



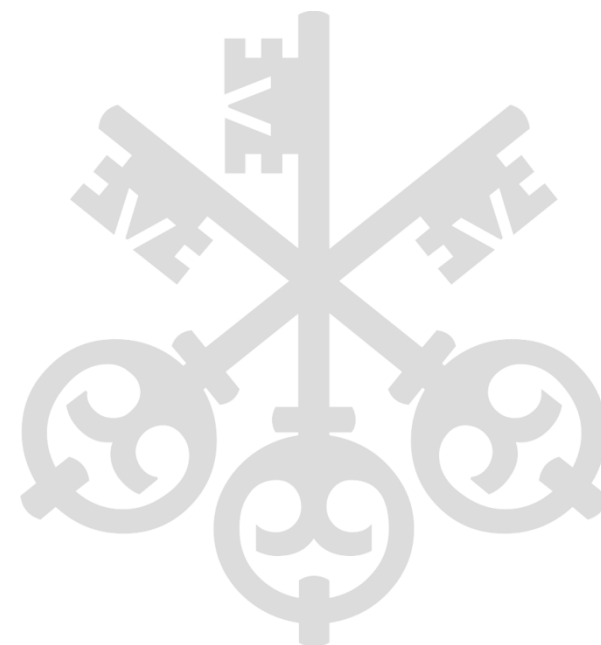
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For professional / sophisticated clients
and qualified investors only
UBS Asset Management

Welcome

On Track Insights – Webinar for index investors

May edition

Willem Keogh, Anja Ludzuweit and Alessandra Calabretta



26th May 2021

The Journey to a 1.5 °C Scenario

Achieve your net zero objective with **UBS ETFs**

Willem Keogh

Head Passive & ETF Investment Analytics

UBS Asset Management



Section 1

Introduction and motivation

A call to action

The EU Commission long-term plan for a climate neutral economy



// The Commission calls for a climate neutral Europe by 2050

European Commission
November 28, 2018

// Committing to climate-neutrality by 2050: Commission proposes European Climate Law and consults on the European Climate Pact

European Commission
March 4, 2020

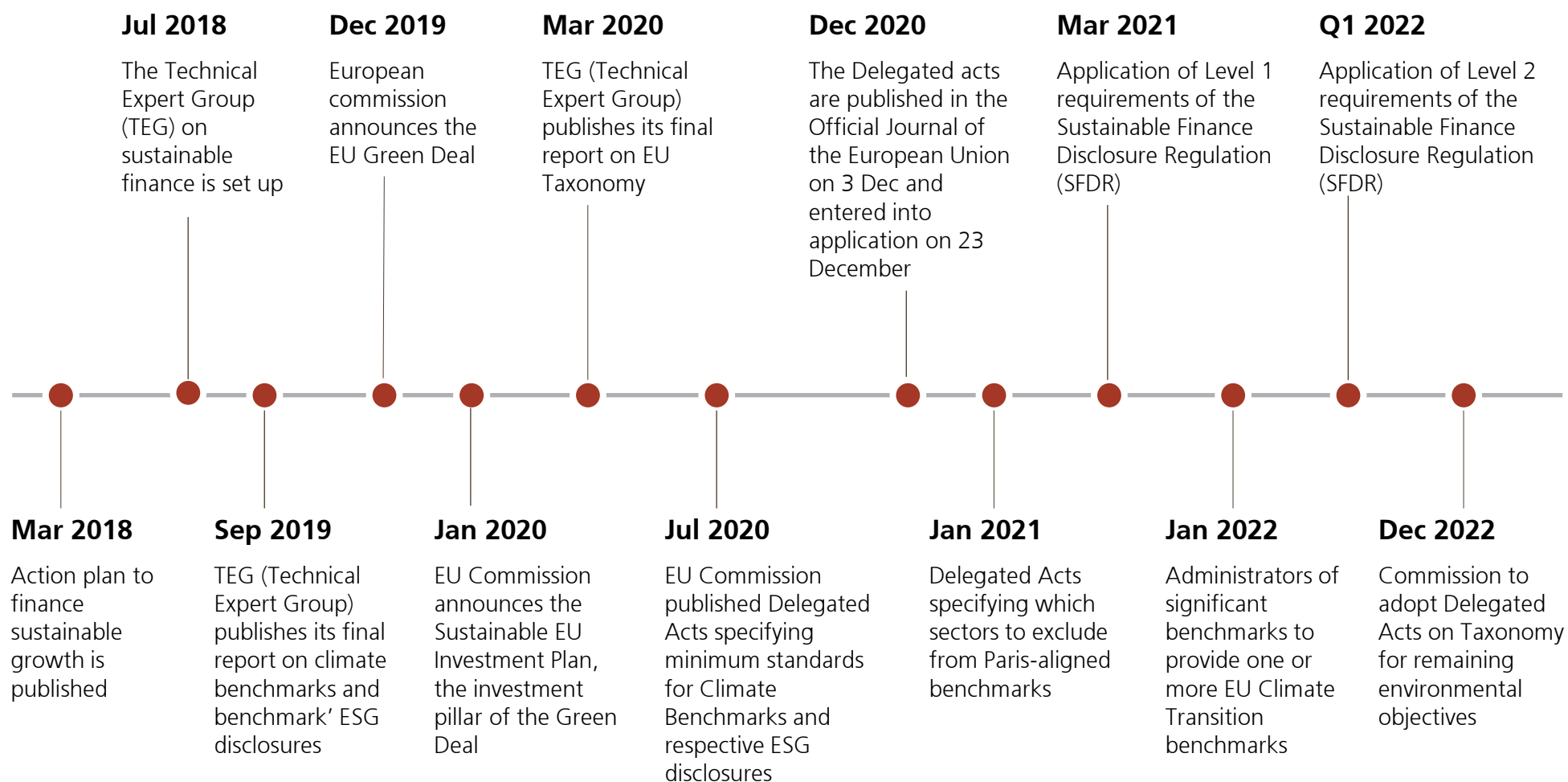
// Commission raises climate ambition and proposes 55% cut in emissions by 2030

European Commission
September 17, 2020

Source: UBS Asset Management.

EU action plan timeline

A combination of benchmarks, taxonomy and disclosures regulations



Source: UBS Asset Management.

MSCI Climate Paris Aligned indexes

Exceeding the minimum standards for EU Paris-Aligned Benchmarks (PAB)

	Minimum Standards	MSCI Climate Paris-Aligned Index
Mitigate Risks	Minimum Scope 1+2+3 Carbon Intensity Reduction	✓ Minimum reduction in GHG Intensity (Scope 1+2+3): 50%
	Phase-in of Scope 3 GHG Emission Data: 2-4 years	Exceeds Minimum Standards Scope 3 GHG Emission Data included since 1 June 2020
	Baseline exclusions: Do No Harm Principles	<ul style="list-style-type: none"> • ESG Controversy Score = 0 ✓ • Environmental Controversy Score = 0 or 1 • Controversial Weapons • Tobacco
	Activity exclusions: Business Involvement exclusions	<ul style="list-style-type: none"> ✓ • Thermal Coal Mining (1% or more revenue) • Oil & Gas (10% or more revenue) • Power Generation (50% or more revenue)

Source: MSCI, COMMISSION DELEGATED REGULATION (EU) 2020/4757 of 17.7.2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-Aligned Benchmarks. Source for the index is MSCI.

MSCI Climate Paris Aligned indexes

Above and beyond the minimum standards for EU Paris-Aligned Benchmarks (PAB)

	Minimum Standards	MSCI Climate Paris-Aligned Index
Capture Opportunities	7% Year-on-year self-decarbonization trajectory	Exceeds Minimum Standards Minimum average reduction (p.a.) in GHG Intensity relative to the base date: 10%
	Minimum Green / Brown Revenue Ratio (Voluntary)	Exceeds Minimum Standards Minimum ratio of Weighted Average Green Revenue / Weighted Average Brown Revenue: 4 times
	Exposure constraints	✓ NACE (High Climate Impact) of EU PAB = NACE (High Climate Impact) of Benchmark
	Corporate Target Setting	✓ Minimum increase in aggregate weight in companies setting targets: 20%
Above and beyond minimum standards		Minimum reduction in Weighted Average Potential Emissions: 50%
		Minimum increase in Weighted Average Low Carbon Transition Score: 10%
		Minimum reduction in weighted average Extreme Weather Climate Value-at-Risk: 50%
		Aggregate Climate Value-at-Risk under 1.5-degree scenario: >= Max(0, Aggregate Climate VaR of Parent Index)
		Minimum increase in Weighted Average Green Revenue: 100%

