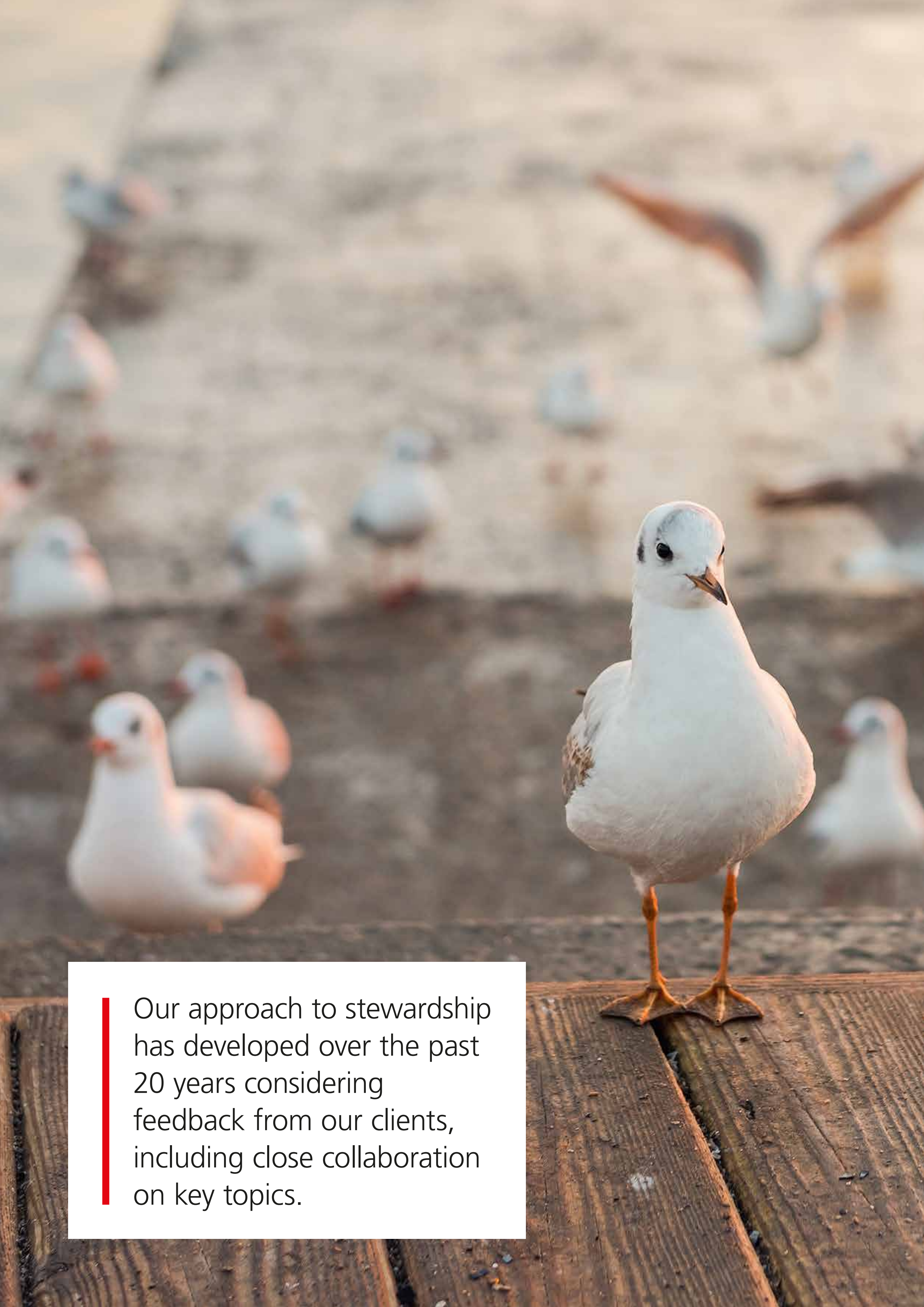
Stewardship Annual Report

Summary of activity
2022 Review and 2023 Outlook
UBS Asset Management



Our approach to stewardship has developed over the past 20 years considering feedback from our clients, including close collaboration on key topics.

The expectations for how investors approach active ownership continued to increase in 2022, as did the emphasis on activity that seeks to contribute to investment relevant and real-world outcomes.

In our last report we noted there was still much for investors and companies to do, and that remains the case. We have continued to focus on the core principles of our approach:

- Thorough research and data analysis on the key material topics that impact our investment decisions, including within our thematic engagement program.

- Significant outcome-based engagements with considered voting activity that underpins our stewardship, with a clear focus on the connection between our actions and unlocking alpha to drive value at the portfolio level.

Through the year we conducted 461 engagement meetings with 330 companies. We saw progress against objectives in 62% of our engagements. Outcomes were seen across the full range of topics we engage on, including enhanced ESG disclosure, emission targets and transition plans, increased board diversity and independence, and improved pay structures. More information is provided in the Engagement section, including various case studies.

