Sustainable investment policy

Our approach to sustainability in investments
UBS Asset Management (UBS-AM) is a large scale asset manager, providing traditional, alternative, real estate, infrastructure and private equity investment solutions to institutional investors, financial intermediaries and private clients worldwide.

Our mission is to enable our clients to achieve their financial objectives and solve their investment challenges by integrating sustainability across our offering and investment solutions. It is our belief that ESG issues and opportunities can affect investment performance, and the consideration of these factors can deliver better informed investment decisions. Hence we regard sustainable investing as an integral element in fulfilling our fiduciary duties toward our clients.

At UBS-AM we define sustainability as the ability to leverage the Environmental, Social and Governance (ESG) factors of business practices seeking to generate opportunities and mitigate risks that contribute to the long-term performance of companies. We regard sustainable investing as a set of investment strategies that incorporate material ESG considerations into investment decisions.

This document explains UBS-AM’s approach to sustainable investing in the context of UBS’s overall sustainability strategy. This document also makes reference to specific policies, procedures and practices issued both by UBS and UBS-AM.

Barry Gill,
Head of Investments,
UBS Asset Management

Michael Baldinger,
Head of Sustainable & Impact Investing,
UBS Asset Management
At UBS-AM we believe that ESG factors can protect and enhance the value of our clients’ investments by adding value to portfolios within the same risk / return profile. Sustainable investing is grounded in the broader use of material ESG information, in the investment analysis process and the belief that such information will lead to better informed investment decisions.

In our view, sustainable investing is not about screening away opportunities and limiting choices; on the contrary, it is about finding new opportunities by identifying long-term sustainability trends and accounting for longer-term risks. For institutional investors in particular, we believe that such an approach is more closely aligned to the natural time frame by which they formulate their strategies and is additive to the overall investment process. In this regard, an integral element of our approach is to work with our clients to align their, and / or their beneficiaries, sustainability objectives with their investment objectives.

Our commitment to sustainability and impact investing (SI) is reflected in the corporate strategy of UBS Group AG (UBS). In 2014, UBS created a cross-divisional organization, UBS in Society, which is responsible for the strategy, governance and execution of UBS’ sustainability strategy.

UBS in society manages the activities and capabilities of UBS. It is also responsible for the policies governing client and supplier relationships. UBS in society is accountable to the UBS Group Executive Board. These activities are also subject to an annual external audit in compliance with internationally agreed standards.

UBS’s Code of Conduct and Ethics documents the firm’s corporate responsibility undertakings. Work carried out in key societal areas, such as protecting the environment and respecting human rights, form a part of this code. As a global firm UBS takes responsibility to lead the debate on important societal topics, contribute to the setting of standards, and collaborate in and beyond our industry.

We aspire to drive positive change in society and the environment for future generations. Our climate strategy underlines our commitment to the Sustainable Development Goals on climate action and on affordable and clean energy as well as the Paris Agreement. We regularly report on the implementation of our climate strategy and follow the recommendations provided by the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD).

Managing environmental and social risks are a key component of our corporate responsibility. We apply an environmental and social risk policy framework to all our activities.

Further information can be found in our ESR framework document.
Sustainability Highlights 2019

UBS has made significant progress toward meeting its ambitious sustainability targets in 2019.

The firm reports on its sustainability performance, applying an industry-leading, comprehensive approach, based on major, internationally recognized disclosure frameworks.

**What are the key takeaways from the report?**

- Carbon-related assets on the balance sheet cut by more than 40% to USD 1.9 billion, or 0.8% of total gross banking products exposure.
- Core sustainable investments rose to USD 488 billion or 13.5% of invested assets at the end of 2019, surpassing a three-year goal ahead of schedule.
- The firm has been awarded with the industry leadership position in the Dow Jones Sustainability Indices (DJSI), the most widely recognized sustainability rating, for the fifth time in a row.
- UBS has already directed USD 3.9 billion of client assets into impact investments related to the United Nations Sustainable Development Goals (SDGs), making substantial headway on a 2017 WEF goal to mobilize USD 5 billion by the end of 2021.
- UBS is also well on track to meet its target of reducing the firm’s own greenhouse gas emissions in 2020 by 75% from 2004 levels, with a 71% reduction already achieved in 2019.
Defining the E, the S and the G

Sustainable investing definitions

**Environmental Factors**
Environmental issues can be both positive and negative from an investors’ perspective. The assessment of these factors considers a company’s ability to control their direct and indirect environmental impact. For example, how, and to what extent, is it limiting energy consumption, reducing greenhouse emissions, fighting resource depletion and protecting biodiversity. Is the company making a positive contribution, perhaps by developing new technologies which can accelerate the transition to a lower-carbon future?