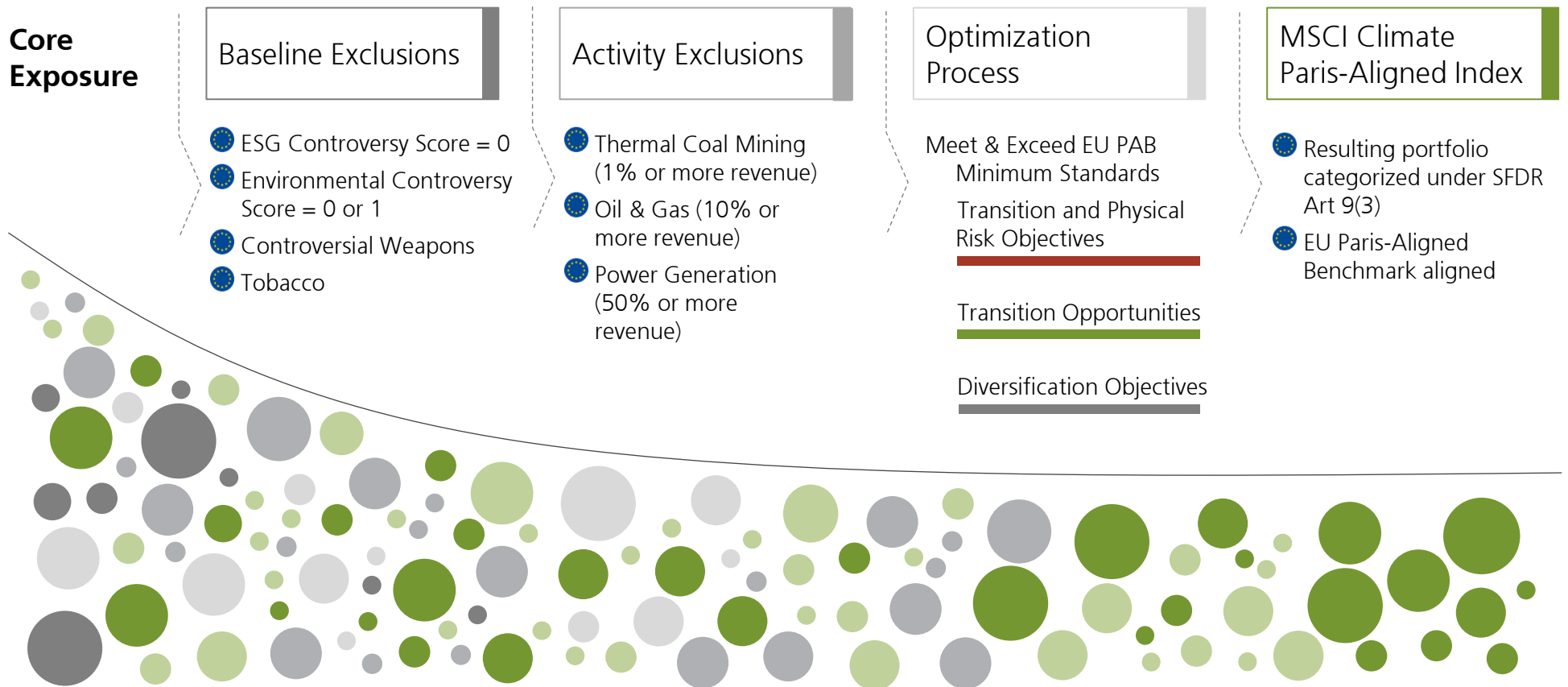
Source: MSCI, COMMISSION DELEGATED REGULATION (EU) 2020/4757 of 17.7.2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-Aligned Benchmarks. Source for the index is MSCI.

Section 2

The methodology

From Core Exposure to Paris-Aligned Benchmark

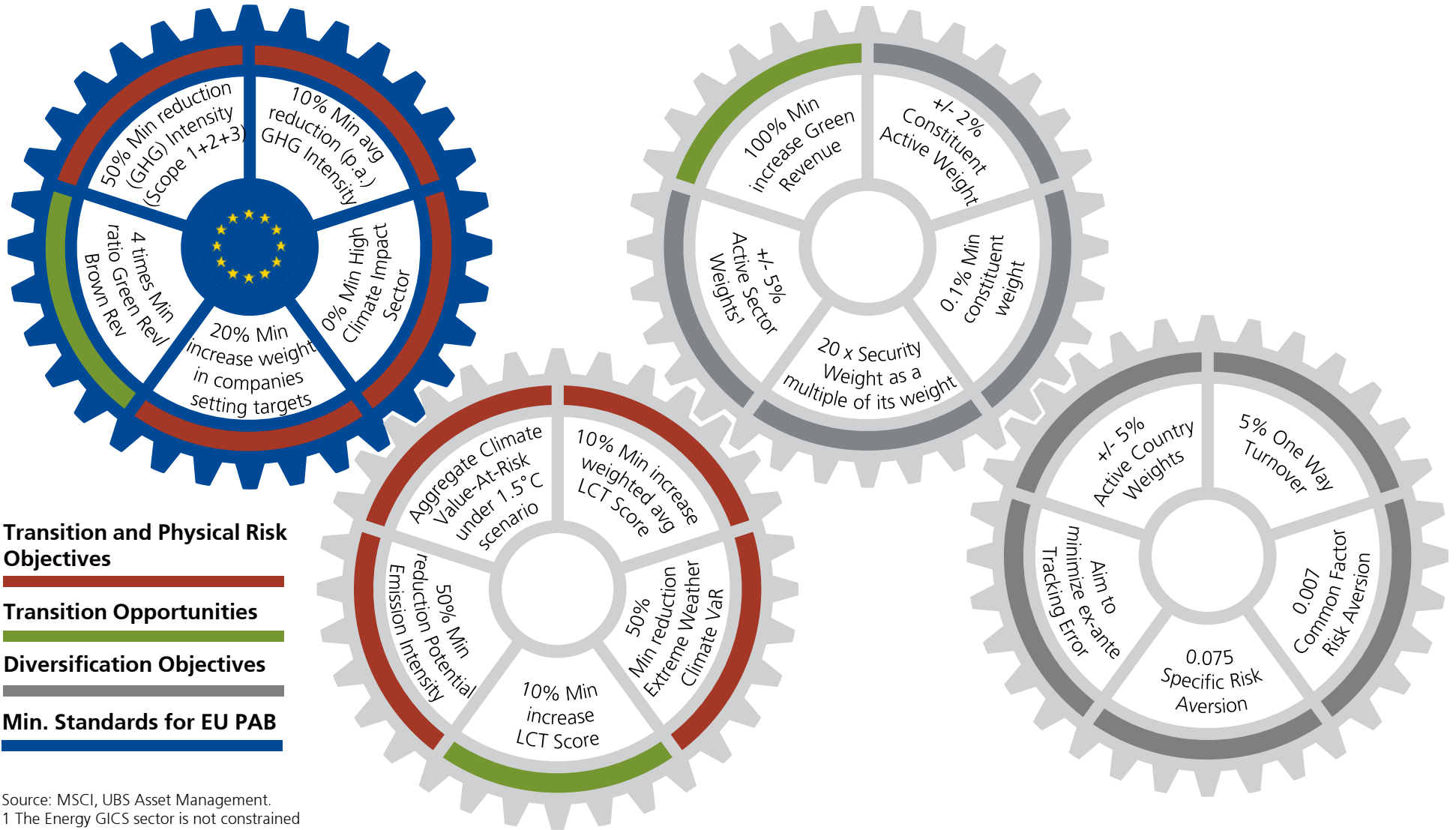
Not only meeting, but exceeding EU Minimum Standards



Source: MSCI, UBS Asset Management. **For illustrative purposes only.**

Optimization Process

Uses the MSCI Barra Global Equity Model for Long-Term Investors (GEMTLT)



Source: MSCI, UBS Asset Management.
 1 The Energy GICS sector is not constrained
 For illustrative purposes only.

