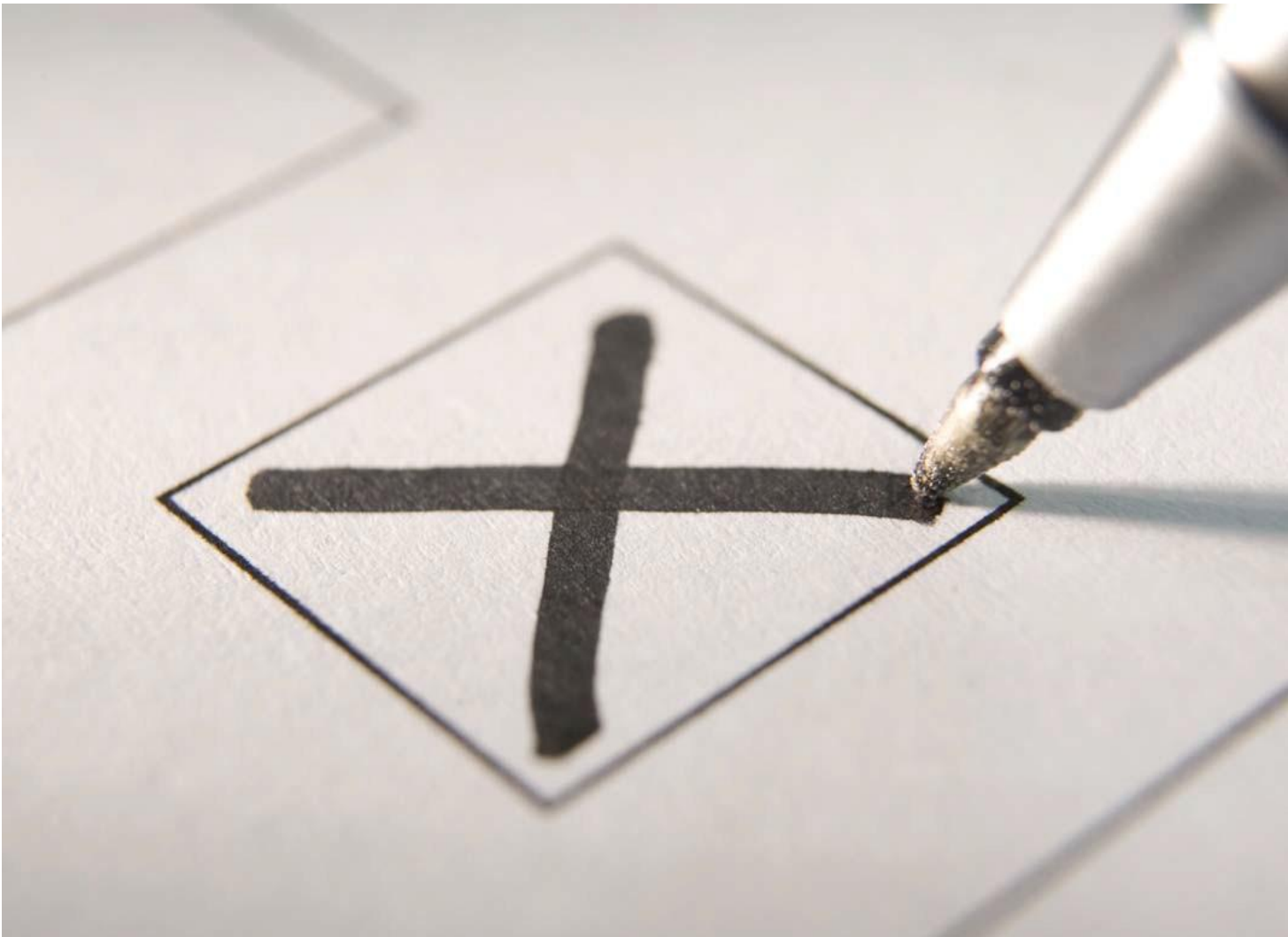


# Proxy voting

Policy and procedures  
UBS Asset Management



# Our approach to stewardship

UBS Asset Management is a large scale asset manager, providing investment solutions to institutional investors, financial intermediaries and private clients worldwide.

It is our view is that effective stewardship is a core part of our responsibility to protect and enhance client assets, and is therefore an important part of our fiduciary duty.

We are committed to act as active owners of assets held and managed on behalf of our clients, across asset classes and strategies.

In this regard, in addition to being signatories to the UN Principles for Responsible Investment (UN PRI), we are also signatories to codes of best practice in respect of investor stewardship in Australia, Hong Kong, Japan, Switzerland, Taiwan and the UK. We have also endorsed the International Corporate Governance Network (ICGN) Global Stewardship Principles.

Carrying out our stewardship responsibilities involves:

- Building relationships with companies through regular and on-going engagement;
- Tracking progress of our dialogue with companies;
- Voting on all resolutions globally, where practical, in line with clients' statements of investment principles;
- Working with other shareholders where appropriate, and in compliance with applicable regulation;
- Reporting to clients.

## Engagement practices

We believe that engaging with investee companies enables us to identify longer-term issues that drive company value and contribute to the success of the investment over time.

Our engagement with companies and issuers may cover a wide range of topics, related to material matters including business strategy, corporate governance, and longer-term sustainability factors that have an impact on company performance.

We aim to be engaged shareholders and encourage companies to have strong and effective governance and a high standard of corporate behavior. These efforts involve reaching out to both executive and, ideally, non-executive board members in order to understand the

company's strategy and to provide our feedback on which measures can be taken to enhance long-term value and mitigate risk, when deemed necessary from an investment perspective.

## Proxy voting

It is our belief that voting rights have economic value and should be treated accordingly. Where clients of UBS Asset Management have delegated to us the discretion to exercise the voting rights for shares they beneficially own, we have a fiduciary duty to vote such shares in the clients' best interest and in a manner which achieves the best economic outcome for their investments.

Voting enables us to voice our opinion to a company on a broad range of topics and is a way of encouraging boards to listen to and address investor concerns. As a result we consider voting to be an important part of our oversight role and integral to both the investment process and our overall stewardship approach.

We have a long history and track record of exercising voting rights, based upon UBS-AM voting guidelines. We vote globally across both our actively managed and index/rules based strategies. Where appropriate we seek to vote all shares held consistently across our range of investments, in order to maximize the outcome of the vote. UBS Asset Management is exploring the viability and practicality of options that would allow clients the opportunity to vote according to their own policies<sup>1</sup>.

In some circumstances we may determine that the voting of a particular proxy would not deliver sufficient benefit to clients, in which case we may abstain or choose not to vote. This can include when there is documentation we are unable to provide, a requirement for a representative to physically attend a meeting in order to vote, or if the process of voting restricts our ability to manage a portfolio during the voting period.

