Fostering dialogue

UBS Asset Management | Stewardship Annual Report 2018
Contents

3 Foreword
4 Our approach to stewardship
10 Our engagement activities
12 Engaging on climate change
14 Maximizing impact through dialogue
16 Engagement in practice
20 Overview of our voting activities
24 Voting developments and trends
26 Voting in practice
31 Collaborating with other investors
32 Fostering policy dialogue
33 The Research & Stewardship team
34 Appendix
Foreword

UBS Asset Management (UBS-AM) enjoys a strong legacy of sustainable investing (SI), which began more than two decades ago. During that time we have reported regularly on our stewardship activities. This report reflects our activities for the twelve months ending 31 December 2018.

It is our firm belief that engagement and proxy voting are intrinsic parts of the investment process. Our white paper, “Adding value through active engagement: UBS’ Stewardship Strategy”1 discusses our approach and highlights the additional value we believe sound stewardship can offer, a belief which has been borne out by both academic and industry research.

Our proxy voting and engagement activities are a matter of public record for us at UBS-AM and our policies make clear the expectations we have from those companies we invest in. But at the same time, we ourselves make our own commitment to those companies, a commitment to enter into a dialogue of the highest quality.

Our stewardship report is an annual publication and we very much welcome all feedback from our clients and stakeholders.

As well as adding financial value, an effective stewardship strategy can also be instrumental in helping investors meet societal targets.

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1 For more information on our research and policies, please visit:
Our approach to stewardship

As we have outlined in our Global Stewardship Policy, our approach to stewardship comprises activities which monitor and, where necessary, influence corporate conduct on matters that we believe affect the long-term value of investee companies.

We seek to build relationships with company management to foster healthy dialogue and enhanced performance on a variety of environmental, social and governance (ESG) issues such as strategy, performance, business ethics, corporate governance, climate change, human capital and supply chain management.

Effective stewardship is a two-way dialogue between investors and companies with the goal of collecting and enhancing information and/or improving business performance. Through engagement, we can share our expectations of corporate management and encourage practices to enhance long-term value. At the same time, companies have the opportunity to explain the relationship between sustainability factors, their business model and financial performance.

As an asset manager, we are committed to the principles of good stewardship. We are signatories to stewardship codes of best practice such as the International Corporate Governance Network (ICGN) Global Stewardship Principles, the UK and Japanese Stewardship codes, as well as supporting the Hong Kong SFC Principles of Responsible Ownership and the investor-led ISG Stewardship Framework in the USA. We also meet the requirements of the Australian FSC Standard 23 on Principles of Internal Governance and Asset Stewardship.

In addition, we are a signatory to the Principles for Responsible Investment initiative, which strongly encourages investors to be active owners by engaging with companies and voting at Annual General Meetings (as outlined in Principle 2). This year, as in 2017, we have received an A grade for our responses to the PRI Reporting Framework’s module on active ownership in listed equity.2

Our stewardship activities cover both active and passive investment strategies. In the case of active positions, dialogue with companies reflects our consideration of ESG issues in the investment thesis and enhances investment decisions. For passive strategies, engagement and proxy voting help us attempt to address broader negative externalities to the economy, like climate change or poor social conditions in direct operations and supply chain, which could cause instability and inefficiencies within the financial markets. Since passive strategies limit our option to sell, company dialogue and exercising voting rights on behalf of our clients are key to encourage improvements on issues that are affecting the long-term prospect of our holdings. Stewardship activities can also improve our methodologies for new ESG-themed passive products.

Any engagement dialogue involves the acquisition of third-party research, proprietary data analysis3, on-going assessment and information sharing amongst investment and sustainable investing staff.

Our company meetings are typically held with chairmen, lead directors, CEOs,

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3 UBS AM has developed a proprietary database of material non-financial sustainability information. This database is structured around the Sustainability Accounting Standards Board Materiality Map, which identifies the most relevant industry-specific sustainability issues that contribute to business performance.
CFOs and sustainability experts. These interactions could be led by investment analysts and portfolio managers, sustainable investing staff or together, but our approach is always the same, to ensure that companies receive a consistent and unique voice. We also maintain a comprehensive database of our company interactions in order to share information internally, review progress against defined objectives over time and follow-up on any issues that have been identified.

Voting is a key component of our overall approach to stewardship. In cases where holdings are included in multiple portfolios, we aim, as far as possible, to vote consistently in order to send one strong and unified message to our investee companies. In situations when our engagement dialogue is not bringing the results we had expected, we will often escalate and use voting as an additional means to express our opinion and influence boards and management.

Where we believe the effectiveness of engagement can be enhanced, we are willing to work both formally and informally with collective bodies, or to collaborate with other shareholders. Collaboration with peers can bring clear benefits, such as building knowledge, sharing resources and increasing attention by corporate management. However, there is a chance that negotiation and co-ordination costs might hamper the advantages of collaborating. Before we undertake any collaboration with other investors we make sure there is alignment of views and engagement objectives and that we as an investment firm have the resources to effectively contribute to the research of, and dialogue with, selected companies.