**Social Factors**
Assessing social factors requires an evaluation of two key elements. The first relates to a company’s strategy for developing its human capital, based on a series of fundamental, universally accepted principles. The second element is linked to the company’s approach to broader human rights.

**Governance Factors**
Governance encompasses corporate considerations such as levels of board diversity, executive pay, accounting policies, and ownership and control structures. Corporate behavior is also a constituent element of governance evaluations. For example, how transparent is a company around taxation? What are its policies in relation to anti-competitive practices? Does it uphold a clear set of business ethics?
Integration of ESG factors in investment decisions

Fundamentally, ESG integration is driven by a focus on taking better account of material risks which could enhance investment returns, rather than being driven by ethical principles or norms. Put simply, ESG integration involves a more holistic accounting of sustainability factors in the research process. We believe this leads to better informed investment decisions which could, in turn, reduce risk and enhance performance.

We do not employ sustainability information as a screen, based on reported data and historical information, but rather focus on the future impact that sustainability performance will have on long-term financial performance. We believe this results in more holistic and better informed views of how a company will perform over time.

Investment analysts combine material sustainability data with sector knowledge, as well as an in-depth understanding of a company’s strategy, to develop a forward-looking view of the potential impact of sustainability on that company’s future financial performance. This insight forms the basis for integrated investment recommendations, which combine both sustainability and financial analysis.

We believe that the result is better-informed investment decisions by portfolio managers across asset classes. Our approach to SI varies between asset class, to reflect the specific characteristics of each respective asset type.

UBS-AM materiality framework

Source: www.sasb.org/standards-overview/materiality-map/
ESG Integration in active equities

At UBS Asset Management the integration of sustainability is oriented around the ESG Material Issues framework developed by our Sustainable and Impact research team to facilitate the integration process. Sustainability covers a wide range of topics, so financial analysts and portfolio managers need to focus their attention on a limited set of factors that could affect a company’s financial performance. The ESG Material Issues framework identifies the 3 to 5 most financially relevant factors per sector that can impact the investment thesis across 32 different industry sectors. This helps analysts focus on those sustainability factors most likely to influence investment returns.

Identify

To facilitate the integration of sustainability factors through the assessment of material ESG risks, UBS-AM has developed a proprietary “ESG Risk Dashboard”. By combining scores and data points from our own proprietary ESG database with those from a number of the most reputable external research providers it flags companies with elevated sustainability risks. Although the methodologies of ESG ratings providers vary, consistently low scores across providers can be an efficient way to identify companies with severe ESG risks. Those companies will need more work to assess the material impact of the highlighted risks. While conducting ESG risk assessments, it’s also important to consider not only performance scores but also underlying absolute signals of ESG risk - for example, poor corporate governance and elevated ESG controversy levels. This can help identify companies with significant ESG risks across portfolios.

For illustrative purposes only
Review
While the UBS-AM ESG Risk Dashboard is designed to flag companies with elevated sustainability risks, the actual assessment of these risks is conducted by the fundamental equity analyst or portfolio manager working with members of the Sustainable Investment research team. For companies where the equity analyst or portfolio manager disagree with the risk signal, a second level of analysis is conducted by the sustainable investment research analysts to provide an additional assessment of the ESG risk, as well as the potential to actively engage management to mitigate the risk.

