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Stewardship Annual Report 2020

UBS Asset Management | Aligning activities

Contents

FOREWORD

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2020 marked a pivotal year for sustainable investing. As the COVID-19 pandemic took hold globally, the social and economic ramifications led the capital markets to intensify their focus on sustainability. Indeed, despite a period of significant market volatility at the start of the year, sustainable funds witnessed significant inflows, closing the year at an all-time high of USD 1.6 trillion[1].

It is against this backdrop that we present our Stewardship Annual Report 2020.

We have long held that fundamentally, sustainable investing is driven by better transparency. Considering environmental, social and governance (ESG) factors can bring greater insights into our assessments of those companies in which we invest. It helps us better understand how their business practices impact both people and planet, and whether those impacts are positive or negative. We firmly believe this understanding drives better long-term investment outcomes.

These same high standards of transparency apply to our own activities. In this report we provide a full account of our stewardship activities throughout the course of 2020, explaining how they have been implemented across asset classes, and highlighting the outcomes we have seen to date.

A notable feature of this year's report is the expansion of stewardship beyond its traditional domain of listed equity. While the investment approach may vary by asset class, the underlying ESG issues have a common relevance. For that reason, many of our engagements now include analysts from a variety of disciplines, including equity, fixed income and sustainable investing (SI).

Similarly, we also see a growing role for stewardship within the alternative asset classes as an important means of communicating our views and expectations and, ultimately, driving positive outcomes. We have included a number of examples of engagement undertaken by our Real Estate and Private Markets business in 2020, reflecting on their impact and evaluating next steps.

Ultimately, the insights of our stewardship activities feed into our investment decisions and form an inextricable part of the SI integration process. As such, they are outcome focused. A key objective of this document is to report on those outcomes, their effect on companies' ESG performance and investment decisions, together with an evaluation of our next steps.

Beyond the investment process, it is our belief that as stewards of our clients' assets, we have an obligation to work with the world's standard setters and policy makers. We have seen significant changes in the implementation of SI standards and regulations in recent years and our expectation is that this evolution will continue apace, at least in the short- to medium-term. As a large-scale global asset manager, backed by one of the world's largest financial institutions, we have a powerful voice which we can use to protect both our clients' and our own assets. We report on some of our activities in this regard, both with public policymakers and industry bodies and outline our ongoing commitment to improving the quality of ESG data and company disclosures.

1 Morningstar

Going forward, there are a number of themes which we believe will impact and shape our stewardship activities. In particular, we expect to see stronger commitments from investors, corporates and public bodies alike to transition to net zero. That is why we were proud to become a founder member of the Net Zero Asset Managers Initiative at the end of 2020, a commitment which we detail further on page 9 of this report. Not only have we been vocal in our calls for greater levels of capital to be directed towards a climate-smart future, we have also developed the tools which can help our clients transition their portfolios. Our Climate Aware range of investment solutions is underpinned by a dedicated three-year climate engagement program, the outcome of which we reflect in this report.

Alongside a clear climate strategy, we are increasingly looking for companies to strengthen their commitments to people and purpose. The COVID-19 pandemic has underscored the crucial role which businesses have to play in society and exposed heightened expectations of what it means to be a good corporate citizen. Indeed, there would appear to be a growing acceptance that in the twenty-first century, the board of a well-functioning company needs to consider not just shareholder returns but rather a broad range of factors which can deliver value over time. And at the heart of these factors sit the twin drivers of people and planet.

This year's Stewardship Report is also characterized by one other important input and that is the new UK Stewardship Code and the principles it embodies. We welcome the increased standards which this code has introduced. Indeed, it has been recognized as setting a new bar internationally for reporting on stewardship activities, which is why we endeavour to implement and align to its standards across all strategies in all regions.

Barry Gill
Head of Investments
UBS Asset Management

Michael Baldinger
Head of Sustainable and Impact Investing
UBS Asset Management

SECTION 1

Who we are

UBS Group AG

UBS's goal is to be the financial provider of choice for clients wishing to mobilize capital towards the achievement of the United Nation's Sustainable Development Goals (SDGs) and the orderly transition to a low carbon economy (the Paris Agreement). We are working towards this goal by integrating sustainability into our mainstream offerings, through new and innovative financial products with a positive effect on the environment and society, and by advising clients on their philanthropy. And it is through the management of environmental and social risks, the management of our environmental footprint and our sustainability disclosures that we continue to set standards in the industry.

UBS Asset Management

UBS Asset Management (UBS-AM) is a large scale asset manager, providing traditional, alternative, real estate, infrastructure and private equity investment solutions to private clients, financial intermediaries and institutional investors worldwide.

We believe SI can result in better overall risk-adjusted outcomes for clients, primarily by protecting against downside risks and identifying opportunities associated with ESG related issues. SI is grounded in the broader use of ESG information within investment analysis and company dialogue, with the conviction that such information can lead to better informed investment decisions. By identifying long-term investment opportunities, anticipating and managing financially material risks, engaging with the relevant third parties, and creating products and services that take into account ESG considerations, we believe our investments will be more successful in the longer term and will positively impact society and the environment.

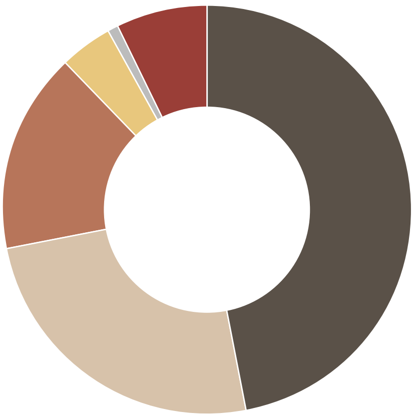
With a number of investment areas and a range of strategies within each area, the approach to ESG issues necessarily varies by product type and, to some extent, across countries/regions according to local regulations, market customs and client needs.

A diversified asset manager

Diversified across business lines, regions and distribution channels

Invested assets USD 1.1 trillion

Business lines[2]

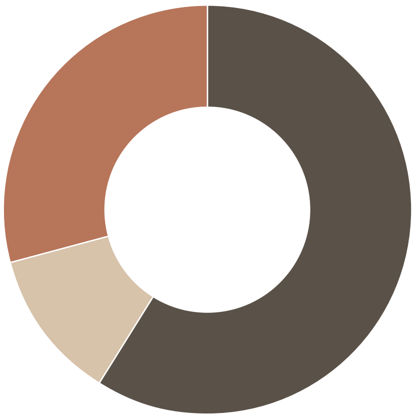


Equities	47%
Fixed Income (incl MM)	25%
Multi Asset	16%
Hedge Fund Businesses	4%
Infrastructure	1%
Real Estate	7%

Regions

Americas	23%
Asia Pacific	17%
Europe, Middle East & Africa	27%
Switzerland	33%

Distribution channels



Third Party Institutional[3]	59%
Third Party Wholesale	12%
Global Wealth Management	29%

Source: UBS Asset Management
As of 31 December 2020. Data represents the internal distribution view for regions and distribution channels, and production view for business lines. Data excludes any assets from non-consolidated associates. Total invested assets USD 1,092bn of which passive strategies USD 457bn.

2 Equites, Fixed Income, Multi Asset & Solutions and Hedge Fund Businesses reflect asset classes. The Hedge Fund Businesses consist of the O'Connor (single manager) business and Hedge Fund Solutions (multi-manager) business. Real Estate & Private Markets (REPM) asset class is split into separate business lines

3 Includes UBS Investment Bank channel

SECTION 2

Sustainable investing at UBS Asset Management

Integrating ESG factors

We are committed to embedding sustainable investing as the everyday standard across our business. Our assets under management (AUM) in sustainability focused strategies have risen from USD 5 billion in 2017 to over USD 97 billion in 2020 and our ESG-integrated AUM reached USD 441 billion at the end of 2020.