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Building on solid ESG research

1. Overview from external ESG data service providers
2. Insights from UBS ESG database
3. Internal in depth qualitative assessment of company ESG performance
4. Integration of ESG issues in company valuation

Source: UBS Asset Management.
In alignment with this vision, UBS-AM’s stewardship activities are currently organized as four pillars:

1. **Thematic engagements**: these are dialogues based on priority ESG themes considered material, analyzed by available internal and external research and aligned with the overall sustainability and sustainable investing strategy of UBS-AM. Engagement lists are developed by taking into consideration the current performance of companies on the relevant topic, sectors where the issue has a high relevance, the potential for influence and financial exposure. In 2017/2018, we selected climate change and impact on air quality, water quality, health and food security as key focus topics.

2. **Reactive engagements**: these are dialogues with companies involved in serious breaches of international standards such as the Universal Declaration of Human Rights, the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. The purpose of dialogue is to ensure companies effectively close and remedy identified breaches and ensure that they have addressed any management failures so as to avoid repeating the mismanagement in the future. Under this category, we also include cases when companies approach us to provide an overview of their business strategy and performance on ESG issues. We accept these invitations for dialogue in case of existing concerns and/or high financial exposure.

3. **Engagements around proxy voting decisions**: these interactions refer to conference calls or in-person meetings conducted before or after an AGM to inform proxy voting decisions and/or to communicate to companies about proxy voting decisions. These conversations help to shed light on board member candidates, remuneration policies, board effectiveness and the company’s reaction to specific shareholders’ resolutions. Cases for proxy voting engagements are usually identified based on financial exposure, seriousness of the concern and complexity of the item up for vote.

4. **Proactive engagements**: these are dialogues conducted by the analysts and portfolio managers on specific issues related to the business strategy and/or ESG risks and opportunities that have an impact on valuation models. These interactions with corporate management are conducted with the goal of collecting more information and influencing corporate practices to trigger better financial performance in the long term. The identification of companies for this type of engagement is strictly linked to the inclusion of ESG and business strategy issues in the formulation of the investment case.
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.

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.
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. **Solid preparation**: before entering into dialogue with a company, we will review and analyze the most up-to-date and relevant information on financial and ESG performance provided by the company. We will also access third party research on issues considered material for the specific company and sector.

2. **Local and sectorial expertise**: before starting dialogue with a company, we will look for internal expertise and views on relevant local markets and sectors across teams.

3. **Connection with investment decisions**: during our meetings with corporate management, we will explain how the information collected will be taken into consideration in investment decisions. Whenever possible SI staff and investment staff will co-join meetings with companies. In any situation, the information collected during engagement meetings will be shared internally through a platform.

4. **Feedback**: during and after meetings, we will provide feedback on current company actions and plans to solve any existing concerns. Companies can also ask our opinions on areas of interest for them. After initial conversations, we will share with management our engagement objectives.

5. **Best practice**: whenever relevant, we will share best practice examples from peers that have shown leadership and good performance on material ESG matters. Equally, we will recognize the companies we engage with for any innovative practice and solution in relation to ESG challenges and opportunities.

6. **Commitment**: we will allocate adequate resources and time for our dialogue with companies. If we believe that corporate practice should improve in order to trigger long-term value, we will engage with the management and the board on a continuous basis and over a certain period of time.

7. **Collaboration**: as part of our commitments to support investor networks and drive the ESG agenda in financial markets, we will monitor other investors’ activities on engagement and join efforts whenever beneficial for us and investee companies.
Our engagement activities

Between January and December 2018 we engaged with 195 companies across regions and sectors (see the full list of companies we engaged with in the appendix).

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.

Engagement activities in 2018

Source: UBS Asset Management.
Engagement in practice

Examples of dialogue with companies across our four pillars

Japan
- **Sector:** Pharmaceuticals
- **ESG topics addressed:** Health and well-being; bribery and corruption; human capital management; supply chain management; transparency and disclosure
- **Type of engagement:** Thematic
- **Description:** Our engagement with a Japanese pharmaceutical company that sells drugs to treat some of the 20 most burdensome diseases started with an educational discussion on our impact measurement methodology to assess the human health benefits of its products (SDG 3). The immediate need was to provide our academic partners with detailed drug sale data to inform and enhance the impact model. The company agreed to collaborate with the academics and pilot our methodology to measure its external impact. The next step is for the company to publicly disclose the impact of its products and set targets to increase it over the time. A pharmaceutical company can increase its impact in two ways: improving the efficacy of its portfolio of drugs and/or increasing its sales (i.e. reaching more people, notably those in greatest need). Our baseline is thus twofold: 1) functional—increased efficacy relative to an existing alternative treatment, and 2) temporal—relative to prior year sales, measured in terms of lost work days prevented, hospitalisation prevented and finally death prevented. In addition to drugs sold via traditional channels, we intend to complement our impact calculation with the impact of drugs distributed for free. With regards to traditional ESG engagement, our objective was to obtain further details on the areas where disclosure was weak. The company has a very advanced strategy to reduce its environmental footprint, however, other sustainability topics are not covered as precisely (missing data) and extensively as corporate operations’ environmental impact. For example, supply chain management is covered from a policy and process point of view, but there is very little tangible information on how this works in practice. Similarly, marketing and sales related issues are covered by standard policies, yet we have no details on incentive systems for sales, practical training for employees, or the existence of an Ethics helpline.

