

Principal Adverse Sustainability Impacts Statement

UBS Europe SE (5299007QVIQ71O64NX37) June 2023



Contents

1. Summary.....	3
2. Description of principal adverse impacts on sustainability factors	4
3. Description of policies to identify and prioritize principal adverse impacts on sustainability factors	11
3.1 Policies governing the annual PAI reporting requirement under SFDR	11
3.1.1. Key responsibilities.....	11
3.1.2. Methodology to select additional indicators as set out in Table 2 and 3 of Annex I SFDR RTS.....	12
3.1.3. Methodology to identify and assess PAI in the entity-level reporting	12
3.1.4. Margin of error in the annual PAI reporting	13
3.1.5 Data Sources	14
3.2 Methodology to identify and assess PAI in the decision-making process	15
4. Engagement policies.....	17
4.1 Corporate engagement.....	17
4.2 Public policy engagement	17
4.3 Adaption of the policies.....	17
5. Reference to international standards	18
5.1 Our commitment to industry initiatives and best practice	18
5.2 UN Global Compact, OECD Guidelines and UN Guiding Principles on Business and Human Rights.....	19
5.3 Biodiversity.....	19
6. Historical comparison.....	21
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1. Summary

Principal adverse impacts (“PAI”) are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee concerns, respect for human rights, anti-corruption, and anti-bribery matters. UBS Europe SE (5299007QVIQ7IO64NX37) considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of UBS Europe SE and its branches.

This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January to 31 December 2022.

Our Global Wealth Management business division continues to work toward mainstreaming sustainable and impact investments for our private clients. We believe that material sustainability issues matter for financial performance and we know that clients have an interest in many of these topics. Our Chief Investment Office (CIO) remains convinced that the net-zero transition will prove to be one of the most influential investment trends over the next 30 years. We offer advice and solutions that help to guide and implement this view to the extent possible and, where relevant, in line with our fiduciary duties.

The assessment of principal adverse impact indicators is provided in Section 2 of this statement. We acknowledge that this data is still evolving and that data availability for some of the indicators is still limited. This statement relates to the first year of reporting, which means no historical comparison is available.

In accordance with the regulatory requirements, the PAI indicators in section 2 are calculated considering all the assets of the legal entity’s discretionary book, and includes both sustainable and traditional investment strategies. At this stage in the lifecycle of the PAI requirements, it is not possible to benchmark entity-level PAI results across the industry. However, UBS is able to comment on the coverage achieved for our calculations which exceeded 90% of our invested instruments across both direct investments and funds. Exceptions were found for three indicators (emissions to water, hazardous waste and gender pay gap) where, although covered for other metrics, many companies are still not reporting this data in earnest. This leads to an industry-wide gap in coverage for a large number of investee companies and, as a result, the metrics calculated for these indicators are both less accurate and less reliable. For these indicators, UBS continues to explore additional vendor solutions such as model solutions to improve coverage, despite the lack of availability of data reported by the companies themselves. We expect that in subsequent years, and with the stabilization of data exchange mechanisms within the industry such as the European ESG Template, both coverage and data quality will improve, as investment managers provide better data.

UBS Global Wealth Management actively considers PAIs on sustainability only in its SFDR Article 8 sustainable investing solutions: UBS Manage Sustainable Investing [SI]. This is done by ensuring that funds selected for these portfolios, must meet SFDR Article 8 or 9 requirements, thus demonstrating the Do No Significant Harm (DNSH) criteria (including PAI consideration) which form a mandatory element of the “sustainable investment” definition under SFDR Article 2(17). Similarly, PAIs are also considered for direct investments in these portfolios as part of the DNSH test. However, because PAIs on sustainability are considered only in the sustainable investing solutions, it is challenging to define specific thresholds on what constitutes strong or poor performance on PAI indicators across the discretionary book. Such insights can be drawn in the following years based on historical comparison.

This summary is available in five European languages. If you would like to further discuss the disclosures or require translations into additional languages, please contact your client advisor.

2. Description of principal adverse impacts on sustainability factors

The below commentary in column “Actions taken, and actions planned and targets set for the next reference period” refers only to sustainable discretionary solutions UBS Manage Sustainable Investing [SI] (SFDR article 8 product), which at the time of writing is the smaller representation in the book of the legal entity in scope.

For more details on the methodology, please refer to section 3.2. Methodology to identify and assess PAI in the decision-making process.