Decide
The portfolio manager may still choose to invest in a stock flagged for severe ESG risks, but only if they believe the upside potential outweighs the risks identified. If potential for improvement through engagement has been highlighted, the portfolio manager may decide that engaging with management on the identified risks represents the best strategy, and could be linked to potential upside in the share price if those risks are mitigated. Investment analysts combine material sustainability data with sector knowledge, as well as an in-depth understanding of a company’s strategy, to develop a forward-looking view of the potential impact of sustainability on that company’s future financial performance. This insight forms the basis for integrated investment recommendations, which combine both sustainability and financial analysis. We believe that the result is better-informed investment decisions by portfolio managers across asset classes.

Our approach to SI varies between asset class, to reflect the specific characteristics of each respective asset type.
Additional strategies supplement research integration with a risk-based assessment of ESG risks in the portfolio. For example, one of UBS-AM’s largest strategies employing this rigorous process of risk assessment, analysis and engagement is the Global Equity Concentrated Alpha Strategy. Integral to this strategy, managed by the Global Equity Concentrated Alpha team, is a three circle assessment which combines fundamental qualitative and quantitative signals. Among its aims are the limitation of downside through risk assessment and the optimization of upside opportunities through engagement.

The Concentrated Alpha team, which manages a range of global and European strategies, provides an assessment of the ESG profiles of all companies they invest in. This is conducted formally every month as well as on an ad-hoc basis. For any company that may be flagged for elevated ESG risks, the team will obtain a more in-depth analysis from the Sustainable Investment research team, which includes a discussion of the appropriate actions for the team to take. The dialogue considers whether the sustainability risks that have emerged justify finding alternatives in the portfolio or whether there might be potential in the company addressing the sustainability risks identified. This requires an assessment of whether the risks identified are fully reflected in the company’s share price, whether there is potential to resolve the sustainability risks identified, and what the engagement goals and strategy may be. Recent evidence has shown a significant alpha potential in companies that demonstrate improvements in their sustainability performance*.

This process of ESG integration is pursued across all research recommendations.

### External data and research
- Quantitative and qualitative ESG information

### UBS Financial Analysts
- In-depth sector and company knowledge
- Forward looking assessment of ESG risks and opportunities
- Engagement on financial topics and material ESG issues

### Company publications
- Dedicated ESG information

### Integrated investment assessments
- Incorporate forward looking view of material sustainability risks and opportunities

### Company meetings
- Dedicated ESG discussions

### UBS SI Research Analysts
- Integration framework: identification of material ESG factors to consider in bottom up and top down research
- Top-down: research on SI issues and trends
- Bottom-up: ongoing support for company analysis
- Engagement: proactively reaching out to companies on material ESG issues

### Integration of ESG in fixed income
We believe material ESG factors are best assessed as part of the company research process and are an integral part of the due diligence process included in estimations of cash flows and valuation metrics. Credit analysts provide research coverage for both investment grade and high-yield corporate issuers as well as selected government issuers globally across all GIC sectors. All credit recommendations by the credit research teams address the most material sustainability strengths and weaknesses. They also assess both the anticipated direction of sustainability performance in the future as well as the material impact of sustainability considerations on their fundamental credit recommendations, either positively or negatively. Through this assessment, credit analysts provide a proprietary UBS sustainability credit assessment for the issues that they cover which provides an integrated view of the sustainability performance of the company from a credit perspective. This process of ESG integration is pursued across all research recommendations and consequently impacts on all of our actively managed credit funds. This bottom-up research by the credit research teams is supplemented by regular top-down views of sustainability risks that are provided by the sustainable investment research team, which help to assess the impact of sustainability issues such as climate change on sectors and individual issuers.

In addition, UBS-AM has established the Fixed Income advisory board, comprising members external to UBS-AM, and representatives from risk & compliance, fixed income and sustainable investing research. The advisory board considers the direction and content of the ESG integration within fixed income. Its primary responsibility is to present opinions and recommendations on the progress of integration. This includes the scope and depth of integration, and the quality of the work that is undertaken. The advisory board is empowered to invite other external parties and internal UBS representatives to individual meetings to the extent that this addresses specific agenda items and supports common understanding across the board.