To Paris-alignment and beyond

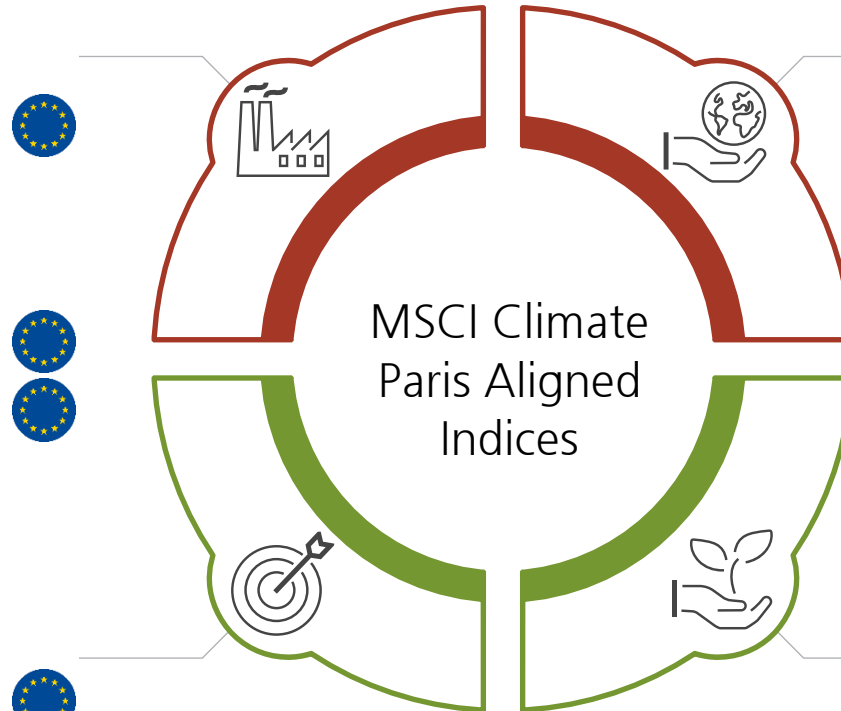
Key features of the MSCI Climate Paris Aligned index

Transition Risk

- Carbon Footprint Reduction (Scope 1+2+3)
- Min 20% overweight companies with carbon-reduction targets
- Underweight companies with Transition Risk
- Avoid pure divestment
- Lower Fossil Fuel Exposure

1.5° Alignment

- Self-decarbonization at 10% p.a.
- Climate VaR under 1.5° C scenario: $VaR \geq 0$



Physical Risk

- Physical Risk Climate VaR is at least 50% lower than parent

Green Opportunity

- Weighted Average Green Revenue % – Min 100% increase
- Green / Brown ratio – 4 times higher than parent
- Companies with Climate Solutions – Overweight

Transition and Physical Risk Objectives

Transition Opportunities

Source: MSCI, UBS Asset Management.

Paris-aligned ETF's – Relevant Metrics from MSCI

Anja Ludzuweit

May 2021

MSCI call to action: The role of capital in the Net-Zero Revolution

Under Business-as-Usual, MSCI ACWI IMI will be **scarcely greener in 2050 than in 2020**, with an estimated **80% of companies exceeding the emissions budget** needed to be well below 2.0°C

Capital markets are an essential and critical force to drive the transition to net-zero with concerted action from all participants,

- ranging from a reallocation of capital by asset owners,
- to effective channeling of funds by asset managers and banks to greener investments and innovation,
- alongside the commitment of companies

The MSCI ACWI IMI net-zero tracker

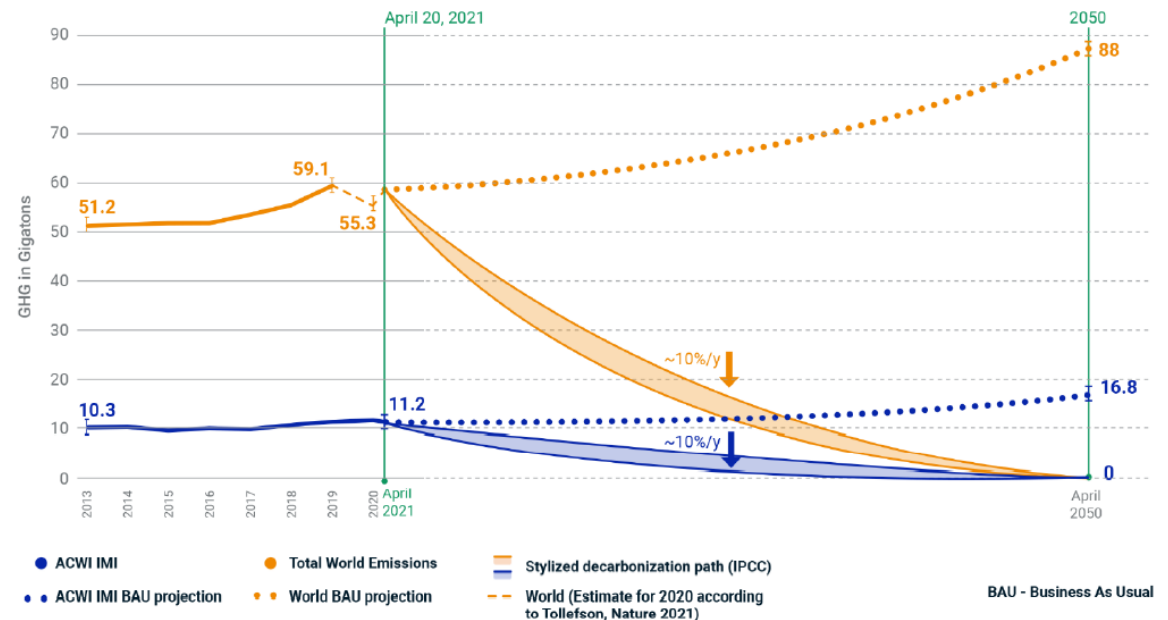


Chart shows the historical and potential future trajectories of the world's total greenhouse gas emissions. Historical emission growth rates have been 1.4% between 2010 and 2019.

Transition Risk - Sectors

Low Carbon Transition Score	Low Carbon Transition Category	Low Carbon Transition Risk / Opportunity	Examples	
SCORE = 0	Asset Stranding	Potential to experience «stranding» of physical/natural assets due to regulatory, market or technology forces arising from low carbon transition.	Coal mining & coal-based power generation, Oil sands exploration / production.	
	Transition	Product	Reduced demand for carbon-intensive products and services. Leaders and laggards are defined by the ability to shift product portfolio to low carbon products.	Oil & Gas exploration & production, Petrol/diesel-based automobile manufacturers; Thermal power plant turbine manufacturers etc.
		Operational	Increased operational and/or capital cost due to carbon taxes and/or investment in carbon emission mitigation measures leading to lower profitability of the companies.	Fossil fuel-based power generation, cement, steel, etc.
	Neutral	Limited exposure to low carbon transition carbon risk. Though companies in this category could have exposure to physical risk and/or indirect exposure to low carbon transition risk via lending, investments, etc.	Consumer staples, Healthcare, etc.	
	SCORE = 10	Solutions	Potential to benefit through the growth of low carbon products and services.	Renewable electricity, electric vehicles, solar cell manufacturers, etc.

Transition Risk - Companies

Low Carbon Transition Score (LCTS)	Low Carbon Transition Category	MSCI EMU	MSCI EMU Climate Paris Aligned	Examples in MSCI EMU	LCTS	
SCORE = 0	Asset Stranding	0.00%	0.00%	-	-	
	Transition	Product	13.73%	3.12%	SNAM SPA Total SE Daimler AG	2.25 3.78 5.34
		Operational	8.68%	2.31%	RWE AG Heidelberg Cement AG Deutsche Lufthansa AG	2.62 3.67 5.37
	Neutral	71.77%	78.06%	BASF SE LVMH SE Axa SA	5.76 6.19 6.65	
SCORE = 10	Solutions	4.31%	14.87%	Energias de Portugal SA Verbund AG Siemens Gamesa Renewable Energy SA	8.43 10.00 10.00	

✓ Objectives

- Overweight – Companies with Climate Solutions
- Underweight – Companies with Transition Risk

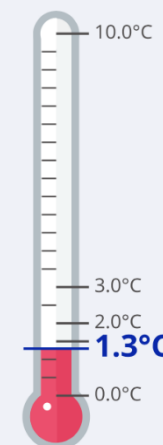
MSCI EMU PAI Solution Example: Siemens Gamesa

A pioneering wind turbine manufacturer with nearly 40 years of low carbon technology experience:
100% of revenues in Clean Technology

