

Climate Aware at UBS-AM



The world can no longer ignore climate investing

“ Current policies and commitments suggest average temperatures will increase 3°C by the end of the century. Do nothing and that figure rises to 4°C¹...”

1 Closing the financial gap

Current levels of climate finance are too low. Over USD 90 trillion needs to be invested by 2030.²

2 Carbon emissions

Global GHG emissions must decrease dramatically to effectively address the risks of climate change and global warming. A coordinated and broad-based response is required across a range of sectors.

3 Risks of not transitioning to a low-carbon economy

Physical risks, such as increased extreme weather events, and transitional risks like greater regulation, have significant implications for investors.

...the resulting impact, [on] all life on the planet – including ours – will be catastrophic. ”

Antonio Guterres
Secretary-General of the United Nations

¹ Source: <https://www.bloomberg.com/news/articles/2019-12-03/global-temperature-headed-toward-5-degree-increase-wmo-says/>

² <https://www.local2030.org/story/view/117>

What steps are we taking to address climate change?

If no actions are taken, by 2100 our planet will experience the highest temperature it has ever seen in human history¹

Awareness

- A global UBS-AM survey of 600 institutional investors showed most asset owners believe that **environmental factors will matter more than traditional** financial criteria over the next five years²
- In the private wealth space, a survey of clients showed that the majority think sustainable investing **will become the norm in the next decade**³



Regulation

- Major regulatory shifts are underway, such as the EU taxonomy on sustainable finance, encouraging investors to **take account of ESG factors in their investment processes**
- In 2017, the Task Force on Climate-related Financial Disclosures (TCFD) explicitly advised investors and companies **to undertake climate change scenario analysis** as a way of understanding their climate risk

Climate Aware framework

- UBS-AM has developed the **Climate Aware framework to help investors align their portfolios to their chosen climate solution** and is developing a suite of dedicated products across asset classes

¹ IPCC, 2018: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related greenhouse gas emissions pathways, in the context of strengthening the global response to the threat of climate change sustainable development, and efforts to eradicate poverty. Masson-Delmotte, et al.

² ESG: Do you or Don't you? UBS Asset Management, Responsible Investor, June 2019

³ UBS Investor Watch: Return on values, 2018

Opportunities have evolved towards a climate smart future

Evolving opportunity set



Aligning to 2° degree warming

- Economic opportunities generated by the transition to a low-carbon economy could be as much as **USD 26 trn**¹
- Carbon adaptation can generate **significant opportunities in renewable energy**



Portfolio benefits



Risk management and strong tailwinds support a climate-aware approach

- A 2°C scenario leads to **enhanced projected returns** versus 3°C or 4°C for nearly all asset classes, regions and timeframes²
- Investors have a **fiduciary duty** to their beneficiaries to ensure they promote and safeguard their interests

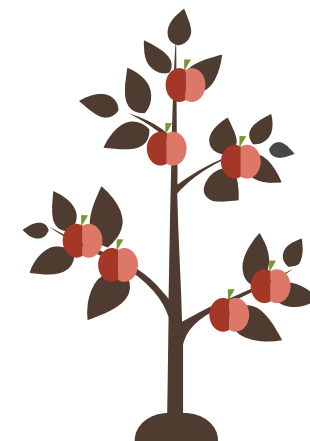


The new normal



Climate investing can no longer be considered optional

- Trending popularity as flows for climate finance **increased 25%** in a single period between 2015-2018³



1 Source: <https://www.wri.org/blog-series/the-26-trillion-opportunity>

2 Source: Mercer "Investing in a time of climate change – the sequel", 2019

3 Source: <https://climatepolicyinitiative.org/publication/global-climate-finance-2019/>

Our commitment starts at the top

Taking a leading role in shaping a positive future – for all of us and the generations to come

“ Climate change is for real. The speed at which the environment is changing is astonishing, and so needs to be the speed at which we respond to it.

Axel A. Weber

Chairman of the Board of Directors, UBS AG



UBS is taking action...

...in finance

Reshaping the landscape of investing

- Innovate our platform to create a positive impact for society and the environment, while providing attractive returns

...in philanthropy

Partnering with clients for good

- Helping clients to make a measurable difference with advice from experts and programs selected through UBS Optimus Foundation

...in communities

Promoting education and entrepreneurship

- Encourage our employees to put their expertise and knowledge to use
- Provide financial support to local programs

...in business

Leading by example

- Challenge ourselves and peers to raise the bar and be open about the impact our actions have on society and the environment



#TOGETHERBAND centers around the conviction that none of the goals, including SDG #13, Climate Action, can be achieved without collective, multi-sector action.

