Awareness, simplification, and contribution

Core requirements needed to actually achieve the United Nations' Sustainable Development Goals

January 2019

UBS White Paper for the

World Economic Forum Annual Meeting 2019

Foreword

Dear reader,

UBS is working with other institutions to create innovative sustainable investment and philanthropic solutions that can help private and institutional clients achieve their financial and societal objectives. These efforts support the commitments to sustainable and impact investing set out in UBS's 2017 white paper for the World Economic Forum Annual Meeting. We have also executed on our 2018 white paper commitments to partnership for the Goals. First, UBS has worked more closely with multilateral development banks, through our partnership with the World Bank, to offer development bank bond solutions for private clients. Second, UBS has collaborated to fill gaps in the sustainable investing landscape with innovative new solutions, including sustainable investment benchmarks, the mainstreaming of impact investment via multiple fund raises, and launching the first fully sustainable investment-focused cross-asset allocation for private clients. Third, UBS has acknowledged the demand and impact of collaborative philanthropy, exemplified through the UBS Optimus Foundation's pilot development impact bond for boosting educational outcomes for girls and young women in India.

The financial services industry has recognized our efforts. Dow Jones named UBS the sustainability leader for the fourth consecutive year in 2018.* The Financial Times Group's PWM and The Banker's Global Private Banking Awards recently recognized UBS as the "Best Private Bank for Sustainable and Impact Investing."**

But the global resources actually flowing into sustainable investment, giving, and consumption choices remain far too meager to meet the UN Sustainable Development Goals (SDGs). Without a greater commitment on the part of all parties involved, the 2030 deadline to tackle these challenges will pass with large swathes of the world's population continuing to face hardship. At today's pace of progress, for example, nearly two billion men, women and children will continue to lack access to sanitation by 2030, according to one estimate from the Brookings Institution.

* For more details on selection criteria and methodology, please see *UBS named sustainability leader in the Dow Jones Sustainability Index for the fourth consecutive year*, UBS Global Media Release, 13 September 2018. Full report available upon request.

** For more details on selection criteria and methodology, please see *PWM/The Banker Private Banking Awards 2018, The Banker.com*, 8 November 2018. Full report available upon request.

This white paper proposes widespread awareness, simplification, and contribution as the critical factors needed to move sustainability into the mainstream. It explores practical solutions for mobilizing more capital into sustainable investing, giving, and consumption.

UBS outlines an original attempt to bring clarity and consistency to sustainable investing strategies, calling on the Institute of International Finance to unify the financial services industry around standardized and simplified terms.

UBS strongly advocates for the widespread adoption of the International Finance Corporation's own coherent, consistent definition of impact investment, backed by the long-standing expertise and credibility of the World Bank Group.

And UBS wholeheartedly supports the planned #TOGETHERBAND initiative, whose mission is to raise awareness of the SDGs among more than one billion people.

We thank you for reading this white paper and considering our proposals. Together, we can transform today's challenges into tomorrow's opportunities.

Axel A. Weber
Chairman of the Board of Directors

Sergio P. Ermotti
Group Chief Executive Officer

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Sunny Varkey
Founder of the Varkey Foundation

Authors

Simon Smiles
Chief Investment Officer, Ultra High Net Worth (UHNW), UBS Global Wealth Management

Mark Haefele
Global Chief Investment Officer, UBS Global Wealth Management

Kevin Arnold
Head of ICS Relationship Management, UBS Investment Bank

Phyllis Costanza
CEO UBS Optimus Foundation

Suni Harford
Head of Investments, UBS Asset Management

Hubertus Kuelps
Group Head of Communications and Branding and Head UBS in Society

Paula Polito
Client Strategy Officer, UBS Global Wealth Management

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Matthew Carter
Christopher Wright

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Section 1. Introduction

UBS's Investor Watch survey discovered that 81% of respondents want to align their spending patterns to their values.

A full 69% of consumers are willing to pay more for products originating from firms with strong ethical practices that match their personal views, while 71% would consciously avoid buying from firms with perceived negative environmental, social, and governance (ESG) practices.[1]

These findings also accord with a recent poll of client entrepreneurs that UBS conducted of its Industry Leader Network.[2] It revealed that many industry leaders regard sustainable business practices as obligatory rather than voluntary in order to comply with external regulations and customer requirements. Furthermore, many entrepreneurs note that sustainable operations also matter for corporate culture and employee satisfaction, particularly for attracting and retaining the most highly skilled workforce.

Yet in spite of the considerable appetite among individuals, firms, and institutions to invest, operate, and consume sustainably, the resources flowing into projects that tackle the world's largest sustainability challenges, as measured by the UN Sustainable Development Goals (SDGs), remain grossly insufficient:

- At the latest Annual Meeting of the World Bank Group, its President Jim Yong Kim noted the urgency needed to solve the world's "multiple overlapping crises" and meet the "rising aspirations" of middle-class consumers in less developed nations.[3] Widely varying estimates of between USD 2 trillion and 7 trillion of annual investment are required to fulfill the UN SDGs, he observed. He compared these sums to the USD 150–160 billion of available official development assistance (ODA), while pointing to the private sector opportunities to deploy resources currently invested in low-yielding government bonds (USD 10 trillion), cash (USD 9 trillion), and bonds trading at negative yields (USD 7 trillion).

[1] UBS Investor Watch *Survey Return on values: most sustainable investors expect better performance, bigger impact*, September 2018, UBS.

[2] UBS Industry Leader Network – Latest Insights September 2018 *Deep Dive – Is sustainability important for your business?*

[3] World Bank Group Live, Investing for Positive Impact: *What is needed to scale up?* 12 October 2018.

- The UN-sponsored Principles for Responsible Investment (PRI) estimates that annual SDG investment needs hover near USD 5–7 trillion, USD 3–5 trillion of which developing economies should devote just to filling gaps in critical infrastructure. Yet developing nations face an annual investment shortfall of USD 2.5 trillion – government and official development assistance (ODA) monies can only finance around USD 1 trillion of annual investment, leaving a considerable sustainability role for the private sector to play.[4]

- A lack of sustainable investing, giving, and consumption is highly likely to cost lives. One estimate of the difference between SDG aspirations and realities concludes that missing six specific targets could result in 44 million unnecessary deaths between 2019 and 2030[5]; doom up to 6% of the world's population to living in extreme poverty (failure of SDG 1); leave close to two billion people without access to sanitation (failure of SDG 6); and keep 850 million women and girls at risk of violence (failure of SDG 5).[6]

In the words of one commentator, the effort currently aimed at mobilizing investment, philanthropy, and consumer behavior changes to realize the SDGs "has been better at building brand than moving money."[7]

This paper argues that the UN SDGs will not be reached until the sustainability agenda places far greater emphasis on three key characteristics: awareness, simplicity, and contributions. We present evidence of ongoing complexity, inconsistency, and lack of understanding about the major sustainability challenges the world faces while asking:

[4] UN Principles for Responsible Investment, *SDG Primer Powerpoint presentation*, undated, especially page 4.

[5] Kharas, H., McArthur, J. and Rasmussen, K. (2018) *How Many People will the World Leave Behind? Assessing current trajectories on the Sustainable Development Goals*, Global Economy and Development at Brookings Working Paper 123, September 2018, page 13.

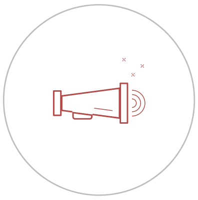
[6] Kharas, H., McArthur, J. and Rasmussen, K. (2018) September 2018, op.cit.

[7] Nick O'Donoghue, CEO of CDC, in World Bank Group Live, 12 October 2018, op.cit.

Why is awareness of the SDGs lacking and how can that be remedied?
What can be done to simplify sustainable investing?
Who can contribute in which specific ways to advancing the SDGs?