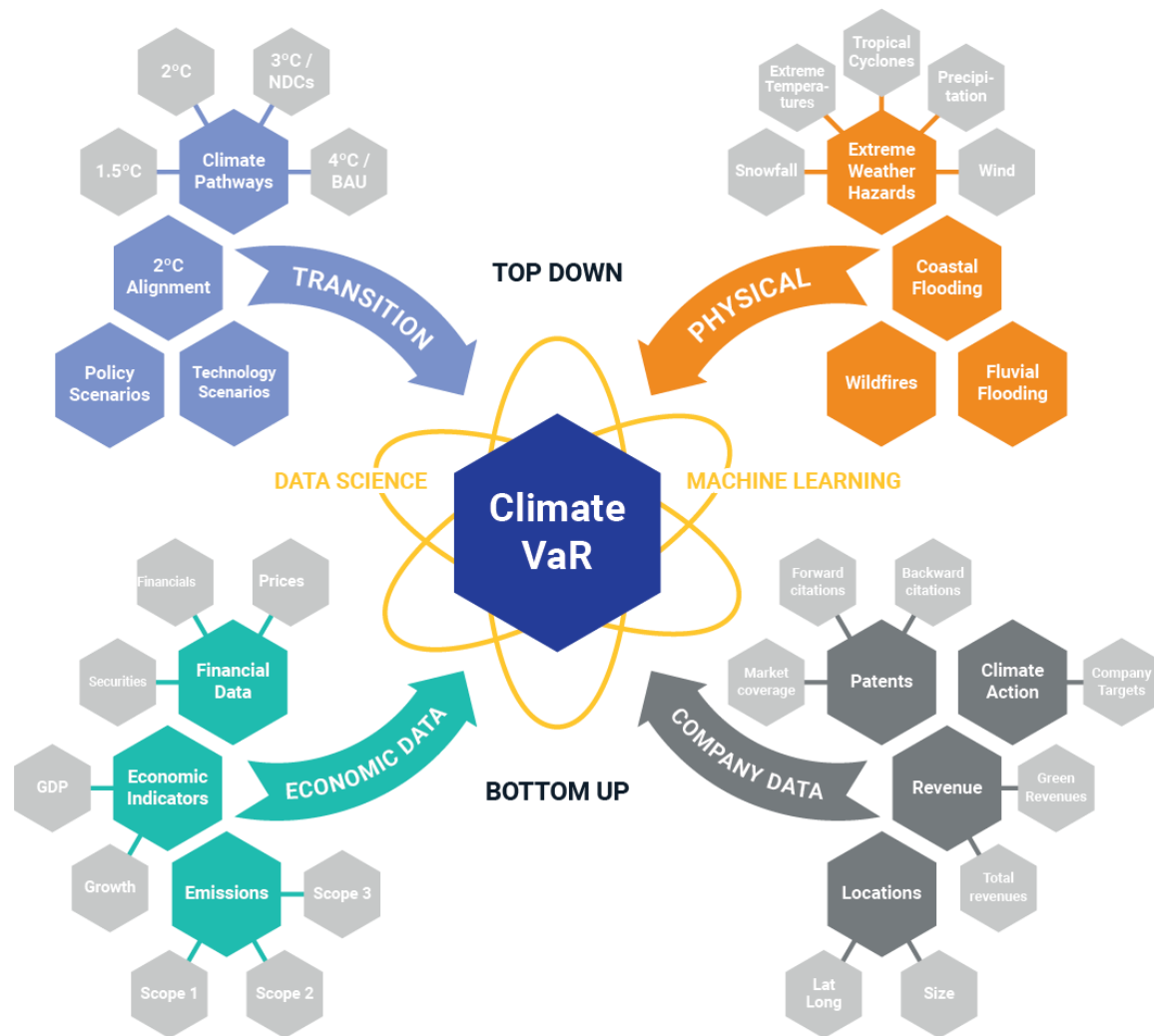
POLICY RISK		LOW Image / SSP1	MID-RANGE AIM CGE	HIGH AIM CGE LATE
Direct Emissions	3°C Scenario		-0.02%	
	2°C Scenario	-0.01%	-0.10%	-0.22%
	1.5°C Scenario		-0.16%	
Electricity Use	3°C Scenario		-0.01%	
	2°C Scenario	-0.01%	-0.06%	-0.15%
	1.5°C Scenario		-0.12%	
Value Chain	3°C Scenario		-0.03%	
	2°C Scenario	-0.09%	-0.58%	-1.32%
	1.5°C Scenario		-1.77%	
Technology Opportunities				
3°C Scenario			+8.68%	
2°C Scenario		+14.83%	+99.81%	+100.00%
1.5°C Scenario			+100.00%	

AGGREGATED WARMING POTENTIAL WITH COMPANY TARGETS

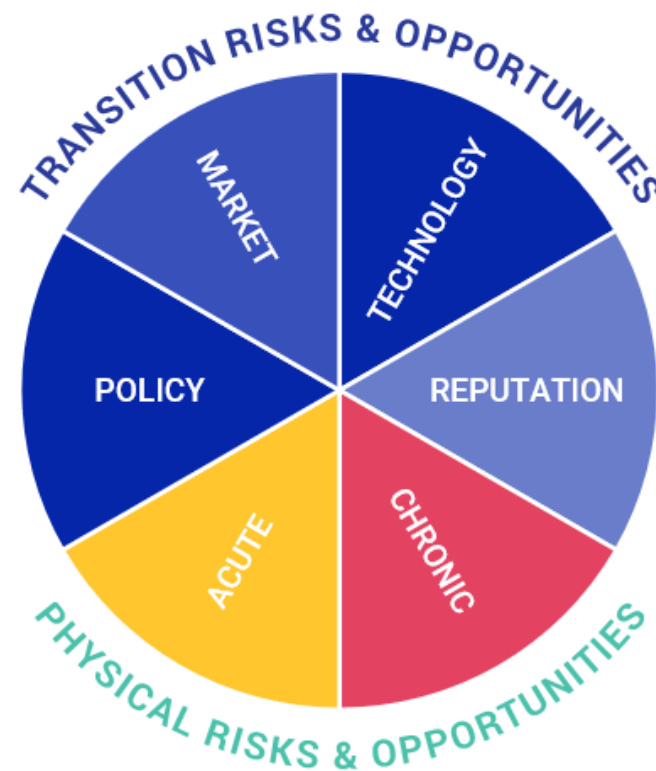
The temperature gauge below illustrates the company's aggregated warming potential with the decarbonization target taken into account, marked in blue displayed alongside reference temperatures marked in black.



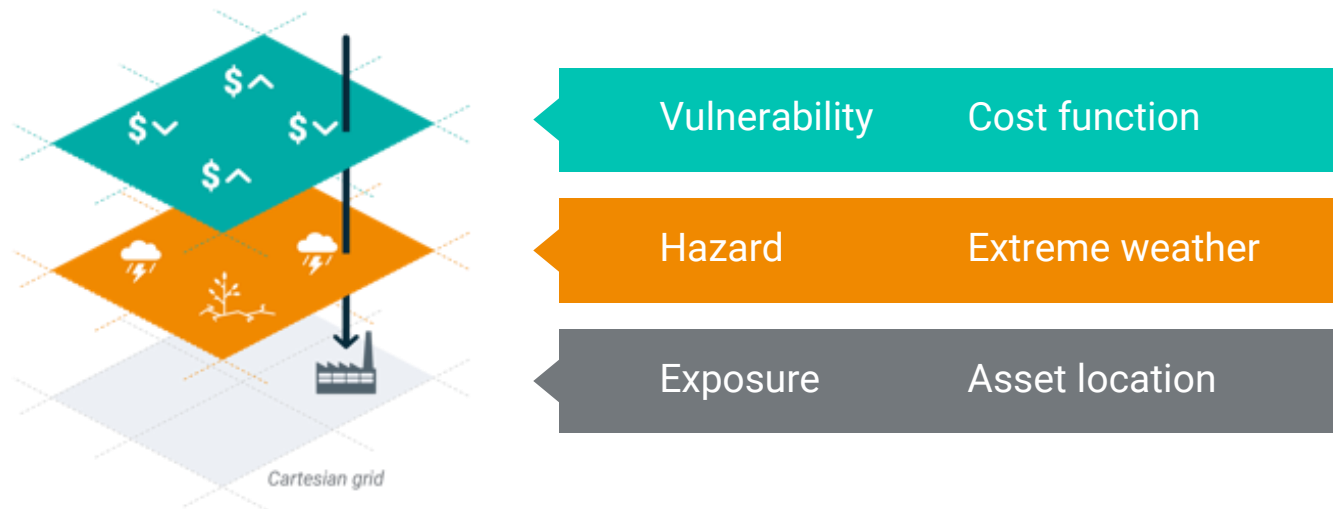
Climate Value-at-Risk: A hybrid methodology



- What is the \$ valuation impact on my portfolio holdings under different climate scenarios?
- What are climate-related losses or gains?