Indicators applicable to investments in investee companies						
Adverse sustainability indicator	Metric	Impact [year 2022]	Impact [year 2021]	Explanation	Actions taken, and actions planned and targets set for the next reference period	
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	624,648 tCo2	N/A for this year	<p>Investment process</p> <p>Our sustainability-focused discretionary investment solutions target a broad range of environmental and social objectives. As such, not all instruments in these sustainability-focused discretionary investment solutions are optimized for all PAI indicators. Assessment of greenhouse gas emissions can be part of the investment selection process where material but is not the sole objective.</p> <p>Investment funds</p> <p>The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. UBS Manage Sustainable Investing [SI] considers principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAIs on sustainability factors.</p> <p>Direct investments</p> <p>Where direct investments are used in UBS Manage Sustainable Investing [SI], PAI indicators correspond to the environmental and social topics on which UBS focuses as part of the scoring and screening methodology, and thus they are used as a proxy for PAI. The Climate Change topic score considers indicators such as GHG emissions and renewable energy consumption. A company's eligibility for inclusion in the portfolio depends, driven by materiality, on their performance in this topic, with issuers whose Climate Change topic score is placed in the</p>	
			Scope 2 GHG emissions	129,163 tCo2		N/A for this year
			Scope 3 GHG emissions	4,077,219 tCo2		N/A for this year
			Total GHG emissions	4,831,053 tCo2		N/A for this year
	2. Carbon footprint	Carbon footprint	291.70 t/€M	N/A for this year		
	3. GHG intensity of investee companies	GHG intensity of investee companies	884.44 t/€M	N/A for this year		
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	7.02 %	N/A for this year		
5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	72.92 %	N/A for this year			
6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector		N/A for this year			
		<i>Agriculture, Forestry and Fishing (A)</i>	0.04 GWh/€M			
		<i>Mining and Quarrying (B)</i>	0.96 GWh/€M			

		<i>Manufacturing (C)</i>	0.60 GWh/€M			bottom 20% of the covered investment universe are excluded from direct investment allocations within these sustainable investing mandates.
		<i>Electricity, Gas, Steam and Air Conditioning Supply (D)</i>	4.65 GWh/€M			
		<i>Water Supply; Sewerage, Waste Management and Remediation Activities (E)</i>	0.66 GWh/€M			
		<i>Construction (F)</i>	0.15 GWh/€M			
		<i>Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles (G)</i>	0.16 GWh/€M			
		<i>Transportation and Storage (H)</i>	0.79 GWh/€M			
		<i>Real Estate Activities (L)</i>	0.69 GWh/€M			
Biodiversity	7. Activities negatively affecting bio-diversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	0.04 %	N/A for this year		<p>Investment process</p> <p>Our sustainability-focused discretionary investment solutions target a broad range of environmental and social objectives. As such, not all instruments in these sustainability-focused discretionary investment solutions are optimized for all PAI indicators. Assessment of biodiversity can be part of the investment selection process where material but is not the sole objective.</p> <p>Investment funds</p> <p>The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. UBS Manage Sustainable Investing [SI], considers principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAIs on sustainability factors.</p> <p>Direct investments</p> <p>Where direct investments are used in UBS Manage Sustainable Investing [SI] PAI indicators correspond to the environmental and social topics on which UBS focuses as part of the scoring and screening methodology, and thus they are used as a proxy for PAI. The Pollution and Waste topic score considers indicators such as land use and biodiversity negative impact. A company's eligibility for inclusion in the portfolio depends, driven by materiality, on their performance in this topic, with issuers whose Pollution and Waste topic score is placed in the bottom 20% of the covered investment universe are excluded from direct investment allocations within these sustainable investing mandates.</p>
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested	2.37 t/€M	N/A for this year	<i>Given the data on PAI indicator "1.8 Emissions to water" is currently very limited, the coverage of these indicators for the purpose of WM Europe SE PAI report dated 30 June 2023 is significantly</i>	<p>Investment process</p> <p>Our sustainability-focused discretionary investment solutions target a broad range of environmental and social objectives. As such, not all instruments in these sustainability-focused discretionary investment solutions are optimized for all PAI indicators. Assessment of water can be part of the investment selection process where material but is not the sole objective.</p>

