

Webinar: Are you climate aware?

An introduction to active climate aware investing

UBS has a long history in sustainable investing, notably on the environmental front. We have been a part of the UN Global Compact since 2000 and one of the first signatories to the UN Environment Programme. We proudly take a leading position on climate aware thought leadership and engagement. We also heavily collaborate with Climate Action 100+ and within this group have taken the lead on 8 company engagements.

Barry Gill, Head of Investments, UBS Asset Management, joined with experts Bruno Bertocci, Head of Global Sustainable Equities at UBS-AM and Martine Wehlen-Bodé, Head of EUR Corporate Strategy, UBS-AM in a webinar focused on active climate aware investing.

Key webinar takeaways

- Climate action is everyone's responsibility, UBS-AM seeks to make a difference through private sector investment
- The climate aware investable universe is expanding, presenting a large opportunity set for investors and borrowers
- UBS-AM believes that active engagement is vital to unlock potential returns and partner with companies to support the transition to a lower carbon economy
- There are many opportunities for active engagement through proxy voting within equities and refinancing of bonds and new issues within fixed income
- UBS-AM provides climate aware equities, fixed income, active and passive strategies that strive to enable clients to reduce climate exposure and risk of their portfolios while aiming for a positive portfolio return

Barry Gill, Head of Investments

The world can no longer ignore climate aware investing. It is our belief that the capital markets and investors can be powerful advocates for transparent, green investing and in doing so a myriad of opportunities can arise for positive portfolio returns which also benefits the climate. Many governments worldwide are also making climate change a priority, which will likely manifest itself in the form of regulation, which is a factor that is durable and far-reaching enough to reinforce the narrative of climate change within portfolio decision making.

Our optimal and balanced approach to climate investing involves three categories which present compelling opportunities:

Adaptation: Identify and invest in companies which are solution providers to a low carbon economy

Mitigation: Identify and invest in companies that are improving their carbon footprint within their own operations

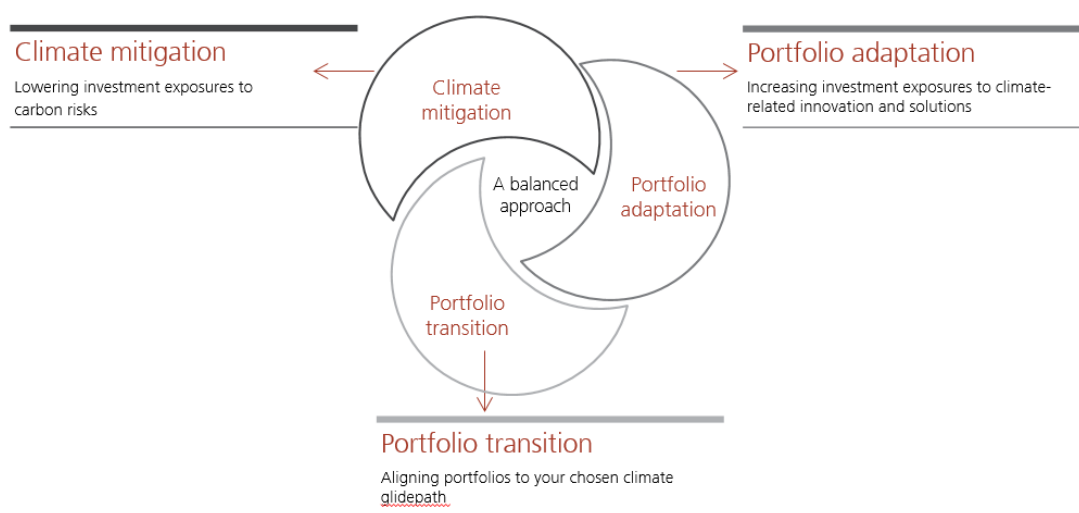
Transition: Identify and invest in companies operating in carbon heavy industries that are transforming their business models.

Bruno Bertocci, Head of Global Sustainable Equities

How investing in equities can help to tackle climate change

We look at companies that we believe help mitigate the climate challenge. For instance, improving battery technology, advancing the ability to generate hydrogen in order to power the transportation sector. Indeed, we select companies that are taking action to reduce their carbon emissions, for example by changing to a greener source of energy such as wind energy. One other group of companies we select from are those transitioning their business models from brown to green by making concrete commitments to a low carbon future, for example by joining the Paris Agreement or by becoming carbon neutral.