Across our traditional active businesses ESG research is fully integrated. Within index equities and fixed Income we have extensive experience incorporating sustainability factors within index funds and rules-based strategies across three pillars:

- Replication of third-party indices
- Construction of custom indices in collaboration with clients, consultants, and index providers
- Constructing proprietary rules-based strategies

Our Real Estate and Private Markets business incorporates ESG factors in all their investment processes. Within our multi-asset business, different methodologies of ESG assessment are combined into one portfolio, making it challenging to create one overarching profile of the ESG characteristics. Our approach is to integrate sustainability where possible, leveraging best practices. Our multi-manager funds, traditional and alternative, have included aspects of ESG into the manager due diligence process and are using ESG topics for new product development.

Reinforcing our commitment through stewardship

It is our fiduciary duty to monitor companies' ESG performance, engage with management on identified risks and opportunities and vote consistently at shareholder meetings. Stewardship is embedded in our SI approach as our SI policy highlights.

We take an active and holistic approach to stewardship through a clear and structured program that fully aligns with clients' investment beliefs, policies and requirements. It encompasses the integration of ESG factors into four inter-dependent activities:

- Investment decision making;
- Engagement with corporate management;
- Exercise of shareholders rights; and
- Advocacy with policy makers and standard setters.

When exercising our shareholder rights through proxy voting we act in accordance with our corporate governance principles, which are underpinned by two fundamental objectives:

- To act in the best financial interests of our clients to enhance the long-term value of their investments.
- To promote best practice in the boardroom. As an investment advisor, we have a strong commercial interest in ensuring that those companies which we invest in on behalf of our clients are successful. In our view, that starts with the Board of Directors.

UBS-AM's net zero ambition

We are committed to working with our clients to achieve a low carbon future through our investment offerings across asset classes. In 2020 we launched a series of both active and passive low carbon products across fixed income and equities, alongside our existing passive Climate Aware strategy. In total, by the the end of 2020, assets across all Climate Aware strategies exceeded USD 15 billion.

In December, 2020 UBS-AM became a founding signatory of the Net Zero Asset Managers Initiative. As part of the Initiative, we will work in partnership with our clients on decarbonization goals, consistent with an ambition to reach net zero by 2050.

We will also continue engaging companies on aligning their own strategies with the Paris agreement, including working with companies in more carbon intensive sectors to set concrete targets and track progress. The Initiative will offer UBS-AM an opportunity to share best practice with other asset managers, and to work collaboratively on providing compelling product offerings for institutional asset owners to meet their low carbon commitments.

www.netzeroassetmanagers.org

Investment Horizons

Stewardship activities are usually conducted over several years. Therefore the typical holding period of an investment is very relevant. Given the breadth of our investment activities there is no single average holding period, but rather it varies by asset class.

The typical equity strategy has a long-term investment horizon with an average holding period of two to four years. However, this is a blunt measure and holding periods can vary, generally from a low of one year to a high of six, while some stocks are held for over a decade.

Fixed income has a somewhat different perspective: unlike equity, using voting rights (while holding on to stocks) does not work. Buying and selling bonds, which can impact financing costs, is the fixed income equivalent of the "vote". In our experience three to five years are needed to see a positive impact from stewardship.

Turning to real estate and infrastructure, the hold period depends on the strategy applicable to the asset, and can be anywhere between 1 to 15 years.

Looking first at real estate assets, at one end of the scale are shorter-term holds, where capex is spent on an asset which is then sold; at the other are long-term holds which are held for their income producing attributes. In between sit opportunistic and development strategies. The majority of real estate assets we invest in are "core" assets, held over the long-term for their stable income. Our typical analysis assumes a five year hold. Beyond that the uncertainty is too high.

For infrastructure, our Archmore funds have 15-year life periods and will be looking for a 10 to 12 year hold period before selling.

SECTION 3

Our commitment and governance

UBS-AM became a signatory to the United Nations' Principles for Responsible Investment (PRI) in 2009 and was one of the first signatories of the UK Stewardship Code in 2010, receiving Tier 1 status from the UK Financial Reporting Council in 2016.

We have invested extensively in this area, growing our resources and capabilities while also evolving our processes. For example, in 2018 we reviewed and enhanced our approach to meet best practice in stewardship, as outlined by the PRI. This was followed by a further review in 2019 to ensure our approach aligned with the requirements of the new UK Stewardship Code. Today, UBS-AM aspires to be a market leader for voting and engagement on ESG issues in general and climate in particular.

In 2020/21 UBS-AM was rated:

- A+ or A across all modules of the PRI (including A+ in Stewardship, A+ for Strategy and Governance, 'A' in both Listed Equity and Fixed Income and, for the 4th year running, A+ for Property and Infrastructure)[4]
- A+ leadership band for engagement and voting on climate by InfluenceMap[5]
- Market-leading performance in 2020 GRESB Assessments

Meeting client demand through stewardship

Our approach to stewardship has developed over the past 20 years through collaboration with and feedback from our clients. We have conducted surveys of clients to understand their expectations linked to sustainability and stewardship, for example, ESG: Do you or Don't you? This was an eighteen month survey of over 600 institutional investors globally, who collectively represented over USD 20 trillion AUM.

Meanwhile, our climate engagement approach emerged from close collaboration with a major UK pension fund client in the UK. Together, we developed our Climate Aware investment strategy to meet a specific requirement of the client. A key feature of the strategy was the launch of a three-year climate engagement program targeting the top fifty greenhouse gas emitters in the oil & gas and utilities sectors within the strategy. We also established a Climate Aware advisory board. Its purpose is to provide institutional investors in the strategy with updates on the climate engagement program, while also allowing them to provide feedback and help shape the program over time. These initiatives help us maintain our close collaboration with clients while ensuring an ongoing evolution of the climate engagement program, covering all UBS-AM strategies.

Similar collaborations with have supported our stewardship activities on other priority topics such as gender diversity and impact.

4 Source: 2020 UN PRI Assessment
5 Source: InfluenceMap 2020

Stewardship codes of best practice

We are signatories to several codes of stewardship best practice. These include:

- The International Corporate Governance Network (ICGN) Global Stewardship Principles

- The UK and Japanese Stewardship codes

- We also support the Hong Kong SFC Principles of Responsible Ownership, the investor-led ISG Stewardship Framework in the USA and meet the requirements of the Australian FSC Standard 23 on Principles of Internal Governance and Asset Stewardship.

Our governance

As we have already highlighted, we regard the stewardship of our clients' assets as a core element of our fiduciary responsibilities. For this reason, and in order to maximize the economic value of our clients' investments, UBS-AM's Executive Committee has established the UBS-AM Stewardship Committee. Its role is to provide support to the UBS-AM Executive Committee with regards to all stewardship activities. The Committee is formed under the authority of the Head of Investments, who is accountable to the President of UBS-AM.

The Committee is governed by a specific Terms of Reference. This outlines its scope, roles, responsibilities and delegations, as well as reporting and escalation of the Committee's operations to the President of Asset Management and wider UBS business group. The Committee is the executive forum for all relevant legal entities of the traditional business of UBS-AM globally.

The stewardship governance structure ensures alignment of our voting and engagement activities with our Stewardship Policy across strategies. It is also supports the imperative for us to send a clear message to companies based on all our holdings across both passive and active positions.

The Committee meets on a quarterly basis, with ad-hoc meetings when necessary. It is chaired by the Head of Investments, and its membership comprises: Head of Active Equities, Head of Systematic and Index Investing, Head of Global Institutional Client Coverage, Head of Sustainable and Impact Investing and Head of SI Research.