Remaining close to our clients is key for us. Our approach to stewardship has developed over the past 20 years considering feedback from our clients, including close collaboration on key topics. When clients prefer more direct involvement in stewardship of their assets, we are able to accommodate them by better understanding their needs.

> This year we initiated a survey of a range of clients globally to get their thoughts on a variety of environmental, social and governance topics, including asking where they would like to see us prioritize. The insights we gained are invaluable and will inform our future activities.

The top suggestions we received are broadly aligned to our own plans to evolve engagement activities:

- Conduct thematic engagement in collaboration with other investors through investor initiatives.

- Expand policy engagement activities.

- Focus on deforestation and land use change in natural capital.

> Building on our established climate engagement program, we implemented a net-zero engagement framework which further supports our clients with their climate commitments, by enabling us to assess and engage issuers on the alignment of their transition plans.

It is based on guidance from market-leading standards such as IIGCC's Net Zero Investment Framework, Climate Action 100+ engagement process, and GFANZ's Expectations for Real-economy Transition Plans report, and provides a consistent, cross-sector framework to assess and engage companies on their transition planning.

As well as absorbing client feedback, we have met with various industry groups and NGOs, who often provide a different perspective and alternative suggestions on how we can improve our approach to stewardship. We have taken the feedback into account and, in some cases, we believe this has improved our policies and disclosures.

We also recognize that we need to go further and to consistently link engagement across all our strategies to company value drivers, to robustly track progress and follow up on objectives still outstanding.

To support this, we have added 19 dedicated and experienced people to our team across different locations in Asia, Europe, UK and the US, more than doubling the strength of our capabilities. We have enhanced the governance of our approach to active ownership with specialized areas of focus and updated policies and guidelines. Additionally, we reviewed our process with a focus on how we select and prioritize companies for engagement. Yet one thing is perfectly clear to us, engagement requires people.

2022 Engagements

330 Companies	461 Meetings	62% Progressed vs. objectives

Our stewardship process

Thorough research and data analysis	Outcome-based engagements	Considered voting activity

2022 Voting activity

12,368 Annual General Meetings	123,229 Individual resolutions	19,795 Votes against management	64% Meetings with a vote against management

What was new in 2022?

Added 19 dedicated and experienced professionals to the Sustainable Investing and Impact team

Advanced our long-standing climate engagement program for net-zero, including enhanced expectations of companies, and linked voting actions

Launched social thematic engagement program

Onboarded 10-plus new data sets in 2022 which support our insight on companies

Introduced an ESG Opportunity Dashboard to our proprietary suite of ESG Integration tools. The Dashboard enables us to view companies' sustainable revenues and alignment to the Sustainable Development Goals (SDGs). This sits alongside our ESG Risk Dashboard.

One engagement where we felt the outcome was indicative of a particularly successful result was with New World Development, an Asian real estate firm listed in Hong Kong. The company's actions addressed our feedback and went beyond our expectations. In September 2022, the company announced several changes to the board, including the appointment of four new directors, three of which were independent, female candidates, drawn from a variety of professional and educational backgrounds.

With these appointments, the company not only refreshed the board significantly, but also met our expectations on gender diversity (35% of directors are now female, vs. only 20% at the 2021 AGM), and made substantial progress towards meeting our requirements in terms of board independence for controlled companies (board independence now stands at 30%, vs. our expectation of 33%). Such a result is even more compelling when considering that the company is de facto controlled, with one shareholder owning more than 45% of the share capital.

General insights from 2022

- Standard-setting organizations and regulators continue to provide new or revised guidance and standards, as well as new or enhanced regulatory requirements for climate disclosures, and companies and investors need to adapt.

- Companies across all regions are increasingly aware of societal expectations placed upon them to focus on more than just growth and returns, but also their human capital impact. However, while many companies communicate their 'purpose,' we expect companies to explain how this purpose is aligned with their practices on a wide range of issues, including sustainability. This would enable shareholders to meaningfully judge policy with practice. We have seen limited evidence of this, and we would hope to see this become more widespread across different markets.

- Investors and companies have focused on implementation of their net-zero commitments and there has been an increased interest in natural capital following COP15. In 2022, we built out our foundation for a thematic engagement program to work with investee companies to ensure that natural capital is accounted for and included in their financial and economic decision making.

Engagement insights

- Environmental and social issues are invariably linked, meaning one cannot and should not be addressed without due consideration to the other. How companies manage and oversee these issues from within the board is a key area of governance that companies should focus on.

- Companies across regions are committed to engaging with their shareholders, but it has been highlighted by some that the quality and depth of the interactions they have with investors could be improved through better preparation on the part of shareholders. We feel that we have strong and meaningful discussions with companies, underpinned by thorough research and data analysis, and this has been reflected in the positive outcomes we are seeing. Remaining close to companies is a key aspect of building strong relationships and this focus remains a core part of our approach.

Voting insights

- As expected, we have seen a significant increase in the number of proposals put to shareholders regarding climate change, particularly by management. It is no longer enough for companies to have a net-zero commitment in place: investors are seeking more detailed and ambitious decarbonization plans.