To learn more about our approach to ESG integration in Fixed Income Integration please [click here](#) to read our white paper, The Next Frontier.
Integration of ESG in Real Estate & Private Markets (REPM)

Responsible ownership and operation of real property can have a significant positive impact on the environment and returns for our clients. While the financial objectives of our clients remain the primary focus of our investments, our responsible investment strategy also considers long-term resilience and ESG factors, including climate change.

REPM’s responsible investment strategy has been developed by the REPM Sustainability Workgroup, which comprises professionals from several countries and disciplines including engineering and construction, operations, research, asset management, fund management as well as business management. It sets strategies and objectives at a global level and ensures our sustainability objectives are integrated into all REPM funds’ investment strategies and property operations, with appropriate variation by country due to different certification and legislative requirements.

The responsible investment strategy is implemented by all operational functions during the entire ownership cycle of an underlying project, from its development or acquisition to the ongoing asset management, renovation, maintenance and marketing, through successful sale. Objectives are set in order to make achievements transparent and measurable. Performance is measured against objectives and results are reported to investors, clients and consultants.

For our individual properties, the sustainability performance is measured against recognized external benchmarks, such as the GRESB key performance indicators and third-party certifications (LEED, ENERGY STAR, BREEAM, MINERGIE®). For infrastructure, we also use the GRESB Infrastructure key performance indicators and benchmark reports for our individual investee companies. Based on these results, we are able to define specific measures to enhance the performance of each property or infrastructure asset.

Responsible ownership and operation of real property can have a significant positive impact on the environment as well as returns for our clients.
Our climate commitment

A finance gap currently exists between the financial commitment needed to meet the goals of the Paris Agreement - to keep the average rise in global temperatures to well below 2°C above pre-industrial levels. But as scientific models improve, and as the predicted climate outcomes become starker, demands are growing for global warming to be held, not just at 2°C, but at 1.5°C by 2100. Achieving the Paris goals demands unprecedented levels of investment. In short, the climate gap needs to be closed.

As one of the world's largest managers of private and institutional wealth, UBS is committed to closing the climate finance gap. We believe we can do this in two ways: through our own actions, and by developing products and services that allow our clients to channel their capital toward a climate-smart future.

In 1989, UBS was the first Swiss bank to appoint an environmental officer to help focus on sustainability goals. Four years later we were one of the earliest signatories to the United Nations Environment Programme (UNEP FI), and in 2016 we became a member bank of the Task Force on Climate-related Financial Disclosures (TCFD).

Our Chairman is a signatory to the European Financial Services Round Table’s statement in support of a strong, ambitious response to climate change. Also, our Group CEO is a member of the Alliance of CEO Climate Leaders, an informal network of CEOs convened by the World Economic Forum and committed to climate action. Within UBS Asset Management, our Head Sustainable Equity Team is a member of the TCFD. UBS's activities are underpinned by a clear climate strategy, designed to support our clients and our firm in preparing for an increasingly carbon constrained world. Specifically, our climate strategy underlines our commitment to the SDGs on climate action and on affordable and clean energy. It supports an orderly transition to a low-carbon economy, as defined by the Paris Agreement.

Many clients share our climate commitment and want to use their capital in ways that can address a warming world. This was a key finding from a global survey of institutional asset owners that we conducted in 2019. Most European investors said that within five years environmental factors could be playing a more important role in their investment processes than financial factors.

With regards to climate risk, UBS is collaborating on two fronts. Firstly, we are part of the United Nations Environment Programme Finance Initiative (UNEP FI) TCFD working group for banks to refine methodologies, scenarios and data sources to assess climate-related financial risk in loan portfolios. Secondly, we are pilot-testing the Paris Agreement Capital Transition Assessment (PACTA) to shape the development of methodologies and study the alignment of corporate lending portfolios with the Paris Agreement benchmarks.

We aspire to drive positive change in society and the environment for future generations. Our climate strategy underlines our commitment to the SDGs on climate action and on affordable and clean energy as well as the Paris Agreement.
Stewardship practices

Proxy voting
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 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 behavior, 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.