The Stewardship Committee is responsible for:

- Oversight of our stewardship strategy across ESG topics
- Reviewing and approving our Proxy Voting Policy annually, including any updates as required and / or changes to scope of country coverage
- Reviewing and approving membership of any organization or collaborative efforts with other investors in relation to ESG/Stewardship
- Approving all proposed proxy voting decisions which deviate from UBS Proxy Voting Policy guidelines
- Reviewing and determining voting decisions where a consensus has not been reached among our portfolio management teams
- Reviewing and approving requests to participate in the filing of a shareholder resolution
- Reviewing and approving requests to escalate our engagement activities through letters to the Board, AGM statement and/or public communications

On a day-to-day basis, our stewardship activities are managed and coordinated by our specialist SI Research and Stewardship team. This team is led by Michael Baldinger who reports directly to the Head of Investments, Barry Gill. Barry, in turn, is a member of UBS-AM's Executive Committee, reporting to Suni Harford, President of UBS-AM.

The goal of this governance structure is to ensure clear oversight from the Head of UBS-AM through to our specialist SI Research and Stewardship team, with a dedicated committee in place to oversee our activities in this area.

This structure has enabled us to set out clear objectives for our activities and put in place experienced resources to meet these objectives.

Key policies

Our Stewardship and Proxy Voting policies provide a reference framework for our activities of monitoring and dialogue with investee companies. Both policies are reviewed and updated on an annual basis. Through this process we review any changes in relation to market regulations or sustainability and stewardship practices. We also take into account any regular voting actions we have taken during the year which indicate that a strengthening of our policy would be necessary. Client feedback received during the period is also included in our analysis.

Stewardship policy

UBS-AM's Stewardship Policy sets the definition of engagement and outlines its inter-relationship with our integration and proxy voting processes. It stresses:

- The integral role of engagement in our fiduciary duty towards our clients
- The importance of engagement as a key constituent in the investment process across both passive and active strategies

The policy provides an overview of the way in which we prioritize engagement cases. It also describes our research process, the sources we use, the topics we address and the company representatives we normally interact with.

The document details the system we use for defining engagement objectives and tracking progress against those objectives. It also sets out the escalation process we will follow when our dialogue with companies has not produced the required level of success. Also detailed are:

- Our criteria for collaboration with other investors
- Our processes for addressing insider dealing and conflict of interest risks

Finally, the policy sets our commitments for undertaking good quality dialogue with companies and providing useful disclosure to clients and the public more generally.

Proxy Voting policy

Our Proxy Voting policy describes the value of voting within the investment and engagement process and explains when we might choose to abstain or not vote on an item. The document also provides specific expectations on ESG factors which guide the exercise of voting rights on behalf of clients. Guidelines are provided on board of directors, shareholders' rights, capital allocation and management, audit and risk oversight, remuneration, environmental and social issues and more general corporate governance matters. Finally, the documents outline the proxy voting process, the use of a third-party service provider, conflict of interest management and reporting.

Proposed changes to our voting principles are drafted by our specific SI Research and Stewardship team and shared with our investment teams for comment and feedback. All final proposed updates are then reviewed by our Stewardship Committee, who must approve all amendments. The changes are also provided to the appropriate boards of our internally managed mutual funds, so that they can confirm that the board accepts the changes made.

In 2020 key changes to our Proxy Voting policy were:

- We may choose to vote against the board chairman of a company when we determine that insufficient progress has been made on specific topics raised during our engagement with companies, particularly in relation to climate change matters discussed as part of our climate related engagement program.

- Where we regard less than 50% of the board to be independent, we may elect to vote against the chair of the Nomination Committee, or other committee responsible for board appointments, in order to provide a signal that further board succession planning and refreshment is appropriate.

- If the overall average independence of a key board committee falls below our threshold requirements we may vote against the chair of the relevant committee, or a director serving on the committee who we regard to be non-independent.

- If a company does not rotate the audit partner in line with national best practice requirements, then we may elect to vote against the chair of the Audit Committee.

- In markets where clawback policies with remuneration schemes are best practice, we may vote against any scheme where a clawback provision is not part of the remuneration structure.

- We will generally only support directors being granted so called buy-out awards when joining a new company provided that these have been issued on a like-for-like basis of awards foregone at a previous company.

The full text of our policy is available here.

Managing potential conflict of interests

Our principal objective when considering how to vote, or whether to engage with a company, is to ensure that we fulfill our fiduciary duty by acting in the interests of our clients at all times.

Situations where actual and potential conflicts of interest may arise in connection with our stewardship activities include where:

- The interests of one client conflict with those of another client of UBS-AM;
- UBS-AM invests on behalf of our clients in publicly listed shares of UBS Group AG;
- The listed company whose shareholder meeting is being voted upon is a client of UBS-AM;
- Affiliates within the wider UBS Group act as advisor to the company engaged or we vote on;
- Board members of UBS Group AG serve on the board of an external company, where UBS-AM will be voting upon their election to the board;
- The interests of an employee of UBS-AM directly conflict with the interests of a client of UBS-AM.

We have implemented the following guidelines to address these potential conflicts of interest:

- We exercise voting rights in line with UBS-AM guidance and principles and retain a record of any deviation from UBS-AM policies.
- Where UBS-AM is aware of a conflict of interest in voting a particular proxy, a vote will be cast in line with UBS-AM policy guidelines, unless it is identified that such a vote would not be in the best interests of our clients. In that event the Stewardship Committee will review the case.
- As it relates to the voting of UBS shares, we will vote in accordance with our internal conflict process, as with all other companies we invest in for clients. We will document the rationale for our vote. Exceptions to this policy may be appropriate or necessary where the Stewardship Committee determines that it is prudent to engage an independent fiduciary to manage the voting decision and/or process.
- In the event that UBS-AM is responsible for voting rights over a client portfolio that is invested into units of a publicly traded UBS-AM investment or mutual fund, any such voting rights will not be exercised if the fund announces a meeting of unitholders. In such cases, any voting rights must be exercised directly by the external client or end beneficiary.

- Under no circumstances will our proxy voting decisions be influenced by our general business, sales or marketing, with impacted functions remaining outside of our voting decision process.

- UBS-AM and its affiliates engaged in banking, broker-dealer and investment banking activities ("Affiliates") have policies in place prohibiting the sharing of certain sensitive information. UBS officers are not permitted to discuss voting intentions with an Affiliate and if they are contacted by an Affiliate, contrary to our policy, this will be referred to our Compliance and Operational Risk group. The chair of the Stewardship Committee will also be advised, who may advise the President, UBS-AM.

- Where UBS Group has provided seed capital to a fund of UBS-AM any voting rights arising from such capital will not be exercised.

- We provide specific and periodic training for employees outlining their responsibilities in relation to conflicts of interest.

- In seeking to undertake engagement with a listed company we will follow the factors outlined in our prioritization process. Information about the companies we have targeted within our engagement program and progress of dialogue will not be released to other UBS divisions, with the only exception of cases where a public statement is planned. In such cases, we have established a process to share the nature of the statement to be released and the company of interest with an identified UBS AG department entitled to receive such information. However, final decisions to make public statements on investee companies remain at the discretion of UBS-AM.

We report on the number of conflicts identified in 2020 in Section 6 of this document.

Resources

Our specialist Sustainable and Impact Investing team (SI team) is an integrated function within the wider business area. Led by Michael Baldinger, Head of Sustainable and Impact Investing, the team comprises 20 investment professionals with an average of 17 years industry experience. Drawn from seven nationalities, team members are located in Zurich, London, Amsterdam, New York and San Francisco.

The team's responsibilities are organized around three core activities:

SI Research and Stewardship

Our SI research and stewardship analysts collaborate with our investment teams on a daily basis, to ensure consistent integration of material ESG factors into investment decisions. The team provides research, data, and information on best practices around the use of sustainability data in forward-looking investment analysis.