We are actively pursuing our sustainable principles

Our range of capabilities and external commitments

Long commitment to environmental finance

- **First** environmental certification in 1999
- UN Global Compact since **2000**
- **Founding signatory** of the Carbon Disclosure Project
- **One of the first** signatories of UN Environment Program



Calling for action to create change

- **Data focused** approach to allocate to climate-friendly initiatives
- **Adoption** of the Task Force on Climate-related Financial Disclosures (TCFD) by companies
- **Simplification and standardization** of sustainable investment standards

Strong resources

- **Dedicated SI Research team** with 20 employees working with over 900 investment professionals
- **USD 37 billion¹** in a range of Sustainable Investment focused strategies
- **100%** of Active Equities and Fixed Income integrate sustainability

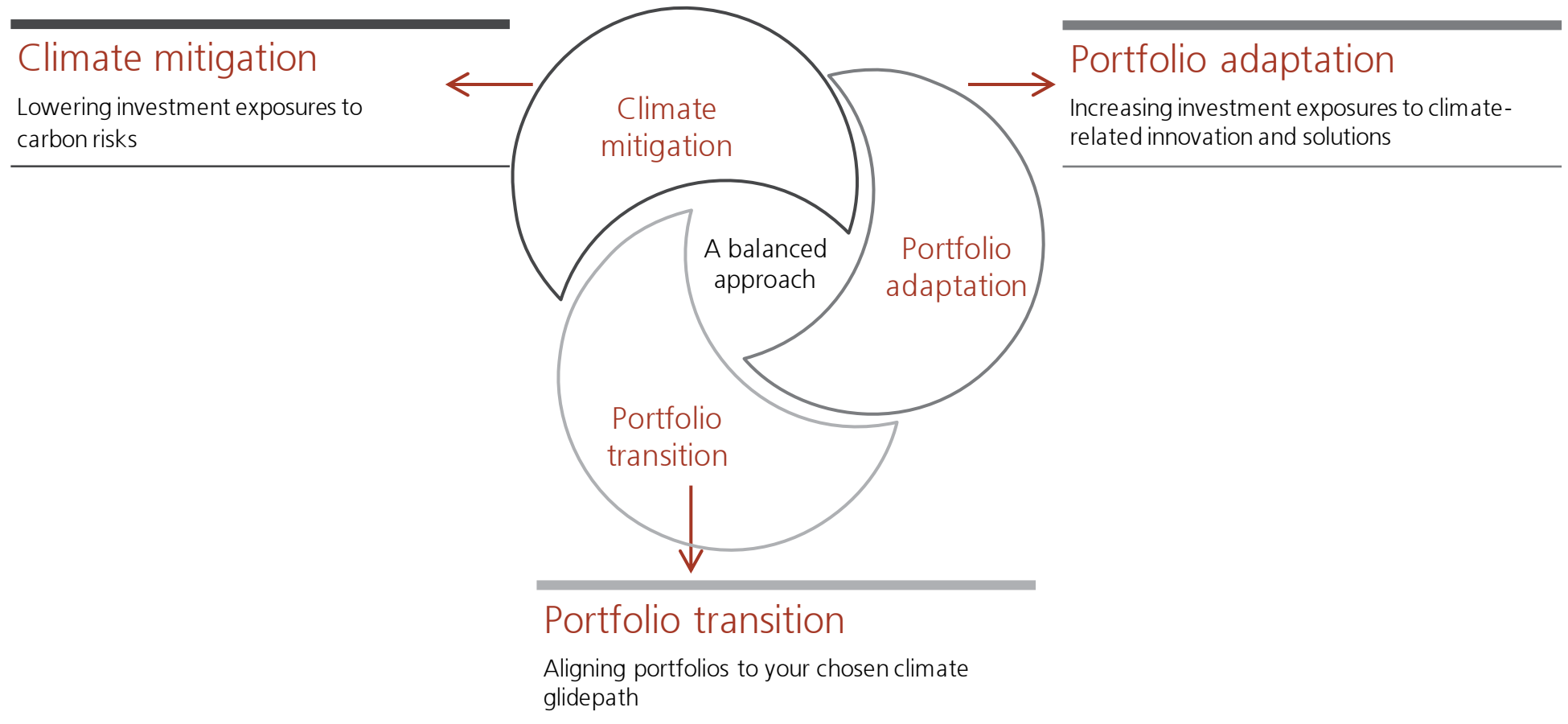
Climate Aware strengths

- **Firm-wide** Climate Engagement strategy
- Developed **award winning Climate approach** with leading UK pension fund
- Engagement in coordination with Climate Action 100+, **lead on 8 company engagements**

¹ Assets under management as of 31 March 2020

A climate framework for investors

We need a balanced approach to channel capital toward a lower carbon future



Source: UBS Asset Management, Becoming climate aware, Mobilizing capital to help meet climate change goals: an investor's perspective, WEF paper 2020.