As long-term shareholders we will generally seek to support current management initiatives. However, where we have concerns with a company arising from our investment analysis, stewardship and engagement activities, or in relation to a particular resolution that we believe is not in the interests of our clients, we may choose not to support a proposal. This includes resolutions put forward by both company management and outside parties.

Where shares are on loan as part of a securities lending agreement, voting or consent rights that accompany the shares typically pass to the borrower. If we determine the exercise of such rights would have a material pecuniary effect on the investment in the security, we will recall the loaned shares to permit the exercise of such rights; however, in some instances, it is not reasonably practicable to recall the shares or the recall may not be effective.

<sup>1</sup> Note that this option exists for specific separately managed accounts.

# Our voting principles

## Overview and key objectives

These guidelines describe the approach of our Equities, Fixed Income, Multi Asset and Investment Solutions investment areas to corporate governance, environmental and social factors during the exercise of voting rights on behalf of our clients (which include funds, individuals, pension schemes and all other advisory clients). These guidelines do not cover certain business units of UBS Asset Management (such as the Credit Investments Group) which exercise voting rights independently. The policy may apply to selected funds in other parts of UBS Asset Management, where specified in the prospectus. UBS Asset Management (U.K.) Ltd – Fund Management Switzerland generally follows the principles outlined in this policy, but ultimately have vote authority to exercise their vote in the manner they see best for their investments.

Underlying all our voting principles we have two fundamental objectives:

1. To act in the best financial interests of our clients to enhance the long-term value of their investments.
2. To promote best practice in the Boardroom that enables investee companies to succeed.

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.

We apply these principles and guidelines globally; however, they permit us the discretion to reflect local laws or standards where appropriate and enable us to take into account the diverse nature and investment autonomy of our capabilities. Constituent firms or legal entities may have jurisdictional or entity-specific practices in place where applicable.

We will generally exercise voting rights on behalf of clients in accordance with these guidance and principles.

## Section 1: Board of directors

We believe that good corporate governance should, in the long-term, lead towards both better corporate performance and improved shareholder value. Thus, we expect board members of companies in which we have invested to act in the service of the shareholders, view

themselves as stewards of the company, exercise good judgment and practice diligent oversight of the management of the company. A commitment to acting in as transparent a manner as possible is fundamental to good governance.

## Roles and responsibilities

### Role of the board

Key functions for the board of directors (the board) include setting the company's strategy, providing oversight of management and ensuring the long-term sustainability of the company for all stakeholders. When setting the strategy the board should take into account short-term issues as well as long-term trends which may affect the company's business.

It is therefore essential that the board operates effectively, is comprised of high caliber individuals with appropriate and diverse backgrounds and with experience of providing good judgment and diligent oversight of the management of the company.

When our view of management is favorable, we generally support current management initiatives. We may not support management proposals if we believe that opposition would be beneficial to shareholder value. If management's performance on specific matters is not in our client's interests, we may abstain or vote against specific proxy proposals.

### Board responsibilities

For effective discharge of board responsibilities:

- The whole board should be fully involved in endorsing strategy and in all major strategic decisions (e.g. mergers and acquisitions);
- The non-executive directors should provide a challenging but positive environment for the executive directors.

The Board should ensure that at all times:

- Appropriate management succession plans are in place;
- The interests of executives and shareholders are aligned;
- The financial audit is independent and accurate;
- The brand and reputation of the company is protected and enhanced;
- A constructive dialogue with shareholders is encouraged;
- It receives all the information necessary to hold management to account.

## Board structure

### Size

We would generally vote to support proposals which seek to fix the size of the board and/or require shareholder approval to alter the size of the board.

However we will vote against proposals to set the board size of more than 16 and less than 5 members.

### **Chair/CEO**

An effective chair is key to the success of a company. Our general view is that the positions of board chair and chief executive officer (CEO) should be separated and held by two individuals, to enhance accountability.

We will usually vote to support proposals seeking to split these key roles where we believe it will lead to better company management.

Where the roles are combined we may support the re-election of the chair/CEO where:

- There is an independent lead director in place, who we consider is independent based upon UBS criteria for director independence;
- Where it is clear that the structure provides an appropriate counterbalance to the chair/CEO;
- Where a clear explanation has been provided as to why an alternative structure is appropriate;
- Where the board meets our threshold for the overall level of independence.

We will generally support the election of an existing CEO moving to the position of chair of the board where:

- It is used as an interim measure in exceptional circumstances fully explained by the company; and/or
- There is an independent lead director in place, whom we consider independent based upon UBS criteria for director independence, and the board is majority independent.

### **Lead/senior independent director**

We will support the appointment of a lead or senior independent director who should be regarded as independent.

The lead/senior independent director should act as an intermediary for the other board directors but also as a liaison between the board and the company's shareholders.

We would expect the lead/senior independent director to have well defined responsibilities, in order to be able to challenge the CEO and other executives.

### **Board independence**

Boards should have a balance of independent members in order to provide sufficient challenge and oversight of the board's decisions and effectiveness.

When we regard the board to be less than majority independent (i.e. 50% or below), we may elect to take the following voting actions:

- We may vote against the chair of the nomination committee, or other committees responsible for board appointments, to reflect to the company that further board succession planning and refreshment is appropriate.

- We may vote against any non-independent board candidate where we have not seen any progress to address the aggregate board independence in the last two years.
- If the overall average independence of a key board committee (nomination, audit or remuneration), falls below our threshold requirements, then we may determine that it is appropriate to vote against a director serving on the committee who we regard to be non-independent.

When taking action we will regard a board member to be non-independent if they:

- Are the founder;
- Have been an executive of the company or any subsidiary over the last three years;
- Act as a partner, advisor, director or senior employee of a provider of material professional or contractual services to the company, or any of its subsidiaries over the last 3 years;
- Have close family ties with any of the company's directors or senior management;
- Have cross-directorships or significant links with other directors;
- Are a significant shareholder, or affiliated to a significant shareholder of the company;
- Have entitlement to performance related pay, stock options, pensions or benefits via large donations to charities of the director's choice.

### **Employee representation**

Where local market practices require it, we will generally support the appointment of employee representatives to the board.

### **Nomination and election process**

Board committees form an important element of the operations of an effective board, and we expect companies to adhere to best practice in relation to the composition and independence of key board committees.

The nomination committee may be comprised of both executives and non-executives, however we expect a majority of members of the committee to be independent.

When proposing the election of a director, the company should provide shareholders with sufficient information to enable an informed decision to be made. This should include the name and biography of the nominee, including skillset, experience and background of the nominee.

If details concerning the nominated individual have not been disclosed, then we will not support the candidate's election to the board.

We encourage boards to publish an overall skill matrix for all current and prospective board members, to enable shareholders to determine the mix of experience, background and diversity of the board.