					<p><i>lower in comparison to other data points.</i></p> <p>Investment funds The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. UBS Manage Sustainable Investing [SI] considers principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAIs on sustainability factors.</p> <p>Direct investments Where direct investments are used in UBS Manage Sustainable Investing [SI] PAI indicators correspond to the environmental and social topics on which UBS focuses as part of the scoring and screening methodology, and thus they are used as a proxy for PAI. The Water topic score considers indicators such as water consumption. A company's eligibility for inclusion in the portfolio depends, driven by materiality, on their performance in this topic with issuers whose Water topic score is placed in the bottom 20% of the covered investment universe are excluded from direct investment allocations within these sustainable investing mandates.</p>
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Hazardous waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested	4.85 t/€M	N/A for this year	<p><i>Given the data on PAI indicator "1.9 Hazardous waste and radioactive waste ratio" is currently very limited, the coverage of these indicators for the purpose of WM Europe SE PAI report dated 30 June 2023 is significantly lower in comparison to other data points.</i></p>	<p>Investment process</p> <p>Our sustainability-focused discretionary investment solutions target a broad range of environmental and social objectives. As such, not all instruments in these sustainability-focused discretionary investment solutions are optimized for all PAI indicators. Assessment of waste can be part of the investment selection process where material but is not the sole objective.</p> <p>Investment funds</p> <p>The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. UBS Manage Sustainable Investing [SI] considers principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAIs on sustainability factors.</p> <p>Direct investments</p> <p>Where direct investments are used in UBS Manage Sustainable Investing [SI], PAI indicators correspond to the environmental and social topics on which UBS focuses as part of the scoring and screening methodology, and thus they are used as a proxy for PAI. The Pollution and Waste topic score considers indicators such as hazardous waste management and hazardous products. A company's eligibility for inclusion in the portfolio depends, driven by materiality, on their performance in this topic with issuers whose Pollution and Waste topic score is placed in the bottom 20% of the covered investment universe are excluded from direct investment allocations within these sustainable investing mandates.</p>
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INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.82%	N/A for this year	<p>Investment funds</p> <p>The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. UBS Manage Sustainable Investing [SI] considers principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAIs on sustainability factors, including contraventions of the “UN Global Compact” principles. Fund managers must provide information related to whether the fund considers contraventions of UN Global Compact principles. Additionally, managers must share information related to controversial business activities which may lead to exclusions of companies whose business activities fall for example into the categories like weapons, tobacco, gambling, and adult entertainment.</p> <p>Direct investments</p> <p>For direct investments exposures in UBS Manage Sustainable Investing [SI], we exclude investments in controversial business activities (e.g. controversial weapons), as well as investments in companies with high severity environmental, social, or governance-related incidents that may negatively impact stakeholders, the environment, or the company’s operations. Examples of such incidents could include bribery or damage to the environment when the company is directly responsible for such misconduct. We address violations of UN Global Compact principles through a number of underlying indicators related to the individual principles on human and labor rights, and the environment, rather than a single pass/fail indicator.</p>	
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	32.92%	N/A for this year		
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	14.25	N/A for this year		<p><i>Given the data on PAI indicator “1.12 Unadjusted Gender Pay gap” is currently very limited, the coverage of these indicators for the purpose of WM Europe SE PAI report dated 30 June 2023 is significantly lower in comparison to other data points.</i></p>
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	35.26%	N/A for this year		
	14 Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0.03%	N/A for this year		

Indicators applicable to investments in sovereigns and supranationals

Environmental	15. GHG Intensity	GHG intensity of investee countries	397.43 t/€M	N/A for this year	
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law.	1*(2.76%)	N/A for this year	<i>*Due to the lack of look-through data at an industry level relating to funds, UBS is not able to deduplicate social violations across fund investments, resulting in double counting of the aggregated entity score relating to PAI indicator "16. Investee countries subject to social violations". We therefore report here the social violations relating only to the direct investments in our entity positions, for which this calculation is possible. UBS is working with vendors to capture this look-through data to provide a deduplicated figure across all investments for this metric in future reporting cycles.</i>

Investment funds

The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. UBS Manage Sustainable Investing [SI] considers principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAIs on sustainability factors.

Direct investments

Sovereign and supranational bonds are traditionally not accessed via direct investments in UBS Manage Sustainable Investing [SI]

Indicators applicable to investments in real estate assets						
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	0.00%	N/A for this year		<p>Investment funds</p> <p>The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. UBS Manage Sustainable Investing [SI] considers principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAIs on sustainability factors.</p> <p>Direct investments</p> <p>Real estate investments are traditionally not accessed via direct investments in UBS Manage Sustainable Investing [SI]</p>
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	0.01%	N/A for this year	<i>PAI indicator 1.18 "Exposure to energy-inefficient real estate assets" is applicable only to real estate assets required to abide by EPC NZEB rules.</i>	

Other indicators for principal adverse impacts on sustainability factors

Adverse sustainability impact		Adverse impact on sustainability factors (qualitative or quantitative)		Metric
Emissions	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement		22.85%
Adverse sustainability impact		Adverse impact on sustainability factors (qualitative or quantitative)		Metric
Anti-corruption and anti-bribery	15. Lack of anti-corruption and anti-bribery policies	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention		3.39%

3. Description of policies to identify and prioritize principal adverse impacts on sustainability factors

UBS acknowledges a need for transparency of principal adverse impacts of investment decisions on sustainability factors, therefore has defined and follows internal procedures on identification and prioritization of adverse impacts and considers these as part of its investment decision making process.