Germany
- **Sector:** Utilities
- **ESG topics addressed:** Climate change
- **Type of engagement:** Thematic
- **Description:** The company was selected for engagement based on several indicators related to exposure to coal and lignite, total absolute greenhouse gas emissions, emissions intensity rates and misalignment to a low carbon economy. During 2018, we met with company representatives, including the chair of the Supervisory Board, three times. We learned that corporate management sees climate change as a regulatory and political risk rather than an intrinsic element of the business strategy over the coming decades. Nevertheless, the company is taking actions to invest in renewables energy through an ongoing acquisition and it is undergoing an internal gap analysis on the disclosure requirements of the TCFD. Our future dialogue will focus on its board’s leadership to drive more ambitious actions, policy dialogue with the German government, scenario analysis, target setting and lobbying activities on climate change.
China
- **Sector:** Financials
- **ESG topics addressed:** Bribery and corruption
- **Type of engagement:** Reactive
- **Description:** Recently the company was fined for filing fraudulent reports and for unauthorized issuance of auto insurance premium rebates. Consequently, the regulator imposed restrictions on some of the company’s branches on writing new commercial auto business contracts for a certain period of time. As soon as we became aware of the issue we invited the company to provide clarification. We believe the issue did not have a material impact on the overall operations and profitability of the company, however it signalled a lapse in internal controls. When meeting the company management, we asked for assurance that proper procedures will be put in place to limit any future similar occurrence. The company committed to increasing internal controls and adhering strictly to legal compliance. It also confirmed that all local claims and customer services will be carried out normally and that existing customer rights will not be affected.

South Korea
- **Sector:** Metals and mining
- **ESG topics addressed:** Environmental impact, society and community
- **Type of engagement:** Reactive
- **Description:** During a recent meeting with a South Korean metals company we discussed recent allegations concerning so-called slush funds controlled by the former company president. While they could not comment on the details as the case remains open at this point, they noted that the allegations involved senior management who are no longer at the company. They have added an additional external member to the board of directors, increasing the number from seven to eight. We are encouraged that they are making efforts to address some of these past issues. We recognize that whether guilty or otherwise, historically, one of the reasons these issues occurred was because key management at the company were appointed by the president of South Korea, a move which often gives rise to a form of national service obligation from the company, especially when the government seeks to intervene in either the day-to-day operation or the strategic direction of the company. We note too that the current CEO and team were not appointed by the current ruling party in power, and to date there has been little interference from the government on matters at the company.

United Kingdom
- **Sector:** Financials
- **ESG topics addressed:** Financial performance and governance
- **Type of engagement:** Proactive
- **Description:** During the engagement process, the company outlined the unity and focus of the board and the strong progress made towards their goals over the past 18 months, particularly around non-core business and ring-fencing of the UK business. Now that some of the transitional strategic tasks have been finalized, the intention is to have a stable business, avoiding unnecessary shocks and disruptive events which may have negative impact on investors and undermine confidence in the company. Dialogue with management enabled us to understand more about the complexity of the company’s governance at group level, where the CEO liaises with 6 Boards within the wider group. Given the risks that are inherent within the finance sector, it is helpful for shareholders to understand how the group operates in practice, and this is one area we intend to monitor on an ongoing basis.
Netherlands
– **Sector:** Consumer staples
– **ESG topics addressed:** Governance
– **Type of engagement:** Proxy voting
– **Description:** In March 2018, the company announced its intention to simplify from two legal entities into a single entity incorporated in the Netherlands. It was expected that a single entity would result in greater flexibility for making strategic changes in its portfolio in the future, including the impact on any acquisitions or other corporate activity, improved corporate governance and increased competitiveness.

The Board sought shareholder approval of matters relating to the simplification of the Group’s corporate structure.

Ahead of the shareholder vote we engaged on various issues, both directly with members of the company board and through an investor group. The topics ranged from the strategic vision and primary drivers behind the intended changes, to potential changes to dividend payments and the impact on UK domiciled investors.

On the surface the simplification has strategic sense, particularly with regards to future growth for the company and the improvement of various governance aspects. However the company failed to convince UK shareholders of the merits of moving to a Dutch listing, and we shared some of the concerns raised, which would have led us not to support the proposals for our UK based clients. The company subsequently withdrew the proposal ahead of the intended vote.

We met with the company following the announcement to understand the next steps in respect of their governance changes. Since that meeting the company has announced the appointment of a new CEO and made changes to their remuneration scheme. We will continue to meet the company, and are of the view that in the longer term the company should re-visit the listing structure to find an optimal solution for all shareholders.