The team is responsible for overseeing and leading our stewardship activities, including the corporate engagement program and proxy voting decisions. Our SI research analysts are organized on a sector basis, in alignment with our fundamental investment analysts. Our stewardship analysts are organized by region and focus on items related to governance and proxy voting. This dual coverage enables us to identify a broad range of sustainability and governance factors at investee companies from both a relative sector level and absolute country-specific level.

SI Investment Specialists

Responsible for the development of SI products and solutions, our SI specialists also support stewardship reporting deliverables, working closely with the SI research and stewardship team. This team works closely with client-facing professionals to better understand client needs and market trends and to provide education on sustainability.

SI Business Strategy

Responsible for the overall management of the SI strategy of UBS-AM and providing reporting on those activities as part of UBS's overall sustainability objectives. In addition, this team is responsible for the internal and external implementation of SI. This includes the publication of thought leadership and external communications which inform and educate, both about UBS-AM's SI activities and SI developments broadly, ensuring alignment in the approaches, content and messaging.

Rewarding stewardship

In 2019, KPIs focused on sustainability integration were implemented for investment analysts and portfolio managers throughout active equities and fixed income. These incentives were established to ensure the successful implementation of the sustainable investment integration strategy both in relation to research and dialogue with investee companies. Members of the SI Research and Stewardship team, have specific KPIs included in their performance assessment frameworks related to conducting ESG research and engagement dialogue with companies from their sector or regional coverage.

External service providers

Use of ESG research service providers
In order to conduct our research and identify companies with high ESG risks, we use nine third parties which specialize in overall ESG assessments and/or thematic research on specific topics and sectors. Many of these sources are formally included in our ESG risk dashboard covering both our listed equity and fixed income holdings. Others are accessed by our SI and investment analysts to complement their own in-depth research on specific stocks.

When selecting ESG service providers to work with we take into consideration:

- Years of experience in the industry
- Universe of coverage both from a sector and geographic perspective
- Number and expertise of researchers
- Transparency and quality of the underlying methodology for ESG assessments
- Clarity on conclusions achieved and underlying data used
- Ability to provide information tailored for our (and our clients') needs
- Complementarity and added value in comparison with similar offerings by other peers.

Third-party research is available and used by our analysts. However, our final conclusions on a company ESG profile and areas for engagements might differ significantly with the opinions of individual service providers. During our meetings with management we often clarify how we evaluate and use external research.

Use of proxy voting advisory services
Our proxy voting process is supported by a third-party proxy advisor, Institutional Shareholder Services (ISS). ISS is responsible for issuing voting recommendations to UBS-AM based on our internal Proxy Voting policy. We use the research and recommendations provided to supplement the assessments undertaken by our dedicated stewardship team; we do not delegate our voting responsibilities to ISS. We retain full discretion when determining how to vote for shares held for our clients and funds.

We constantly review and monitor the quality of services provided to us by third parties, both through daily review of the research received and a due diligence process focused on the compliance of policies, controls and procedures and quality of content. This includes a review of how they manage any conflicts of interest that may arise through certain affiliations or business practices.

We often provide feedback to service providers on their methodology and any potential gaps we observe in their analysis. When we understand that a company has had difficulties in interacting with a specific service provider we have relationships with, we might facilitate further dialogue between the parties.

External assurances

UBS Group AG

ISO 14001 Audit

UBS Group AG's environmental management system covers the entire scope of UBS products, services and in-house operations that may give rise to an environmental impact. It is externally audited in accordance with environmental management system certification (ISO 14001.) The program is audited annually and is recertified every three years. The last recertification took place in 2020. Within the scope of this audit are UBS-AM's engagement and proxy voting activities. The implementation of the environmental management system requires each division to set clear, actionable goals against which they must report and are subsequently audited. For UBS-AM, stewardship activities fall within the scope of that goal setting.

GRI Audit

As part of UBS Group AG's annual reporting, a sustainability report is published in accordance with GRI reporting standards. Within this report, UBS-AM discloses its engagement and proxy voting activities, with a specific focus on E and S topics. The sustainability report is audited externally to ensure that all data provided, including UBS-AM's stewardship data, is true and fair.

Further information regarding the ISO 14001 audit and GRI audit can be found in the most recent UBS Sustainability Report.

UBS Asset Management

Internal audit

In addition to the Stewardship Committee's oversight, we regularly review our stewardship approach. A detailed internal audit was performed in 2019 to ensure our practices were conducted in our clients' interests. Agreed policies and procedures were found to be appropriately implemented. The same exercise will be conducted in 2022.

External assurances which focus specifically on stewardship activities remains an area which is in its infancy. However, we will keep monitoring this space until it reaches sufficient maturity to add material value to our processes.

Internal review

In the first quarter of 2020, we concluded an internal review of our approach to proxy voting, led by Suni Harford, President, UBS-AM.

Following this review we made various improvements to our approach. These included:

- Increasing our team resources with the external hire of two additional analysts during Q2 2020
- Strengthening the oversight process of our Stewardship Committee in regard to voting when our investment teams have differing views on how to vote specific proposals
- Updating our protocols for managing internal communication with other UBS divisions by clarifying our conflict of interest processes
- Adding the disclosure of voting rationales to our public website
- Changing the ownership of our core voting policies to the President, Asset Management

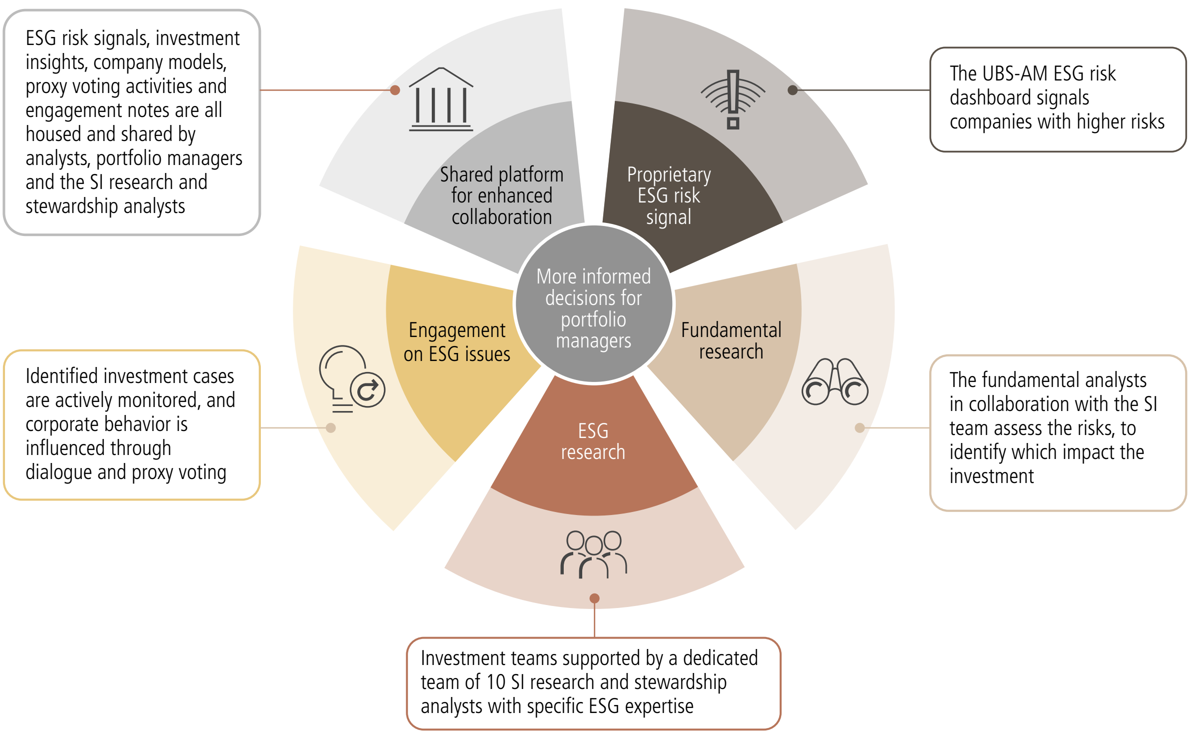
SECTION 4

Our approach to stewardship

We have touched on the central role which stewardship plays, both in the fiduciary obligations we have towards our clients and within our investment processes. In this section we expand further on the relationship between stewardship and investment research, as well as its application within the investment decision making process.