3.1 Policies governing the annual PAI reporting requirement under SFDR

For the purpose of regulatory reporting on Principal Adverse Impacts on sustainability factors, UBS has decided to build an inhouse capability to produce an annual report in line with SFDR requirements.

The description of procedures governing identification and prioritization of PAIs, including methodologies to select additional indicators, explanation of any associated margin of error and details of data sources used, is provided in a dedicated, internal policy approved on 30 June 2023.

The above policy is subject to annual review to capture all future regulatory developments that might affect the established PAI framework.

3.1.1. Key responsibilities

The construction of the annual PAI report relies on a number of key processes. Some of these are supported by automation built for the purpose of data sourcing and calculation, while others will require intervention from individuals to ensure the report itself is constructed and published annually.

The following are the key components of the annual PAI process, including their respective allocation within UBS:

Component	Description
Market data sourcing	UBS sources PAI related market data from vendors into our internal state of the art Cloud-based ESG data platform, providing a data service which is managed by our Data Operations team.
Position data sourcing	UBS sources position data relevant for each quarter end from all booking centers that form part of our UBS Europe SE entity in order to calculate the four quarter end results as required by the reporting regime.
Calculations	UBS has built an internal capability to calculate PAI data which provides a consistent, repeatable methodology for calculation of our quarterly results. Annual results are created using a simple averaging of the four quarterly calculations. The methodology of the calculations is reviewed and supported by our internal ESG Specialist, within the UBS Chief Sustainability Office.
Report Construction	Construction of the report narrative and commentary is a joint effort between representatives within UBS Europe SE, Global Wealth Management Chief Investment Office who manages the discretionary investment solutions for GWM clients, including the sustainability-focused discretionary investment solutions.

3.1.2. Methodology to select additional indicators as set out in Table 2 and 3 of Annex I SFDR RTS

The following additional indicators were selected for the 2022 reference period:

Climate and other environment-related indicator:

- PAI indicator 2.4 Investments in companies without carbon emission reduction initiatives.

Social and employee matters, respect for human rights, anti-corruption and anti-bribery matters indicator:

- PAI Indicator 3.15 Lack of anti-corruption and anti-bribery policies.

The key consideration for the selection of the two additional indicators for 2022 was data coverage. Specifically, the indicators selected are among those with the highest data coverage.

UBS may reassess the selection of the additional indicators on an annual basis depending on the changing business strategy over time.

3.1.3. Methodology to identify and assess PAI in the entity-level reporting

Calculation of Metrics

PAI calculations for the purpose of UBS Europe SE PAI report dated 30 June 2023 are based on the latest available information on the principal adverse impacts dated 3 April 2023.

The following instruments do not directly contribute to the PAI scores as they are not linked to investments in underlying companies: Cash, FX, Commodities, interest rate and all instruments solely based on cash, FX, Commodities and interest rate for example: structured products on gold, FX Futures, FX Options, Commodities, interest rate swaps, commodity funds, precious metal funds. All other products are considered in scope for PASI reporting.

In order to identify investments made in sovereigns and supnationals, UBS follows third party data provider's classification for the purpose of this report.

The PAI calculator has been built to accept position data from any date and calculate against any PAI reference date. The calculations relevant for the annual report are based on holdings collected for the last business day at the end of each quarter in all discretionary and fund management accounts on a "per entity" basis.

PAI calculations include all active client positions at the end of each quarter. Where a trade is executed, but not settled by the end of the quarter then these positions that we intend to sell remain included and those that we intend to purchase are included in the next quarter calculations.

Treatment of short positions and derivatives

There is limited data coverage relating to complex derivatives, and consequently structured products and a few hedge funds at a market level. As a result, the PAI contributions of these products cannot be included in the entity level PAI calculation results. They are, however, included in our definition of "current value of all investments" in the denominator of our calculations. Where possible, we have followed the regulatory recommendation and incorporated short positions within PAI calculations by applying a "net long" approach at an ISIN level. The PAI of long and short positions have been netted at the level of the individual investee undertaking, sovereign, supnational or real estate asset, but without dropping below zero. Negative net positions were reported on an ISIN level, treated as "0" and consequently disregarded from PAI calculations.

