of climate aware investment strategies across the asset classes. Each strategy follows the same fundamental principles of Mitigate, Adapt, Transition, and each is underpinned by a process of robust engagement.

If you’d like to learn more about any of these strategies, or UBS-AM’s sustainability offering we’d be delighted to talk to you.

Wide breadth of innovative climate solutions in the core of investment portfolios, total AUM USD 3.7 billion

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mitigation</strong></td>
<td>Targeting companies that are leaders in addressing climate change in their business models</td>
</tr>
<tr>
<td><strong>Adaptation</strong></td>
<td>Targeting companies that provide products and solutions for a low-carbon world</td>
</tr>
<tr>
<td><strong>Transition</strong></td>
<td>Targeting companies in carbon heavy industries that are transforming their existing business models</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UBS Active Climate Aware Equity (Global)</strong></td>
</tr>
<tr>
<td>– Holistic approach selecting companies that are leaders in climate</td>
</tr>
<tr>
<td>– Active management seeking outperformance with high active share</td>
</tr>
<tr>
<td>– A highly-qualified and experienced portfolio management team supported by SI Research team</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benchmarks available</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI All Country World</td>
</tr>
</tbody>
</table>

**E-Leaders**
Companies that can significantly reduce the risk of negative impact of climate change on their business model, especially relative to their peers

**Lower CO₂ intensity**
(CO₂ intensity being an indicator of a better climate profile)

**Min 50% climate solutions**
Companies providing products and services that offer solutions to adapt to climate change, either by reducing the amount of CO₂ that is emitted with traditional technologies or by dealing with the consequences of climate change.

**Alignment to 2 degree scenario**
UBS-AM’s proprietary glidepath methodology compares a company’s carbon footprint trend with the required emission reduction implied by UN 2°C scenario. Allows to estimate the probability that a company will achieve those glide path targets

<table>
<thead>
<tr>
<th>UBS Climate Aware Equity Enhanced Indexing</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Customizable rules-based strategy that applies positive and negative ‘tilts’ related to climate change</td>
</tr>
<tr>
<td>– Engaging directly with companies through conversations with management to convey best practices and encourage them to report sustainability metrics</td>
</tr>
<tr>
<td>– Utilize current and forward looking data to estimate a company’s carbon footprint and gauge their commitment to reduce carbon emissions in the future</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benchmarks available</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE Developed, MSCI world, MSCI ex-CH, S&amp;P 500</td>
</tr>
</tbody>
</table>

**50% lower CO₂ intensity relative to the benchmark**
(CO₂ intensity being an indicator of a better climate profile)

35% overweight in renewable energies

30% portfolio tilt towards alignment to 2 degree scenario
UBS-AM’s proprietary glidepath methodology compares a company’s carbon footprint trend with the required emission reduction implied by UN 2 degree scenario. Allows to estimate the probability that a company will achieve those glide path targets.
Fixed Income strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>UBS USD/EUR Climate Aware Corporate Bonds</th>
</tr>
</thead>
</table>
| Description | – Achieving 30% mitigation of climate risk while seeking outperformance through active management  
 tired of the evidence that climate change is happening  
 – Taking a holistic approach to selecting companies that are leaders in fighting climate change  
 – Refinancing of debt obligations gives fixed income investors more opportunities for corporate engagement and encourages better behavior |
| Benchmarks available | Barclays Euro Corporates (EUR), Barclays US Corporates (USD) |
| Mitigation | ESG integration & lower CO₂ intensity  
 (CO₂ intensity being an indicator of a better climate profile) |
| Adaptation | Green to brown ratio > 2  
 This is the rate at which a strategy reduces its CO₂ footprint on an annual basis. The target number indicates the reduction of CO₂ emissions as a percentage reduction from previous year’s CO₂ emissions. If the self de-carbonization target is 2%, the CO₂ emissions of the portfolio one year from now should not exceed 98% (100%-2%) of that of the current portfolio |
| Transition | Alignment to 2 degree scenario  
 UBS-AM’s proprietary glidepath methodology compares a company’s carbon footprint trend with the required emission reduction implied by UN 2 degree scenario. Allows to estimate the probability that a company will achieve those glide path targets |

50% lower CO₂ intensity relative to the benchmark  
(CO₂ intensity being an indicator of a better climate profile)