United States
– **Sector:** Oil & gas
– **ESG topics addressed:** Climate change
– **Type of engagement:** Thematic
– **Description:** We met with the senior managers from a large oil & gas company involved in upstream, mid-stream and downstream businesses. The company has recently appointed new professionals, with direct links to the Board, who are responsible for driving its sustainability strategy. Recent disclosure has also focused on climate change risks and the transition to a low carbon economy. In our dialogue, we have stressed the importance of scenario analysis, target setting and transparent lobbying activity. We were pleased to see the company joining the Oil and Gas Climate initiative (OGCI) as a result of collective dialogue with investors.
United States

- **Sector**: Pharmaceuticals (Biotech)
- **ESG topics addressed**: Governance; Transparency and Disclosure; Strategy; Capital Management
- **Type of engagement**: Proactive
- **Description**: The company was selected for engagement due to corporate governance issues such as a dual share class and a staggered board who have allowed it to over-invest in R&D. As a result, the company has significantly underperformed biotech peers since its 2010 IPO. Looking ahead, we see several opportunities for value creation with key pipeline readouts as well as the sunset of the dual class structure by year-end 2018. We believe the company could attract attention from strategic buyers. As a biotech company, human capital is the most important asset needed to execute its strategy—including drug discovery (R&D)—as well as to navigate regulatory, commercial and financial issues. However, disclosure on how the company attracts, retains and develops employees does not go beyond boiler plate language in the 10K filing document. We have had the opportunity to speak to the board and senior management several times since January 2018 to discuss capital management, and recommended considering strategic alternatives, such as splitting up the company. The company is now proactively taking steps to create shareholder value. During our meetings we were also able to raise our concerns that shareholders are unable to make investment-related decisions as the impact of human capital and environmental matters on the business model is not disclosed. The company has committed to improving disclosure for shareholders and we will continue to encourage future financial reporting to include material ESG information.

United States

- **Sector**: Food, Beverage and Tobacco
- **ESG topics addressed**: Supply chain management
- **Type of engagement**: Proactive
- **Description**: The company has had several controversies related to its supply chain over the years and the level of disclosure on its practices lags peers. We engaged with the sustainability and procurement team on supply chain monitoring. Responsibility for sustainability topics in suppliers’ management rests with the buyers, along with the sustainability team working on some thematic engagements such as Fair Trade or responsible supply chains in the toy industry. Shaping industry practices with industry groups is where they believe they can make the most impact in improving standards. The retailer does not appear to employ subject matter experts to train buyers and monitor suppliers, unlike other food retailers. We also noted that there is no incentive system in place for buyers to encourage sustainability practices at suppliers. On the positive side, a new scoring system allows for automatic escalation of audit flags, which, if not adequately addressed, leads eventually to a supplier relationship being ended. Nonetheless, engagement with suppliers is always the first step, and suppliers in breach of the code of conduct have to hire a managerial team recommended by the company to address any environmental or social issues. We expect progress thanks to the ongoing plan to pull together all data collected, such as compliance alerts and food safety audits results, into one central system. The engagement helped us learn more about the company’s supply chain management practices, as well as the progress still to come, and we plan to follow up on this shortly.
Overview of our voting activities

It is our belief that voting rights have economic value and should be treated accordingly. As a result we consider voting to be an important part of our fiduciary duty to clients and integral to both the investment process and our overall stewardship approach.

We have been voting on a discretionary basis on behalf of our clients since 1995 and implemented our first internal voting policy in 1998. The policy continues to be reviewed annually to take into account changes in global standards and best practice related to, among other things, Corporate Governance and Sustainability.

While there is no absolute set of standards that determine appropriate governance under all circumstances, and no set of values that will guarantee ethical board behaviour, there are certain principles which we consider are appropriate to protect the economic value of our clients’ investments.

Our policy is therefore applied globally but also allows us the discretion to reflect local laws or standards where appropriate.

Our approach is to vote in all markets, unless we feel that by doing so we will impede our ability to manage a portfolio, or that the logistics involved in voting are prohibitive and would not deliver sufficient benefit to clients.

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. There are times when we will decide to vote against a proposal if we consider that the specific proposal is not in the best interests of our clients; where we have wider concerns with a company strategy, a board member or board oversight; or to reflect the outcome from our engagement.

We declined to support the recommendation of management on 13,125 resolutions, being approximately 13.5% of overall resolutions voted. We declined to support at least one proposal at 59% of meetings and supported 27% of resolutions submitted by shareholders. The majority of these votes against managers referred to director nominations, executive remuneration plans and capital allocation.

Note: A detailed breakdown of our voting activities on a meeting by meeting basis is available from the global homepage of our website, at www.ubs.com/global/en/asset-management/investment-capabilities/sustainability.html.
### Voting activity by region in 2018