Probability of occurrence and severity of PAI

At this stage, UBS ESE does not take into account the probability of occurrence and the severity of principal adverse impacts as part of the existing internal methodology.

3.1.4. Margin of error in the annual PAI reporting

The “all reasonable means” principle

Under the principle of all reasonable means, we have an obligation to do our best to capture as much data as possible in order to fulfill the obligation of calculating the PASI metrics and constructing the PASI report. We have addressed this in the following way:

1. UBS Wealth Management has maintained oversight on the level of coverage of positions in direct investments (equities, fixed income) to ensure that coverage remains over 90% and we have challenged our data vendor to continually improve their coverage. We have built a capability to propagate from issuer to ISIN. This has initially been built based on vendor sourced data and maintain a history of issuer to ISIN mappings, helpful for expired or matured instruments. We are further building an expanded cross-reference service to enhance this mapping capability to a wider set of market data sources. UBS utilizes all available data, even where coverage is lower for specific funds. This coverage is then taken into account in the calculation of our overall coverage figures in order to ensure we are clear on the reliability of the metrics being produced.
2. We are able to directly upload PASI data for a fund into our ESG data source when received directly from a manufacturer in order to close any gaps identified from a coverage perspective. This also services our Real Estate and Private Markets business.

Margin of Error

Due to the many sources of data and many vendors in the industry offering PASI data, the level of error in the calculations can be impacted. The two most prolific issues are coverage (where companies have not reported their PASI data) and methodology (as pre-aggregated numbers either from vendors or from EET manufacturers will differ from provider to provider due to their internal aggregation methodologies). UBS has put several measures in place to ensure we are confident in our calculation results.

1. A review of key metrics in the issuer (direct investments) dataset was undertaken to ensure that when looked at holistically, they still make sense. This includes ensuring that we are not receiving both sovereign and corporate metrics for the same issuer, making sure that the proxy's we are using to assess the corporate, sovereign and real estate proportions of the portfolio do not add up to more than 100%.
2. UBS has reviewed the methodologies used by our vendor. This ensures that aggregated data sourced from vendors is reliable and meets our expectations in terms of how it is calculated and its level of accuracy.
3. UBS calculates coverage internally on a per metric basis. This allows us to understand the level of accuracy of the metric produced, based on how much data was available for the underlying investments. This also allows us to isolate key metrics where the vendor data is insufficient which, in turn, prompts further investigation into alternative vendors where required.
4. Where PASI data is missing for an instrument, we have built considerations into our calculation of coverage which results in a lower coverage in these scenarios. This ensures missing data is considered to assess the accuracy we believe we have achieved with each metric.

5. Where we receive aggregated fund indicators from a vendor (either directly or via EET), we consider the associated coverage and, where appropriate, eligible assets value in our calculation of coverage for the relevant indicator. This ensures we do not assume the fund provider has full coverage of the underlying positions in their fund and considers this when assessing accuracy for our internally calculated metrics.
6. UBS has made an internal decision to treat instruments where we are unsure if they are in scope of PAI reporting or not, as in scope until proven otherwise. The result of this is that our coverage figures drop where we have “unclassified” instruments in the same way as in (4) where the PASI data is missing. This ensures that we do not understate our metrics or overstate our coverage.

3.1.5 Data Sources

- UBS regards the availability of good data, analytics and technology capabilities as essential enablers for achieving a more sustainable future. UBS carefully selects ESG data vendors to support the PAI calculations based on: data quality, update frequency (to ensure we are always utilizing the latest available data) and coverage. UBS applies controls to ensure the highest possible data quality is maintained, both third-party and internal, and regularly reassesses vendors to monitor their performance against market from a coverage and quality perspective.
- The calculation of PAI metrics requires the combination of internal position weightings with one or more external PAI indicator values for relevant instruments, for 2022 primarily sourced from MSCI, <https://www.msci.com/notice-and-disclaimer-for-reporting-licenses>. As UBS invests in both funds and direct investments within discretionary mandates, we source data at both levels for reporting purposes as follows:
 - 1) Issuer level data, sourced through vendors, based on corporate disclosures of the underlying companies, combined with vendor research. Throughout 2022, we have maintained oversight as to the coverage of issuer level data relating to our discretionary mandate positions and are confident that the coverage on an issuer level is remarkably high. We do however see coverage on an indicator-by-indicator basis fluctuate and, in particular for Water Emissions, Hazardous Waste and Gender Pay gap, the disclosures by corporates remains exceptionally low leading to significant data gaps in these areas. UBS is committed to continually improving the PAI data coverage for these indicators through a multi-vendor strategy going forward.
 - 2) Fund level data, sourced through vendors and internally.
- UBS discretionary mandates invest in both UBS and 3rd party funds. As a distributor, UBS Wealth Management does not have access to the underlying positions of these funds, however through vendor solutions, and in future through EET, the aggregated PAI data relevant to investment in funds is available.
- Where funds are manufactured by a UBS Management Company, this PAI data is calculated in-house, using the issuer level PAI data captured from corporate disclosures by our vendor. This data is then utilized as part of the calculation approach for our legal entity calculations.
- Where funds are manufactured by 3rd party management companies, we rely on vendor PAI calculations (and in future EET once v1.1.1 is live) to capture the PAI data attributable to our positions in 3rd party funds.
- Note: where vendors are unable to provide PAI data for key funds, UBS is able to capture PAI data from 3rd party manufacturers, where they are able to provide this to us.

