Sustainable investment policy

Our approach to sustainability in investments
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 AG’s (UBS) overall sustainability strategy. This document also makes reference to specific policies, procedures and practices issued both by UBS AG and UBS-AM.

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Sustainable Investing

Our vision and mission

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.

Our commitment to sustainability and impact investing (SI) is reflected in the corporate strategy of UBS Group. 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 which relate to sustainable investing, philanthropy, environmental and human rights, community investment and our environmental footprint. UBS in Society is also responsible for the policies governing client and supplier relationships. UBS in Society is accountable to UBS’ Group Executive Board. These activities are also subject to an annual external audit in compliance with internationally agreed standards.

UBS AG’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.

Further information can be found in our GRI report.

To read more about the activities and governance of UBS in Society please go to www.ubs.com.ubsinsociety, where you will also find links to our annual report, together with our policies and guidelines.
At UBS-AM, the integration of material ESG information, within financial analysis and investment processes provides unique insights into the long-term risks, opportunities and competitive advantages of companies. 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.

**Integration of ESG in Equities**
In the active equities investment area, material ESG factors are assessed as part of the research process. The investment teams have access to a wide range of ESG data sources, including UBS-AM’s own 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.

For their stock recommendations, equity analysts complete company research notes (CRNs) which include specific ESG questions in order to determine the materiality of sustainability issues on their investment thesis. While using several third-party ESG research providers as inputs, analysts move beyond third-party providers by considering the direction of improvement in the company’s performance over time. Most fundamentally, analysts assess the impact of sustainability on the assumptions in their financial model either positively or negatively and must justify this impact with a rationale.

In addition to this fundamental integration of ESG into the CRNs across the equity research platform, specific strategies adopt additional integration steps to meet their specific requirements. For example, emerging market equities analysts complete a check-list of 14 sustainability questions addressing primarily governance risks but also environmental and social risks that are specific to emerging markets companies. This check-list also addresses environmental and social performance in an emerging markets context.

Additional strategies supplement research integration with a risk-based assessment of ESG risks in the portfolios. For example, the Concentrated Alpha strategy conducts a monthly review of ESG risk in the portfolio. If the reasons for the ESG risks are fully integrated into the investment case and the valuation remains attractive, no direct action is taken. If new information is available or the analyst’s view on the risk profile has changed, the stock will be put up for additional analysis. This review can lead either to an engagement with the company to ensure that the sustainability risks are being addressed, or it may lead to a decision to divest from the company.

The fundamental integration of sustainability into the research across active equities provides a foundation by which individual strategies can adopt additional measures and screening approaches to fit the particular orientation of the investment strategy.

We believe that the result is better-informed investment decisions by portfolio managers across asset classes.
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.

This process of ESG integration is pursued across all research recommendations
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.
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 provides 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. This committee is chaired by the Head of the Sustainable and Impact Investing team and comprises the 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.

To learn more about our approach to ESG integration in Fixed Income Integration please click here to read our white paper, The Next Frontier.
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 UBS’ Sustainability Operating Committee. The committee is responsible for steering the overall Group SI strategy. In this regard, the committee is responsible for setting the objectives of the overall sustainability strategy of UBS AG, and it reports into the Corporate Culture and Responsibility Committee, chaired by Axel A. Weber, Chairman, UBS AG.
– 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 Ulrich Koerner, 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)
– Council of Institutional Investors (CII)
– 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.

Americas
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