A climate framework for investors



Selecting attractively valued companies that are at the forefront of a low-carbon economy

Once we have identified these climate leaders from a universe of around 3,000 stocks, our research and quantitative analysts research the companies that we believe have the strongest valuations and above-average sustainability profile, resulting in a climate aware equities portfolio: the UBS Active Climate Aware Equity portfolio of around 40 to 50 'best idea' stocks.

“Our aim is to own tomorrow’s companies today by selecting companies who we believe will be able to move us toward a 2°C world.”

Bruno Bertocci, Head of Global Sustainable Equities

How is UBS different to other sustainable investing providers?

We are a leader in the sustainable investing market, having heritage in the space long before it was fashionable. We use our forward looking proprietary glidepath methodology – harnessing the carbon budget for each industry to assess which companies are on track for a 2°C world. Moreover, we have been managing sustainable equities for over 20 years¹. We also serve on industry working groups, including Climate Action 100+ and the Task Force for Climate-related Financial Disclosure (TCFD).

1 Global Sustainable Equity Composite inception date of 30 June 1997

Martine Wehlen-Bode, Head of EUR Corporate Strategy.

We believe that a climate aware approach is good for your portfolio and the planet.

How does sustainable investing affect risk and return in fixed income?

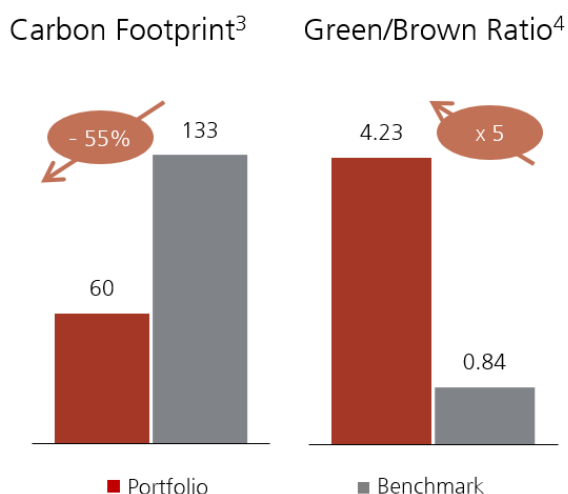
In fixed income you have downside risk, the maximum on the nominal amount you receive on your investment is the par value (100%). The oil sector has increasing exposure to climate risk as competition from alternative energy is growing, so companies need to make new additional investments to future-proof their strategy. Greater regulation and changing investor behavior will likely impact returns of companies so we need to be forward-looking in selecting companies.

Selecting from the climate aware universe without conducting due diligence may result in allocating to companies with poor fundamentals or valuations. At UBS-AM we have a deep bench of expertise with over 40 credit and sustainability specialists researching individual companies and providing input to over 25 bond portfolio managers, as of June 2020.

What is an example of our active climate aware fixed income solution?

The UBS EUR Corporate Climate Aware strategy is a greener solution compared to the benchmark or investment universe. A few key characteristics to highlight this are the strategy's carbon footprint and the green / brown ratio.

Portfolio features as of 30 September 2020



Source: UBS Asset Management as at September 2020

The UBS EUR Corporate Climate Aware strategy has a carbon footprint 55% lower than the benchmark⁵. For example, we reduce our CO₂ emissions by having an underweight in cement producers and other utilities versus the benchmark. The green / brown ratio is the amount of green revenues in relation to brown revenues and the chart shows the portfolio's ratio is five times as high as the benchmark's. One reason for this is we have investments in real estate investment trusts for green buildings.

What is the active opportunity for engagement in fixed income?

Like how equity investors have opportunities to influence companies through proxy voting, fixed income investors have arguably more frequent opportunities to engage with corporates through refinancing of their debt obligations. When bonds mature and require refinancing, such as the larger companies coming to market weekly or monthly, there is continuous interaction on cost of finance discussions and opportunity to provide feedback. There is also an opportunity to engage with private issuers, not public corporations who are entering the primary market for the first time.