3.2 Methodology to identify and assess PAI in the decision-making process

Among the broad range of services UBS Europe SE offers to its Wealth Management clients, the sustainable investing solutions represent a key pillar. These solutions give clients the ability to invest in instruments and strategies with explicit sustainable investing benefits.

For clients subject to European regulations, we consider Principal Adverse Impacts ("PAI") as an integral part of the definition of what constitutes a sustainable investing instrument. In accordance with client preferences, for those clients who actively seek to pursue sustainable investments, UBS Wealth Management has introduced frameworks and processes to control their sustainable investing exposure and to ensure no significant harm is caused to this exposure via PAIs. As part of the discretionary offering, which is the focus for this statement, such sustainability preferences are only taken into account for the sustainability-focused discretionary investment solutions (article 8 products). No active monitoring is in place for discretionary solutions which do not have sustainable investing objectives (traditional investing).

UBS Manage Sustainable Investing [SI]: Principle adverse impacts ("PAI") are considered as part of our UBS Manage Sustainable Investing solutions, where relevant for clients subject to associated European regulations.

- **Funds:** At present, UBS Manage SI considers principal adverse impacts on sustainability factors via its investment in funds with sustainable investments. Investment managers must provide information related to whether the fund considers principal adverse impacts on sustainability factors, including contraventions of UN Global Compact principles. Additionally, managers must share information related to if controversial business activities which may lead to exclusions of companies whose business activities fall for example into the categories like weapons, tobacco, gambling and adult entertainment. As the transparency on the PAIs grows across the industry, also thanks to the growing maturity and adoption of the European ESG Template (EET) reporting, UBS will continue to monitor the availability of data and continue to strengthen our screening criteria in the context of funds selection.
- **Single Securities:** (if applicable): At present, the consideration of principal adverse impact is based on UBS CIO sustainability scores methodology for issuers, where sustainability data from the best-in-class data providers is sourced and systematically processed to calculate a score for six sustainability topics: (i) Pollution and Waste, (ii) Climate Change, (iii) Water, (iv) People, (v) Governance and (vi) Products and Services . The score of each topic ranges from zero to ten, (zero demonstrating weak performance and ten demonstrating a strong performance in a given topic). The companies that score below the bottom 20% percentile threshold of the operations-related topics (i)-(v) are considered not to pass principal adverse impact requirement and thus are excluded from the sustainable share of a portfolio. The selection of PAI indicators corresponds to the environmental and social topics on which UBS focuses as part of the scoring methodology and screening process. Within direct investments, the performance on PAI-related indicators affects the in-house UBS CIO sustainability score for the issuer based on materiality-driven industry-based assessments. While these assessments do not take into account the probability of PAI occurrence, they would affect the score to a different extent depending on whether their performance can have a material effect on the asset valuation. The UBS scores are used as a proxy for PAI.

In addition to the scoring methodology, the following PAI indicators are considered in the screening of companies for controversial business activities or/and sustainability-related incidents which might lead to exclusions of companies from the sustainable share of a portfolio:

- Violations of UN Global Compact principles through a number of underlying indicators related to the individual principles on human and labor rights, and the environment, rather than a single pass/fail indicator.
- Land use and biodiversity negative impact.
- Exposure to controversial weapons.

UBS is continuously reviewing the sustainability data landscape and assessing the possibility to onboard further indicators.