As a manager of both active and passive strategies, it is worth mentioning at the outset the synergies which we believe managing both active and passive strategies can bring to our stewardship approach. On the one hand active strategies can benefit from the increased exposure to companies generated by passive strategies which can lead to stronger corporate access and a greater ability to influence management. On the other, the in-depth knowledge of expert financial analysts with sector expertise, and their relationships with corporate management, can benefit passive strategies.

Integration and stewardship: an intrinsic part of the investment decision making process in active strategies



Stewardship: the active strategy perspective in listed equity and fixed income

Our ESG integration process focuses on taking better account of material risks which could enhance investment returns and/or impact downside risks. Put simply, ESG integration involves a more holistic accounting of sustainability factors in the research process both for our listed equity and fixed income analysts. We believe this leads to better informed investment decisions which could, in turn, reduce risks and enhance performance.

The assessment of ESG issues is oriented around the ESG Material Issues framework developed by our Sustainable Investment (SI) research analyst team. Sustainability covers a wide range of topics, so financial analysts and portfolio managers need to focus their attention on a set of key factors that could affect a company's financial performance. Our materiality framework identifies the three to five most financially relevant factors per sector that can impact the investment thesis and credit recommendation across 32 different industry sectors. This helps analysts focus on those sustainability factors most likely to influence investment returns.

Identify

To facilitate the integration of sustainability factors through the assessment of material ESG risks, UBS-AM has developed a proprietary "ESG risk dashboard" for both corporate listed equity and fixed income holdings. The dashboard is a proprietary ESG monitoring tool and serves as the starting point for ESG integration. It allows equity and credit analysts to quickly identify companies with significant ESG risks via the "UBS ESG Risk Signal". This clear, actionable signal serves as the starting point for more in-depth analysis of the underlying sources of these risks and the links to their investment cases. The ESG Risk Signal combines data points from a number of reputable external research sources based on a proprietary methodology. It provides investment teams with a structured, holistic view of ESG risks across four different dimensions, allowing for industry relative comparisons (expressed via the UBS ESG Consensus Score) as well as the identification of outliers. If one or more pillars fail thresholds set, the issuer is flagged for severe ESG risks by the signal. Those companies will need more work to assess the material impact of the highlighted risks.

Review

The ESG Risk Signal is incorporated into fundamental equity and credit analysts' standardized ESG templates. They conduct an ESG risk assessment as part of their investment case for their companies under coverage. As part of this process, the analysts critically assess the ESG Risk Signal and underlying dimensions. They indicate whether they agree with the results, provide a rationale for their conclusions and assess the overall direction of the company's ESG performance.

Decide

For companies where an ESG risk has been identified, but where the analyst does not believe that the risk signal flag is current, appropriate or material, an additional analysis may be conducted by the SI Research Analysts which then serves as the final reference point for the portfolio manager's investment decision making.

In this way, ESG integration creates a situation in which equity and credit analysts, SI analysts and portfolio managers discuss the implications for investment research, potential engagements and outcomes at the portfolio level. This combination ensures that portfolio managers are fully aware of any material sustainability risks that could have a negative impact on portfolio performance. This understanding allows portfolio managers to make informed decisions where their investment convictions are expressed through instrument selection and weightings and embedded in the construction of the portfolio. Within this framework, a portfolio manager may choose to invest in a company with high ESG risks where this is seen to be adequately compensated by the expected investment return. Alternatively, the portfolio manager may choose to reduce their exposure to the risks. In all such cases, the portfolio manager may also choose to engage the company to address and mitigate the ESG risks that have been identified with the aim of improving the overall investment outcome.

Mitigate (through Engagement and Voting)

If, having assessed the ESG risks, engagement is identified as a next step, dialogue with the investee company will be initiated. Such dialogue is driven by investments across all functions, including analysts, portfolio managers and the SI team and often in collaboration. Irrespective of who conducts the engagement, the sharing of ESG information and investment research in a centralized manner via our internal platforms, ensures there's a consistent and aligned voice from the firm. Our engagement insights are used to inform our voting decision making and help reiterate feedback we provide to investee companies as well as acknowledge improvements. Lastly, the engagement progress (or lack thereof) feeds back into our in-house ESG risk assessments and enables us to form a forward looking view on ESG risks.

Stewardship: a passive strategy perspective

For passive strategies, stewardship activities often represent one of the most significant ways in which institutional investors can express their views on and influence company performance. It offers a way of addressing broader negative externalities to the economy which in turn could cause instability and inefficiencies within the financial markets and global portfolios.

As analysts or portfolio managers might not follow all the companies held in passive strategies closely, the importance of proxy voting and engagement is greater, as our ability to relay our views on a company's conduct may be limited otherwise. In the case of those passive strategies that track sustainability indexes or apply a rules-based approach, stewardship activities can also have further impacts. Dialogue can sometimes incentivize companies to improve in order to be included in selected ESG indexes. It can also provide meaningful insights to enhance the methodologies applied in tilted approaches that consider ESG factors to inform underweights/overweights.

Corporate engagement: encouraging dialogue

Corporate engagement implies a two-way dialogue between investors and companies. Its objective: to enhance information and improve business performance. Discussions with corporate management are conducted around specific issues related to the business strategy, capital allocation, operational management and/or ESG risks and opportunities that could significantly impact valuations. The goal of these interactions is to collect more information and influence corporate practices in order to trigger better financial performance or creditworthiness in the long term. Investors can share their expectations of corporate management and encourage practices which could enhance long-term value. Companies, meanwhile, can explain the relationship between sustainability, their business model and financial performance. In our view, it is this two-way dialogue which defines engagement. Simply asking companies questions without providing feedback and encouraging improvements would not be classified as an engagement.

A number of factors determine which companies in our invested universe would be prioritized for in-depth research and dialogue. These include:

- High financial exposure
- Presence of high ESG risks and opportunities
- History of votes against management
- Performance on topics selected for thematic programs
- Presence of significant controversies

At the start of each engagement, we define our priorities and objectives for the dialogue with management. Progress against these objectives is tracked in our internal platform accessible to all investment teams. In case of lack of progress, our escalation strategies may include:

- Writing to the board of the company to formalize our concerns and requests
- Presenting a statement at the AGM
- Supporting and/or filing shareholder resolutions
- Eventually, decreasing or exiting a position

Thematic engagements

These are engagements that are focused on specific themes considered material, analyzed by available internal and external research and aligned with the overall sustainability and sustainable investment strategy of the firm.

UBS-AM runs multi-year thematic engagement programs across both active and passive investments. Their focus is usually identified by:

- Taking into consideration the current performance of companies on the relevant topic
- Sectors where the issue has a high relevance
- The potential for influence

The in-depth research supporting our thematic engagements is used to assess the performance of companies at the beginning and end of the engagement program.

Ongoing thematic engagements in 2020 focused on:

Climate change
The engagement focuses on an original list of 49 companies in the oil and gas and utilities sectors. They have been selected based on our Climate Aware methodology, which measures the ability of companies to transition to a low-carbon economy. This engagement dialogue started in 2018. The first phase will finish in Q1 2021. More information on the final outcomes of the program is available in the section Stewardship in practice – climate change.