Such a matrix can be beneficial to the nomination committee and board in determining where there may be a gap in knowledge or skillset.

### **Election systems**

Our policy preference is that board directors are elected on an annual basis. When directors are nominated through alternative slates we will support existing directors provided the board has sufficient independence.

Should that not be the case, we will support the list with independent nominees when we believe it will improve the composition of the board.

When the election of various directors is bundled under one voting item, we may vote against the resolution if we have concerns over the appointment of one or more directors and/or if there is a lack of independence of the board generally.

We will generally support proposals that permit shareholders to nominate directors for election to the board. We will also generally vote in favor of shareholder proposals requesting directors to be elected by a true majority voting system.

### **Directors' term of contracts, including classified or staggered board systems**

We are generally supportive of annual elections of directors and support proposals seeking to declassify a board. We are generally not supportive of director terms that are longer than 4 years.

However, we will factor in local market requirements and practices and may not automatically vote against the election of a director on the sole basis of the duration of their contract.

### **Board diversity**

We believe that companies benefit from having diverse range of experience and perspectives represented at all levels of the organization, including at board level. We believe that a board that brings together individuals with varied experiences, perspectives and problem solving approaches can lead to more comprehensive and well-rounded decision making processes; improved innovation; a better understanding of its customer base and stronger governance and risk management practices including oversight of company management. This diversity of thought can be reflected in different backgrounds such as personal and professional experiences, gender, ethnicity, education or social background. As part of our assessment of companies' boards, we review the overall composition of the board. We may elect to oppose the re-election of the chair of the nomination committee if we deem the board composition to be insufficient to enhancing a company's enterprise value.

### **Conflicts of interest and pledging of company stock**

Where there is a clear conflict between management and shareholder interests, even in those cases where management has been effective, we may elect not to support company proposals.

We consider that excessive share pledging represents a material risk for shareholders as their investment in the company could lose value in case one or more executives are forced to sell the stock they pledged as collateral.

If any director has pledged more than 10% of the outstanding share capital we will vote against the chair of the audit committee.

### **Attendance**

Attendance at board meetings is a clear requirement for all board members. We understand that there are often extenuating circumstances which may result in not all members being present, however we would usually not support the re-election of a director when the nominee has attended less than 75% of meetings for a second consecutive year without sufficient explanation.

### **External commitments**

We expect that directors of public listed companies should be able to commit the required time to their responsibilities.

Where an individual has a high level of board positions, as an executive and/or non-executive, we will review their overall commitments.

We may examine other measures of effectiveness including attendance levels, relevance of skill set and types of position for a director holding multiple directorships. We will generally not support the election of a director who we consider holds an excessive number of overall positions.

### **Tenure and board refreshment**

We favor boards which have a healthy balance of experience and renewal of non-executive directors. We expect boards to undergo periodic refreshment in order to continue to improve board skills and diversity, as well as balance the board between short, medium and long-tenured directors.

We expect boards to have a maximum of 33% of directors at a tenure of greater than 12 years and may choose to vote against the chair of the nominating committee if we feel the board has failed to adequately refresh director positions.

### **Succession planning**

We would expect a company to have effective plans in place for the succession of both the non-executives and executives on the board. The chair of the board should pay particular attention to succession planning as part of their role.

### **Board discharge and accountability**

We will generally vote in favor of the resolution to discharge the board unless there are significant concerns with regard to internal control, financial accounts or current investigation against directors.

We may choose to vote against the election of board members where it is identified that the board is responsible for a material failure in sustainability standards or the company has failed to address a governance failing based on UBS standards and analysis. We define material failures in sustainability standards when companies fail to meet UBS expectations that we consider to be best practice

We will also not support the re-election of a director who received less than 50% of votes in favor when last due for election but who subsequently was retained on the board, unless the previous concern which caused our vote against the director in the prior year has been resolved.

We will vote against the election of a director convicted of market or accounting manipulation, fraud or corruption and may take into account pending allegations when considering election of board directors.

### **Proxy contests**

We review proxy contests on a case-by-case basis. We will study the rationale put forward by the contestant and each item on the contestant's agenda. We will carefully review the experience and expertise of the candidates, together with the response of the company. Although we may understand the contestant's perspective, the potential disruption to the board functioning and the company in general may lead us to support management.

However, in cases where we believe that a change to the board would be in the best interests of all stakeholders, we will support the nomination of the dissident.

### **Performance evaluation**

We expect the board to maintain and enhance the reputation of the company, and we will hold directors to the highest ethical standards.

We also expect the board to be responsive to shareholders and engage with them regularly.

In cases where the board's performance has been questionable, or if the board ignored a previous shareholder vote which received majority support, we may abstain or vote against specific proposals or board members.

## **Section 2: Shareholders' rights**

### **One share-one vote**

We believe that votes at a company meeting should be determined on the basis of 'one share-one vote'.

We will not support management initiatives to create dual classes of stock, which may serve to insulate company

management from shareholder opinion and action, or which may transfer the full control over the company to one shareholder disproportionately to their economic interest in the company.

We generally support shareholder proposals to eliminate dual class schemes and will not support cumulative voting proposals or the introduction of double voting rights. For newly listed companies, a sunset provision should be included in future governance plans that would seek to eliminate preferential voting rights after a set period of time.

### **Additional shareholder rights**

We generally support resolutions which are designed to provide additional rights to shareholders. We will support shareholder proposals to reduce supermajority voting limits and support proposals calling for confidential voting.

We may vote against a director if a board has multiple governance provisions in place that we see as restricting to shareholders, such as a classified board, supermajority voting structure, or multi-class shares with unequal voting rights. We understand some companies may require these provision post initial public offering (IPO) and see it as best practice for companies to sunset these provisions over a time frame of a maximum of 7 years.

We may support proposals that allow shareholders to act by written consent and which give the right to shareholders to call a special meeting, provided they are not overly restrictive.

### **Poison pills**

We are not supportive of anti-takeover mechanisms as they undermine shareholders' rights to make a decision over their own investments.

We believe that poison pills should be voted on by shareholders, and we will generally support attempts to bring them before a shareholder vote. We may also elect not to support directors who implemented a poison pill or changed the company's bylaws without seeking prior shareholder approval.

Similarly, we generally do not support any proposals which authorize the issuance of new stock without defined terms or which have conditions that are intended to thwart a take-over or restrict effective control by shareholders.

### **Disclosure**

Companies should act and disclose information to their shareholders in a manner as transparent as possible.

We expect companies to disclose any relevant materials ahead of a general meeting (GM), allowing sufficient time for shareholders to review, analyze and engage upon the information disclosed.

In certain instances when we do not have enough information, we may abstain from voting or vote against a particular proposal.

#### **Bundled items**

In addition to providing transparent explanations with sufficient time ahead of a GM, companies are expected to submit resolutions on an individual basis and not to bundle items under one resolution. The practice of combining resolutions leaves shareholders with an all or nothing choice.