2 Source: UBS Asset Management, June 2020.

3 Based on MSCI Carbon Footprint Scope 1&2 Intensity (tCO₂e/M invested);

4 Based on Green revenue vs Brown as defined by MSCI ESG Manager.

5 Benchmark: Bloomberg Barclays Euro Aggregate 500mio+ Corporate Index, as at 30 September 2020

Q&A

How can investors actually make an impact on the 2 degrees scenario?

Bruno Bertocci (BB): There are two ways, the first is invest in companies which are developing technologies which move us closer to a 2°C world. The second way is engagement. At UBS-AM we may leverage our influential position to actively engage with the companies that we believe should change their business model in order to significantly reduce their carbon footprint. We encourage and push those industries towards a greener carbon footprint and faster.

What difference do you believe active engagement by an asset manager makes?

BB: Our scale, global reach and reputation at UBS-AM makes a difference and allows us to make advances toward the 2 degrees scenario. For those reasons, these companies have access to a large audience and they may listen to us because we marshal assets across our global firm enabling a lot of voting power. The combination of our position in the marketplace together with highly experienced professionals allows us to make concrete suggestions to get our point across constructively. It's a partnership.

There are a lot of regulatory changes coming down the pike in Europe and we believe other regions will start to follow suit – will those regulations help investors to better judge how green asset managers and their products are?

Martine Wehlen-Bodé (MWB): Yes, definitely. There are a lot of regulations and many types of products, so investors need a top-quality labelling system. Europe is taking the lead in setting out new guidelines with the Sustainable Finance Disclosure Regulation (SFDR) to increase transparency by requiring that investment firms classify their offerings by whether and how they incorporate sustainability risk. Moving to the new standards will make decision making easier for investors.

How sensitive are corporate bond spreads to climate related announcements compared to other more traditional announcements?

MWB: The pricing of bonds is influenced by two factors: bond fundamentals and a technical factor (supply and demand). For example, on the fundamentals side, green bonds have the same default risk as traditional bonds. Green bonds are very popular and there is a lot of supply in the market so issuers can issue these types of bonds at a lower cost or yield which is incentivising companies to issue more green products. In the long run the performance of the green and non-green bonds should be the same but short-term differences are observed due to supply and demand factors.

There has been record issuance of green bonds, will this support the climate change agenda?

MWB: Green bonds connect sustainable investors with green projects. This presents an opportunity for a bond holder to meet their green target and an opportunity for an issuer to find new investors, additional funding and improve their corporate image. This creates a growing market for green projects, which in isolation will not solve the climate challenge, but is a step in the right direction for climate change.

Is the investible universe for sustainable assets growing?

(BB): Yes it is growing, and a large part of the reason is venture capitalists are pouring an enormous amount of money into biofuel, battery and wind energy companies within the alternative energy space so we are observing these companies starting to go public, expanding the universe. On the mitigation side, more companies are now addressing climate risks in their own operations and embracing the climate challenge. Within the transition category, regulators in many countries are targeting brown industries and pushing them to make significant changes to a low carbon world.

How does our Climate Aware initiative relate to the TCFD (Task Force on Climate-related Financial Disclosures) recommendations?

(BB): The TCFD provides direction to investment firms in terms of managing climate risk. Specifically, for asset managers, this translates to measuring the carbon profile of our strategies and communicating this transparently to clients, enabling them to make informed decisions. Additionally, asset managers should provide strategies to enable clients to reduce climate exposure and risk of their investment portfolios while aiming for positive portfolio return.

Will COVID-19 have an impact on climate change?

(BB): Economic activity has halted, I strongly think it will take a huge amount of capital and investment to put the economy back on a sound footing and that can be directed to areas which help us transition to a low carbon economy. Investment in infrastructure and building out of alternative energy and so on. and that will become integral to plans all around the world. I think the pandemic has heightened social awareness on issues not previously so high on the agenda and climate change will get more attention than it might have otherwise received.

(MWB): I fully agree, people are becoming more aware of the climate risks and behaviors will likely change. The impact of home working will hopefully have a positive impact on the climate as less people travel to work in offices every day.

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Americas

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