Gender
The focus is on companies showing some good practice but which also display areas for improvement. Our assessment has been informed by the analysis from the service provider Equileap on 19 diversity criteria, including:

- Equal compensation and work-life balance
- Transparency and accountability
- Gender balance
- Sustainability policies

Impact
Our equity impact strategy has an explicit goal: to create positive environmental and social impact while generating competitive financial returns that connect to and support the UN SDGs. Engagements with companies in our impact strategies help deepen managements' understanding of the effects which their supply chain, direct operations, and final products and services have on the environment and society. In addition, the engagements aim to help companies orient towards business opportunities linked to the UN SDGs, particularly those connected to clean energy, clean water, air quality, health, nutrition and alleviation of poverty.

Controversies
A subset of our engagement cases focus on companies that are involved in serious breaches of international standards. The United Nations Global Compact Principles are accepted as the general reference framework for defining cases of concern. We have developed a process using third-party research to identify red flags across portfolios and strategies. More information on these cases is available in the section Stewardship in practice – controversies.

Our Principles of engagement

Our commitment to constructive dialogue
We believe in building relationships with the corporate management we engage with. We ask our investee companies to be responsive to our invitations for dialogue and provide material and forward looking information to us. Equally, companies can expect the following behavior from us to allow for fruitful and effective conversations:

Solid preparation
Before entering into dialogue with a company, we'll review and analyze the most up-to-date and relevant information on financial and ESG performance provided by the company. We'll also access third-party research on issues considered material for the specific company and sector.

Local and sectorial expertise
Before starting dialogue with a company, we'll look for internal expertise and views on relevant local markets and sectors across teams.

Connection with investment decisions
During our meetings with corporate management, we'll explain how the information collected will be considered in our investment decisions. Whenever possible SI and investment professionals will co-join meetings with companies. In any situation, the information collected during engagement meetings will be shared internally through a platform.

Feedback
During and after meetings, we'll provide feedback on current company actions and plans to solve any existing concerns. Companies can also ask our opinions on areas of interest for them. After initial conversations, we'll share with management our engagement objectives.

Best practice
Whenever relevant, we'll share best practice examples from peers that have shown leadership and good performance on material ESG matters. Equally, we'll recognize the companies we engage with for any innovative practice and solution in relation to ESG challenges and opportunities.

Commitment
We'll allocate adequate resources and time for our dialogue with companies. If we believe that corporate practice should improve in order to trigger long-term value, we'll engage with the management and the board on a continuous basis and over a certain period of time.

Collaboration
As part of our commitment to support investor networks and drive the ESG agenda in financial markets, we'll monitor other investors' activities on engagement and join efforts whenever beneficial for us and investee companies.

Proxy Voting: The value of the vote

Voting at shareholder meetings is a vital component of our overall approach to the effective stewardship of our clients' assets. Voting isn't an end in itself, but rather a crucial element of our oversight role. It allows us to voice our opinion to a company on a broad range of topics and is a way of encouraging boards to listen to and address investor concerns.

It is important that proxy voting is linked to our research and investment process. If holdings are included in more than one portfolio then we aim, as far as possible, to vote consistently to send one strong, unified message to our investee companies.

Our voting process is managed by our SI Research and Stewardship team. They work closely with our fundamental investment teams to decide how to exercise our voting rights, based on our voting principles, any engagement we may have undertaken, and our knowledge of the investee company. We do not outsource our voting decisions and retain full oversight and discretion when determining how to vote on behalf of our clients and funds.

The principles outlined in our Global Proxy Voting policy provide the foundation for our voting decisions. We will always seek to review and evaluate as much information as possible, including insights gained through our research and engagement process and information obtained through third-party research. This ensures our decisions are in the best financial interests of our clients and that we avoid ‘box-ticking’ when it comes to voting. In cases where we plan to deviate from our initial policy view, our Stewardship Committee will review the reason and consider the case for and against changing the initial recommendation. A majority of committee members must approve the intended vote and reasons for the final decisions are recorded, tracked and used to inform our future policy reviews. This additional oversight strengthens our decision-making process and ensures that votes remain aligned to our principles, with a consistency in our approach.

Voting positions for all strategies where we are entitled to vote are monitored daily by our Stewardship team via the ISS Proxy Exchange electronic voting platform. This provides us with a comprehensive overview of the total number of shares we are eligible to vote upon for all shareholder meetings.

Our voting instructions are submitted and processed via the ISS platform, allowing us to track the progress of the voting rights through to the relevant custodian bank or other intermediary who is responsible for the final submission of the vote to the issuing company.

We use voting to complement and support our engagement activities. In situations where our engagement dialogue is not bringing the results we'd expected, we'll escalate and use voting as an additional means of expressing our opinion and seeking to influence boards and management. In such circumstances it is essential to communicate effectively with management pre- and post-vote to explain the reasons for our dissent and open the doors for further dialogue.

Our collaboration with clients to exercise voting activities

In exercising voting rights, we recognize that some of our clients with directly managed portfolios may seek to vote uniformly across different investment managers. Instead of choosing to delegate their voting rights to us, they may use the services of an external provider or manage voting rights internally. In addition, in cases where a client does choose to appoint UBS-AM to manage their voting rights, there may be occasions when a particular vote is contentious. In such situations our clients can instruct us how to vote for their portfolio on a case-by-case basis. This includes clients that may choose to invest through our range of collective investment, or pooled, funds.

Some barriers remain in place which can restrict our ability to apply a client specific voting policy when investing via a pooled fund structure. To help drive improvements to proxy voting processes and increase transparency across the investment chain we are supportive of initiatives currently under way to review those barriers, including those led by the DWP (Department for Work and Pensions) and the Law Commission in the UK.

In our view, it is imperative that investors are fully aware of the voting approach adopted by their chosen managers. Our voting policy was first introduced in 2002 and has been reviewed annually since then. It is based on best practice requirements outlined in the OECD Principles of Corporate Governance, ICGN Corporate Governance Principles and requirements of various national and global governance codes. We also welcome feedback from clients and other stakeholders as to how we can improve and strengthen our policy guidelines.

Ultimately, investors need to be comfortable with the voting approach taken by their chosen managers and should seek to select a manager whose approach to the exercise of voting rights reflects their own views and principles.

Stewardship in alternative assets

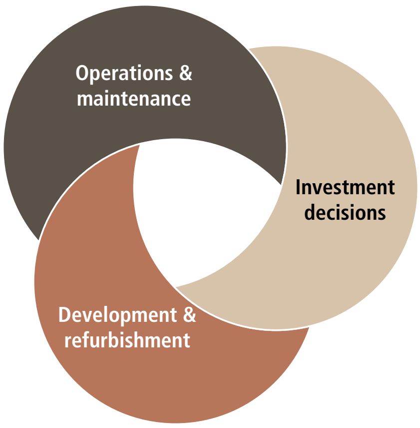
While the primary focus is financial objectives, we believe there is a direct link between responsible property investing and long- term returns. An increasing body of evidence suggests that 'greener' buildings (in terms of both environmental and social impacts) perform better than less 'green' buildings across indexes ranging from void periods, tenant retention and rental levels.