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of shareholder meetings voted</th>
<th>Number of resolutions voted</th>
<th>Total voted in line with management recommendation</th>
<th>Total number of resolutions voted contrary to management recommendation, including abstentions</th>
<th>Percentage of votes against management</th>
</tr>
</thead>
<tbody>
<tr>
<td>APAC (ex-Australia &amp; Japan)</td>
<td>2,406</td>
<td>18,387</td>
<td>15,620</td>
<td>2,767</td>
<td>15.0%</td>
</tr>
<tr>
<td>Australasia</td>
<td>417</td>
<td>2,040</td>
<td>1,667</td>
<td>373</td>
<td>18.3%</td>
</tr>
<tr>
<td>Europe ex-UK</td>
<td>1,328</td>
<td>17,317</td>
<td>14,435</td>
<td>2,882</td>
<td>16.6%</td>
</tr>
<tr>
<td>Japan</td>
<td>1,247</td>
<td>13,566</td>
<td>12,442</td>
<td>1,124</td>
<td>8.3%</td>
</tr>
<tr>
<td>North America</td>
<td>2,767</td>
<td>24,938</td>
<td>21,181</td>
<td>3,757</td>
<td>15.1%</td>
</tr>
<tr>
<td>UK</td>
<td>896</td>
<td>12,115</td>
<td>11,387</td>
<td>728</td>
<td>6.0%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>963</td>
<td>9,518</td>
<td>8,024</td>
<td>1,494</td>
<td>15.7%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>10,024</strong></td>
<td><strong>97,881</strong></td>
<td><strong>84,756</strong></td>
<td><strong>13,125</strong></td>
<td><strong>13.4%</strong></td>
</tr>
</tbody>
</table>

### Total number of meetings voted by region

- North America
- APAC, ex-Australasia, ex-Japan
- Europe, ex-UK
- Japan
- Rest of World
- UK
- Australasia

Source: UBS Asset Management.
## Votes against management: activity by region and category in 2018

<table>
<thead>
<tr>
<th>Topic</th>
<th>APAC (ex-Australasia &amp; Japan)</th>
<th>Australasia</th>
<th>Europe, ex-UK</th>
<th>Japan</th>
<th>North America</th>
<th>UK</th>
<th>Rest of World</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director related</td>
<td>1107</td>
<td>97</td>
<td>739</td>
<td>852</td>
<td>1866</td>
<td>521</td>
<td>450</td>
<td>5,632</td>
</tr>
<tr>
<td>Remuneration plans</td>
<td>417</td>
<td>216</td>
<td>783</td>
<td>205</td>
<td>1370</td>
<td>237</td>
<td>181</td>
<td>3,409</td>
</tr>
<tr>
<td>Capital matters</td>
<td>432</td>
<td>43</td>
<td>886</td>
<td>2</td>
<td>45</td>
<td>566</td>
<td>60</td>
<td>2,034</td>
</tr>
<tr>
<td>Governance and related proposals</td>
<td>505</td>
<td>2</td>
<td>419</td>
<td>3</td>
<td>48</td>
<td>140</td>
<td>17</td>
<td>1,134</td>
</tr>
<tr>
<td>Business plans, including M&amp;A</td>
<td>211</td>
<td>4</td>
<td>11</td>
<td>8</td>
<td>8</td>
<td>26</td>
<td>18</td>
<td>286</td>
</tr>
<tr>
<td>Other proposals</td>
<td>0</td>
<td>0</td>
<td>40</td>
<td>32</td>
<td>34</td>
<td>1</td>
<td>2</td>
<td>109</td>
</tr>
<tr>
<td>Shareholder proposals supported</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Governance related</td>
<td>95</td>
<td>7</td>
<td>4</td>
<td>22</td>
<td>325</td>
<td>2</td>
<td>0</td>
<td>455</td>
</tr>
<tr>
<td>Shareholder proposals supported</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Environmental related</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>54</td>
<td>1</td>
<td>0</td>
<td>59</td>
</tr>
<tr>
<td>Shareholder proposals supported</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Social related</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>2,767</strong></td>
<td><strong>373</strong></td>
<td><strong>2,882</strong></td>
<td><strong>1,124</strong></td>
<td><strong>3,757</strong></td>
<td><strong>1,494</strong></td>
<td><strong>728</strong></td>
<td><strong>13,125</strong></td>
</tr>
</tbody>
</table>

Source: UBS Asset Management
Votes against management in 2018

By region

- North America: 28%
- Europe, ex UK: 22%
- APAC, ex-Australia, ex-Japan: 21%
- Rest of World: 9%
- Japan: 11%
- UK: 3%
- Australasia: 3%

By category

- Director related: 42%
- Renumeration plans: 26%
- Capital matters: 16%
- Governance and related proposals: 9%
- Business plans, including M&A: 2%
- Other proposals: 1%
- Shareholder proposals supported—Governance related: 4%
- Shareholder proposals supported—Environmental related: 0%
- Shareholder proposals supported—Social related: 0%

Source: UBS Asset Management, for meetings voted in accordance with UBS AM policy guidelines.
The AGM remains a key annual focal point for companies and shareholders alike. While corporate governance issues remain the most common proposals that are presented at shareholder meetings, how shareholders use their vote continues to evolve, with shareholders increasingly willing to vote against individuals serving on the board that they hold responsible for any failings.

Voting developments and trends

Resolutions proposed by shareholders, which are particularly common in the US, show a clear trend away from shareholder rights towards accountability, sustainability topics and requests for improved transparency on specific issues, such as climate reporting.

We view the vote as one of the most effective ways of signalling approval, or not, of a company’s governance, management, board and strategy. When deciding how to vote we apply not only our principles but our knowledge of the company, and evidence of any controversies or issues during the period.

Two areas in our policy and principles in particular have been strengthened over the past year. These relate to how companies manage their approach to environmental risks and opportunities, and the diversity mix of boards.