Traditional UBS Manage solutions without sustainable investing objectives: Traditional UBS Manage solutions do not explicitly consider sustainability-related factors. In this sense, Principle Adverse Impacts on sustainability factors are not actively considered in the investment process. However, while not pursuing sustainable investing objectives and not actively considering PAIs, traditional UBS Manage solutions could be invested in instruments that do consider PAIs, e.g. Article 8 and Article 9 funds, since the instrument selection process taps into a broad shelf of instruments including those classified as sustainable.

4. Engagement policies

4.1 Corporate engagement

UBS Global Wealth Management (UBS GWM) regards stewardship as an important part of fiduciary duty, as well as an important tool within sustainable investment strategies. As UBS GWM is primarily a fund distributor, we have embedded consideration of our external asset manager's stewardship practices into UBS GWM's fund due diligence. UBS GWM's engagement is geared towards asset managers' own engagement in their capacity as shareholders, taking into consideration a number of principal adverse indicators (greenhouse gas emissions, biodiversity, water, hazardous waste and social and employee matters). In the general case of individual wealth management, UBS merely receives authorization for the client custody account, i.e. UBS acts as a representative that submits declarations of intent on behalf of the client. However, the client remains the owner of the equities and thus the shareholder. UBS does not directly engage with investee companies in clients' portfolios and does not influence their activities or risks.

Exercise of shareholder rights - Rights to vote

UBS does not exercise any of the rights to vote derived from its holdings of equities in a discretionary portfolio.

If UBS acquires fund units, the asset management company of the fund is normally authorized to exercise the rights to vote associated with the fund assets from the holdings of equities.

4.2 Public policy engagement

Financial market stability is largely dependent on the overall economic, regulatory and political environment, and the conduct of firms within the sector. UBS actively participates in political discussions to share our expertise on proposed regulatory and supervisory changes. UBS also actively engages in discussions relating to corporate responsibility and sustainability. Sustainability and sustainable finance continue to remain key focus topics in our interactions with our financial regulators and supervisors. These are subject to ongoing oversight and control by the second and third lines of defense.

Globally, our firm is a member of several associations where the aforementioned topics are addressed and further considered, including for European entities. At the specific level of UBS Europe SE this includes: the Green and Sustainable Finance Cluster Germany; the Association of German Banks (Bundesverband deutscher Banken e.V.); the European Bank Federation (Sustainable Finance Team); and the Sustainable Finance teams of the Association for Financial Markets in Europe (AFME).

With its public policy engagement, UBS mainly considers the principal adverse impacts indicators regarding greenhouse gas emissions, biodiversity, water, hazardous waste and social and employee matters.

4.3 Adaption of the policies

UBS engagement policies and processes are reviewed on an ongoing basis, enhanced, monitored and adapted when insufficient progress is identified, and also in order to incorporate additional principal adverse impact indicators and to ensure the key environmental, social and governance topics are taken into consideration.

5. Reference to international standards

UBS Europe SE has not committed to any international standard individually. However it is a significant entity of UBS Group AG (UBS), therefore all the below disclosures are given on behalf of UBS Group AG.

Over the years UBS has committed to various business conduct codes, international standards for due diligence and reporting initiatives in order to meet the expectations of our stakeholders. At the end of 2022, UBS was engaged in more than sixty sustainability- and impact-related memberships and commitments, either at Group level or at the level of the business divisions or Group Functions or the Group Entities. They are listed in the document [Sustainability Report Supplementary Information](#).

On a global level, UBS supports the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), where it was a founding member in 2015 and continues to support the TCFD's development, with formal representation in the Task Force since 2016.

UBS also supports the Taskforce on Nature-related Financial Disclosures (TNFD). Its contribution includes helping address these challenges through our efforts in the TNFD. It is also exploring collaboration with peers on critical topics, such as nature scenarios, and is supporting new initiatives, such as the establishing of a TNFD national consultative group in Switzerland, hosted by Swiss Sustainable Finance and the UN Global Compact's Swiss network. Through industry collaboration, UBS applied the UNEP FI-developed ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) tool to assess potential concentrations of sensitive exposures.

In 2022, UBS endorsed the initiative of the IFRS Foundation International Sustainability Standards Board (ISSB) to establish international sustainability disclosure standards. In Switzerland, where headquarters are located, UBS expressed support to many governmental disclosure initiatives. On a regional basis, UBS contributes to various fora in order to engage with policymakers regarding the European Commission's Sustainable Finance Action Plan, as well as with policymakers in our key Asia Pacific jurisdictions and the Americas.