We will generally vote against proposals which bundle several voting items under one when we have concerns regarding at least one of the items.

### Section 3: Capital

#### **Capital allocation**

One of the key responsibilities of the Board is to allocate capital appropriately in order to grow the company's business and create value for both its shareholders and other stakeholders.

We pay particular attention to the Board's ability to allocate capital well and may vote accordingly when we see that this is not the case.

#### **Share issuances**

Any new share issuance should require shareholder approval. We will support only reasonable share issuance authorities that would not lead to significant dilution for existing shareholders.

We will generally only support requests for issuance of equity capital up to an aggregate maximum of 20% of existing share capital, of which up to 10% may be issued without pre-emption rights.

If the entire issuance without pre-emption rights has been used in the previous year, and an additional 10% of existing share capital is requested, we will not support the issuance. In specific circumstances we may approve a share issuance in excess of this limit if it is linked to specific circumstances, including emergency capital raising aimed at stabilizing the company.

Similarly, we will only support reasonable authorities for the issuance of convertible instruments.

Any new debt demand will also be closely monitored, and we will generally sanction any potential excessive increase in debt where there is insufficient justification, particularly where convertible instruments may lead to dilution for existing equity shareholders and which exceeds our 20% limit for equity issuance.

#### **Share buy-backs**

We will typically support company proposals to implement a share buyback program. Ideally share buy-back proposals

should lead to cancellation of the shares, to prevent re-issue without authority from shareholders.

#### **Mergers, acquisitions, asset disposals**

Each will be considered and reviewed on a case-by-case basis, with a decision taken based upon whether value is being created for shareholders and if the transaction proposed has strategic merit for the company.

Based on our research and analysis, we may then elect to support transactions which increase shareholder value in the longer term, and in some cases may vote against proposals that do not.

#### **Dividend policy**

We will generally support management proposals to approve the dividend unless we have concerns regarding the overall level set for payment, or balance between return for shareholders and future capital investment.

### Section 4: Audit and risk oversight

#### **Board oversight**

The board is responsible for the company's audit and risk structure. It is therefore vital that the board appoints an audit/risk committee.

The audit/risk committee has a key role, with direct responsibility for the integrity of financial statements, audit quality and robustness of internal controls. Thus, objectivity, independence and accounting/audit/ financial expertise is crucial.

We therefore expect at least 66% of the non-executive directors serving on this committee to be regarded as independent. However for UK companies, we expect the entire committee to be comprised of independent directors. If this is not the case, we may vote against the election of a non-independent director who is a member of the audit committee.

We expect financial institutions to have a separate risk committee.

#### **Internal audit**

Companies should have a robust internal audit system with a clear process to identify any potential risks and to manage these risks. We expect companies to have a transparent internal risk reporting process.

#### **External or statutory auditor**

Companies should appoint independent external auditors to review the financial statements and accounts. We will support the appointment by the board of external auditors if we believe auditors are competent and professional, subject to periodic review.

Where it is identified that the external audit company has failed to raise pertinent issues or is under investigation for misstatements we may not approve their re-appointment.

If a company does not rotate the audit partner in line with national best practice requirements, then we may elect to vote against the chair of the audit committee. We may also vote against the chair of the audit committee of UK companies when the audit services have not been put to tender after 10 years.

For Japanese companies, we will vote against the appointment of the internal or non-independent outside statutory auditor if less than half of the statutory auditors are classified as independent.

### **Transparency and financial reporting**

Where a company does not provide their Report and Accounts signed off as complete by a qualified auditor ahead of the GM, we may decide not to support any proposal to approve the company's financial statements.

Should the company receive a qualified opinion of the report and accounts we expect the company to provide a full and satisfactory explanation.

If this is not the case we may vote against any proposals to approve the report and accounts, the associated discharge of directors or nomination of members of the audit committee.

### **Remuneration of auditors**

We may not support the re-appointment of auditors or approval of auditor remuneration where the total level of non-audit fees exceeds 50% of audit related fees for the second successive year without a valid explanation.

## **Section 5: remuneration**

### **General principles**

Fundamental to all schemes and pay structures is the underlying principle that compensation should be aligned with the performance, the strategy of the company and the outcomes for shareholders.

Companies should seek to design their remuneration policies and practices in a manner that suits the needs of the company given the sector and business environment it operates in.

We do not require companies to automatically adopt the same approach as peers and will not automatically penalize companies that implement structures that differ from market practice, but have a preference for simple, concise and transparent pay schemes.

Where remuneration practices differ substantially from usual standards, we expect a company to provide a clear explanation of how the structure is in shareholders' long-term economic interests.

We expect companies to:

- Include both short and long-term elements in respect of any variable awards. The expected final value of long-term awards granted should exceed those of short-term awards;
- Encourage a long-term perspective, with adequate vesting/deferral periods and shareholding requirements. The measurement period for the long-term bonus element should be at least three years, with executives encouraged to hold shares for a further period ;
- Include stretching performance hurdles that are designed to promote sustainable value creation in line with the strategy of the company, which are not based solely on financial or accounting ratios;
- Enable the remuneration committee sufficient flexibility to make adjustments as a result of unintended outcomes from plans.
- Implement a scheme with only one long-term element;
- Avoid retention awards or appointment inducements where possible and in the event that these are granted provide a clear explanation as to the justification;
- Explain where discretion has been used to adjust awards upwards or downwards based upon company performance.

When determining if we will support a remuneration scheme, we will evaluate the above criteria and the overall approach to compensation taken by the company. Where we identify concerns, we may not support a remuneration scheme.

Common reasons for this include:

- When we identify a misalignment either during the reporting year or over a period of time between maximum remuneration outcomes and company performance;
- When the company has not clearly outlined the correlation between the remuneration scheme and shareholder value;
- If a salary increase has been awarded of greater than 10% without a reasonable explanation;
- When disclosure is less than market best practice, including where the company requests permission not to disclose individual director's remuneration;
- Where the company uses discretion in awarding a one-off variable pay award without sufficient explanation;
- Where the company has not disclosed a sufficient explanation for a retention or recruitment payment, or where a recruitment payment is not performance based;
- If we determine that remuneration is high in relation to peers without appropriate rationale or explanation, including the selection and appropriateness of the company's selected peers;
- When vesting conditions are not deemed appropriate or sufficiently challenging;
- Where no mention of the use of performance criteria for the vesting of long-term awards is provided or the company states there will not be any disclosure of performance criteria;

- In situations where the long-term incentive plan allows for re-testing, or the company amends performance criteria retrospectively during the term of the scheme;
- Where less than 50% of a long-term incentive award is subject to performance conditions, or have a total vesting period of less than 3 years;
- If the company has used a benchmarking exercise as a reason to raise the pay of executives without wider explanation;
- When the salary of an incoming chief executive is positioned higher than that of their predecessor without an adequate explanation;
- If the company does not respond to shareholder concerns that have been raised in a previous vote upon remuneration;
- Where we identify that a material sustainability failing that effects long term company value has not been taken into account by the company during the awarding of incentive awards.
- Pension contribution rates exceed 30% of fixed salary, particularly where the company has not outlined a policy to align pension contributions with the wider workforce:
- When multi-year guarantees for salary increase, bonuses or equity compensation have been provided;
- In markets where clawback policies are best practice, we may vote against any scheme where a clawback provision is not part of the remuneration scheme.
- The absence of a shareholding requirement for the lead executive, or a shareholding requirement which is not in line with market standards.