Physical Risks – Climate VaR



1

Climate Models

- CMIP5 Project (Collection of climate models – World Climate Research Programme)
- ERAInterim (Reanalysis data – European Centre for Medium-Range Weather Forecasts)

2

Topographical Models

- CoastalDEM (Upgraded Digital Elevation Model – Climate Central / NASA)

3

Impact Models

- CLIMADA (Damage model – ETH Zurich)
- MSCI Modelling (including proprietary coastal flooding and chronic risk analysis)

4

2021 Expansions

- Move to CMIP6, ERA5 and expand hazard coverage

Extreme Weather Hazards

Chronic Risks (0.5° global grid)



Extreme Heat
(Re-Analysis)



Extreme Cold
(Re-Analysis)



Wind Gusts
(Re-Analysis)



Heavy Snowfall
(Re-Analysis)



**Heavy
Precipitation**
(Re-Analysis)

Acute Risks (high res)



Tropical Cyclones
(Probabilistic Model)



Coastal Flooding
(Climate Models)

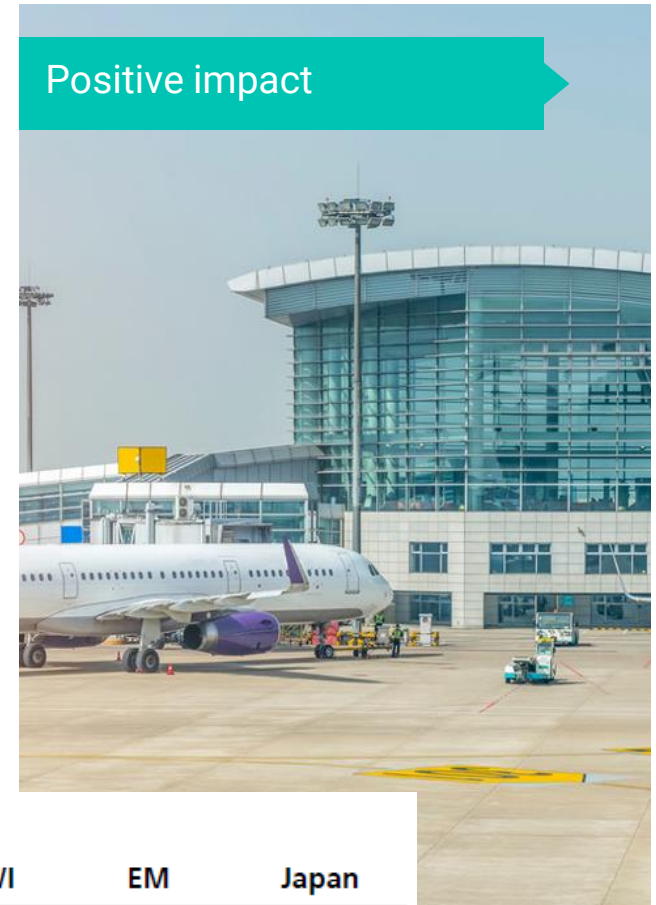


Fluvial Flooding
(Climate Models)



Wildfires
(Release Q3/2021)

Interpreting the results: impacts of extreme heat on industries



Extreme Weather Climate VaR (Aggressive Scenario) – Parent vs PAI indices

	World	EMU	Europe	ACWI	EM	Japan
Climate Paris Aligned Index	-2.50%	-2.70%	-2.80%	-2.80%	-4.30%	-5.00%
Parent Index	-4.20%	-4.60%	-4.90%	-4.70%	-8.40%	-8.10%
Percentage compared to parent	59.52%	58.70%	57.14%	59.57%	51.19%	61.73%

Aggregate Climate VaR

Combining policy risk, technology opportunities and physical risk

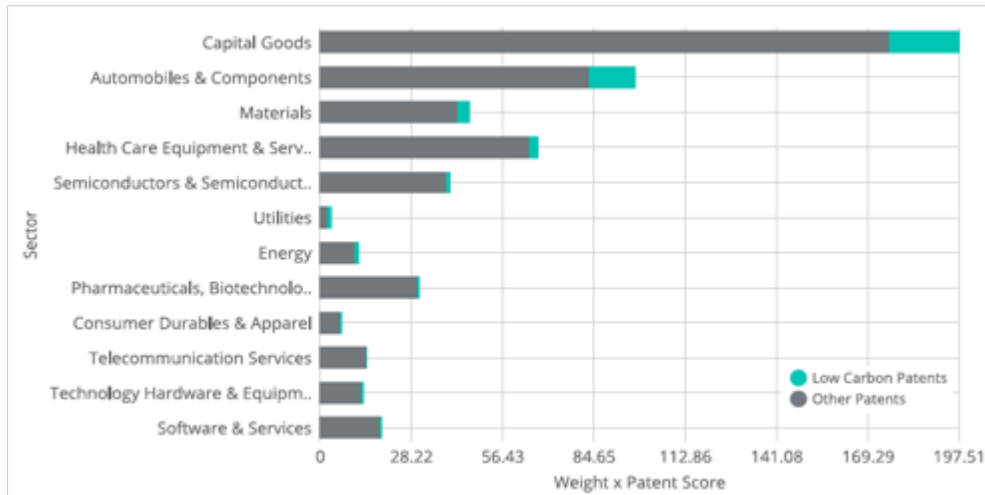
	MSCI EMU Index	MSCI EMU Climate Paris Aligned index
Low Carbon Transition Risk Scenarios	-16.45%	+3.73%
Policy Risk Direct Emissions (Scope 1)	-12.02%	-3.71%
Policy Risk Electricity Use (Scope 2)	-4.86%	-2.26%
Policy Risk Value Chain (Scope 3)	-9.85%	-2.72%
Technology Opportunities	+10.28%	+12.43%
Physical Climate Scenarios	-5.69%	-3.34%
Extreme Cold	+0.34%	+0.25%
Extreme Heat	-1.80%	-1.09%
Precipitation	-0.02%	-0.03%
Extreme Snowfall	+0.00%	+0.00%
Extreme Wind	-0.02%	-0.03%
Coastal Flooding	-4.23%	-2.48%
Fluvial Flooding	-0.05%	-0.03%
Tropical Cyclones	-0.04%	-0.02%
Aggregated Climate VaR	-22.15%	+0.39%

- ✓ Objectives • Climate VaR under 1.5°C scenario: Aggregate VaR > = 0

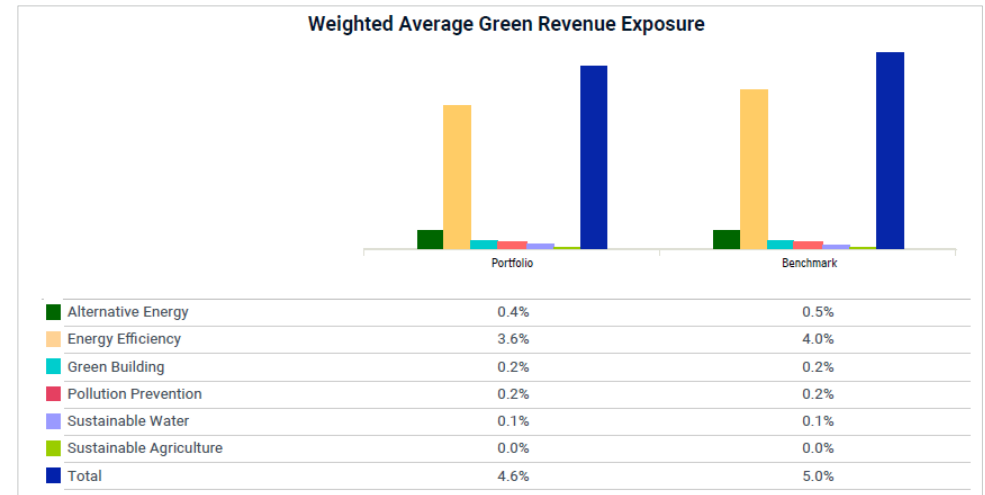
Capturing real economy impact with Green Opportunities

Security Selection - Identify & invest in climate solution providers, including companies investing in low carbon technologies.

Report on your exposure to EU-taxonomy aligned companies.



Consider tilting portfolios towards companies that are developing low carbon technologies



Assess the current revenue streams of companies to assess which are already generating revenue from low carbon products and services

MSCI EMU Paris-aligned Top Opportunity Contributors

Security	Asset Class	Total Policy Risk Climate VaR	Technology Opportunities Climate VaR	Physical Risk Climate VaR	Aggregated Climate VaR	Weight	Climate VaR Risk Contribution Weight x VaR
ELIA GROUP SA BE0003822393	Equity	-0.68%	+64.72%	-1.02%	+63.02%	1.26%	+0.80%
Siemens Gamesa Renewable Energy, S.A. ES0143416115	Equity	-0.79%	+100.00%	-6.22%	+92.99%	0.54%	+0.50%
VERBUND AG AT0000746409	Equity	-5.71%	+31.76%	-0.14%	+25.91%	1.39%	+0.36%
UMICORE SA BE0974320526	Equity	-16.29%	+100.00%	-4.29%	+79.43%	0.41%	+0.32%
Red Electrica Corporacion, S.A. ES0173093024	Equity	-0.53%	+24.06%	-7.44%	+16.09%	1.76%	+0.28%
Siemens Aktiengesellschaft DE0007236101	Equity	-6.21%	+14.81%	-1.54%	+7.06%	2.54%	+0.18%
SCHNEIDER ELECTRIC SE FR0000121972	Equity	-1.22%	+6.63%	-0.82%	+4.59%	3.56%	+0.16%
TERNA - RETE ELETTRICA NAZIONALE SOCIETA PER AZIONI IT0003242622	Equity	-1.64%	+13.29%	-0.63%	+11.02%	1.41%	+0.16%
Siemens Energy AG DE000ENER6Y0	Equity	-11.39%	+100%	N/A	+88.61%	0.14%	+0.13%
Wartsila Oyj Abp FI0009003727	Equity	-3.03%	+21.81%	-8.02%	+10.76%	1.02%	+0.11%
Infineon Technologies AG DE0006231004	Equity	-0.75%	+5.81%	-0.59%	+4.48%	1.12%	+0.05%
SAFRAN SA FR0000073272	Equity	-0.93%	+6.78%	-0.98%	+4.86%	0.97%	+0.05%
VINCI SA FR0000125486	Equity	-3.11%	+10.14%	-4.41%	+2.62%	1.79%	+0.05%
Akzo Nobel N.V. NL0013267909	Equity	-2.86%	+11.82%	-2.00%	+6.97%	0.65%	+0.05%
ACS, ACTIVIDADES DE CONSTRUCCION Y SERVICIOS, S.A. ES0167050915	Equity	-34.53%	+43.73%	-1.75%	+7.45%	0.27%	+0.02%

