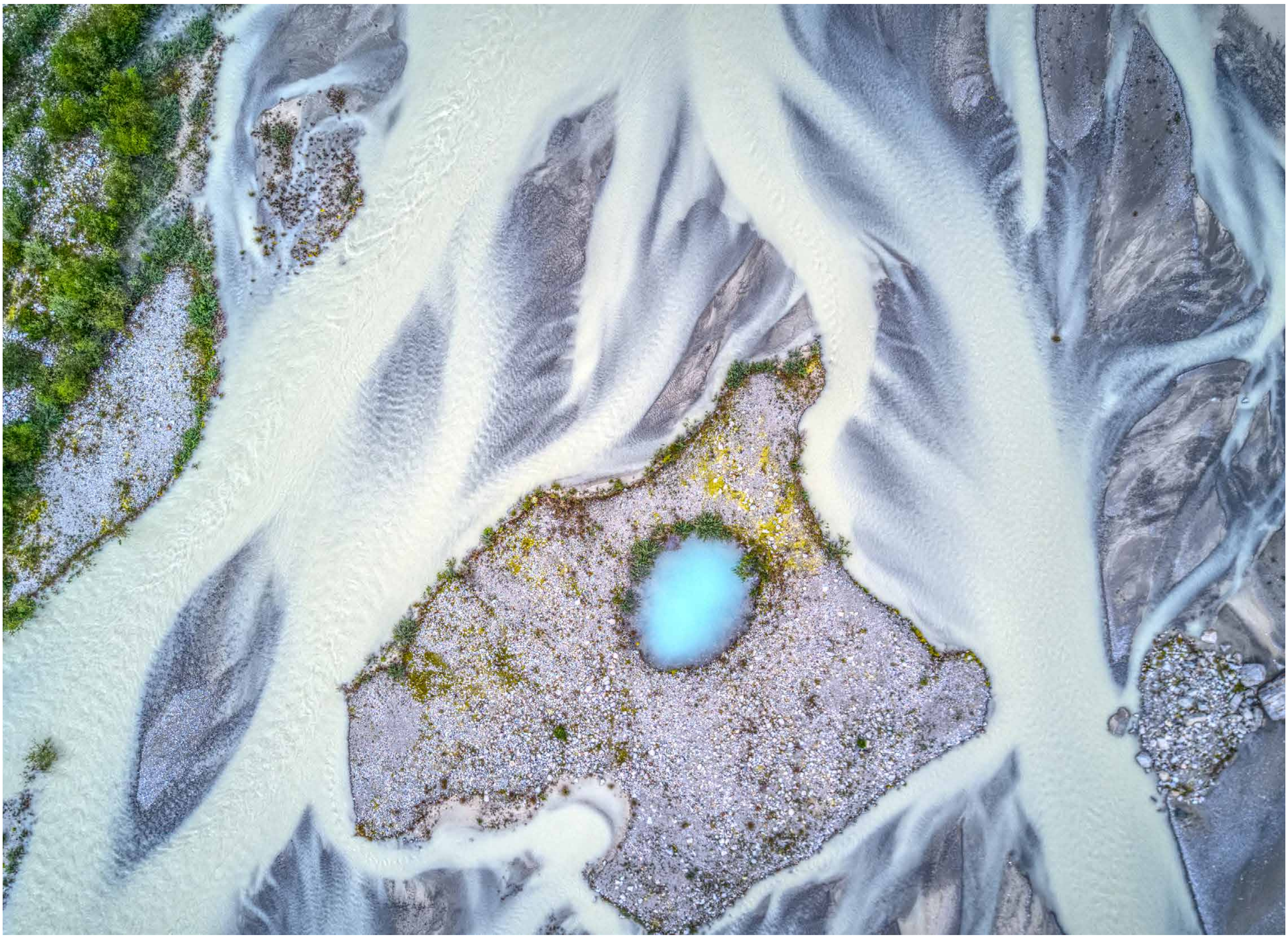
For marketing purposes

What could a warmer world mean for investors?

Answering the climate challenge



Climate change

It’s one of the most significant, but most misunderstood risks facing companies, financial organizations and individuals today.

Its potential impacts are physical, regulatory and technological. They will all be felt in the short term but are expected to have an even greater impact over the long term. To address climate change and avoid a climate crisis, urgent change is needed.

In 2015, the historic UN Climate Change Paris Agreement pledged to reduce greenhouse gas emissions, limit global average temperatures to a maximum of 2°C above pre-industrial levels and accelerate the transition to a lower-carbon economy.

