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1. Introduction

1.1. Sustainable Investing

At UBS Asset Management (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. Sustainability focus/impact funds promote ESG characteristics or have a specific sustainability or impact objective which is defined in the investment policy. ESG Integrated Funds are investment funds that primarily aim at maximizing financial performance, whereby ESG aspects are input factors within the investment process.

A fundamental element of sustainable investing is the role of stewardship. In our view, acting as good stewards of our clients’ assets entails the avoidance of investments which are deemed undesirable, either by UBS or by our clients.

This policy describes the exclusion approach of UBS-AM and details those activities which are excluded from the investment universe.

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).

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

3. Biological Weapons: Biological Weapons Convention (1975) which prohibits the use, stockpiling, production and transfer of biological 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).

2.2. Thermal coal

UBS-AM does not invest in companies that generate 30% or more of their revenues from thermal coal mining (including lignite, bituminous, anthracite and steam coal) and its sale to external parties.

3. Scope

- Controversial weapons exclusions apply to active strategies under the direct management of UBS-AM as identified by the Ethix List.
- Thermal coal exclusions apply to active fixed income and equities funds under the direct management of UBS-AM. Investments in other funds (including ETFs and single investor funds / mandates) and derivatives on indices are excluded from this rule. Derivatives on single names are included in this exclusion rule.
- Additional exclusions for Sustainability focus/impact funds and where applicable, for ESG integrated funds, are outlined in the Investment Policy of the Sub-Fund in the Fund prospectus.

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 based on a company list or data indicators from third party data providers. 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 by an independent guideline monitoring function.

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More explanations of financial terms can be found at ubs.com/am-glossary

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