„Green versus Brown“

Overweight green revenue opportunities and divest from brown revenues until 2030 to achieve real-economy impact

	MSCI EMU	MSCI EMU Climate Paris Aligned
Green Revenue (%)	5.17	10.30
Brown Revenue (%)	3.13	0.33
Green / Brown ratio	1.65	30.84

✔ Objectives

Weighted Average Green Revenue % – Min 100% increase

Green / Brown ratio – 4 times higher than parent

Brown Revenues

Thermal Coal Mining
Thermal Coal Power generation
Conventional Oil & Gas
Unconventional Oil & Gas



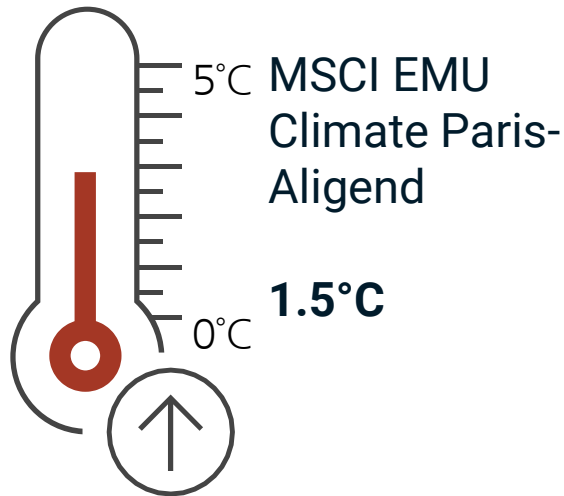
Green Revenues

Alternative Energy
Energy Efficiency
Sustainable Water
Green Building
Pollution Prevention
Sustainable Agriculture

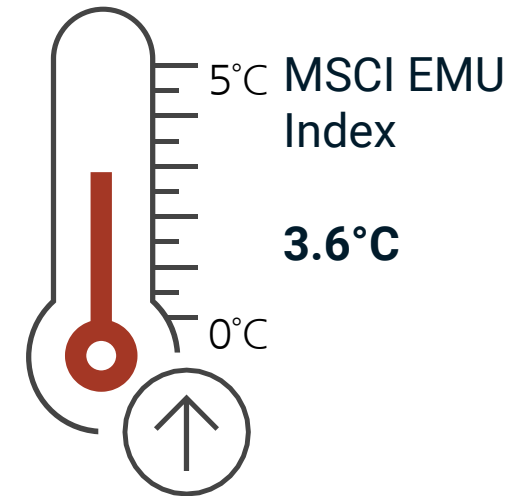
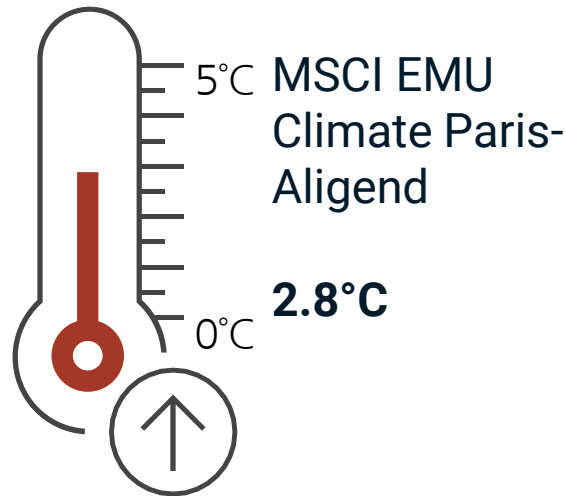


The journey towards a 1.5°C alignment

2030



2021



←

The Paris-aligned index is on a journey to net zero during this coming decade and will decarbonize 10% y-o-y to achieve a 1.5°C temperature alignment by 2030







Section 3

The results

Climate Paris Aligned Index Objectives

Objectives are met across the board

MSCI Climate Paris Aligned Index Objectives*

	MSCI EMU Index	MSCI EMU Climate Paris Aligned index	Objective		
Scope 1+2+3 Carbon Emissions Intensity (tCO ₂ /USDm EVIC)	621	231	Min 50% reduction	✓	
Low-Carbon Transition Score	5.92	6.50	Min 10% increase	✓	
Potential carbon emissions (MtCO ₂)	128.34	0.31	Min 50% reduction	✓	
Green revenues (wtd avg %)	5.17	10.30	Min 100% increase	✓	
Green/brown net revenue exposure	1.65	30.84	4x higher	✓	
Company sets GHG reduction targets (wtd avg %)	65.91	72.97%	Overweight	✓	
NACE High Climate Impact sector exposure (wtd avg %)	68.73	68.75	Min equal to parent	✓	
Aggregate Climate VaR (wtd avg %)*	-22.15%	+0.39%	Greater than parent (and at least above 0)	✓	
Extreme Weather Climate VaR – Aggressive Scenario (wtd avg %)*	-5.69%	-3.34%	Min 50% reduction ¹	✓	
Low-Carbon transition risks					
Solutions (%)	4.31	14.87	Overweight	✓	
Product & Operational transition (%)	22.41	5.43	Underweight	✓	
Asset Stranding (%)	0.00	0.00	Underweight	✓	
Exposure to asset stranding risks					
Fossil fuel-reserves (%)	5.78	0.85	Underweight	✓	
Thermal coal mining (%)	0.00	0.00	Underweight	✓	
Oil & Gas – Extraction and Production (%)	0.30	0.00	Underweight	✓	

Source: UBS Asset Management, MSCI. Index composition as of end of April 2021, MSCI ESG data as of 06 May 2021.

*Data as of 03 March 2021 for the Climate VaR metrics (including underlying index composition).

¹The objective was achieved at the last index review and now slightly deviated due to market movements.

MSCI EMU – performance analysis

Consistent outperformance of the Paris Aligned Index compared to its parent benchmark

Long run performance comparison



	MSCI EMU	MSCI EMU Climate Paris Aligned
Total returns	50.00%	57.63%
Returns p.a.	8.44%	9.52%
Volatility p.a.	17.86%	17.35%
Tracking error vs MSCI EMU	-	1.94%

Source: Bloomberg, MSCI, UBS Asset Management. Data from 30 April 2016 to 30 April 2021.
Includes backtested data. Past performance is not a reliable indicator of future results.