UBS outlines eight potential solutions for achieving the SDGs via investment, philanthropy, and consumption in part three. These potential solutions, outlined on this page, are:

Awareness



1 Using multiple media channels to increase awareness of the SDGs

2 Aligning investment solutions with investors' sustainability interests

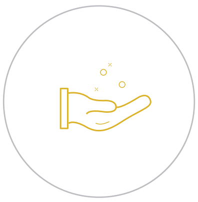
Simplification

3 Simplifying, standardizing, and mainstreaming corporate sustainability data reporting

4 Defining impact investment and impact measurement coherently and consistently

5 Naming sustainable investing (SI) strategies in a clear, consistent manner so they can be universally adopted

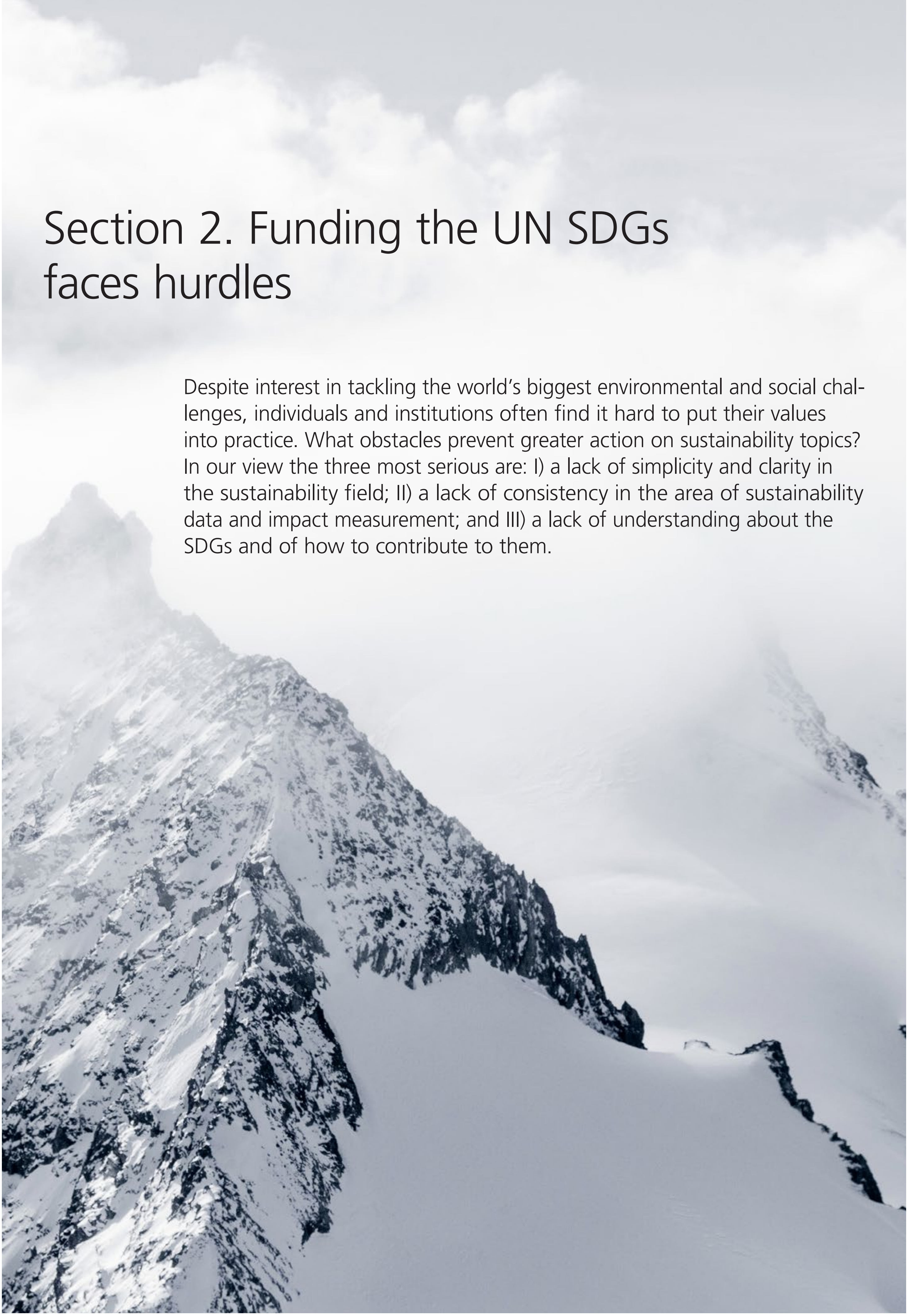
Contribution



6 Using publicly-traded strategies in traditional portfolios, focusing on market-rate performance and having an actual positive social and environmental impact

7 Adopting a true 100% sustainable investing (SI) asset allocation that seeks to deliver market-rate returns and have verifiable positive impact

8 Making philanthropy more collective and collaborative rather than competitive



Section 2. Funding the UN SDGs faces hurdles

Despite interest in tackling the world's biggest environmental and social challenges, individuals and institutions often find it hard to put their values into practice. What obstacles prevent greater action on sustainability topics? In our view the three most serious are: I) a lack of simplicity and clarity in the sustainability field; II) a lack of consistency in the area of sustainability data and impact measurement; and III) a lack of understanding about the SDGs and of how to contribute to them.

1. Too little understanding.

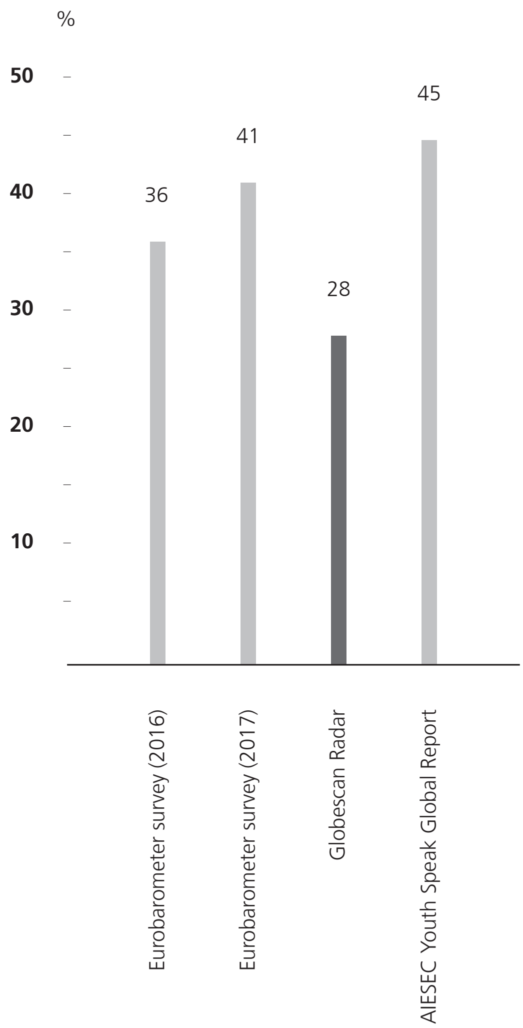
The 17 UN Sustainable Development Goals (SDGs) are also known as the Global Goals. They aim to address environmental, economic, and social imbalances that affect the world's population and its institutions. Such sustainability aims are relevant to everyone. It is therefore reasonable to expect most people to be familiar with them and with how fulfilling them could improve lives today and for generations to come. Ignorance of the UN SDGs in fact may slow progress toward achieving them.

Public knowledge of the Global Goals remains low. A June 2017 summary of multiple surveys conducted in countries worldwide reveals that SDG awareness (knowing that the SDGs exist) ranges from just 28% to 45% (Fig. 1).[8]

Simple awareness of the SDGs is not the same as knowledge of or familiarity with them. In a 2016 Glocalities survey carried out across 24 countries, just 1% of citizens said they knew the SDGs "very well."[9] And in Europe (which accounts for over half of the global assets managed in compliance with ESG principles, according to Deutsche Bank[10]) just 12% of respondents were acquainted with the SDGs when polled by Eurobarometer in 2017.[11]

Fig. 1: There is little public knowledge that the UN SDGs exist

Proportion of the public that is aware of the UN SDGs



Source: OECD Development Communication Network, *What People Know and Think About the Sustainable Development Goals*, as of June 2017

[8] OECD Development Communication Network *What People Know and Think About the Sustainable Development Goals*, June 2017.
[9] Cited in OECD Development Communication Network, June 2017, op.cit.
[10] Deutsche Bank Research *Konzept: Big data shakes up ESG investing*, October 2018, page 29.
[11] Cited in OECD Development Communication Network, June 2017, op.cit.

Investors, philanthropists, and consumers may also be confused about where the biggest SDG opportunities lie because sustainability experts draw different conclusions about the links between the goals and the sectors most relevant to them.