This transition is creating risks but also investment opportunities which are poised to affect every sector and industry across the globe.

Climate investing: it's an imperative

Current policies and commitments suggest average temperatures will increase 3°C by the end of this century. Do nothing and that figures rises to 4°C[1].

Climate risks are two-fold: physical and transitional. We're already feeling the physical effects of a warmer world. Rising greenhouse gas emissions meant 2016 – 2018 were the hottest years on record[2]. Extreme weather events doubled between 2001 – 2018, while droughts and wildfires increased exponentially. Not only are these physical effects seriously impacting the world we live in, they're also having significant financial consequences as well. Average annual insured losses from catastrophic climate related events have already hit an all-time high of USD 65 billion this decade[3] and this looks set to continue unless we can bring rising temperatures under control.

Meanwhile, transitional risks include increasing levels of climate-related regulation as governments try to limit the impact of climate change and meet their Paris commitments. The EU taxonomy on sustainable finance, which encourages investors to take account of Environmental, social and governance (ESG) criteria in their investment processes is one example. Another is the Task Force on Climate-related Financial Disclosures (TCFD). It explicitly advises investors and companies to undertake climate change scenario analysis as a way of understanding the effects of climate risk on their investments.

Mitigating these risks means:

1 Global GHG emissions must fall dramatically to effectively address the risks of climate change and global warming. So a coordinated and broad-based approach across a range of sectors is called for
2 We need to close the climate finance gap. This means re-allocationing capital and investments at scale toward those companies who can help deliver a climate smart future by developing new products and solutions. Over USD 90 trillion needs to be invested by 2030 and will be key to tackling the climate change challenge

1 Source: https://www.bloomberg.com/news/articles/2019-12-03/global-temperature-headed-toward-5-degree-increase-wmo-says/
2 World Meteorological Association: The State of the Global Climate in 2018, pub. March 2019
3 Swiss Re Institute: Natural catastrophes and man-made distasters in 2018: "secondary perils on the frontline February 2019
4 https://www.local2030.org/story/view/117

A changing landscape

If we don't take action to avoid a climate crisis now, then by the end of this century our planet will be warmer than at any other time in human history. Increased public awareness of climate change and its consequences are influencing societal preferences and behaviors and this is directly impacting companies' cost of capital.

When we think about coal versus renewables, any company that's emitting CO_2 faces the risk that at some stage regulation will force them to pay fines (e.g. carbon tax), which will impact their bottom line. Over time, high carbon intensity companies might not survive the climate change transition.

But this will create opportunities for other businesses to step in and provide economically viable solutions that can help tackle climate change. Winners and losers will emerge.

Benefiting from a climate smart future

Evolving opportunity set

Aligning to 2°C warming

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

Portfolio benefits

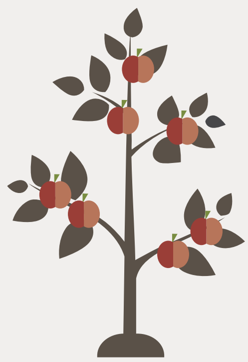
Risk management and strong tailwinds support a climate-aware approach

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

The new normal

Climate investing becomes a 'must-have'

– Trending popularity as flows for climate finance increased 25% in a single period between 2015–2018[3]



1 Source: https://www.wri.org/blog-series/the-26-trillion-opportunity
2 Source: Mercer "Investing in a time of climate change – the sequel", 2019
3 Source: https://climatepolicyinitiative.org/publication/global-climate-finance-2019/

Addressing the climate challenge

But do investors still need convincing when it comes to the urgent challenges of climate change?

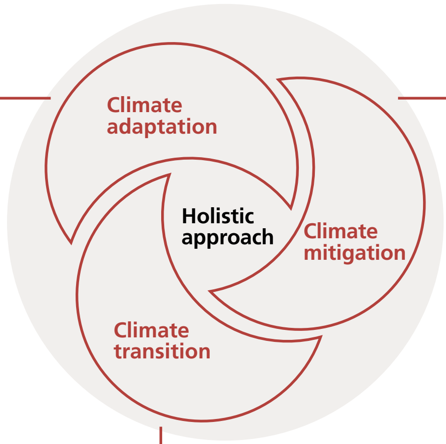
A global UBS-AM survey of 600 institutional investors showed most asset owners believe environmental factors wlll matter more than traditional financial criteria over the next five years.[1] In the private wealth space, a client survey revealed the majority think sustainable investing will become the norm in the next decade.[2]

With ESG now much higher on the agenda, and with investors increasingly recognzing the investment opportunities presented by climate change, we have developed the Climate Aware framework. It is designed to help investors align their portfolios to their chosen climate targets. We are committed to delivering sustainable outcomes for current generations and those to come. And that's why we're developing a suite of dedicated products across asset classes to meet the needs of our investors.