5.1 Our commitment to industry initiatives and best practice

UBS actively engages in regular discussions about corporate responsibility and sustainability issues with specialists in peer banks, and more widely through trade bodies and associations. Sharing experiences and assessments of corporate responsibility and sustainability issues helps UBS to compare and improve its strategy, approach and tools.

Relevant additional key commitments include:

- 1992 – One of the first financial institutions to sign up to the UN Environment Programme bank declaration (the UNEP FI);
- 2000 – One of the first companies to endorse the UN Global Compact;
- 2002 – Carbon Disclosure Project (CDP) founding signatory;
- 2014 – UBS endorsed the "Soft Commodities" Compact from the Banking Environment Initiative and the Consumer Goods Forum, which reaffirms its commitment to developing and implementing responsible business standards;
- 2019 – UBS became a founding signatory of the UN Principles for Responsible Banking (the PRB). The PRB constitutes a comprehensive framework for the integration of sustainability across banks.

UBS is a founding signatory of the Operating Principles for Impact Management since 2019.

By working with and within such initiatives, UBS is indirectly addressing a number of PAI indicators in its investment decision processes (such as greenhouse gas emissions, biodiversity, water, hazardous waste and social and employee matters).

5.2 UN Global Compact, OECD Guidelines and UN Guiding Principles on Business and Human Rights

UBS is committed to respecting human rights, as set out in the United Nations Guiding Principles on Business and Human Rights (UNGPs), in our business activities. UBS believes this is a responsible approach, underlining its desire to reduce, as far as possible, potentially negative impacts on society. The commitment to this important area is long-standing. In 2000, UBS was among the first companies that pledged to adhere to the UN Global Compact Principles, including human rights. The principles of the Global Compact, today the largest corporate responsibility initiative globally, stem from the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the UN Convention Against Corruption.

In 2011 UBS came together with other banks and formed the Thun Group of Banks to jointly consider these developments and to share experiences regarding the implementation of the UNGPs. To this end, the Thun Group of Banks has published two discussion papers on the financial sector's implementation of the UNGPs. The second paper, for example, focused on the proactive agenda of the Organisation for Economic Co-operation and Development (the OECD) on Responsible Business Conduct and in particular the OECD's 2019 publication titled Due Diligence for Responsible Business Conduct in General Corporate Lending and Securities Underwriting. UBS is a member of the Advisory Group to the OECD.

Recognizing our commitment to promoting human rights, we:

- Established a UBS Position on human rights in 2006, and have been regularly updating the UBS Human Rights Statement, available at www.ubs.com/gri;
- Will not engage in commercial activities that make use of child labor and forced labor, or that infringe the rights of indigenous peoples; and
- Will continue our work internally and externally with the Thun Group of Banks and the OECD, to understand how best to implement the UNGPs across our operations.

The PAI indicators 1.10 and 1.11 are particularly relevant to this debate.

5.3 Biodiversity

UBS' approach to managing the risks and opportunities related to natural capital and biodiversity across our activities is in line with its commitment to mobilize capital toward the achievement of the United Nations' (UN) 17 Sustainable Development Goals (SDGs) and its participation in the TNFD. UBS recognizes the challenges of transitioning toward a society that can meet both human needs while living within natural constraints. Furthermore, UBS looks forward to the setting of global policy objectives and goals through the Convention on Biological Diversity, having seen how powerful this has been for climate in the UN Framework Convention on Climate Change.

UBS strives to play an active role in creating new global standards that enable clients, companies and the financial sector to manage nature-related risks and opportunities, as well as addressing potential adverse impacts and generating positive impacts.

Given the release of the TNFD beta framework draft guidance for financial institutions in November 2022, UBS has been piloting the TNFD disclosure recommendations and financial-sector-specific guidance in its Climate and Nature Report 2022. This not only enables UBS to further advance on its journey toward less nature-adverse and more nature-positive outcomes, but also drives forward standardization in disclosure practices. UBS has continued the development

of its approach toward managing nature-related risks and opportunities, following the TNFD draft disclosure recommendations.

Additionally, UBS participates in various work streams of the Natural Capital Finance Alliance (NCFA), which aims to provide the knowledge and tools that help the financial sector align portfolios with global biodiversity goals. Most notably UBS participated in the advisory committee for the second stage of the NCFA's ENCORE project tool. In 2022, it also supported the development of a new methodology by the WWF to measure nature risk in investment portfolios. UBS seeks to promote nature-related drivers, including biodiversity, focusing on key stakeholder groups (clients, vendors, employees and society at large).

The PAI indicator 1.7 is particularly relevant to this section.

6. Historical comparison

The earliest historical comparison will be provided in June 2024.