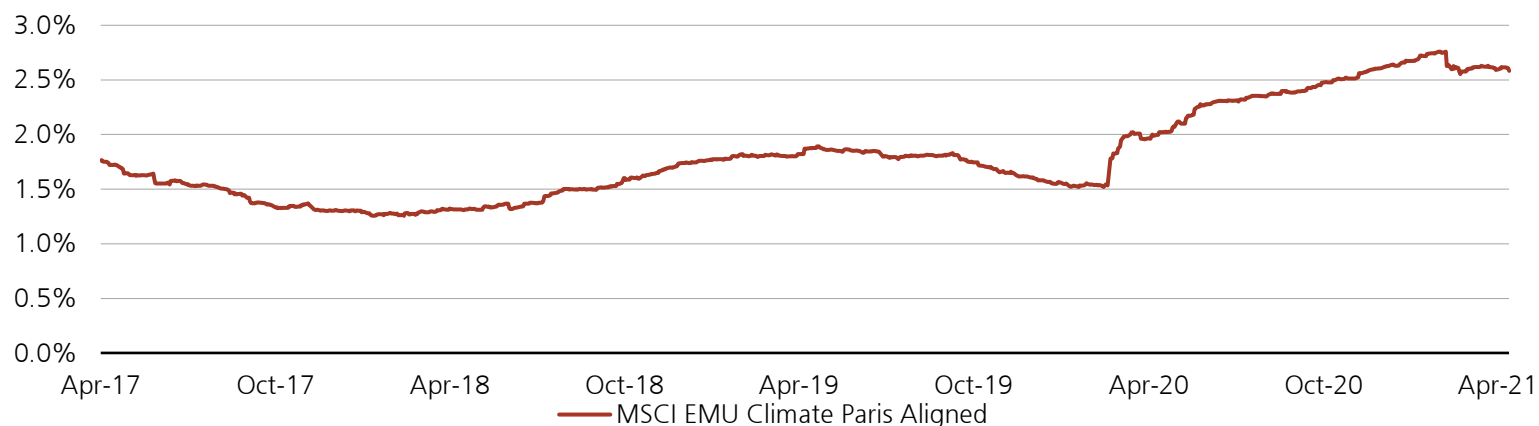
MSCI EMU – performance analysis

Tracking error at 1.94%, outperformance has been consistent over time against MSCI EMU

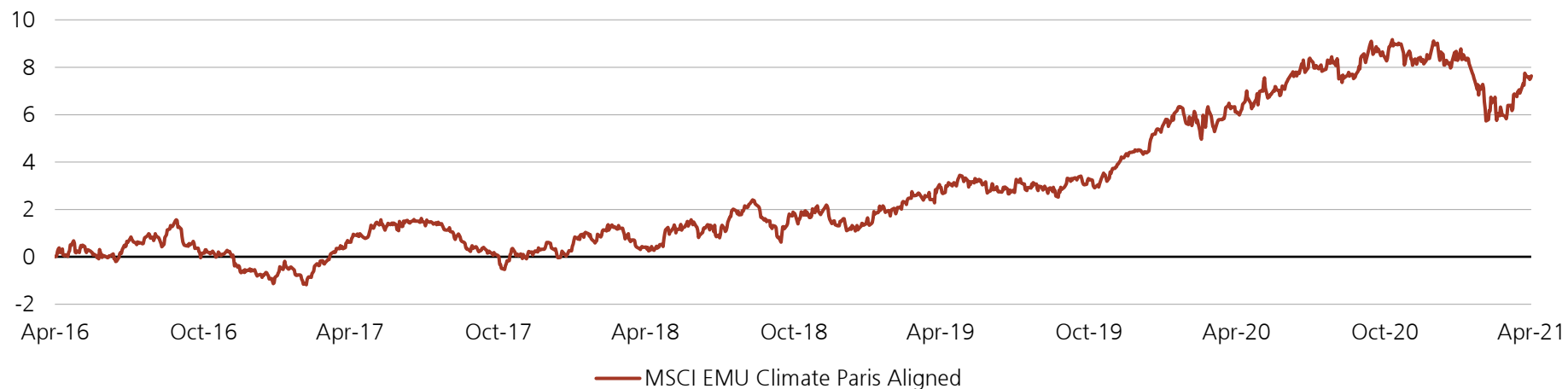
252 Rolling Tracking Errors vs parent benchmark

Rolling TE increased during COVID-19 vs historical average

Higher TE corresponds to higher performance



Performance difference vs parent benchmark (in %)

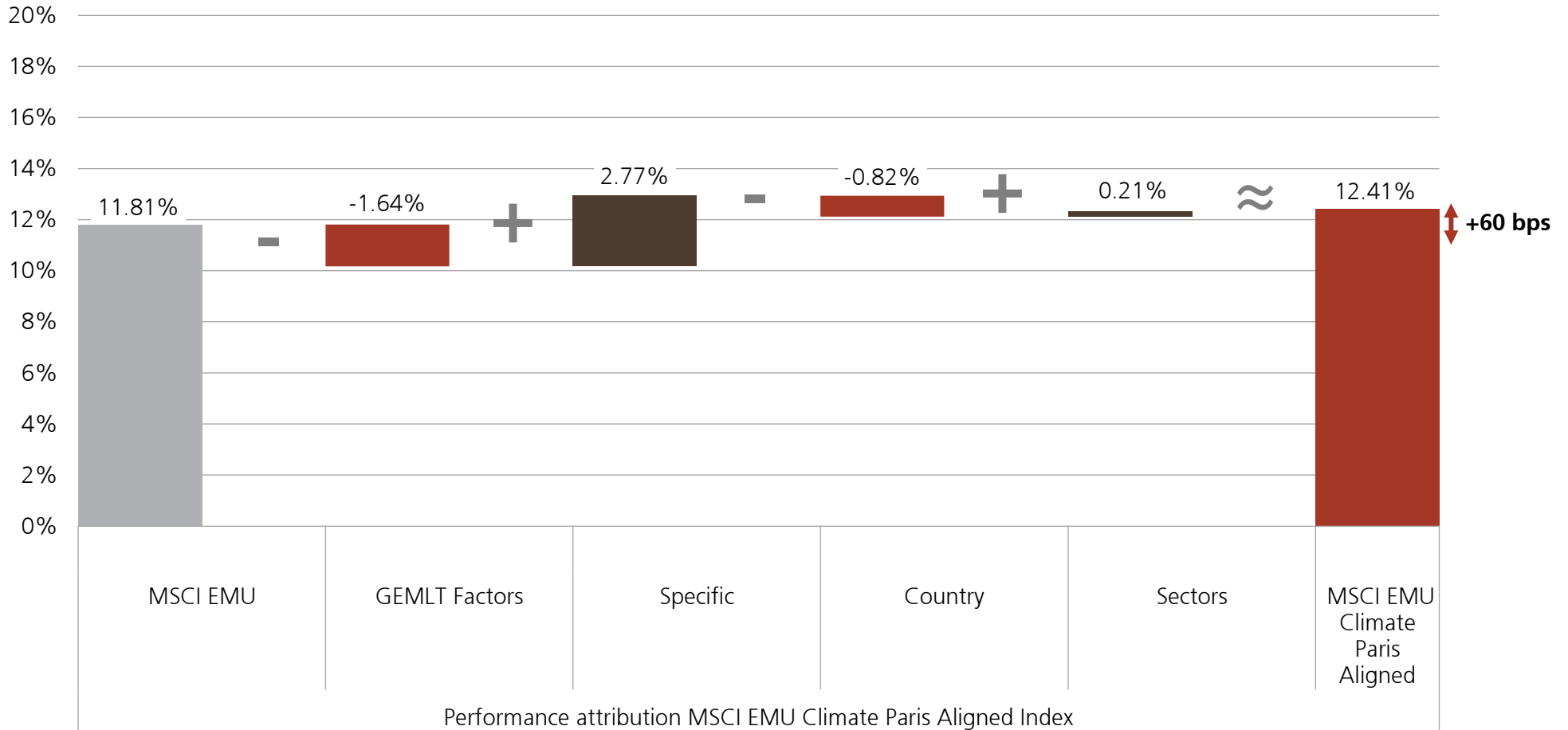


Source: Bloomberg, MSCI, UBS Asset Management. Data from 30 April 2016 to 30 April 2021.
Includes backtested data. Past performance is not a reliable indicator of future results.

Dissecting the outperformance

What has driven the excess return of the MSCI EMU Climate Paris Aligned over the MSCI EMU?

GEMLT Excess Return Attribution – MSCI EMU Climate Paris Aligned vs MSCI EMU – Last 12M



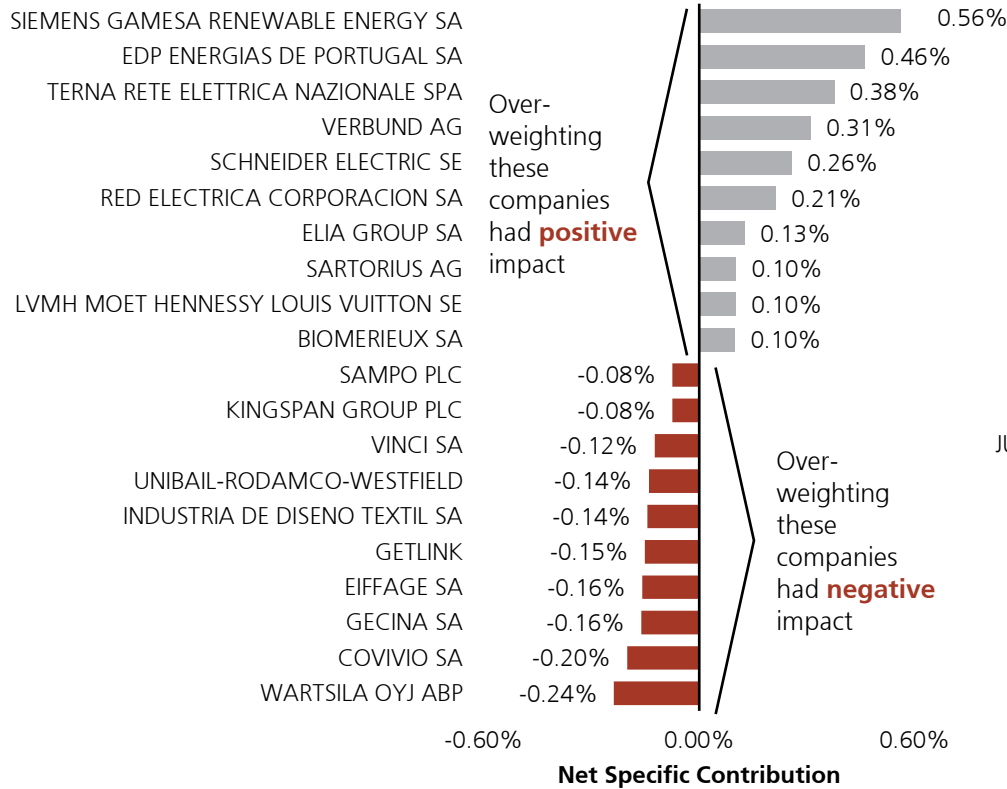
Source: MSCI BPM, UBS Asset Management. Data from February 2020 to February 2021. Net total returns.