Application of this requirement is for the following markets: Austria, Canada, Denmark, Germany, Greece, Israel, Italy, Netherlands, Spain, Switzerland, UK, USA.

### **Pay quantum**

When determining the level of overall compensation to be paid to executives the compensation committee should:

- Set the appropriate level of pay that is required to attract, retain and reward competent directors and executives who are fundamental to the long-term sustainable growth of the company, avoiding excessive awards;
- Disclose when remuneration consultants have been used, including the cost of retaining such services;
- Only use benchmarking to establish a frame of reference for what competitors are paying, rather than as a mechanism for matching pay to peers;
- Select peers that are broadly comparable to the company;
- Factor in the relative remuneration of the wider workforce when determining quantum levels for the CEO.

### **Remuneration committee**

We expect the board to appoint a specific committee to manage the compensation approach of the company.

The remuneration committee should be comprised only of non-executive directors and we will generally not support the election of an executive director who serves on this committee.

A majority of the non-executive directors serving on the committee should be regarded as independent, as per the UBS independence criteria. However, for UK companies, we expect the entire committee to be comprised of independent directors, in line with best practice.

Where a company has received greater than 20% of votes against their remuneration vote in 2 consecutive years, we may seek to vote against the chair of the remuneration committee if the company has made no commitment to make positive changes during that time.

We may choose to vote against the chair of the remuneration committee, or members of the committee, if concerns exist in consecutive years and are not addressed by the committee.

We expect a remuneration committee to take into account shareholder feedback and previous voting results, and to re-evaluate remuneration plans that did not receive positive shareholder support.

### **Disclosure**

We apply market-level nuances around the level of disclosure we require and will not support remuneration schemes that do not meet at least market-standard practice.

### **Performance conditions**

We would expect a majority of the compensation package to be attached to stringent performance conditions tied to the strategy of the business, with an appropriate balance between fixed and variable elements, between short and long-term incentives, and between financial and non-financial elements

Where the committee has used metrics that are subject to a qualitative assessment, we expect an explanation from the remuneration committee on how this has been determined. We will take into consideration industry best practice when determining the appropriate mix of performance conditions in the compensation package, as some industries and regions may have different standards.

### **Share awards and stock plans**

Where a company is seeking to introduce a restricted stock plan in lieu of a traditional long-term incentive plan (LTIP) we will review the specific terms of each proposal on a case-by-case basis and expect a company to provide a clear and justified explanation for the adoption of the new approach.

We may not support a plan that utilizes restricted stock units (RSUs) in the following circumstances:

- When the company is moving towards a 100% RSU grant and the award discount is less than 50% of the equivalent LTIP value;
- The total vesting and holding period is less than 5 years in total;
- The shareholding requirement for the CEO is less than 200% of salary (500% in US market).

Where we determine that company and/or management's performance has not been satisfactory, we may object to the issuance of additional shares for the purposes of executive remuneration, such that management is rewarded for poor performance or further entrenches its position.

We will also closely monitor the level of share awards granted to executive directors and may not support overly dilutive plans.

We would generally support employee share plans unless company disclosure is insufficient for shareholders to make an informed decision, if dilution is outside reasonable limits or should the grant conditions be unsatisfactory.

#### **New joiner awards/golden parachutes**

Golden parachutes will be closely scrutinized, and we will look at the company's history of compensation policies as well as management's performance. We would expect these plans to have double trigger conditions and not to allow automatic vesting or tax gross ups.

We will generally only support directors being granted share awards when joining a new company provided that these have been issued on a like-for-like basis of awards foregone at a previous company.

Stock option grants should not be open to retesting or awarded at a discount. In order to increase reporting transparency, we believe stock options should be expensed.

#### **Non-executive directors' remuneration**

Non-employee or non-executive compensation should ideally be paid via a cash salary. In the event that a company elects to grant shares, to non-executives as part of the fee, such awards should not be linked to specific performance conditions, and ideally such shares should vest immediately, in order to maintain the independence and objectivity of the recipient.

#### **Windfall gains**

Companies should take particular care when implementing a new remuneration scheme during a period of material short term market price fluctuations.

In such circumstances the company should give careful consideration to the price at which shares are being issued as part of incentive plans.

We may elect not to support the remuneration report, or specific incentive plans, when there has been a material fall in the share price and share awards have not been reduced to compensate for the effects of windfall gains.

#### **Frequency**

Compensation plans should be kept simple and put to a shareholder vote on a regular basis, preferably annually.

## Section 6: Environmental and social matters

The below section outlines a broad range of expectations around environmental and social matters and how they relate to our voting activity. We consider disclosure to be the foundation of any analysis of E&S topics, hence we support the disclosure standards outlined by the International Sustainability Standards Board (ISSB). Beyond these sections, we continue to produce research on sustainability topics and develop expectations for companies, identifying best practices in those areas. These expectations documents guide our engagement and stewardship activities and are available publicly.

#### **Board oversight**

Environmental, social and corporate governance risks can lead to a material impact on the reputation and/or financial stability of a company. It is therefore important that the board has a robust policy and control process in place to identify and manage such risks.

The board should ensure that it has clear oversight and working knowledge of these issues, to enable the company to fully assess and manage the impacts of these factors on its business strategy. We are generally supportive of the creation of a specific committee on the board to oversee sustainability risks and opportunities.

Environmental and social issues may not be topics which are presented to shareholders for approval at GMs. However, we will seek to discuss such topics during our meetings when engaging with companies, where we believe they may have a material impact on the investment value.

#### **Our approach to reviewing sustainability related voting proposals**

In determining our voting actions on social and environmental proposals, the following factors are considered, in regard to proposals by both companies and shareholders:

- Whether the proposal itself is well framed and reasonable, including details of why the proponent filed the proposal;
- Whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
- Whether the company has already responded in some appropriate manner to the request embodied in a proposal, or has announced plans to do so;

- What other companies have done in response to the issue including how the company currently compares to their industry and regional peers;
- Whether implementation of the actions in the proposal is likely to achieve the objectives sought in the proposal;
- Any insights gathered from our engagement that relate to the proposal topic;
- What is the potential reputational risk to the company in adopting the proposal;
- Alignment with our published expectations on environmental and social issues.