UBS-AM's Climate product offering

Wide breath of innovative climate solutions in the core of investment portfolios, total AUM USD 3.7bln

Strategy	Description	Benchmarks available	Mitigation	Adaptation	Transition
Equity Solutions					
Climate Aware Equity active	A concentrated strategy targeting active returns and superior climate characteristics versus the benchmark	MSCI All Country World	E leaders ¹ & lower CO ₂ intensity ¹	Min 50% climate solutions ¹	Alignment 2DS scenario ¹
Climate Aware Equity enhanced indexing	Tilting strategy replicating the risk return characteristics of the equity index while significantly improving the climate risk profile	FTSE Developed, MSCI world, MSCI ex-CH, S&P 500 <i>In development: Europe, global ex US</i>	50% lower CO ₂ intensity	35% OW renewable energies	30% tilt alignment 2DS scenario
Climate Aware Equity passive	Index based strategy that meets the strict climate benchmark regulation requirements of the EU sustainable finance plan	<i>In development: PAB aligned Climate Aware equity index</i>	50% lower CO ₂ intensity	Green to brown ratio* > 4	Av. 7% self de-carbonization ¹
Fixed Income Strategies					
Climate Aware IG Corporates active	A diversified strategy targeting active returns and superior climate characteristics versus the benchmark	Barclays Euro Corporates (EUR), Barclays US Corporates (USD)	ESG integration ¹ & lower CO ₂ intensity	Green to brown ratio > 2	Alignment 2DS scenario
Climate Aware Corporate Bonds rules-based	Tilting strategy replicating the risk return characteristics of the corp. bond index while significantly improving the climate risk profile	Barclays Global Corporates (USD)	50% lower CO ₂ intensity	25% OW renewable energies	25% tilt alignment 2DS scenario
Climate Aware Government Bonds passive	Index based strategy replicating the risk return characteristics of the govt. bond index while improving the climate risk profile	FTSE Climate Risk-Adjusted World Government Bonds	7% improvement to climate risk ¹	N/A	10% tilt alignment 2DS scenario
Alternatives					
Environmental Focus Fund	Innovative long/short equity strategy aimed at benefitting from our proprietary insights of winners and losers across the Energy Transition Economy (companies and industries that will be affected by or contribute to the global transition to a more sustainable, lower carbon economy)				

¹ Further clarifications on climate investment terminology can be found in the "Lexicon of climate metrics" in the appendix

Lexicon of climate metrics

Short non-technical description of key metrics in terms of Mitigation, Adaptation and Transition

Climate metric	Category	Short description
E-leaders	Mitigation	Companies that manage to significantly reduce the risk of negative impact of Climate Change on their business model, especially when compared to peers with similar activities
CO2 intensity	Mitigation	CO2 intensity measures the amount of CO2 emissions per unit of sales revenues, for a portfolio compared to an index a lower carbon intensity indicates a better climate profile.
Climate Risk	Mitigation	In the context of government bonds, climate risks refers to the combined risk of climate change as a result of future reductions in CO2 emissions needed, risks of damages to physical infrastructure and the ability of the country to deal with these changes within its governing institutions
Climate Solutions	Adaptation	Companies that provide products and services that offer solutions to adapt to climate change, either by reducing the amount of CO2 that is emitted with traditional technologies or by dealing with the consequences of climate change.
Renewable Energies	Adaptation	Renewable energy sources that are considered here are: Wind, Solar, Biomass, Geothermal, Wave and Tidal and Hydroelectric power generation
Green to Brown ratio	Adaptation	This metric expresses the relative weight of green revenues of a portfolio (e.g. renewable energies, green buildings and water) versus that of brown revenues (e.g. thermal coal, oil and gas exploration) relative to the benchmark. A value above 2 means that the strategy aims to have a two 2 times better ratio than the benchmark.
Self-decarbonization	Transition	The rate at which the strategy reduces its CO2 footprint on an annual basis, the target number indicates the reduction of CO2 emissions as a percentage from its previous years CO2 emissions. If the self de-carbonization target is 7%, the CO2 emissions of the portfolio one year from now should not exceed 93% (100%-7%) of that of the current portfolio.
Alignment 2DS scenario	Transition	UBS created a proprietary glidepath methodology to compare the company's carbon footprint trend with the required emission reduction implied by 2 degree scenario. Allows to estimate the probability that the company will achieve those glide path targets

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