Past performance is not a reliable indicator of future results.

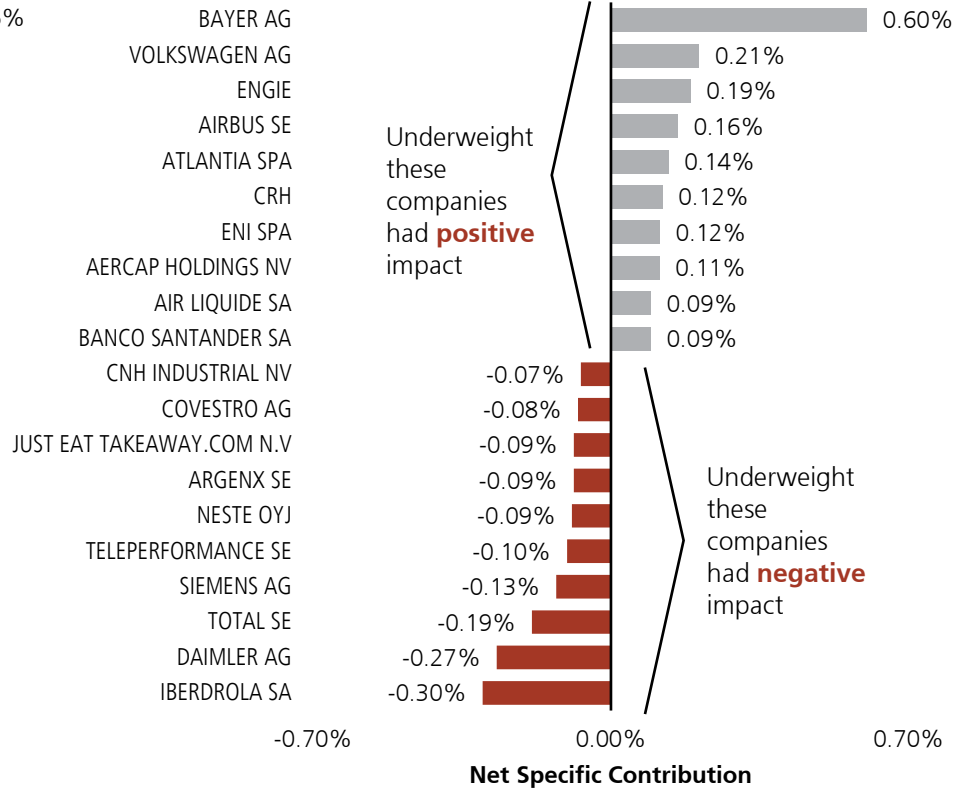
Dissecting the outperformance – Specific returns

What were the drivers behind the **+2.77%** of “specific returns”?

Highest positive/negative performance contribution of overweighting



Highest positive/negative performance contribution of underweight



Σ +1.66%
Impact in returns given by **overweighting**

Σ +1.11%
Impact in returns given by **underweight**

Source: MSCI BPM, UBS Asset Management. Data from February 2020 to February 2021. Net total returns.

Past performance is not a reliable indicator of future results. For information purposes only. No investment advice or a recommendation to buy or sell any securities.

ETF Suite Overview

The methodology is applied to a wide range of exposures



 **29bn**

USD AuM in ESG ETFs

For Equity and Fixed Income

Our sustainable value proposition:

- Currency hedged share classes to major currencies
- Physically-replicating ETFs
- No securities lending
- Stewardship: Proxy voting & engagement
- This new ETF family is categorized under SFDR Art 9(3)

Source: UBS Asset Management. Data as of end of April 2021.

Q&A session



Section 4

Disclaimers

Risk information

UBS ETFs investing in equities

UBS Exchange Traded Funds invest in equities and may therefore be subject to high fluctuations in value. For this reason, an investment horizon of at least five years and corresponding risk tolerance and capacity are required. All investments are subject to market fluctuations. Every fund has specific risks, which can significantly increase under unusual market conditions. The fund's assets are passively managed. As a result, the net asset value of the fund's assets is directly dependent on the performance of the underlying equities. Losses that could be avoided via active management will not be offset.

UBS ETFs investing in Real Estate Funds

The funds invest in real estate funds under Swiss law that are denominated in CHF and invest exclusively in Swiss properties. The price of the underlying fund units is not determined by estimates of market value but by investor supply and demand. All investments are subject to market fluctuations. Every fund has specific risks, which may increase considerably in unusual market conditions. Please contact your client advisor if you wish to receive further information on the investment risks associated with this product.

UBS ETFs investing in Metals

The UBS Exchange Traded Fund investing in metals may be subject to considerable fluctuations in value. Investors therefore require an investment horizon of at least five years and corresponding risk tolerance and capacity. All investments are subject to market fluctuations. All funds have specific risks, which may significantly increase under unusual market conditions. The fund's assets are passively managed. As a result, the net asset value of the fund's assets is directly dependent on the performance of the underlying equities. Losses that could be avoided via active management will not be offset.

UBS ETFs investing in Oil and Commodities

The Fund delivers the returns of a broadly diversified commodity index and may therefore be subject to high fluctuations in value. For this reason, an investment horizon of at least five years and corresponding risk tolerance and capacity are required. The returns payable on the Fund are dependant on payments received by the Fund from the Swap Counterparty under the terms of the Relevant Swap and, therefore, are subject to the credit risk of the Swap Counterparty. In the event that the Swap Counterparty defaults under the terms of the Relevant Swap, the Fund may suffer a loss. Assets are passively managed meaning losses that could be avoided via active management will not be offset. The net asset value of the Fund's assets are materially dependent on the performance of the underlying investments. In case the currency of the product is different from your reference currency, the return may increase or decrease as a result of currency fluctuations. All investments are subject to market fluctuations. Every fund has specific risks, which can significantly increase under unusual market conditions.

UBS ETFs investing in HFR

The Fund delivers the returns of a broadly diversified hedge fund index and may therefore be subject to high fluctuations in value. For this reason, an investment horizon of at least five years and corresponding risk tolerance and capacity are required. The returns payable on the Fund are dependent on payments received by the Fund from the Swap Counterparty under the terms of the Relevant Swap and, therefore, are subject to the credit risk of the Swap Counterparty. In the event that the Swap Counterparty defaults under the terms of the Relevant Swap, the Fund may suffer a loss. Assets are passively managed meaning losses that could be avoided via active management will not be offset. The net asset value of the Fund's assets are directly dependent on the performance of the underlying investments. In case the currency of the product is different from your reference currency, the return may increase or decrease as a result of currency fluctuations.

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UBS ETFs investing in Multi Asset Portfolios

The Fund is highly dynamic and may exhibit above-average potential growth and investment performance, depending on the economic environment. For this reason, an investment horizon of at least five years and corresponding risk tolerance and capacity are required. The Fund is exposed to the investment risk arising from the Reference Strategy underlying the Swaps. In the event that the swap counterparty defaults under the terms of the relevant swap, the Fund may suffer a loss. The Fund's assets are passively managed. As a result, the net asset value of the Fund's assets is materially dependent on the performance of the underlying investments. Losses that could be avoided via active management will not be offset. The Reference Strategy is a rules-based Algorithm designed to target consistent returns but may not be effective in delivering such returns.

The Fund is subject to the risk that its climate-focused investment strategy may select or exclude securities of certain issuers for reasons other than investment performance considerations. Climate Criteria and risks are considered as part of the Index selection process.

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The product described herein aligns to Article 9 of Regulation (EU) 2019/2088.

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