### **Voting proposals related to sustainability factors**

We may vote in favor of proposals that seek to promote good corporate citizenship and strong environmental practices, while enhancing long-term shareholder and stakeholder value.

The analysis of material sustainability considerations can include many different aspects, including, for example, the company's carbon footprint, employee health and well-being, supply chain management, fair customer treatment and governance processes of a company.

We will generally support resolutions seeking the following actions:

- Requests to provide disclosure on the company's sustainability/environmental policies;
- Reporting in line with EEO-1 guidelines of breakdown of workforce by gender and ethnicity guidelines (US companies), or any other legally permissible proposal for diversity disclosure;
- Publication of a specific human rights risk assessment across the business and details of improvements to human and labor rights standards and/or policies;
- Reporting on company policies and implementation practices related to biodiversity, including deforestation;
- Provision of a report or summary giving a breakdown of global median gender pay gap across the workforce.

### **Corporate lobbying**

In general, we will support resolutions seeking greater transparency on company lobbying, except where covered by existing legislation and where the company meets such regulation, unless there is a direct reputational risk. We will not support resolutions where the company's current reporting meets industry and regional standards.

We will generally support shareholder proposals seeking greater transparency on the company's industry association participation.

For UK listed companies we may support proposals put forward by companies to make contributions to industry associations that fall under the technical scope of EU legislation, provided that a defined materiality threshold and limit has been disclosed, in line with market practice.

### **Political donations**

We will generally not support company proposals allowing companies to make political donations and will support shareholder proposals requiring companies to be transparent concerning such donations.

### **Human and labor rights**

We expect companies to align with the principles outlined in the ILO Declaration on Fundamental Principles and Rights at Work (1998) (as amended in 2022).

### **Voting proposals related to environmental policies, disclosures and risks**

We are supportive of the Paris Agreement and the commitment to limit global warming to 1.5°C. We expect companies to have a strategy for reducing carbon emissions, to be clear about targets and goals, and to report on progress.

We will generally support:

- Proposals that require companies to report to shareholders, at a reasonable cost and excluding proprietary data, information concerning their potential liability from operations that contribute to climate change, their policy on climate risks and opportunities and specific targets to reduce emissions (where such targets are not overly restrictive);
- Proposals that require, or request, information regarding an issuer's adoption of, or adherence to, relevant norms, standards, codes of conduct or universally recognized international initiatives, including the recommendations of the Financial Stability Board's Task Force on Climate Related Financial Disclosures (TCFD).

In the following circumstances we may choose not to support specific proposals:

- When the issue(s) presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation;
- When the company has already responded in an appropriate and sufficient manner in previous years and the requirements are duplicative of existing reporting;
- Where the proposal request is unduly burdensome or overly prescriptive.

### **Say on climate**

Companies should consider putting forward a vote for shareholders on the company's climate related strategy at least once every three years.

Where this is the case, we will evaluate such proposals against the following six key factors:

- Climate governance, such as board and management skillset, accountability and incentivization through links to remuneration;
- Target setting, with an expectation of a net-zero ambition and interim targets;
- Quality of the company's decarbonisation strategy as assessed against sector best practices;

- Net zero performance alignment, including stretch and scope of targets against recognized benchmarks;
- Lobbying & policy engagement;
- Use of offsets.

#### **Escalation of votes on environmental and social topics**

We may choose to vote against a company board member if they fail to meet our expectations on certain material environmental and social issues, based on our research and engagement.

## Section 7: General corporate governance matters

#### **Country or regional jurisdiction**

Where management has chosen to request the approval of shareholders to change the state or country of incorporation of the company, we will consider the background of the proposal and background to the change.

If we consider the move is motivated solely to entrench management or restrict effective corporate governance, we may not support the request.

#### **Financial assistance and related party transactions**

We will generally not support management proposals seeking to provide financial assistance to specific third party linked entities, unless a clear rationale has been provided.

We will sanction related party transactions that are not in line with shareholders' interests and/or when disclosure is below best market practice.

#### **Articles of association**

We will generally not support a resolution when a lack of disclosure results in shareholders not being able to make an informed voting decision.

#### **Virtual shareholder meetings**

We will not support proposals to hold shareholder meetings which are exclusively virtual, unless the company explicitly states that this authority will be used only in exceptional circumstances.

#### **Other proposals**

We will review shareholder proposals not covered elsewhere in this policy on a case-by-case basis and may choose to support a resolution raised if we believe it to be in our client's interests. We may choose not to support proposals which are too binding, or which may restrict management's ability to find an optimal solution.

# Appendix 1

## Roles and responsibilities

### Proxy voting team/process

We have established a dedicated team to manage our proxy voting process.

The team shall:

- Take necessary steps to determine that we have received ballots for all accounts over which we have voting authority and where we intend to vote;
- Instruct relevant parties to recall, if reasonably possible and practical, securities that are currently on loan so that they may be voted on controversial proxy matters, if deemed material;
- Implement procedures to identify potential conflicts and vote such proxies in accordance with our conflict of interest process;
- If and where relevant, escalate to C&ORC;
- Implement procedures to vote proxies in accordance with a client direction if applicable;
- Implement procedures to reconcile ballots for voting, ensuring all ballots are received and processed;
- Represent UBS Asset Management on relevant market working groups with the view to improving best practices in regard to governance and voting. Participation in such groups will be approved by the Stewardship Committee.

### Stewardship Committee

The UBS Asset Management Stewardship Committee oversees our approach to stewardship, including the exercise of voting rights. Its responsibilities are outlined below. The Committee is chaired by the Head of Investments, who determines the membership and who may invite other attendees to present information or offer subject matter expertise on pertinent subjects and may appoint other standing attendees.

The Chair is further responsible for:

- Setting the Committee agenda;
- Leading the Committee activities and meetings;
- Appointing the Committee Secretary;
- Following Stewardship Committee approval, facilitating the approval by the UBS AM executive team of any changes to this proxy voting policy;
- Following Stewardship Committee approval, facilitating any further business approval of membership of any organization that UBS AM plans to join in relation to sustainability/stewardship.

The Committee Chair will ensure timely and appropriate reporting of important matters and escalate significant issues via the appropriate reporting line.

The Chair will further escalate any relevant issues to the appropriate legal entity management team/front to back group for specific impacted legal entities, as described in the formal terms of reference.

The Stewardship Committee has authority over funds and discretionary client mandates where the traditional business of UBS Asset Management has been granted voting authority, where UBS AM entities generally vote with respect to portfolio holdings.

Where a fund specific board has underlying responsibility for voting rights this committee will inform the relevant fund board of the decisions and actions taken, upon request.