Citi Global Research tried to simplify the SDGs into environmental/physical, economic, and social goals; to distinguish between "cause" and "effect" goals; and to map the interactions among goals (for example, SDG 7, which promotes affordable and clean energy, may have beneficial social effects on SDG 3, which deals with good health, and a positive economic impact on SDG 8, which focuses on decent work and economic growth). It concluded with a "critical path" for meeting the SDGs through targeted investment.[12] Comparing the UN-backed Principles for Responsible Investment's (PRI) equivalent market-mapping exercise to Citi's reveals a number of major differences and discrepancies that could confuse investors and hinder capital mobilization. The two institutions draw varying conclusions about how the SDGs are interlinked. The PRI identifies 10 key areas of thematic investment opportunity versus Citi's 23.[13]

The PRI also acknowledges that its analysis in turn draws on more than 450 studies, reviews of more than 10 indexes and methodologies, and upward of 185 certifica-

[12] Citi GPS: Global Perspectives and Solutions, *United Nations Sustainable Development Goals: Pathways to Success – A Systematic Framework for Aligning Investments*, June 2018.
[13] UN Principles for Responsible Investment, August 2018, op.cit., page 15.

tion reviews.[14] The need for such comprehensive referencing across multiple data sources strongly hints that investors without deep sustainability expertise may become baffled as to how to best deploy their capital to achieve their financial and sustainability goals.

"What is sustainability?" remains a valid question for today's sustainable investors, philanthropists, and consumers. UBS has previously suggested the financial services industry rally around common definitions of sustainable investing and giving.[15] Evidence from multiple sources (including Citi's review of the sustainable investment taxonomy[16] and the work of the Impact Economy Glossary[17]) shows, however, that there are still no accepted definitions that individuals and institutions can use as lodestars for their activities.

The same problem of inconsistent terminology and meaning applies to impact investing and the measurement of impact. A recent news article claimed that Morgan Stanley managed USD 25 billion of impact investments on its Investing with Impact platform.[18] However, the article also correctly clarifies that the assets under management comprise a variety of strategies from passive exchange-traded funds (ETFs) and other "traditional" sustainable investment approaches that do not generate measurable and verifiable positive social and environmental impact.

[14] UN Principles for Responsible Investment, August 2018, op.cit., page 20.

[15] UBS white paper for the WEF Annual Meeting 2018, January 2018, op.cit., pages 21-23.

[16] Citi GPS: Global Perspectives and Solutions, June 2018, op.cit, page 11.

[17] Granito Center for the Impact Economy, *Impact Economy Glossary.*

[18] Barron's, *Morgan Stanley Passes $25B* in Impact Assets.

UBS's September 2018 Investor Watch survey reports that fewer than half of millionaires surveyed are very or extremely familiar with the term "sustainable investing" and just 38% have the same level of awareness of impact investing.[19] Familiarity varies widely across countries. Investors in the US, UK, and Singapore appear far less acquainted with sustainable and impact investing definitions than peers in Brazil and China (Fig. 2 overleaf). This challenge also constrains institutional investment: 40.5% of institutional investors report that an absence of standardized terms and reporting holds them back from integrating environmental, social, and governance (ESG) factors into their investment processes.[20]

Different understandings of sustainable investment also create rifts between private investor desires and advisor recommendations. The difficulty advisors face is that they struggle to communicate sustainability in ways that match clients' personal affinities without jeopardizing their client-advisor relationship. Consequently fewer than 10% of financial advisors are highly interested in ESG investing and 60% have little or no interest, compared to 75% of investors who favor investing sustainably.[21]

[19] UBS Investor Watch Survey, September 2018, op.cit.

[20] Amel-Zadeh, A. and Serafeim, G. (2018) *Why and How Investors Use ESG Information: Evidence from a Global Survey* in Financial Analysts Journal, 74:2, page 93.

[21] Morgan Stanley Institute for Sustainable Investing data cited in Barron's *Hurricane Florence Hands a Megaphone to Supporters of Sustainable Investing*, September 2018.

Fig. 2: Investor confusion about terms holds back greater sustainable investment

Percentage of UBS Investor Watch survey participants "extremely familiar" or "very familiar" with sustainable investing (SI) terminology

	Total	Germany	Italy	Switzerland	UK	UAE	China	Hong Kong	Singapore	Brazil	US
Sustainable investing	**48%**	**57%**	**48%**	**61%**	**32%**	54%	59%	34%	**32%**	**74%**	23%
Socially responsible investing	44%	47%	47%	50%	**32%**	51%	57%	27%	29%	69%	**30%**
Values-based investing	46%	50%	47%	51%	31%	**55%**	63%	**36%**	**32%**	66%	28%
Environmental, social and governance investing (ESG)	41%	43%	41%	50%	28%	52%	61%	25%	27%	65%	23%
Impact investing	38%	34%	43%	40%	25%	48%	**64%**	25%	28%	51%	21%

Bolded figures indicate best known term in each region.

Source: UBS Investor Watch Survey *Return on values: most sustainable investors expect better performance, bigger impact*, as of September 2018.

2. Too much complexity.

Many institutions linked to sustainability list very complex criteria for investors, philanthropists, and consumers to use when making a sustainability decision. For example:

- The World Bank Group has recently acknowledged that direct adoption of global SDG indicators was hampered by a dearth of consistent, high-quality data and an absence of common data-management methodologies.[22] Although its data collection efforts have been assiduous, the World Bank has adopted only eight specific SDG indicators outright, while also linking at least 45 indicators to 18% of the SDGs' 169 targets and to 15 of the 17 goals.

- Investors are overwhelmed by large amounts of sustainability data (much of which does not easily map to the social and environmental causes that they care most about). For instance, the World Bank Group is working hard to build more complete datasets for SDG needs and is currently engaging in approximately 300 active projects to improve data collection at a cost of USD 200m annually.[23]

- ESG ratings systems can be inconsistent in terms of scope (measuring global versus regional versus sectoral emissions), and the data they use can be gathered over infrequent time frames of up to a year. Such systems can be at odds with other sustainability frameworks as well. For example, one review of 370 sustainable mutual funds discovered 15 had received low ESG ratings by agencies but scored an "A+" from the UN PRI.[24]

- The PRI asks investors, individuals, and institutions to review potential thematic impact investments in energy efficiency based on four business types, seven mandatory thematic conditions, and up to 16 voluntary ones, as well as between three and five financial conditions depending on whether a firm directly provides energy-efficient services or services to energy-efficiency firms.[25]

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[22] World Bank Group, *Implementing the 2030 Agenda: 2018 Update*, August 2018, page 20.

[23] World Bank Group, August 2018, op.cit., page 20.

[24] Expert Investor, *Selectors in the dark on ESG criteria*, October 2018

[25] UN Principles for Responsible Investment, *Impact Investing Market Map 2018*, August 2018, pages 26-27.

- Research by Deutsche Bank indicates that complex emission disclosures (which are divided into three categories by ESG rating agencies) can lead to inconsistencies. Apple appeared around 150 times more environmentally friendly than its competitor Samsung in 2017 when looking at scope one and two emissions data, this despite their similar operating models. Including both companies' complete range of operations (the whole supply chain, as encapsulated via scope three emissions data) makes clear that the two firms have roughly equal emissions. Apple's decision to outsource a lot of its production to China, in contrast to Samsung's operating model of manufacturing in-house, means that Apple's scope three emissions are more than 300 times greater than Samsung's.[26]

[26] Deutsche Bank Research, October 2018, op.cit., pages 24 – 25.

3. Too little contribution.

Inconsistent application of sustainability factors (such as failing to fully integrate ESG factors) across asset classes hampers investors' ability to contribute to the Global Goals. Sustainable investors who rely on external rating systems to select instruments can also face confusion when attempting to match investments to their values, given the large variation in how rating firms judge the ESG factors that matter most. One analysis reveals that correlations between ESG ratings providers for the same company can be as low as 30−40%, which speaks to the inconsistent approaches of third-party sustainability reviewers.[27] In short ESG ratings can confound investors considering sustainable investments, unless the investors take the time to test ratings firms' underlying assumptions and the subjective overlays that lead to a specific rating decision.

For example, a Wall Street Journal article highlights how Tesla can simultaneously rank in the top, middle, and bottom of all carmakers worldwide based on environmental issues.[28] The company achieves the highest environmental rating from one agency that only considers the carbon produced by Tesla vehicles and Tesla's clean tech opportunities. Another rating firm gives Tesla its lowest environmental rating because it ignores vehicle emissions and focuses only on those that come from production facilities.