1 Source: ESG: Do you or Don't You. Responsible Investor and UBS Asset Management, 2019)
2 Source: https://ubs.com/global/en/wealth-management/our-approach/investor-watch/2018/return-on-values.html

Our climate aware investment framework

Our framework takes a balanced view of how our economy will evolve towards a low-carbon future. It rests on three pillars:



Climate adaptation

Companies with products and services that provide solutions to a low-carbon future

- Industrials, technology and renewable energy companies are providing the essential technologies to shift businesses and consumers' practices
- We are looking for innovation, exciting climate technologies and real impact

Climate mitigation

Companies that are addressing climate change risks and are becoming more efficient in their own operations

- The climate challenge requires all sectors to act – banks to direct investment towards green projects or retail to manage overconsumption and waste
- We are looking for climate risk management and leadership in sustainability

Climate transition

Companies in carbon-heavy industries that are transforming their existing business models into a lower carbon version

- Investors cannot ignore the most polluting sectors when it concerns climate
- Some companies are part of the solution and our investment, with engagement, should support that transition

Underpinning those pillars is the crucial role of active engagement

Engagement and proxy voting are essential tools in our investment process in order to understand and influence the actions and progress companies are making in adaptation, mitigation and transition toward a low carbon future.

In particular, we aim to actively engage with companies in the transition category, as it is critical to drive the business model transformation and commitments towards a low-carbon future.

These efforts are part of our DNA: they're supported by UBS Group climate change commitment and augmented by our stewardship actions across UBS-AM.

Why UBS for climate change: actively pursuing our sustainable principles

Long commitment to environmental finance

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

Calling for action to create change

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

Strong resources

- Dedicated SI Research team with 20 employees working with over 900 investment professionals
- USD 48 billion[1] in a range of Sustainable Investing focused strategies
- 100% of Active Equities and Fixed Income integrate sustainability

Climate aware strengths

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

1 Assets under management as of 30 June 2020

Our climate aware investment solution

Building on the success of our rules based climate aware strategy launched three years ago, we've extended our range of climate aware investement strategies across the asset classes.

Each strategy follows the same fundamental principles of Mitigate, Adapt, Transition, and each is underpinned by a process of robust engagement.

If you'd like to learn more about any of these strategies, or UBS-AM's sustainability offering we'd be delighted to talk to you.

Wide breadth of innovative climate solutions in the core of investment portfolios, total AUM USD 3.7 billion

Equity solutions

		UBS Active Climate Aware Equity (Global)	UBS Climate Aware Equity Enhanced Indexing
	Strategy	**UBS Active Climate Aware Equity (Global)**	**UBS Climate Aware Equity Enhanced Indexing**
	Description	– Holistic approach selecting companies that are leaders in climate – Active management seeking outperformance with high active share – A highly-qualified and experienced portfolio management team supported by SI Research team	– Customizable rules-based strategy that applies positive and negative 'tilts' related to climate change – Engaging directly with companies through conversations with management to convey best practices and encourage them to report sustainability metrics – Utilize current and forward looking data to estimate a company's carbon footprint and gauge their commitment to reduce carbon emissions in the future
	Benchmarks available	MSCI All Country World	FTSE Developed, MSCI world, MSCI ex-CH, S&P 500 *In development: Europe, global ex US*
KEY TARGETS	**Mitigation** Targeting companies that are leaders in addressing climate change in their business models	**E-Leaders** Companies that can significantly reduce the risk of negative impact of climate change on their business model, especially relative to their peers **Lower CO_2 intensity** (CO_2 intensity being an indicator of a better climate profile)	**50% lower CO_2 intensity relative to the benchmark** (CO_2 intensity being an indicator of a better climate profile)
KEY TARGETS	**Adaptation** Targeting companies that provide products and solutions for a low-carbon world	**Min 50% climate solutions** Companies providing products and services that offer solutions to adapt to climate change, either by reducing the amount of CO_2 that is emitted with traditional technologies or by dealing with the consequences of climate change.	**35% overweight in renewable energies**
KEY TARGETS	**Transition** Targeting companies in carbon heavy industries that are transforming their existing business models	**Alignment to 2 degree scenario** UBS-AM's proprietary glidepath methodology compares a company's carbon footprint trend with the required emission reduction implied by UN 2°C scenario. Allows to estimate the probability that a company will achieve those glide path targets	**30% portfolio tilt towards alignment to 2 degree scenario** UBS-AM's proprietary glidepath methodology compares a company's carbon footprint trend with the required emission reduction implied by UN 2 degree scenario. Allows to estimate the probability that a company will achieve those glide path targets.