- Many asset managers increased the stringency of their existing voting guidelines in relation to gender diversity and the ethnicity targets in specific markets. We strengthened our policy in 2022 on two key areas in particular.

Gender diversity

- For developed markets, we expect companies with at least 10 board seats, or market cap equivalent of ≥ USD 10bn, to have at least 30% female representation. We will vote against the board director responsible for the nomination process where this is not the case.

Ethnic diversity

- For companies where data is collected and disclosed, we require the board to include at least one director from an ethnically diverse background. For 2022 this applied to companies in the FTSE 100 Index in the UK, and S&P500 index in the US.

Underlying some of these trends is a growing challenge: By voting shares on ESG-related resolutions at annual general meetings investors get ever more involved in the running of companies, whether intentionally or otherwise, as shareholder proposals increasingly request specific corporate change, beyond disclosure and long-term ambitions or targets.

The prescriptive nature of some shareholder proposals increases the complexity for investors, and, in our view, they require careful consideration to balance sustainable goals against realistic and/or cost-effective improvements from companies.

Finally, in 2022 we offered strong support to the initiative taken by the IFRS Foundation International Sustainability Standards board (ISSB) to establish international sustainability disclosure standards. As a global financial institution, we welcome the creation of global standards for company disclosure of ESG performance through an international standard-setting body to facilitate comparable, consistent, and reliable information on sustainability performance.

We have contributed views to industry responses to the ISSB Exposure Drafts (IFRS S1 General Requirements for Disclosure of Sustainability related Financial Information and IFRS S2 Climate-related Disclosures) consultation and particularly support the responses of the Institute of International Finance (IIF) and SASB Standards Investor Advisory Group (IAG).

Looking ahead

We believe our policies, processes, and systems, particularly the framework for consideration of material ESG criteria within investment decisions, give us a strong foundation upon which to further strengthen our active ownership strategy.

> As we look ahead, we are streamlining our overall framework to further enhance its effectiveness, with the goal of both supporting clients' returns and sustainable impact objectives. We started this process by thinking about the key objectives of our active ownership activities. Revisiting the 'why' is critical to improving the 'how' and importantly, the results of our work.

Following this review, we are introducing complementary overlapping categories of company engagement, with clearly defined scopes and intended outcomes. We are also simplifying how and when we prioritize our engagement meetings, providing closer alignment and interconnectivity between engagement on thematic topics such as climate and social issues, our investment-focused engagement, dialogue around controversies and voting-related topics. We believe that this will enhance the impact of our active ownership activities.

In our view, active ownership should involve working in partnership with companies and we plan further to develop this approach as part of our stewardship activities. This includes publishing key expectations for companies. However, we recognize that in some cases constructive escalation of engagement with companies may require using the full range of engagement mechanisms to achieve desired outcomes. This is reflected, for example, in the changes we have made to our proxy voting policy regarding climate related voting.

Additionally, we are improving our reporting and transparency to meet regulatory requirements and client needs. There are various divergent transparency and reporting standards across individual jurisdictions. We recognize that clients are seeking more uniform definitions and reporting standards. Supporting this, in the UK the FCA has set up a working group to develop recommendations on minimum vote reporting requirements, and to build an industry consensus on a comprehensive disclosure framework for asset managers in the UK. We will be providing our feedback on this.

Climate and social engagement programs

We are sharpening our thematic engagement on climate change, with a focus on the net-zero alignment and transition planning of companies. This includes not only a robust and structured net-zero research framework, but also sector-specific expectations that aim to guide engagements and enhance our objective setting and tracking approach. We are expanding the scope of the program to 75 companies across the energy, utilities, chemicals, and materials sectors, representing a 50% increase in our focus list, in addition to climate remaining a core topic in the majority of engagements we have with companies. In regard to our social engagement program, on human capital, the focus of our engagement is on businesses providing and promoting decent work. This includes a focus on diversity equity and inclusion (DEI) and labor rights.

Proxy voting policy updates effective in 2023

To ensure a continued clear alignment across our active ownership approach, linking our climate engagement with voting action is key. In this respect, one aspect we are clarifying in our policy framework for 2023 is our climate and net-zero expectations of companies.

In 2022 we outlined our criteria for management say-on-climate proposals. In 2023 we will further evaluate such proposals against the following six key factors:

- Climate governance, such as board and management skillset, accountability and incentivization through links to remuneration
- Target setting, with an expectation of a net-zero ambition and interim targets
- Quality of the company's decarbonization strategy as assessed against sector best practices
- Net-zero performance alignment, including stretch and scope of targets against recognized benchmarks
- Lobbying & policy engagement
- Use of offsets

We are convinced that a focused, investment-led and outcomes-driven approach to active ownership brings benefits to companies, their shareholders and other stakeholders including society. We also believe that engagement can contribute to value creation and protection at the company specific and systemic level addressing both risks and opportunities. The work we have done, and improvements we are making, including expanding our resources and evolving our approach, are very much with this view in mind.

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