Many philanthropic foundations also do not fully align their operations with their impact mission, as seen in the ways they invest their endowment capital. Evidence suggests that under half of European foundations align values across giving and investing portfolios, with 51% in fact managing their endowment capital in a non-sustainable traditional way.[29]

And of those foundations that do align their investments with their sustainability ambitions, exclusion sustainability strategies dominate despite their obvious drawbacks. These strategies have been shown to introduce portfolio bias that can drag on financial performance[30]; plenty of evidence indicates that they do not generate impact but merely switch stock ownership[31]; and they can lead to counterintuitive pressures on sustainable investment managers from activists who press for endowment managers to divest securities rather than engage with corporate managers for positive social and environmental change.[32]

[27] Expert Investor, *Selectors in the dark on ESG criteria*, October 2018.

[28] Wall Street Journal, *Is Tesla or Exxon More Sustainable? It Depends Whom You Ask*, 17 September 2018.

[29] Schnurbein, F. (2015) *Mission investing in Europe: a meta analysis*, CEPTS working paper series no 5, cited in UBS Foundations presentation, UBS GWM, June 2018.

[30] UBS Foundations presentation, June 2018, op.cit., page 3.

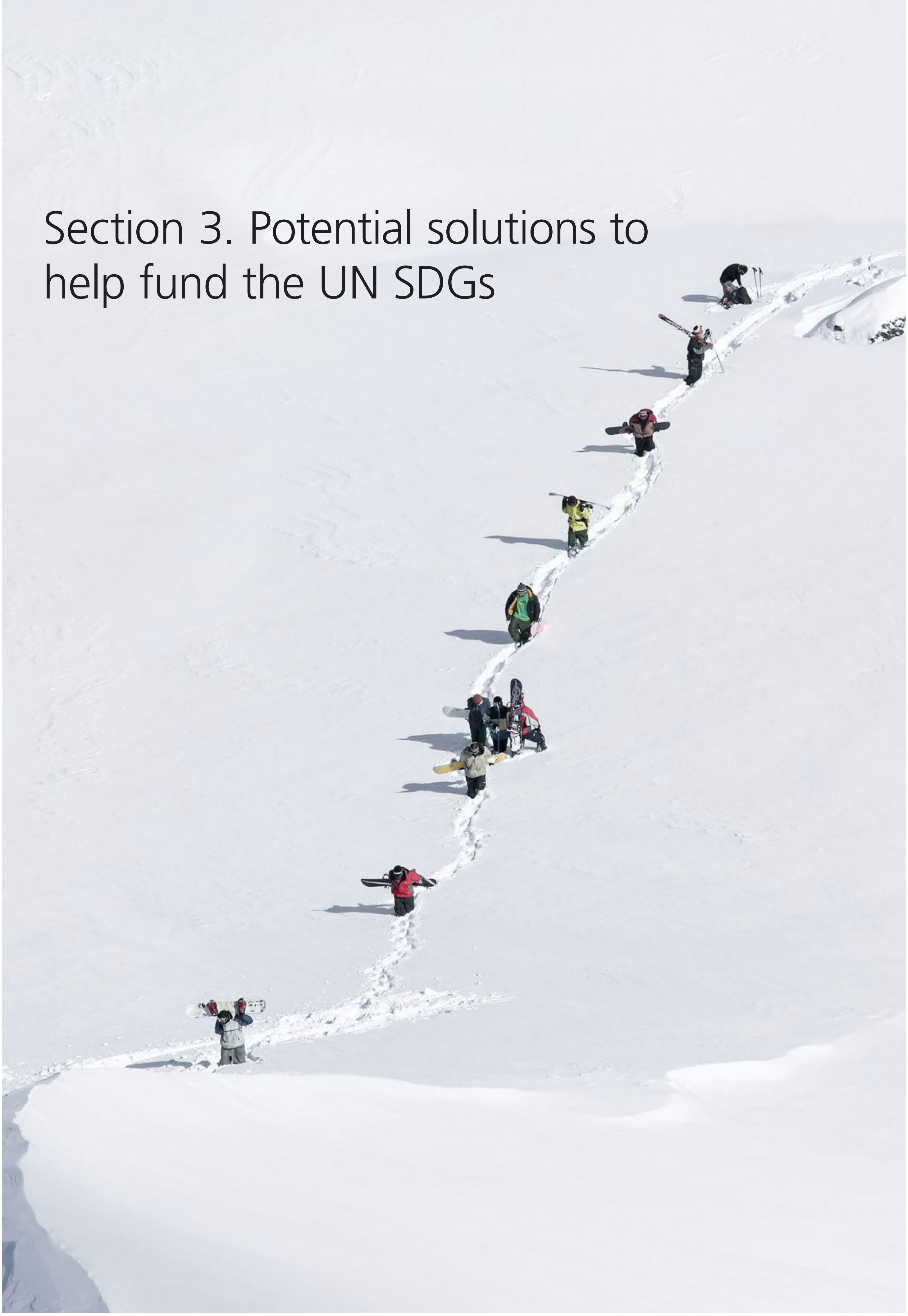
[31] Teoh, S.H., Welch, I., and Wazzan, C.P. (1999) *The effect of socially activist investment policies on the financial markets: Evidence from the South Africa Boycott*, in Journal of Business, vol. 72 no. 1, cited in UBS Foundations presentation, UBS GWM, June 2018.

[32] Financial Times, *Cambridge endowment protesters must be ready to take a loss*, September 2018.

What's the bottom line? The world is falling behind on meeting the SDGs

In part 3 we suggest how greater simplicity, consistency, and understanding can help accelerate the process of reaching the SDGs. UBS outlines eight potential solutions on how to improve the sustainable investing, giving, and consumption ecosystems to mobilize greater support for tackling the world's most urgent challenges.

Section 3. Potential solutions to help fund the UN SDGs



1. Using multiple media channels to increase awareness of the SDGs.

There is a large opportunity for governments and public and private-sector bodies alike to raise public awareness about international sustainability issues. UBS is looking to seize it by acting as founding partner for the #TOGETHERBAND initiative. This collaboration with the UN, Project Everyone, and the Bottletop Foundation aims to raise the profile of all 17 SDGs via a global digital-media and public relations-focused awareness campaign that ultimately supports more sustainable consumer behavior while supporting philanthropic causes.

For each SDG, the #TOGETHERBAND initiative will partner an influential celebrity Ambassador with a dedicated goal Expert, and a number of high-profile "goalkeeper influencers" to highlight the social, environmental, or economic problem each Global Goal addresses and examples of how the public can act to further advance its fulfillment.

Sustainable fashion brand Bottletop will produce 17 #TOGETHERBAND wristbands, each in a different color for every SDG. Their design will be sustainably sourced and packaged, ethically produced, and impactful to local communities at each stage of the production process. All profits generated from the sale of these bands will be dedicated to projects aligned with the SDGs, with guidance provided by the UBS Optimus Foundation.

#TOGETHERBAND's campaign aims to mobilize public awareness of the SDGs through the buying, wearing, and sharing of the wristbands representing the Global Goals consumers most care about. Educational materials, documentary videos, and details of projects under way to tackle each SDGs will be available to share and support via social media.

Current experts who have already agreed to join this effort include Gunhild A. Stordalen (environmental advocate and founder of the EAT Foundation, whose aim is to create a sustainable global food system that can healthily feed everyone) for Goal 2; George Daley (Dean of Harvard Medical School whose research in stem cell biology aims to improve treatments for genetic and malignant diseases) for Goal 3; Sunny Varkey (owner of the largest private-education business in the world, UN Goodwill Ambassador for Education, and sponsor of the annual USD 1m Global Teacher Prize) for Goal 4; Donald Sadoway (professor at MIT and leading expert on creating sustainable liquid metal batteries for grid-scale electricity storage) for Goal 7; Joseph Sanberg (founder of CalEITC4Me, a Californian state-wide outreach program for low-income families, and social entrepreneur) for Goal 1; and Yves Dacord (humanitarian and director-general of the International Committee of the Red Cross) for Goal 16.

Case study

Sunny Varkey,
Founder of the Varkey Foundation

Knowing what works and what doesn't is central to sustainable giving. Looking through my own lens of education, measures that sound attractive (such as donating laptops in countries with intermittent electricity supply and sparse broadband coverage) may not actually be effective. Basic well-evidenced measures, such as simply providing a meal to children at school, can be far more impactful.