The Committee members are responsible for:

- Approving proxy votes escalated to the Stewardship Committee in the following circumstances: a) where agreement is not reached between voting analyst and relevant investment analyst/PM; b) high-profile votes, i.e. likely to attract media or significant client attention; c) votes against policy when a shareholder meeting presents a potential conflict of interest or when the vote is linked to board independence issues;
- Reviewing and approving membership of any organization that UBS Asset Management intends to join in relation to sustainability/stewardship;
- Reviewing and approving requests to participate in the filing of a shareholder resolution.
- Reviewing and approving the proxy voting policy annually, including any changes to scope of country coverage, and approving updates as required.
- The Committee shall meet quarterly. In addition, ad-hoc meetings may be held at the discretion of the Chair should matters arise that warrants Committee review. The Committee can also perform duties on ad-hoc basis via email, as required, in respect of voting approvals.

Votes contrary to the guidelines in this policy shall require majority approval (at least 3 out of the 5 members) of the Stewardship Committee. If a committee member is not available, a deputy may represent a member in terms of voting, and if no vote is received from either the member or the deputy within the time limit, then the decision will be determined by the majority of votes by the deadline.

- The Chair appoints the Secretary of the Committee, who is responsible for preparing and collating the Committee documentation, and maintaining the agenda, minutes, action and risk logs. Minutes record all decisions taken and all actions agreed. Minutes are circulated to Committee members, attendees and such other persons as the Chair determines.
- When important or complex matters are to be dealt with at a meeting, the member putting forward the proposal must provide the Committee Secretary with appropriate documentation sufficiently beforehand. The Committee Secretary is responsible for distribution to the Committee. Minutes are formally approved

immediately following a Committee meeting, or as soon as reasonably practical thereafter.

### **Compliance and operational risk control**

The compliance and operational risk (C&ORC) team act as a second line of defense (SLOD) and is responsible for additional review and approval of specific voting related activities, including:

- All voting policy updates;
- Public or private letters written to the board to address governance or sustainability related concerns;
- Any shareholder proposal that UBS files or signs on as a co-filer for a company's annual meeting.

In addition, C&ORC team performs a regular control to ensure that conflicts of interest in relation to proxy-voting activities are appropriately identified, escalated and mitigated. SLOD (C&ORC AM) is a permanent guest of the Stewardship Committee and, as part of its mandate, may challenge or object where necessary.

### **Interaction with company and board of directors**

In seeking to have a good understanding of the companies in which we invest, we will seek to have regular dialogue and meetings between our investment analysts, portfolio managers (PMs), sustainable investing analysts and company management, including, at times, members of the board of directors.

All such interactions will be respectful of applicable anti-trust considerations and restrictions related to the receipt of material non-public information.

### **Formal communications with company boards**

Nothing in this document should be interpreted as to prevent dialogue with an investee company and/or its advisers by a sector or industry analyst, sustainability/governance specialist or other appropriate senior investment personnel when a company approaches us to discuss governance issues, or resolutions they wish to include in their policy statement.

### **Contacting the media**

UBS Asset Management generally will not comment on any matters relating to corporate governance or proxy issues of any individual company. This policy is based on issues of client privilege as well as assuring compliance with various regulations. Requests from the media for general information relating to the policy, comments on corporate governance or proxy issues relating to a specific security or general, non-specific issues related to corporate governance, should be directed via our UBS Media Relations/Communications groups, who will determine, in liaison with our Compliance officers, if there is to be an exception to this policy.

### **Proxy voting disclosure guidelines**

Upon request or as required by law or regulation, UBS Asset Management will:

- Inform the company (not their agent) where we have decided to vote against any material resolution at their company. Companies may also be provided with the number of shares we own in them.
- Respond to a proxy solicitor or company agent acknowledging receipt of the proxy materials, inform them of our intent to vote and if, at that time, whether we have voted or not. We will not disclose the manner in which we have voted or the number of shares we own in a company.
- Disclose to a client or client's fiduciaries, the manner in which we exercised voting rights on behalf of the requesting client.
- Inform a client of our intended vote.

In some cases, because of the controversial nature of a particular proxy, our intended vote may not be available until just prior to the deadline. If the request involves a conflict due to the client's relationship with the company that has issued the proxy, the C&ORC department will be contacted in an effort to ensure adherence to UBS Asset Management principles.

Other than as described above we will not disclose our voting intentions or make public statements to any third party (except electronically to our proxy vote processor or regulatory agencies) including but not limited to proxy solicitors, non-clients, the media, or other UBS divisions, but we may inform such parties of the provisions of our policy.

We may communicate with other shareholders regarding a specific proposal but will not disclose our voting intentions or agree to vote in concert with another shareholder without approval from the Chair of the Stewardship Committee and regional C&ORC departments.

### **Proxy voting reporting**

Our aggregated voting record is disclosed on a quarterly basis and available on our website at the following link:

[UBS Asset Management Sustainable Investing](#)

For our regulated funds in the USA, Canada and Australia we also disclose our voting record on a fund- by-fund basis, which is also posted to our website.

### **Proxy voting conflict of interest procedures**

The UBS Asset Management division is comprised of entities that are wholly owned, directly or indirectly, by UBS Group AG, a leading publicly listed financial services group.

We are committed to acting in a consistent and transparent manner. Our principal objective when considering how to vote, or whether to engage with a company, is to ensure that we fulfil our fiduciary duty by acting in the interests of our clients at all times.

Situations where actual and potential conflicts of interest can arise include where:

- The interests of one client conflict with those of another client of UBS Asset Management;
- UBS Asset Management invests on behalf of our clients in publicly listed shares of UBS Group AG;
- The listed company whose shareholder meeting is being voted upon is a client of UBS Asset Management;
- Affiliates within the wider UBS Group act as an advisor to the company;
- Board members of UBS Group AG serve on the board of an external company, where UBS Asset Management shall be voting upon their election to the board;
- The interests of an employee of UBS Asset Management directly conflict with the interests of a client of UBS Asset Management.

In addition to the proxy voting disclosure guidelines above, UBS Asset Management has implemented the following guidelines to address potential conflicts of interest that may arise in connection with our exercise of voting rights.