Engagement
We believe that engaging with investee companies and prospective investee companies can steer those companies toward longer-term issues that drive company value and that we believe will likely contribute to the success of the investment thesis over time. These discussions relate to the governance structure and increasingly to longer-term sustainability trends that have a material impact on company performance, such as climate change, environmental management and human capital performance. These efforts involve reaching out to both executive and, ideally, non-executive, board members in order to influence the company strategy. Finally, engagements entail working closely with corporate management to take appropriate and concrete measures to unlock long term value.

Most fundamentally, analyst-led engagement linked to the investment case provide a differentiated means of creating better longer-term returns for clients. Such engagement leads analysts and portfolio managers to approach each company’s investment decision as an owner, transforming the investment process from simply developing a view on the current short-term price in the market to instead making a commitment to work collaboratively with companies on realizing positive change.

UBS-AM’s proxy voting and engagement activities are overseen by the Stewardship Committee. The Stewardship Committee is chaired by the Head of Investments and comprises the Head of Sustainable and Impact Investing, Head of Active Equities, the Head of Systematic and Index Investing, the Head of Research and Stewardship and the Head of Global Institutional Client Coverage.

To learn more about our approach to Stewardship, please click here to read our white paper, Adding Value through Active Engagement.

To read our Stewardship Statement, please click here.

To read our Proxy Voting Policy, please click here.
Governance and commitments

Commitments and collaborative efforts
UBS has long recognized the importance of sustainability and sustainable investing. UBS AG was one of the earliest signatories to the UNEP bank declaration (UNEP FI) in 1992 and the first bank to obtain ISO 14001 certification for the worldwide environmental management system. In 1997 UBS-AM launched its first sustainable investing strategy and in 2009 became a signatory to the UN supported Principles for Responsible Investment. For the past four years, UBS AG has been named Industry Group Leader in the Dow Jones Sustainable Index.

Responsibility, oversight and implementation
The SI team is responsible for the strategy and implementation of sustainable investing at UBS-AM. The Head of the SI team:
- Has overall responsibility for the SI strategy of UBS Asset Management.
- Is a member of the UBS in society Steering Committee. The committee ensures firm-wide execution of the UBS in society strategy.
- Chairs the UBS-AM SI Management Committee. The committee is responsible for overseeing the implementation of UBS-AM’s SI strategy, and it reports into the UBS-AM Executive Committee, chaired by Suni Harford, President, UBS-AM. The SI team’s responsibilities can be divided into 3 key activities:

1) SI Business Strategy
Responsible for the overall management of the SI strategy and providing reporting on those activities as part of UBS’ overall sustainability objectives and strategy. In addition this unit is responsible for the internal and external activation of SI, ensuring alignment in the approaches, content and messaging.

2) SI Research and Stewardship
Responsible for sourcing and distributing ESG data to investment teams across UBS-AM, educating and collaborating with investment teams on best practices around using material extra-financial data in forward-looking investment analysis, and overseeing UBS-AM’s engagement and proxy voting programs.

3) SI Investment Specialists
Responsible for the development of Sustainable and Impact Investing products and solutions. The SI specialists also support reporting deliverables, working closely with the SI research and stewardship team. Finally, this unit works closely with client-facing professionals to better understand client needs and market trends and to provide education on sustainability.

Further documentation:
reporting and policies

Further information and contact details:
For further information regarding Sustainable and Impact Investing at UBS Asset Management, please contact the SI operating office, sustainableandimpact@ubs.com.
Appendix

Our commitment to stewardship codes
UBS Asset Management is a signatory to, or has given commitment to, the following codes of best practice in relation to investment stewardship:

– International Corporate Governance Network (ICGN) Global Stewardship Principles
– UK Stewardship Code
– Japanese Stewardship Code
– Hong Kong SFC Principles of Responsible Ownership
– ISG Stewardship Framework (USA)
– Australian FSC Standard 23 on Principles of Internal Governance and Asset Stewardship
– Taiwan Stewardship Principles for Institutional Investors

Our commitment to industry initiatives and best practice
UBS Asset Management is currently a member of, or supporting, the following global groups and initiatives:

– Asian Corporate Governance Association (ACGA)
– Global Real Estate Sustainability Benchmarks (GRESB)
– 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
– US Sustainable Investment Forum (USSIF)
– 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)
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.