And if focused correctly, philanthropy can accomplish goals that governments find difficult to for structural reasons. Being insulated from the electoral cycle, philanthropists can fund change over many decades. This long-term approach has been shown to be instrumental to success. In a Harvard Business Review analysis of 15 social-change movements, nearly 90% of historically successful social-change efforts were found to have taken more than 20 years.

Governments are also restricted in their reaction speed and their intervention options. Government spending requires rigorous auditing and consensus building, limiting how bold they can be in proposing solutions. Philanthropic foundations, on the other hand, can implement disruptive solutions without every decision having to be filtered through layers of bureaucracy. An example of philanthropy's freedom is the Global Teacher Prize. When we set this up in 2015, some were initially skeptical about the impact it would have. Yet not only have we raised the profile of prize winners, we've also unearthed many stories of inspirational teachers. The success of the prize served as a model for others, inspiring 33 National Teacher Prizes around the world, all of which are helping to give teachers the recognition they deserve.

One area I think that needs more attention is the transformative potential of technology to improve learning quality and access to education, in a world where almost a billion children do not have access to schooling or are in school but not learning. Educational technology has so far struggled to achieve the hoped-for learning outcomes. That's why I've recently set up Tmrw Digital, run by Vikas Pota, former CEO of the Varkey Foundation, overseer of the Global Teacher Prize, and a UBS Global Visionary.

This new venture seeks to directly tackle the problem of leveraging technology to open up access to education and measurably improve learning quality by, for example, investing in the most promising EdTech start-ups. In particular, its Institute will carry out deep industry research and curate the right conversations between the right people. It has already brought together the varied members of the EdTech community to help them find better ways of understanding each other through events that have tackled important topics like EdTech investment and personalized learning. I have a bold ambition for Tmrw Digital; that, after years of false starts, it helps EdTech finally fulfill its great promise.

2. Aligning investment solutions with investors' sustainability interests.

The financial services sector has yet to tailor its investment philosophies and content sufficiently to match clients' personal environmental and social interests with specific solutions. Such an approach would go a long way to overcoming the obstacle to further sustainable investment highlighted in part 2 of this white paper, namely that investors find it difficult to use generic ESG information to identify particular investment solutions that suit their financial and sustainability goals.

Addressing the need for more personalized investment content as opposed to a "one-size-fits-all" approach (first outlined in its 2018 WEF white paper), UBS has continued to develop solutions that specifically target clients' sustainability affinities. For example, UBS Asset Management collaborated with UBS Global Wealth Management and Equileap to develop the UBS Global Gender Equality Index. Its constituents are chosen subject to 19 gender-diversity criteria (such as equal compensation, gender balance, and sustainability policies) that conform with SDG 5, while the index is constructed to target market-potential risk-adjusted financial returns. UBS Investment Bank in the US has also created investment content that enables investors to discover firms that support employee equality for lesbian, gay, bisexual, and transgender employees (in line with SDG 10 of reducing inequalities), tracking firms that score highest on the Human Rights Campaign's annual Corporate Equality Index.

These important developments are only niche, satellite solutions, however. The financial services industry should consider extending this customization to cover investors' core financial portfolios if investment capital is to make its fullest contribution to achieving the UN SDGs.

An investor's sustainability preferences (self-selected as low, medium, or high) across multiple different issues could be captured and combined with simplified and consistent company sustainability data drawn from UBS's internal analyses and selected external data providers. Using this information, more than 20,000 equity and fixed income instruments would be screened to produce a client-personalized hierarchy of potential investment instruments. In this approach, clients A and B may have completely different appetites for stock ABC because each has very different sustainability preferences (Fig. 3 overleaf).

Fig. 3: Different people care about different sustainability causes – a personalized rating system means one person's sustainable investment may not be sustainable for another

		Stock ABC Security sustainability score (Low/Medium/High) L M H	Client A's Sustainability preferences (Low/Medium/High) L M H	Client B's Sustainability preferences (Low/Medium/High) L M H
Environmental	Pollution and waste	● ● ○	● ○ ○	● ○ ○
	Climate change	● ● ●	● ● ●	● ○ ○
	Water	● ● ●	● ● ●	● ○ ○
Social	People	● ○ ○	● ● ○	● ● ●
	Products and services	● ○ ○	● ● ●	● ● ●
Governance	Governance	● ● ○	● ● ●	● ○ ○
	Ethics	● ● ●	● ● ●	● ○ ○
			Personalized sustainability score = 62%	Personalized sustainability score = 28%
			ABC matches A's values	**ABC doesn't match B's values**

Source: UBS Global Wealth Management Chief Investment Office, as of November 2018. For illustrative purposes only.

3. Simplifying, standardizing, and mainstreaming corporate sustainability data reporting.

Clear and readily-understandable corporate sustainability data is vital for the public, institutions, and governments to allocate resources to sustainable investment, consumption, and fiscal spending.

Yet we have noted the inadequacies of many current data-collection efforts (including the World Bank's mentioned in part 2[33], GSMA's Big Data for Social Good Initiative[34], and the 140 big data approaches analyzed by the UN's Economic and Social Commission for Asia and the Pacific[35]). They risk exacerbating current confusion by using big data and artificial intelligence to gather as much fragmented and diverse sustainability information as possible, without considering the needs of capital providers who require simple, consistent facts and figures to find investment solutions that meet their financial and societal objectives. Contrary to corporate financial data that companies have to report in a particular, codified way, corporate sustainability data lacks such standardization.

An alternative approach is first to make the necessary sustainability data more straightforward so investors and consumers can comprehend it in the context of their financial and societal objectives. The truism "less is more" would indeed apply in this case provided the data is simple, ubiquitous, consistent, relevant, and readily understandable to consumers, customers, investors, partners, and competitors.

We acknowledge that many initiatives to streamline corporate sustainability disclosures to ensure they are consistent and readily understandable have not succeeded. A unified approach is needed across a range of companies, investors, sustainability-setting bodies, regulators, and ESG ratings agencies. UBS believes the World Economic Forum is best placed to convene the leading constituents of these groups, and we note the WEF's initiative to *Build an Effective Ecosystem for ESG* is already working toward exactly the simple, easy-to-digest minimum disclosure measures needed to increase the usefulness of sustainability data to investors and customers.

Only *after* the sustainability data landscape is simplified and rationalized enough to improve customer and investor awareness would corporations and institutions bring out the heavy machinery of big data, artificial intelligence, and other tools of the Fourth Industrial Revolution to increase the accuracy of the data being reported.

[33] World Bank Group, August 2018, op.cit., page 20.

[34] GSMA Big Data for Social Good.

[35] UN Economic and Social Commission for Asia and the Pacific, *Innovative Big Data Approaches for Capturing and Analyzing Data to Monitor and Achieve the SDGs*, December 2017.

Case study

Paul Polman,
Chair, International Chamber of Commerce; CEO, Unilever (2009 – 2018)

It is increasingly clear that if we are to tackle some of the most pressing challenges of our time – from runaway climate change to growing inequality to declining levels of public trust – then corporations need to play their part by shifting to new business models that deliver long-term sustainable and equitable growth.

As the cost of failing to address these issues rapidly begins to exceed the cost of acting, we see more and more companies moving in this direction. Moreover, there is growing evidence that companies that do meet high ESG standards often perform better than the market. A recent study by McKinsey found that firms managed for the long-term had 47% greater revenue growth and 36% greater profit growth than companies that focus more on short-term activities.

Unilever's own experience and multi-stakeholder approach is instructive here. Under the Unilever Sustainable Living Plan (USLP), the company has committed to decouple its growth from environmental footprint while making a positive social impact. We have done this by taking a total value chain approach – assuming a share of the responsibility for everything that goes on in our name – and by leveraging the social mission of our individual brands, whether acting on sanitation with Domestos; food security with Knorr; health and hygiene with Lifebuoy; self-esteem with Dove; or climate change (and many others) with Ben & Jerry's.

We have shown clearly how the USLP helps to reduce costs, mitigate risks, build trust, fuel innovation and stimulate growth. Indeed, the stronger the purpose behind our brands, the faster they grow (50% faster according to our latest assessment). Furthermore, we have shown that serving multiple stakeholders ultimately benefits shareholders.

More and more companies are adopting similar models. However, progress will always be held back until we can get the financial markets to move to the longer-term. Again, there are positive signs of progress. Estimates put global ESG assets under management as high as USD 22 trillion dollars and growing. USD 82 trillion of money under management has signed up to the 'Principles for Responsible Investment'. USD 34 trillion is asking for a price on carbon. And the green bond market is growing exponentially with estimates it will soon be worth USD 250 billion.