- We exercise voting rights in line with UBS guidance and principles and retain a record of any deviation from UBS policies;
- Where UBS Asset Management is aware of a conflict of interest in voting a particular proxy, a vote will be cast in line with UBS policy guidelines, unless it is identified that such a vote would not be in the best interests of our clients. In that event the Stewardship Committee will be notified of the conflict and will review whether a vote in line with UBS policy guidelines would be in the best interests of clients and remains consistent with UBS Principles. This includes where UBS Asset Management is invested into publicly listed shares of UBS Group on behalf of our clients;
- As it relates to the voting of UBS shares, we will vote in accordance with our internal conflict process, as with all other companies we invest in for clients. This is based upon UBS Asset Management policies and principles. We shall document the rationale for our vote. Exceptions to this policy may be appropriate or necessary where the Stewardship Committee determines that it is prudent to engage an independent fiduciary to manage the voting decision and/or process.
- In the event that UBS Asset Management is responsible for voting rights over a client portfolio that is invested into units of a publicly traded UBS investment or mutual fund, any such voting rights will not be exercised in the event that the fund announces a meeting of unitholders. In such cases any voting rights must be exercised directly by the client or end beneficiary. In the context of a UBS proprietary fund investing in another UBS proprietary fund, such as to implement an asset allocation or “fund of funds” program, voting rights with respect to the underlying acquired fund would be exercised in accordance with relevant regulatory guidance and market practice and not “passed through” to the ultimate investors in the acquiring fund unless required by applicable regulations or otherwise deemed appropriate by UBS Asset Management.

- Under no circumstances will our proxy voting decisions be influenced by our general business, sales or marketing, with impacted functions remaining outside of our voting decision process;
- UBS Asset Management and its affiliates engaged in banking, broker-dealer and investment banking activities (“Affiliates”) have policies in place prohibiting the sharing of certain sensitive information. UBS Asset Management officers involved in the proxy voting decision process are not permitted to discuss voting intentions with an Affiliate and if they are contacted by an Affiliate, contrary to this policy, the contact will escalate the matter to our Compliance & Operational Risk Control team. The Chair of the Stewardship Committee will also be advised of the contact from an Affiliate, who may advise the President of AM. In specific circumstances our compliance group may discuss the matter with their counterparts at Affiliates;
- Training is provided to team employees outlining their responsibilities in relation to conflicts of interest in the voting process. If there are revisions to the conflicts of interest process, employees will receive training on the updated procedures;
- Where UBS Group has provided seed capital to a fund of UBS Asset Management (UK) Ltd any voting rights arising from such capital will not be exercised.

Legal and Compliance & Risk personnel may have contact with their counterparts working for an Affiliate on matters involving information barriers. In the event of any issue arising in relation to Affiliates, the Chair of the Stewardship Committee must be advised, who will in turn advise the Chief Risk Officer.

### **Record keeping**

UBS Asset Management will maintain records of proxies voted. Such records include copies of:

- Our policies and procedures;
- Proxy statements received;
- Votes cast per client;
- Number of shares voted per account;
- Communications received and internal documents created that were material to the voting decision and;
- A list of all proxies where it was determined a potential conflict existed and any written rationale created or approved by the Stewardship Committee supporting its voting decision.

### **Use of proxy voting advisory services**

In order for us to meet our stewardship responsibilities it is essential that we have access to accurate information regarding the corporate governance structure, sustainability practices and shareholder meetings of operating companies in which we invest on behalf of our clients and funds.

We use the services of a specialist provider for a number of services, to supplement our own assessments.

We have selected Institutional Shareholder Services (ISS) to provide proxy advisory services. ISS is a leading proxy advisory firm, with what we believe to be the appropriate competency, capacity and systems to provide this service on a global basis.

The proxy voting related research and recommendations provided to us by ISS are based upon the proxy guidelines contained in this policy document. We do not delegate our voting responsibilities to ISS and retain full discretion when determining how to vote shares held for our clients and funds.

We regularly monitor the services provided to us by ISS and other external vendors, including performing an annual due diligence on the compliance policies, controls, procedures and quality of service provided.

We further require information regarding how the vendor manages any conflicts of interest that may arise through certain affiliations or business practices.

#### **Investment companies/funds**

The guidelines detailed in this Policy are designed for and intended to apply to the operating companies we invest in on behalf of our clients.

While the principles of this Policy may also apply generally to investment companies or funds that we invest in on behalf of our clients, investment companies and funds often function differently than operating companies, and as a result, the specific guidelines may not apply in the same manner and may not be applicable or followed with respect to investment companies or funds, particularly those with independent third-party sub-advisors.

#### **UBS Client Voice**

UBS Client Voice is a voting service that enables eligible institutional clients in select funds\* to express their voting preferences and provide recommendations on the exercise of voting rights for individual issuers and proposals.

Through this program, clients can submit voting recommendations for the pro-rata share of a fund's assets attributable to their investment, which UBS Asset Management will consider as part of the proxy voting process. Where the fund management company follows client recommendations, this may result in a fund's vote being split at an issuer's Annual General Meeting.

These client recommendations are not binding on the UBS AM fund management company, which retains final decision-making authority on all votes, as required by regulation and our fiduciary duty to act in the best interests of all investors. This safeguard is essential for compliance and maintaining fund integrity.

The governance framework supports escalation of high-profile voting matters to the Stewardship Committee. UBS Client Voice is designed to take into account client input while adhering to robust stewardship standards.

This approach reflects our commitment to active ownership and enabling client choice.

\*Currently only available to eligible investors in certain Swiss domiciled funds, for certain Swiss issuers. The scope of application may change and will be reflected in an annual policy update.

# Appendix 2

There are specific regulatory requirements governing fund disclosures for US SEC Registered Investment Company clients (each a “Fund,” and together the “Funds”), and any policies or procedures used by the investment adviser on a Fund’s behalf must be accurately reflected in the Fund’s registration statements (which are updated at least annually). Also, the independent boards of the Funds and their independent counsel directed the investment adviser to alert them in advance of any material changes so that they can consider the impact of such changes on the Funds that they oversee and to consider possible alternatives. Because the required public Fund disclosures include detailed descriptions of voting procedures, conflict management processes, and required public availability of proxy voting information, any updates to the underlying policies may directly impact SEC mandated filings such as the Statement of Additional Information (SAI), Form N-CSR, and related materials, such as annual Form N-PX filings. Accordingly, the Fund’s Chief Compliance Officer must be notified of all proposed changes in advance and must review and consider whether to approve the policy before any updates are implemented to ensure continued compliance with applicable US SEC Fund disclosure and independent board reporting obligations.

For further details on all our voting records, please see our website:

[UBS Asset Management Sustainable Investing](#)

For further information on our policies and activities, please contact our Stewardship team:

[dl-si-research-stewardship@ubs.com](mailto:dl-si-research-stewardship@ubs.com)

## Scope

UBS Asset Management is a large-scale asset manager, providing traditional, alternative, real estate, infrastructure and private equity investment solutions to private clients, financial intermediaries and institutional investors worldwide. With a number of investment areas and a range of strategies within each area, the approach to sustainability issues necessarily varies across the firm and, to some extent, across countries/regions according to local market customs and client needs.

This document focuses on our approach utilized for the overwhelming majority of our traditional equity capabilities.

Our general approach described here is subject always to any client-specific instructions or restrictions and/or following any local laws or standards applicable in the domiciles of assets or funds.

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