Our Real Estate and Private Markets' (REPM) responsible investment strategy has been developed by the REPM Sustainability Workgroup. It comprises professionals from multiple countries and disciplines, ranging from engineering and construction, through to investment and business management. It sets strategies and objectives at a global level and ensures our sustainability objectives are appropriately integrated into REPM's investment strategies and property operations, in accordance with regional requirements. The responsible investment strategy is implemented by all operational functions during the entire ownership cycle of an underlying project. Objectives are set in order to make achievements transparent and measurable. Performance is measured against objectives and results are reported to investors, clients and consultants. For individual properties, sustainability performance is measured against recognized external benchmarks, such as the GRESB key performance indicators and third-party certifications (LEED, ENERGY STAR, BREEAM, MINERGIE®). Infrastructure also utilizes the GRESB Infrastructure key performance indicators and benchmark reports for individual investee companies. This helps define specific measures to enhance the performance of each property or infrastructure asset and guide dialogue with management.

In 2020, 1,229 portfolios linked to 96,000 assets from 64 countries, representing USD 4.8 trillion AUM, responded to the 2020 GRESB survey. Between 2012 and 2020 UBS-AM has achieved 113 Green Star rated funds in the GRESB assessments, and between 2016 – 2020, recorded 50 five-star rated funds.

Integrated throughout the entire ownership cycle

- Environmental data management systems monitoring consumption of energy and water, greenhouse gas emissions and waste management
- Quarterly asset risk assessments covering: community, safety & security, occupier wellness, procurement
- Tenant engagement, e.g. green leases, satisfaction surveys, guidance for sustainable fitouts
- Program of ongoing improvements, e.g. efficient lighting, voltage optimisation
- Local engagement programs to connect properties with communities, e.g. hosting charitable events, community activities and sponsorships
- Participating in external sustainability assessments, e.g. GRESB & UN PRI



- Obtaining building certifications covering energy and health & wellbeing, e.g. BREEAM, LEED, BOMA
- Energy labeling, e.g. EPC, Energy Star
- Design and construct efficiency measures, e.g. solar panels, thermal energy heating, rainwater harvesting, electric vehicle charging
- Bespoke health & wellbeing measures, e.g. cycle facilities, light and air sensors, communal space
- Supplier procurement and sustainable materials, e.g. Considerate Constructors Scheme

- Organisational commitment to leadership and industry standards, e.g. UN Global Compact, TCFD, RE 100, Net Zero Asset Managers Initiative
- Setting objectives at fund and asset level, e.g. five-year rolling targets to reduce energy, water and GHG by 12.5% and increase recycling to 50%
- Investment Committee decisions to consider ESG factors
- Asset level energy reduction programs setting five-year plan on acquisition
- Environmental risk assessments as part of due diligence, e.g. construction, site contamination, natural hazards, resilience
- Sustainability checklist on acquisitions covering: ecology, resilience, social, accessibility, consumption, health, comfort and safety

When our alternative assets teams invest in listed real estate companies, our Proxy Voting policy applies and we regularly exercise our shareholders' voting rights. If the financial analyst- or SI analyst-led engagements focus on real estate companies, we may also share information and coordinate our efforts in the dialogue with corporate management.

The Multi-Manager Real Estate (MM-RE) team conducts engagements directly with underlying fund managers on ESG issues. Engagements may be routine in nature or based around specific transactional or recurring circumstances, such as the release of GRESB results. Effective monitoring and engagement are essential components of the fiduciary duty on behalf of clients, and for this reason the team does not outsource any of the engagement activity. These engagements can take various forms, including written communication, conference calls, face-to-face meetings, investor meetings, AGMs etc..

GRESB is the best tool currently available for MM-RE in assessing, monitoring and reporting our investments and portfolios on ESG matters as well as a framework for engagement. GRESB results are released on an annual basis, therefore a comprehensive review of all latest scores and portfolio-level risks takes place annually using the latest results. For existing target funds that have not performed well in GRESB surveys, MM-RE will communicate the importance of ESG and GRESB to fund managers and encourage greater efforts in ESG matters and the GRESB survey going forward. Outperformers will also be contacted, congratulated and encouraged to continue their efforts in order to benefit from the opportunities which we believe will be open to 'greener' funds (such as higher rents, lower voids, higher values and lower debt costs) while mitigating damage (and in some cases contributing positively) to the environment and society.

ESG is also a factor in MM-RE quarterly risk assessments, a qualitative and quantitative risk assessment which uses GRESB data together with other internal measurements to rank each underlying investment for its ESG risk.

MM-RE believes ESG engagement is crucial in order to limit the risk of regulatory non-compliance, maintain properties' competitive position in the market, increase the appeal of a property to tenants and purchasers, and in some cases, reduce expenses and improve returns. To date however, ESG risk alone has not caused an investment to be halted or a sell to take place within MM-RE.

So far, we have seen that the results of this focus and engagement have been positive, with our flagship product, GREFS, consistently achieving higher GRESB scores than the benchmark since 2014. In 2015, we were invested in one 5 star rated fund in Europe. Today, we are invested in ten 5 star rated funds.

Diving deeper: exploring key ESG themes

Our top down research on nutrition

Research and stewardship are intertwined within the investment process. Conducting rigorous top-down research allows us to identify leaders and laggards. That same process also generates a set of questions which both SI and fundamental analysts can raise with companies during the engagement process to further deepen their understanding and identify areas where they might seek to influence change. This case study illustrates the top down approach in the context of nutrition.

The global population is expected to reach almost 10 billion by 2050, up from 7.3 billion currently (source: United Nations). According to the UN, the global demand for food is expected to increase roughly 60% in this period.

Globally, food production already accounts for 40% of land use, 30% of greenhouse gas (GHG) emissions and 70% of freshwater consumption (source: UN). The global food system is already unsustainable and a rising population will make it even more so. Meeting the growing demand for food will not be achievable within planetary boundaries and the constrained availability of natural resources, unless systems transform.

Unfortunately, the challenge of a rising population is no longer just about ending hunger; it is also about the health of our society:

- More than 820 million people went hungry in 2018, according to the UN Food and Agriculture Organization.
- At the same time, 600 million people were classified as obese and 2 billion overweight.

Providing our planet with a healthy and environmentally friendly diet demands a radical transformation of the system.

Transformation Drivers

Many underlying environmental, societal and economic factors are driving and facilitating change to the system. We outline some of the main drivers, as we see them.

Shifting consumer demand (mainly in developed economies)
Consumer pressure has pushed big food companies and traders to adapt accordingly. The shift in demand stems from an increased awareness of environmental costs linked to food production as well as greater focus on healthy eating.

Ongoing rise in healthcare costs
Unhealthy diets account for up to one in five premature deaths every year. Unhealthy people are predisposed to a wide variety of diseases. These can include diabetes, respiratory disease, lower back pain, coronary heart disease, hypertension, joint problems and cancer to name but a few. These are all diseases which strain healthcare systems. Obesity alone costs the UK's National Health Services £27 billion, just in one year. This has significant tax implications and also wider economic implications, when one considers loss in productivity due to disease.

Food loss and waste
Food loss and waste has significant economic and environmental costs. As awareness of the high environmental consequences linked to food production grows, and as healthcare and food waste costs rise, government and industry intervention is unsurprising.

- *Subsidies:* research showed just 1% of the annual USD 700 billion subsidies given to farmers is used to benefit the environment. Discussions are taking place about redirecting subsidies to storing carbon in soil, producing healthier food, cutting waste and growing trees.

- *Taxes:* have and are being introduced to reduce negative societal and environmental impacts, for instance on carbon and on sugar. Meat taxes may be introduced also, with Germany, the Netherlands and New Zealand taking the lead.

Policy initiatives
A variety of policy initiatives have brought the importance of sustainable food systems to the fore; notably the UN SDGs. These include Goal 2 which focuses on ending hunger, achieving food security, improving nutrition and promoting sustainable agriculture. 169 nations have committed to work together to achieve this goal by 2030.