But sadly, short-termism still too often prevails. Ten years after the financial crisis, Christine Lagarde, head of the IMF, recently despaired about the one "important area that has not changed much – the area of culture, values and ethics. The financial sector still puts profit now over long-range prudence, [and] short-termism over sustainability."

A key unlock here will be the move to more open and transparent reporting and the building in of externalities, like climate change. If you 'measure what you treasure' you automatically drive greater understanding and accountability for the system changes needed to shift, for example, to a low carbon economy. As Michael Bloomberg, Chair of the Task Force on Climate-related Financial Disclosures, has observed "climate change poses both economic risks and opportunities. But right now, companies don't have the data they need to accurately measure the risks and evaluate the opportunities. That prevents them from taking protective measures and identifying sustainable investments that could have strong returns."

None of the challenges we face are amenable to short-term fixes. It's also important therefore that CEOs are given the time – and trust – to develop long-term models that address long-term challenges and opportunities. Four and a half years – the current average tenure of a CEO – simply doesn't allow business leaders the necessary space. It's one of the reasons I abandoned guidance early on, followed by quarterly profit reporting. After all, you don't run a business on 90-day cycles.

There is still some way to go before we see multi-stakeholder business models and sustainable investing become mainstream. And although we should feel encouraged that momentum is building, it's time to step up and move faster.

The opportunities for companies that embrace this agenda are enormous. The Business and Sustainable Development Commission has calculated, for example, that implementing the UN Sustainable Development Goals could yield USD 12 trillion of commercial opportunities a year in four big sectors of the economy, as well as create 380 million new jobs.

Working for the billions – and not just the billionaires – really does make sense, morally and economically.

4. Defining impact investment and impact measurement coherently and consistently.

There are currently numerous different uses, tools, and initiatives related to the term impact investing (see Fig. 4). To fix the perplexing and in many cases inaccurate use of this term, the World Bank Group's International Finance Corporation (IFC) is working on a set of operating principles for simple and consistent impact management.[36] UBS supports these efforts, including advocating strongly that these impact principles remain in line with the IFC's (and other major development finance institutions') own (Fig. 5 overleaf), and these principles be re-named accordingly.

As the world's largest source of development finance for the last 70 years, the World Bank has deep knowledge of how to generate positive societal impact to achieve its goals of ending extreme poverty and boosting shared prosperity. It also has the vital connections to development finance institutions and other multilateral development banks required to ensure a definitive impact investment definition becomes the benchmark and is aligned across the sustainable and impact investment ecosystem.

Fig. 4: Multiple impact management tools, frameworks, and initiatives can potentially confuse investors – selection of current initiatives below

Example list of impact management tools, frameworks, and initiatives

Acumen Foundation's Lean Data
Australian Advisory Board on Impact Investing
Balanced Scorecard
B-Analytics
Big Society Capital's Outcome Matrix Tool
Endeavor's Impact Management Principles
GIIN Initiative for Institutional Impact Management
Global Steering Group for Impact Investing (GSG)
HIP Scorecard
Impact Management Project
Impact Reporting and Investment Standards (IRIS)
Initiative for Global Development's Impact Management Framework
International Finance Corporation Operating Principles for Impact Management
OECD Outline of Principles of Impact Evaluation
PRI Impact Investing Market Map
Social Return on Investment (SROI) Network
Social Value International (SVI) Impact Management Principles
SROI Toolkit
UK National Advisory Board on Impact Investing
UK Social Impact Investment Taskforce
UNDP SDG impact
W.K. Kellogg Foundation's Logic Model Development Guide
World Business Council for Sustainable Development (WBCSD) Measuring Impact Framework

Source: based on UBS analysis of multiple sources, as of October 2018

[36] International Finance Corporation, *Guide to Investing for Impact: Operating Principles for Impact Management Consultation Draft*, as of October 2018.

This would set a clear, minimum requirement for any investment to actually call itself an impact investment. As UBS Chairman Axel Weber outlined at the recent World Bank Annual Meetings, this would help ensure that true and measurable financial and social outcomes are achieved, while also minimizing potential commercial "impact washing."[37]

Fig. 5: IFC principles for impact management can provide a simple, consistent industry standard

Strategic Intent

1 Define strategic impact objective(s) consistent with the investment strategy.

2 Manage strategic impact and financial returns at portfolio level.

Origination & Structuring

3 Establish the investor's contribution to the achievement of impact.

4 Assess the expected impact of each investment based on a systematic approach.

Portfolio Management

6 Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

Impact at Exit

7 Conduct exits, considering the effect on sustained impact.

8 Review, document and improve decisions and processes based on the achievement of impact and lessons learned.

5 Assess, address, monitor, and manage the potential risks of negative effects of each investment.

Independent Verification

9 Publicly disclose alignment with the Principles and provide regular independent verification of the extent of alignment.

Source: International Finance Corporation, *Guide to Investing for Impact: Operating Principles for Impact Management Consultation Draft*, as of October 2018.

[37] Cited in Devex, *IFC releases draft impact investment guideline*, October 2018.

Case study

Jim Yong Kim,
President of the World Bank Group

We are witnessing an enormous transformation in the world today. Crises such as climate change, fragility, and underinvestment in human capital will require resources far beyond the limits of public aid. At the same time, rising aspirations everywhere are adding urgency to our development work and our mission to end extreme poverty and boost shared prosperity around the world.

The private sector is an increasingly important partner in that effort – from building climate-smart infrastructure to providing access to quality healthcare and education to stopping pandemics and preventing famines before they occur. Every day, there are new opportunities to leverage disruptive technologies and new business models to solve the world's most difficult challenges.

In recent years, an increasing number of investors have entered the impact investing market – choosing investments that achieve positive outcomes for society, alongside financial returns. As they consider risk, return, and impact, the Sustainable Development Goals have provided a common frame of reference for the societal benefits that we all want to achieve. These shared targets are leading investors to consider increasing their investments in emerging markets, where the financing needs for the SDGs are greatest.

Yet, impact investing is still a niche market. The Global Impact Investing Network estimates that around USD 220 billion of investments are managed for impact, with approximately 30 percent of that from the private sector. That's a small fraction of the USD 210 trillion investments market. Millennial investors are controlling a larger share of global wealth, and they are more motivated by impact in their choices than previous generations. Pension funds and insurance companies are beginning to allocate some of their portfolios to impact strategies, driven by shareholder and policyholder interests in contributing to the SDGs and combating climate change.

This growth in the market is important, but we have to go much further. Creating a shared understanding of what it means to manage an investment portfolio for impact is critical to scaling up the market. Many investors are holding back from putting funds into impact products for fear that the 'impact' label is just a marketing ploy. It is important for impact investors to be able to identify opportunities and manage their capital for impact in a transparent and disciplined manner, but so far there has been no clear standard.

To address this gap, the International Finance Corporation (IFC), the World Bank Group's private sector arm, has joined forces with some of the world's most influential investors to develop a set of principles that should help bring clarity and discipline to impact investment. IFC is the original impact investor, and its six-decade track record makes it one of the largest and most successful in the world. IFC has been consistently profitable throughout most of its history of investing in the most challenging markets, which shows the potential to achieve both financial returns and impact.

IFC has held a series of consultations with a core group of private investors, fund managers, banks, and development finance institutions to develop a draft set of Operating Principles for Impact Management – nine principles that can provide a common standard for impact investments. They provide the key elements for a robust impact management system, ensuring that impact considerations are integrated into decisions throughout the investment lifecycle.

Having presented the Principles to hundreds of market practitioners, we have taken their input, and we will launch the principles at the 2019 World Bank/IMF Spring Meetings. I invite all investors who want to align their investments with a credible set of impact standards to join us as signatories to these principles. Together, we can bring clarity and discipline to the market, accelerate growth, and build a more prosperous, sustainable future for everyone, everywhere on earth.

5. Naming sustainable investing (SI) strategies in a clear, consistent manner so they can be universally adopted.

UBS believes that global financial industry organizations, such as the Institute of International Finance (IIF), could play a leading role in developing a taxonomy for sustainable investing by soliciting and gathering views from their members on the simplified terms outlined overleaf in Fig. 6. Alternative terms put forth by other firms, if any, could also be socialized among financial industry members, with the goal of developing a consensus view that could potentially serve as the standard industry language. The IIF would be able to use its role at the helm of the financial services industry to encourage consistent global use of these definitions across the sustainable investing industry.