Fixed Income strategies

		UBS USD/EUR Climate Aware Corporate Bonds	UBS Climate Aware Government Bonds Indexing
	Strategy	**UBS USD/EUR Climate Aware Corporate Bonds**	**UBS Climate Aware Government Bonds Indexing**
	Description	– Achieving 30% mitigation of climate risk while seeking outperformance through active management – Taking a holistic approach to selecting companies that are leaders in fighting climate change – Refinancing of debt obligations gives fixed income investors more opportunities for corporate engagement and encourages better behavior	– Access to a cost-efficient portfolio of global government bonds that factors in climate risks – Low tracking error versus standard government bond indices, but with a substantially lower carbon footprint – Combining the expertise of the UBS Sustainable Investing team with the know-how of our specialists in the area of index replication
	Benchmarks available	Barclays Euro Corporates (EUR), Barclays US Corporates (USD)	FTSE Climate Risk-Adjusted World Government Bonds
KEY TARGETS	**Mitigation** Targeting companies that are leaders in addressing climate change in their business models	**ESG integration & lower CO_2 intensity** (CO_2 intensity being an indicator of a better climate profile)	**7% improvement to climate risk** In the context of government bonds, climate risks refers to the combined risk of climate change as a result of future reductions in CO_2 emissions needed, risks of damages to physical infrastructure and the ability of the country to deal with these changes within its governing institutions
KEY TARGETS	**Adaptation** Targeting companies that provide products and solutions for a low-carbon world	**Green to brown ratio > 2** This is the rate at which a strategy reduces its CO_2 footprint on an annual basis. The target number indicates the reduction of CO_2 emissions as a percentage reduction from previous year's CO_2 emissions. If the self de-carbonization target is 2%, the CO_2 emissions of the portfolio one year from now should not exceed 98% (100%-2%) of that of the current portfolio	**N/A**
KEY TARGETS	**Transition** Targeting companies in carbon heavy industries that are transforming their existing business models	**Alignment to 2 degree scenario** UBS-AM's proprietary glidepath methodology compares a company's carbon footprint trend with the required emission reduction implied by UN 2 degree scenario. Allows to estimate the probability that a company will achieve those glide path targets	**10% portfolio tilt towards alignment to 2 degree scenario** UBS-AM's proprietary glidepath methodology compares a company's carbon footprint trend with the required emission reduction implied by UN 2 degree scenario. Allows to estimate the probability that a company will achieve those glide path targets.

Fixed Income strategies / Alternatives

		Fixed Income strategies	Alternatives
	Strategy	**UBS Climate Aware Corporate Bonds Enhanced Indexing**	**Environmental Focus Strategy**
	Description	– Meaningful, 50%, mitigation of climate risk, while closely tracking the benchmark – Probability-based assessment of companies' ability to operate in line with a maximum temperature increase of 2°C[1] (2 degree scenario) – Strategic, targeted engagement program with issuers to encourage better behavior whilst not excluding complete sub-sectors but instead tilting towards renewable energy	– Seeks to identify long and short opportunities arising as the Energy Transition Economy continues to evolve – Actively managed portfolio providing a multi-year opportunity – Assesses company's future risks / opportunities resulting to transition to more sustainable, lower carbon economy
	Benchmarks available	Barclays Global Corporates (USD)	
KEY TARGETS	**Mitigation** Targeting companies that are leaders in addressing climate change in their business models	**50% lower CO_2 intensity relative to the benchmark** (CO_2 intensity being an indicator of a better climate profile)	
KEY TARGETS	**Adaptation** Targeting companies that provide products and solutions for a low-carbon world	**25% overweight renewable energies**	
KEY TARGETS	**Transition** Targeting companies in carbon heavy industries that are transforming their existing business models	**25% portfolio tilt towards alignment to 2 degree scenario** UBS-AM's proprietary glidepath methodology compares a company's carbon footprint trend with the required emission reduction implied by UN 2 degree scenario. Allows to estimate the probability that a company will achieve those glide path targets.	

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Americas
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