<table>
<thead>
<tr>
<th>Strategy</th>
<th>Barclays Global Corporates (USD)</th>
</tr>
</thead>
</table>
| Description | – Meaningful, 50%, mitigation of climate risk, while closely tracking the benchmark  
 – Probability-based assessment of companies’ ability to operate in line with a maximum temperature increase of 2°C (2 degree scenario)  
 – Strategic, targeted engagement program with issuers to encourage better behavior whilst not excluding complete sub-sectors but instead tilting towards renewable energy |
| Mitigation | Targeting companies that are leaders in addressing climate change in their business models |
| Adaptation | Targeting companies that provide products and solutions for a low-carbon world |
| Transition | Targeting companies in carbon heavy industries that are transforming their existing business models |

25% portfolio tilt towards alignment to 2 degree scenario  
UBS-AM’s proprietary glidepath methodology compares a company’s carbon footprint trend with the required emission reduction implied by UN 2 degree scenario. Allows to estimate the probability that a company will achieve those glide path targets. 

FTSE Climate Risk-Adjusted World Government Bonds

7% improvement to climate risk  
In the context of government bonds, climate risks refers to the combined risk of climate change as a result of future reductions in CO₂ emissions needed, risks of damages to physical infrastructure and the ability of the country to deal with these changes within its governing institutions

N/A

10% portfolio tilt towards alignment to 2 degree scenario  
UBS-AM’s proprietary glidepath methodology compares a company’s carbon footprint trend with the required emission reduction implied by UN 2 degree scenario. Allows to estimate the probability that a company will achieve those glide path targets.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>UBS Climate Aware Government Bonds Indexing</th>
</tr>
</thead>
</table>
| Description | – Access to a cost-efficient portfolio of global government bonds that factors in climate risks  
 – Low tracking error versus standard government bond indices, but with a substantially lower carbon footprint  
 – Combining the expertise of the UBS Sustainable Investing team with the know-how of our specialists in the area of index replication |
| Benchmarks available | FTSE Climate Risk-Adjusted World Government Bonds |
| Mitigation | N/A |
| Adaptation | ESG integration & lower CO₂ intensity  
 (CO₂ intensity being an indicator of a better climate profile) |
| Transition | Green to brown ratio > 2  
 This is the rate at which a strategy reduces its CO₂ footprint on an annual basis. The target number indicates the reduction of CO₂ emissions as a percentage reduction from previous year’s CO₂ emissions. If the self de-carbonization target is 2%, the CO₂ emissions of the portfolio one year from now should not exceed 98% (100%-2%) of that of the current portfolio |
| Transition | Alignment to 2 degree scenario  
 UBS-AM’s proprietary glidepath methodology compares a company’s carbon footprint trend with the required emission reduction implied by UN 2 degree scenario. Allows to estimate the probability that a company will achieve those glide path targets. |

<table>
<thead>
<tr>
<th>Strategy</th>
<th>UBS Climate Aware Government Bonds Enhanced Indexing</th>
</tr>
</thead>
</table>
| Description | – Meaningful, 50%, mitigation of climate risk, while closely tracking the benchmark  
 – Probability-based assessment of companies’ ability to operate in line with a maximum temperature increase of 2°C (2 degree scenario)  
 – Strategic, targeted engagement program with issuers to encourage better behavior whilst not excluding complete sub-sectors but instead tilting towards renewable energy |
| Benchmarks available | N/A |
| Mitigation | Targeting companies that are leaders in addressing climate change in their business models |
| Adaptation | Targeting companies that provide products and solutions for a low-carbon world |
| Transition | Targeting companies in carbon heavy industries that are transforming their existing business models |

50% lower CO₂ intensity relative to the benchmark  
(CO₂ intensity being an indicator of a better climate profile)

25% overweight renewable energies

Alternatives

Environmental Focus Strategy

– Seeks to identify long and short opportunities arising as the Energy Transition Economy continues to evolve  
 – Actively managed portfolio providing a multi-year opportunity  
 – Assesses company’s future risks / opportunities resulting to transition to more sustainable, lower carbon economy
For marketing and information purposes by UBS. For global professional / qualified / institutional clients and investors and US retail 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 fund.

**Americas**

The views expressed are a general guide to the views of UBS Asset Management as of September 2020. 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 in this document have been compiled or arrived at 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 otherwise is disclaimed. Furthermore, these views

**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, but is not guaranteed as being accurate, 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/or 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.