We note that the Institute of International Finance's Principles for Orderly and Fair Sovereign Debt Restructuring offer an example of how to design and implement market-based flexible guidelines that deliver shared benefits. The IIF Principles have arguably boosted private capital flows into emerging markets by offering a simplified and consistent framework for managing potential emerging market debt restructuring. An analogous movement to set simple and common sustainability definitions, in our view, could increase private capital flows into sustainable financial instruments.

Such a solution has the potential to reduce investor confusion about what sustainable investing actually is, acquaint investors with a greater range of sustainable investment strategies, and start to mainstream these strategies across all asset classes, mobilizing greater investment capital into SDG-aligned solutions.

Fig. 6: Proposal for a simplified and consistent taxonomy for sustainable investing

Proposed standardized term	**Exclusion investments**	**Integration investments**	**Impactful investments**	**Philanthropic investments**
Simplified explanation	Actively avoid investing in unsustainable corporates and countries.	Actively invest in sustainable corporates and countries.	Seek to have a direct, positive impact on society and/or the environment with your money, while also targeting market or better financial returns.	Seek to have a direct, positive impact on society and/or the environment with your money, and willing to earn sub market financial returns to do this.
Financial performance	Market/market minus	Market/market plus	Market/market plus	Market minus
Environmental and/or social impact of investment	None	Indirect	Direct	Direct
Measurement of direct impact of investment			Yes	Optional
Measurement of indirect impact of investment		Optional	No	Optional
Current terms used bolded terms currently used capriciously that need to be used in a single category	Best-in-class screening Biblical investing Clean investing Divestment **Ethical investing** **Ethically minded investing** Exclusionary screening Faith-based investing **Impact** **Impact investing (II)** Jewish investing Negative screening Norms-based screening **Positive screening** **Screening investing** Shariah investing Values-based investing	B-Corporation (B Corp) Best-in-class screening Climate bonds Environmental, social, and governance investing (ESG) ESG corporate bonds ESG equity themes ESG focused ESG integration ESG investing ESG thematic investing **Ethical investing** **Ethically minded investing** Focused integration Gender-lens investing Gender-smart investing Green bonds Green investing High ESG rating equities **Impact** **Impact investing (II)** Improving ESG equities Long term investment themes Mission-aligned investing **Positive screening** Responsible investing **Screening investing** SI focused SI integration Socially responsible investing (SRI) Socially-conscious investing SRI equity themes Sustainability indices Sustainability themed investing Sustainability themes Sustainable bonds Sustainable thematic investing Tactical ESG Thematic investing **Values-based investing**	Active ownership Collaborative engagement Company activism Company engagement Company executive collaboration Corporate activism Corporate engagement Development finance institute bonds/DFI bonds ESG engagement **Impact** **Impact investing (II)** Multilateral development bank bonds/MDB bonds Shareholder action **Triple bottom line**	Blended finance Blue bonds Community investing Development finance institute bonds/DFI bonds Development Impact Bonds Humanitarian Impact Bonds **Impact** Impact bonds Impact capitalism Impact economy **Impact investing (II)** Social bonds Social enterprise Social entrepreneurs Social finance Social Impact Bonds Social impact investing Social investing Sustainable finance **Triple bottom line** Universal ownership

Source: UBS analysis based on data from Granito Center for the Impact Economy, *Impact Economy Glossary*, multiple sources, IIF, as of October 2018.

6. Using publicly-traded strategies in traditional portfolios, focusing on market-rate performance and having an actual positive social and environmental impact.

We believe there is a strong need to look at publicly-traded strategies that can make an actual contribution to social and environmental causes. Among these are multilateral development bank debt and the emerging field of social and environmental SDG-engagement equity strategies.

A. Multilateral development bank (MDB) debt

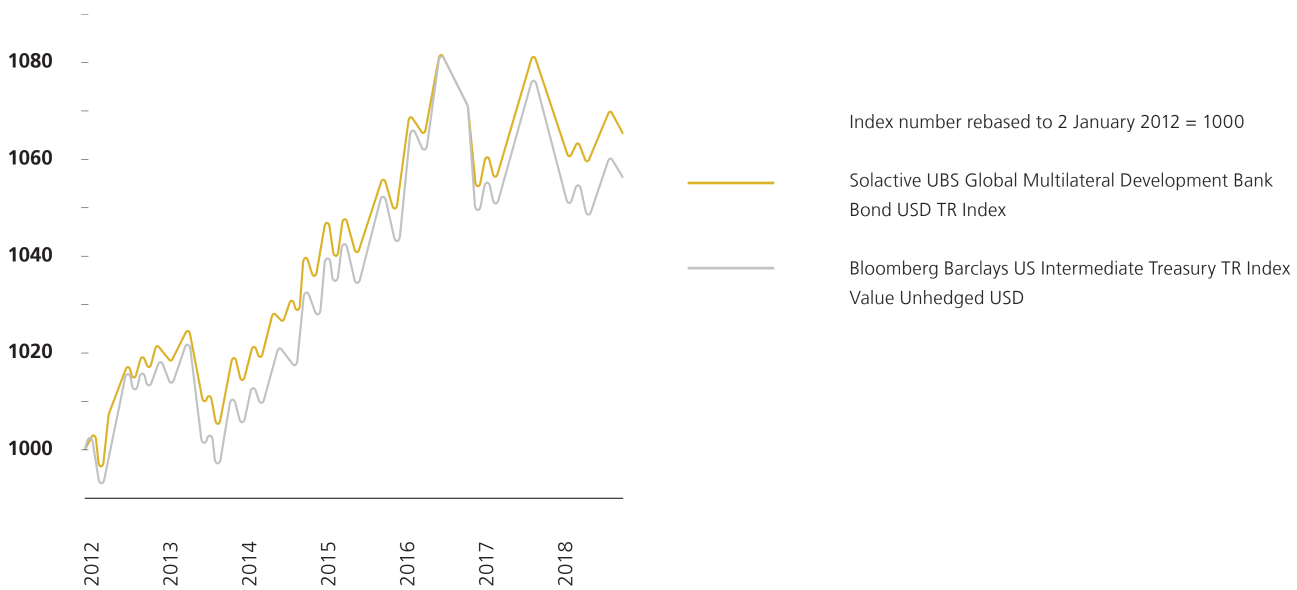
Multinational development debt offers the potential of more attractive risk-adjusted financial return characteristics than highly rated government bonds such as US Treasuries (Figure 7 overleaf).[38] MDBs often enjoy higher credit ratings than government debt while trading, as of August 2018, at around a 20 basis point yield premium to a comparable basket of US Treasuries. The prospect of higher risk-adjusted returns suggests that MDB bonds could substitute for highly rated government debt even in traditional portfolios that do not have explicit sustainability aims but focus exclusively on maximized risk-adjusted financial returns.

To simplify, standardize, and ease traditional investment adoption, MDB benchmarks and investable solutions based on them are needed so these instruments can be considered viable asset classes and used to replace traditional equivalents in strategic asset allocations.

UBS has partnered with benchmark provider Solactive to help create a family of multilateral development bank bond indexes that would enable wider groups of investors to allocate funds to high-quality fixed income that seeks to generate measurable positive societal impact. Our work alongside the World Bank to launch these indexes (which feature in World Bank literature on innovative sustainable investment solutions) illustrates how partnerships with development finance institutions and multilateral development banks can broaden awareness of sustainable investment solutions that seek explicitly to tackle the UN SDGs.

[38] UBS GWM CIO, *Sustainable Investing Education Primer: Global multilateral development bank bonds*, August 2018, page 4.

Fig. 7: Global Multilateral Development Bank Bond Index has outperformed US Intermediate Treasury Index over the illustrated time period



Source: Bloomberg Finance L.P., as of October 2018. For illustrative purposes only. Past performance is no guarantee of future returns. Indices are not actively managed by UBS and investors cannot invest directly in the indices.

B. SDG-related activism and engagement equity strategies that focus on market-rate financial performance and actual positive social and environmental impact.