Gender diversity on boards
From Q2 2018 we implemented a wider policy approach for the requirements of gender balance on boards. Our view is that boards work better when there is a balance of gender, skills, experience and background and there needs to be a shift in corporate culture. Commitments to increase the representation of women within boards are also positively associated with effective board refreshments and more professionalized succession plans.

We may withdraw support for the election of the Chair of the Nomination Committee when female board representation is below a certain threshold. In all countries we now expect companies to appoint at least one female board member, however in countries where best practice already exceeds this minimum threshold we have set higher targets.

When applying our policy, we have taken into account each board’s current level of female representation, the track record of directors, whether the company made any progress towards best practice and whether the board has a policy in place to reach a target threshold within a set time period. This approach allows us to strike a healthy balance between promoting more diverse boards and preserving financial performance.

Shareholder rights at US companies
At a number of large US corporations, management has recently sought shareholder approval to ratify the authority for shareholders to call a special meeting. These proposals came after shareholders had previously submitted proposals at these companies asking for the power to call a special meeting but with a lower ownership threshold. Management argued that the
We view the vote as one of the most effective ways of signalling approval, or not, of a company’s governance, management, board and strategy.

shareholder proposals could be excluded under SEC regulations because of their direct conflict with a management proposal to be submitted at the 2018 meeting.

The structure of the newly adopted special meeting bylaws, coupled with the boards’ decision to exclude similar non-binding shareholder proposals with a lower threshold, raised significant governance concerns. It seemed that the main purpose of these management proposals was to exclude shareholder proposals requesting a lower ownership threshold.

Additionally, the companies’ proposals forced shareholders to go beyond the text of the proposal to consider additional detail contained in the proxy statement when casting their votes. Given these concerns, we typically withheld our support for these company requests.

**Climate-related proposals**
Following the launch of our Climate Aware Strategy we reviewed our voting principles and policy with regards to climate-related reporting proposals at shareholder meetings.

We expect companies to have a strategy for reducing greenhouse gas emissions, to be clear about goals, and to report on progress. We plan to support proposals that require an issuer to report to shareholders, at a reasonable cost and excluding proprietary information, information concerning its potential liability from operations that contribute to global warming, its goals in reducing these emissions and its policy on climate risks with specific reduction targets, where such targets are not overly restrictive.

We also plan to support proposals that seek to promote greater disclosure and transparency in a standardized format of their corporate environmental policies, including information on GHG or toxic emissions, in particular as outlined in the TCFD recommendations.

Since reviewing our approach we have supported over 85% of shareholder proposals.
Voting in practice

Examples across the globe
• **Country:** Mexico  
  **Voting matter:** Allocation of income

• **Country:** Switzerland  
  **Voting matter:** Board election

• **Country:** Spain  
  **Voting matter:** Capital allocation

• **Country:** United Kingdom  
  **Voting matter:** Board election

• **Country:** US  
  **Voting matter:** Climate change targets

• **Country:** Japan  
  **Voting matter:** Takeover plan

• **Country:** US  
  **Voting matter:** Mergers and acquisitions

• **Country:** US  
  **Voting matter:** Shareholder rights; gender diversity; data protection

• **Country:** US  
  **Voting matter:** Board election

• **Country:** Australia  
  **Voting matter:** Remuneration

• **Country:** Switzerland  
  **Voting matter:** Board composition

In the 12 month period ending 31 December 2018, we submitted votes at 10,024 company meetings across 57 markets.
Voting in practice

Voting matter and description

**Mexico**
- **Voting matter:** Allocation of income
- **Description:** Dividend distributions are generally viewed as routine governance proposals, however it is important that shareholders feel that adequate levels are maintained where companies are able to do so. For this particular company payouts in recent years have consistently fallen below 30 percent of net income and at the AGM in April 2018 we therefore voted against the request to approve the allocation of income.

**Switzerland**
- **Voting matter:** Board election
- **Description:** When evaluating board elections we take into account a wide range of factors, including the overall commitments of individuals. We are keen to ensure that board members can commit sufficient time to their roles. For this particular company we identified that a nominee serves as the CEO of a large company and holds a number of other non-executive positions. Taking this into account, we chose not to support the candidate.

**Spain**
- **Voting matter:** Capital allocation
- **Description:** The company held its AGM in March and asked shareholders to approve a request for an increase in capital that could represent up to 50% of the existing capital. We consider this to be excessive and in the absence of detailed rationale and explanation as to the use of proceeds so chose not to support the resolution.

**United Kingdom**
- **Voting matter:** Board election
- **Description:** At the AGM in March we voted against the re-election of the CEO, who is moving to the position of Chairman. We have a strong preference for unquestionably independent Chairman to allow for appropriate checks and balances on the board. The absence of an adequate cooling-off period may impact Chairmen’s ability to critically assess decisions taken while in executive positions.

**US**
- **Voting matter:** Climate change targets
- **Description:** 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 manage climate risks.

**Japan**
- **Voting matter:** Takeover plan
- **Description:** The company put forward a proposal for shareholders to approve a specific takeover defense plan. This type of action is increasingly unusual in Japan and we voted against the resolution, as we do not consider it to be in the interests of shareholders.