Most listed-equity strategies, particularly in highly liquid markets, typically cannot demonstrate measurable impact. The market's liquidity and efficiency prevents buying and selling a company's stock from affecting it in any material way.[39]

Impactful listed-equity strategies should prioritize impact delivery as their key strategic priority and should encompass clear measurement of the concrete positive social and environmental outcomes achieved (for example from management engagement). Impact must be robustly measured from beginning to end and include strictly defined milestones and goals for outcomes. Such a strategy would also focus on where additional impact is likeliest to generate outsized societal and financial results – small-cap equities, especially in emerging markets, offer the most potential, while achieving positive impact is more challenging in large-cap companies with multiple stakeholders and in the probable presence of a large existing sustainability team.

UBS Global Wealth Management has partnered with Hermes Investment Management to define and develop an SDG-focused shareholder engagement investment approach. This component of the fully sustainable investment-focused cross-asset allocation has the potential to offer investors a more impactful solution than traditional exclusion strategies, while also uncovering market-rates of financial return in under-researched parts of global capital markets.

UBS Asset Management has also developed an impact equity investment approach that leverages partnerships with academic institutions to measure positive portfolio contributions to the environment and society. This partnership has built a number of robust scientific models to define specific metrics that align with particular SDGs, including poverty alleviation (SDG 1), healthcare (SDG 3), and water scarcity (SDGs 6, 14, and 15).

[39] However, there are differences of opinion in the impact investment community about whether investment in a company focused on achieving positive SDG outcomes and measuring and reporting these can be classed as an impact investment, irrespective of the investor's decision to buy or sell the company typically having no impact on the company's cost of capital.

Case study

Robert Kapito,
President and Co-Founder of BlackRock

As a fiduciary, BlackRock invests in order to advance the long-term financial interest of our clients. Increasingly, it is becoming evident that taking ESG insights into account is critical to these long-term financial interests – a growing body of research demonstrates that companies with a strong track record of sustainable practices produce better financial results over the long term. This should come as no surprise. Companies that manage their consumption of energy or water more efficiently, or foster diverse and inclusive workforces, should be better positioned to generate sustainable profits over the long term. Therefore, failure to consider material sustainable insights in our investment process would be a disservice to our clients who entrust us with helping them to meet their financial goals.

Part of our purpose at BlackRock is to expand the choices for investors – both our large institutional clients as well as our retail clients – to invest sustainably and take advantage of the opportunities sustainable investing presents. In order to do that, we need to provide our clients with the clearest possible picture of the impact of sustainable investing. That is why we believe we need increased disclosures to help investors make more informed decisions and why we are focused on enhancing data for investors to better understand how and why sustainability factors affect returns.

We also believe that it's important to give investors the full set of tools they need to invest. One challenge to sustainable investing in the past is that it was seen as a fringe issue or an exercise in trading value for values. That has changed – first, because investors no longer have to accept a negative financial tradeoff, and second, because investors now can access products that allow them to build diversified, low-cost, and sustainable portfolios. Indeed, sustainable investing can now be at the center of client portfolios through core building blocks. This is an exciting and significant moment for sustainable investing and BlackRock is proud to provide our clients the ability to be a part of it.

7. Adopting a true 100% sustainable investing (SI) asset allocation that seeks to deliver market-rate returns and have verifiable positive impact.

As outlined in our last Annual Meeting white paper, UBS Global Wealth Management and Asset Management have now partnered with the World Bank, Hermes Investment Management, and other institutions to bring a fully sustainable investment-focused cross-asset allocation to private clients. This solution has been launched in a number of jurisdictions, most recently the US, so that private clients can potentially meet their financial and societal goals through a holistic investment process.

Investment solutions aligned with this asset allocation have gathered over USD 3 billion of capital in support of objectives like the UN SDGs (figures as of December 2018).[40] We have continued to develop specific scalable investment content aimed at enabling investors to generate competitive risk-adjusted financial returns (when compared to non-sustainable alternatives) while also generating positive outcomes for society and the environment.

This new sustainable investing asset allocation seeks to offer risk-adjusted returns comparable to traditional investment approaches. Exposure to asset classes such as multilateral development bank debt, green bonds, and ESG engagement equities also aims to produce intentional, measurable, and verifiable social and environmental impact.

[40] Wealth Briefing, *World's Largest Wealth Firm Raises ESG Game*, 3 December 2018.

This asset allocation also lays the groundwork for foundations to invest sustainably and achieve not only competitive financial returns but measurable impact for people and planet.

Such an approach may enable the 51% of endowments that do not invest sustainably today (as cited in part 2 of this white paper) to align all their activities to their values. Given the possibility of achieving competitive market-based risk-adjusted returns, they could maximize the size of their endowments as opposed to adopting exclusion-based strategies that can drag on financial performance.

The approach can also directly and measurably generate positive social and environmental impact through exposure to World Bank debt and SDG shareholder engagement strategies that fund social and environmentally beneficial projects and harness shareholder voices to lobby corporate managers on behalf of better societal outcomes, all of which would add to the impact the foundation has via its donations and other giving activities.

8. Making philanthropy more collective and collaborative rather than competitive.

The resounding and repeated message heard at UBS's 2018 Global Philanthropy Forum, both in presentations and in general audience discussions, was that widespread collaboration within the philanthropic space is needed. That is not to say that examples of philanthropic collaboration do not exist.

Energy Ventures is a USD 1 billion fund backed by philanthropists such as Bill Gates, Jeff Bezos, and Richard Branson. It provides an example of how to use philanthropic capital as risk capital to spur innovations in areas such as water to fusion power, where the financial risk-reward calculation has failed to attract traditional private capital (due to long investment horizons and/or fiduciary constraints).[41]

Development impact bonds (DIBs) and social impact bonds (SIBs) are new models for collective and collaborative philanthropy. Using them, individuals, foundations, and development agencies work together to fund social and environment projects delivered by outcome providers. The UBS Optimus Foundation has teamed with a number of partners to create DIBs, including USAID and Merck for Mothers, for maternal and child health-related solution that aims to save as many as 10,000 lives in 360 private hospital facilities in Rajasthan, India over the next five years. Meanwhile, the new Education DIB Fund involves three implementing service partners working to improve literacy and numeracy outcomes through multiple channels (direct school management and principal/teacher training). A diversified set of outcome funders include the British Asian Trust, Tata Trust, Michael and Susan Dell Foundation, and Comic Relief and the UBS Optimus Foundation as risk investors.

The Conduit is a new London club that seeks to attract social entrepreneurs, investors, creatives, business leaders, policymakers, and other members of civil society. It will share and facilitate information sharing among members about sustainability events and experiences, enabling them to connect with causes they care about and drive systems changes to mainstream more sustainable behaviors.

And The Wellcome Trust is partnering with multilateral development banks and international finance institutions, The Bill and Melinda Gates Foundation, and African and Asian development banks to provide R&D funding for new sustainable sanitation solutions in poor urban communities.[42] Co–Impact[43], the Audacious Project[44], and the Education Outcomes Fund of Africa and the Middle East (EOF)[45] are all also good examples of collaboration in the philanthropic space.

[41] Greentech Media, *Billionaire-Backed Breakthrough Energy Ventures Makes 7 More Investments*, October 2018.

[42] Report of the G20 Eminent Persons Group on Global Financial Governance, *Making the Global Financial System Work for All*, October 2018, page 44.

[43] UBS white paper for the WEF Annual Meeting 2018, January 2018, op.cit., page 12.

[44] Stanford Social Innovation Review, *Philanthropy Bets Big on Sustainable Development Goals*, September 2018.

[45] Sir Ronald Cohen, *Outcomes Funds and Impact Funds.*

But in aggregate, collaborative philanthropic efforts, unfortunately, are few and far between today.[46]

The success of further potential philanthropic collaborations may rest on:

- Simple objectives that match with investors' financial and personal sustainability affinities.
- Consistent, verifiable impact outcome targets and deal conditions that create a scalable market for impact philanthropy, not institution-specific terms that vary by deal and prevent capital providers from comparing possible projects.
- Links to willing providers of long-term investment capital (such as pension funds, family offices, and sovereign wealth funds) and the highest-profile philanthropic outcome funders to "crowd in" the maximum possible funds and achieve critical scale.
- Widespread advocacy of the measurable benefits of collaboration (high-quality outcomes delivered to large populations), both to incentivize partnerships over siloed philanthropy and to encourage public capital to support this philanthropic approach over traditional "outputs-based" official aid models.

[46] Olivia Leland, *A New Model of Collaborative Philanthropy*, Stanford Social Innovation Review, Nov. 2017.

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