**US**
- **Voting matter:** Mergers and acquisitions
- **Description:** The board pushed-back strongly on an unsolicited offer, while at the same time trying to agree on an acquisition deal. Having rejected a best-and-final offer, it faced a further challenge as an alternative shortlist of nominees was proposed at the AGM. We decided to support the nominees as this option appeared to offer a reasonable path to a negotiated deal.

**US**
- **Voting matter:** Shareholder rights; gender diversity; data protection
- **Description:** Various topics were raised by shareholders at the AGM. In light of the fact that the company’s current capital structure allows the founder to control over 51% of the voting cast while owning only 14% of its economic value, we decided...
to support the shareholders’ proposal requesting a change to the dual-class ownership structure to reduce principal—agent related governance risks. We also decided to support shareholder proposals concerning additional reporting on content policies and gender pay gap.

**US**
- **Voting matter:** Board election
- **Description:** For the AGM on 25th July we withheld support for the re-election of all 20 Board members due to significant governance concerns. The Board amended the articles of association of the company without seeking prior shareholder approval and in a way which significantly undermined shareholder rights.

**Australia**
- **Voting matter:** Remuneration
- **Description:** At the AGM in December we voted against the approval of the remuneration report and grant of performance share rights to a board member. Our key concern was the size of potential and actual pay-outs. A key component of the award is the value of awards granted under the equity-based long-term incentive plan, calculated using the discounted fair value method, which inflates the number of shares granted under the Plan. In addition, we believe that the inclusion of certain performance metrics may create a disconnect between executive pay and shareholder interest.

**Switzerland**
- **Voting matter:** Board composition
- **Description:** The company called an extraordinary general meeting as a result of a major global chemical company and existing joint venture partner, having acquired a 24.99% stake formerly held by activist shareholders, thereby dissuading them from their announced undertaking to break up the company only weeks ahead of the 2018 AGM. The company also signed a governance agreement with the partner as part of which the board of directors would be expanded by appointing four representatives from the partner. We did not support the election of one of the proposed new board members in light of his external position which raised concerns over his potential aggregate time commitments. We also did not support the temporary amendment to the articles of association allowing certain non-executive directors to hold an excessive number of outside mandates for a period of over three years, as the timeframe was deemed by us as being unnecessarily long and the company failed to provide a compelling rationale.
Collaborating with other investors

The significant level of ownership of many of our investments provides us with access to the management and boards of companies. While as a general rule our preference is 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.

We are signatory of various investor networks and bodies committed to advancing corporate and investors performance on ESG issues. A full list of this initiatives is available in the appendix to this report.

During the period of this report, we have specifically allocated resources to the following working groups:

- **PRI working group on SDGs in active ownership**
  UBS-AM joined this group in January 2018 to provide content and feedback to an upcoming discussion paper on how to include the SDG agenda in engagement activities with companies.

- **IIGCC working group on scenario analysis**
  UBS-AM joined this group in June 2018 to provide content and feedback on a practical guide for institutional investors on how to conduct a scenario analysis.

- **Climate Action 100+**
  The Climate Action 100+ is a five-year investor-led initiative to engage more than 100 of the world’s largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change risks. The initiative is coordinated by the Asian Investor Group on Climate Change (AIGCC), Ceres Investor Network on Climate Risk and Sustainability, the Investor Group on Climate Change (IGCC), the Institutional Investor Group on Climate Change (IIGCC) and the Principles for Responsible Investment (PRI). UBS-AM joined the initiative in December 2017 and joined collaborative dialogues with 32 companies across regions throughout 2018. Within this effort, we are leading the dialogue with 5 companies. In May 2018, we also joined the IIGCC Advisory Board of the initiative as co-lead for the Mining & Metal sector.

- **Supporting dialogue on ESG risks caused by intensive livestock production**
  The FAIRR Initiative is a collaborative investor network that raises awareness of the material ESG risks and opportunities caused by intensive livestock production. UBS-AM has had several conversations with the Initiative on best practice tools to hold companies to account. UBS-AM participated in an engagement with a large UK consumer staples company; to discuss their sustainable protein practices and offering. UBS-AM also uses the Initiatives’ research in its own research and engagement activities.
Meaningful discussions with policy makers is a key element of stewardship, as it ensures we can provide feedback on changes that could detrimentally affect our clients’ interests or rights. For this report we highlight two particular topics we shared our comments on with such bodies in the last 12 months.

**Fostering policy dialogue**

**Consultation on UK Corporate Governance Code**

In early 2018, we responded to the Financial Reporting Council (FRC) consultation on proposed amendments to the UK Corporate Governance Code (the “Code”), both directly and by providing our feedback to the Investment Association, who also sent a response.

The proposed amendments to the Code focus on the application of the principle that company boards can:

- Establish a company’s purpose, strategy and values and satisfy themselves that these and their culture are aligned;
- Undertake effective engagement with wider stakeholders, to improve trust and achieve mutual benefit, and to have regard to wider society;
- Gather views of the workforce;
- Ensure that appointments to boards and succession plans are based on merit and objective criteria to avoid group think, and promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths;
- Be more specific about actions when they encounter significant shareholder opposition on any resolution, including those on executive pay policies and awards; and
- Give remuneration committees broader responsibility and discretion for overseeing how remuneration and workforce policies align with strategic objectives.

The suggested changes also include moving sections of the Code from requirements to guidance, thus creating a more focused Code but with a wider implementation guidance. In our response we specifically commented upon each of the feedback questions highlighted by the FRC.

We are of the view that the UK Corporate Governance model remains among the strongest worldwide, has generally served investors well since its introduction and that it should remain principle-based and be focused on the relationship between UK corporations, their boards, and other stakeholders.

At the same time, we appreciate that a number of companies have experienced governance failures that have undermined trust and confidence in business. It is crucial for the UK that steps are taken to strengthen public opinion and in particular address concerns related to the alignment between executive pay, company performance and employees, the contribution of companies to wider society and lack of diversity at board and senior management level.

We support the shorter, more focused format of the UK Code and are pleased that the FRC has recognized and retained the key strengths of the unitary board, strong shareholder rights, and flexibility through a ‘comply or explain’ approach.

We also agree with the view that in order to deliver sustainable long-term returns to shareholders, boards must
also take into account the impact of the company’s strategy on a wider audience of stakeholders. However, a concern we highlighted in our response is that the proposed amendments appear to be focused mainly on engagement with the workforce, which is just one of a range of stakeholders corporations should give regard to.

The new code will come into effect for the 2019 reporting year.

**Joint investors statement on climate change**

As part of the COP24* meeting in Katowice in December 2018, UBS AM signed-up to a collective call for action from policy makers to accelerate the low carbon transition and improve the resilience of our economy, society and financial systems to climate risks. The Global Investor Statement to Governments on Climate Change (GISGCC) has been collectively supported by 415 investors representing over USD 32 trillion in assets. The GISGCC calls on global leaders to:

- Achieve the goals of the Paris Agreement;
- Accelerate private sector investment into the low carbon transition;
- Commit to the improvement of climate-related financial reporting through the implementation of the Taskforce on Climate related Financial Disclosure (TCFD).

* Note: COP24 is the informal name for the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change.  
https://cop24.gov.pl/

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**The research and stewardship team**

Within the Sustainable and Impact Investing department of UBS-AM, the research and stewardship team is responsible for conducting and supporting ESG integration and stewardship activities across asset classes. Our sustainability research analysts are specialized by topics and sectors and lead on providing specific company analysis and thought leadership research on sustainability topics. SI analysts conduct direct dialogue with companies under the thematic, reactive and proxy voting pillars (see overview above) and provide support to investment teams across all strategies to structure engagement cases and relevant objectives. The research and stewardship team collaborates closely with the Global Sustainable Equity (GSE) team which is responsible for developing and managing active equity strategies with explicit ESG/SI mandates. Both the SI and GSE teams represent UBS-AM in collective bodies and initiatives aimed at advancing ESG topics and sustainable investing.

For further information on our policies and activities, please visit:  

For any queries, please contact our team at:  
dl-si-research-stewardship@ubs.com.
### Appendix: List of companies we engaged with in the last 12 months (A–Z)

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<th>Molecular Partners AG</th>
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<td>Suncor Energy, Inc.</td>
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Appendix: List of companies we engaged with in the last 12 months (A–Z), continued

Sunrise Communications Group Ltd.  Tullow Oil PLC  Wells Fargo & Company
Swedbank  UBS Group AG  West Japan Railway Company
Swiss Re AG  Ultimate Software Group, Inc.  Western Digital Corporation
Takeda Pharmaceutical Co., Ltd.  UniCredit SpA  Westinghouse Air Brake Technologies Corporation
Telenor ASA  Unilever PLC  Williams Companies, Inc.
Tenaris S.A.  Universal Display Corporation  Woodside Petroleum Ltd.
Tesco PLC  Valeo SA  Xcel Energy Inc.
Thales SA  VMware, Inc.  Yara International ASA
TJX Companies Inc.  Vonovia SE  Zurich Insurance Group Ltd.
Tokio Marine Holdings, Inc.  Vontobel Holding AG
TC Energy Corporation  Voya Financial, Inc.  –
Tryg A/S  Wec Energy Group, Inc.  –

Appendix: Our commitment to industry initiatives and best practice

UBS Asset Management are currently a member of, or supporting, the following global groups and initiatives:

– Asian Corporate Governance Association (ACGA)
– EFAMA Stewardship, Market Integrity and ESG Investment Standing Committee
– International Corporate Governance Network (ICGN)
– Institutional Investor Group on Climate Change (IIGCC)
– National Association of Real Estate Investment Managers (NAREIM) - Sustainability and Investment Management working group
– Principles for Responsible Investment (PRI)
– Sustainable Accounting Standard Board (SASB)
– UK Investor Forum
– US Green Building Council
– Workforce Disclosure Initiative (WDI)
– Financial Stability Board’s Taskforce on Climate-related Financial Disclosure (TCFD)
– Transition Pathway Initiative (TPI)
– Farm Animal Investment Risk & Return (FAIRR)

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