Technology
Until recently, agriculture lagged other industries in terms of technological disruption. That is now changing. Investment in agricultural-related technology rose to nearly USD 17 billion in 2018, up 43% from 2017 (source: AgFunder). Tech plays a crucial role, not just in enhancing efficiency in farming systems but also in connecting food surpluses and demand through digital platforms to reduce waste. It is also crucial in understanding consumer preferences and tracking of food consumption.

These drivers all change the dynamics of the food system and introduce risks and opportunities to companies operating in the space.

Companies in the consumer staples sector (more specifically the food producers, retailers, plus food services and restaurants) significantly influence how foods are produced and what people eat.

These companies are in a position to reduce environmental and social risks and leverage opportunities that stem from this transition towards a sustainable and healthy food system; all with the aim of enhancing financial outcomes.

- Companies that get it right can differentiate themselves from competitors–in the eyes of consumers, employees and investors; they can potentially increase market share, attract and retain talent, and raise their share prices or reduce their cost of capital.

- And those companies that don't get it right may experience the opposite; potentially suffering from loss of market share, loss of talent, suffer reputational damage or punitive fines, etc.

So, when we evaluate companies operating in this space, we consider risks and opportunities in two areas:

1. Sourcing and operational practices; focused on addressing environmental risks and opportunities.
2. Healthy product offering; focused on addressing societal/health risks and opportunities.

We have created a framework that we use to assess how a company performs, both from a risk and opportunity perspective, on environmental sourcing and operational practices. The more efficiently a company uses natural resources/or reduces losses of natural resources the better.

We have focused on three areas in this framework:

- Land
- GHG emissions
- Water

We have also created a framework which we use to assess how a company performs on its healthy and nutritious product offering. It focuses on addressing societal/health risks and opportunities.

This assessment area is relevant as healthier food products can exhibit higher compound annual growth rates than conventional food products. Offering healthy foods is also a way for companies to differentiate and increase market share. Regulatory momentum for taxes on unhealthy ingredients (e.g., sugar taxes) is gathering pace, adding further relevance. Companies which are ahead of this trend may be better placed to handle the ramifications.

One such example is alternative protein sales:

- Demand for protein is rising globally. We cannot meet that demand with "traditional" sources of protein: livestock (and its feed) takes up almost 80% of farmed land globally, yet produces less than 20% of the world's supply of calories. Animal proteins are more resource intensive and environmentally impactful than alternative proteins.

SECTION 5

An overview of our engagement activities in 2020

How we engage: our engagement activities

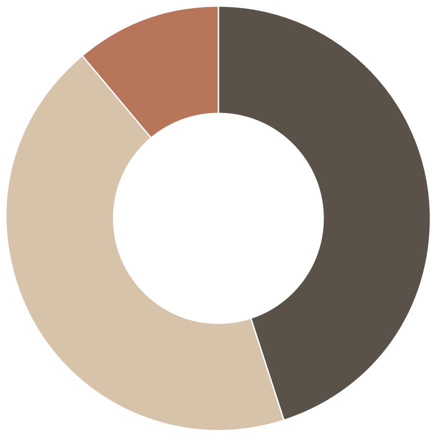
In 2020, we continued to engage with corporate management to build relationships, provide feedback and drive positive change. The unusual circumstances linked to the worldwide pandemic have not affected our ability to interact with our prospective and investee companies. However, the majority of these interactions had to take place through video or conference calls rather than in person meetings or on-site visits.

During 2020, we actively engaged with 277 companies across regions and sectors, representing a 20% increase from 2019.

Sectors

Communication Services	5%
Consumer Discretionary	11%
Consumer Staples	5%
Energy	7%
Financials	19%
Health Care	10%
Industrials	13%
Information Technology	10%
Materials	6%
Real Estate	5%
Utilities	9%

Regions



Europe, Middle East and Africa	45%
Americas	44%
Asia-Pacific	11%

During 2020, we conducted 429 engagement meetings representing a 20% increase from 2019. Approximately, 10% of these interactions were in collaboration with other investors through collaborative initiatives such as Climate Action 100+, the UK Investor Forum, the Access to Medicine Foundation and the FAIRR initiative.

In 35% of the cases, the dialogue with companies gave us specific insights in relation to AGM items and proxy voting. 54% of our engagement meetings were held with the CEO/CFO or another C-suite representative. In 36% of cases we met with the chair or an independent board member. 30% of our engagement meetings were conducted with heads of the sustainability department.

Company Representative	**Number of meetings**	**Percentage on the total of engagements[6]**
CEO/CFO and Other C-Suite	231	54%
Chair and Non-Executive board members	155	36%
Corporate secretary or legal counsel	85	20%
Investor Relations (IR)	364	85%
ESG expert	130	30%
Other	54	13%
Total Engagements	**429**	

6 In one engagement meeting we will likely meet more than one type of company representative. In total we held 429 engagements in 2020. The chart shows the frequency with which a given company representative was met.

As in previous years, we engaged with companies on a wide range of topics, from corporate governance, business model and capital management to environmental and social issues. Thematic engagements continued to focus on climate change, gender and impact measurement; as in 2019 these represented approximately 30% of our total engagements. During 2020, 24 engagement meetings were focused on controversies.

Topic raised	**Number of engagement meetings in which the topic was discussed**	**Number of meetings in which the topic was discussed, expressed as a percentage of total meetings held[7]**
Corporate Governance	216	51%
Remuneration	191	45%
Strategy and Business Model	175	41%
Capital Management	166	39%
Transparency and Disclosure	137	32%
Environmental Management and Climate Change	136	32%
Human Capital Management and Labor Standards	105	24%
Business Conduct and Culture	79	18%
Operational Management	55	13%
Audit and Accounting	28	7%
Community Impact and Human Rights	28	7%
Total Engagements	**429**	

7 One engagement meeting will likely address more than one topic. In total we held 429 engagements in 2020. The chart above shows the frequency with which a given topic was discussed.

SECTION 6

An overview of our proxy voting activities and trends in 2020

In 2020 we voted at 11,615 meetings, or 96% of shareholder meetings where we had an eligible position to vote, across 60 countries. There remains a small number of markets where the logistics of voting present either a significant administrative burden, or impede our ability to manage a portfolio during the voting period. For example, when so-called share-blocking applies. We are currently reviewing these markets with the aim of further increasing our market scope, and ensuring that voting rights are exercised as widely as possible. In the first half of 2021 we will add Denmark, Norway and Sweden to our market coverage, subject to completion of necessary documentation.

During 2020 the number of meetings at which we voted increased in all regions from 2019, with the highest increases observed in APAC (ex-Australia and Japan) (+32%) and Europe (ex-UK) (+11%) . We voted on more than 115,000 resolutions, of which almost half were in APAC (ex-Australia and Japan) and North America.

Overall, we voted against management in 17% of the cases. In the case of North America more specifically, this percentage increased to 23% of resolutions. In 64% of the meetings we voted at globally there was at least one resolution with a vote against management. In 36% of the meetings we voted with management on all proposals. We voted against management on 614 occasions because of a lack of gender diversity. Specifically, on 518 occasions due to the low percentage of women on the board overall and on 96 occasions as measured against our defined board gender thresholds by markets.

Overall, 84% of votes against management resulted from proposals which fell into three main categories.

Director related

Globally this accounted for 43% of our votes against management. The main reasons for opposition were:

- Audit committee composition – we require 2/3 of members to be independent
- Board independence – generally we expect at least majority independence
- Remuneration committee composition – generally we expect at least majority independence
- Gender diversity – as a minimum we expect one female director
- Overboarding – typically we do not like to see directors hold more than five non-executive mandates (less if an executive)
- Combined chair and CEO roles – we favor the separation of chair and CEO roles. In cases where the role is combined, we require that the board appoint a Senior Independent Director.

Remuneration

This accounted for 25% of the votes cast against management. The main reasons for opposition were:

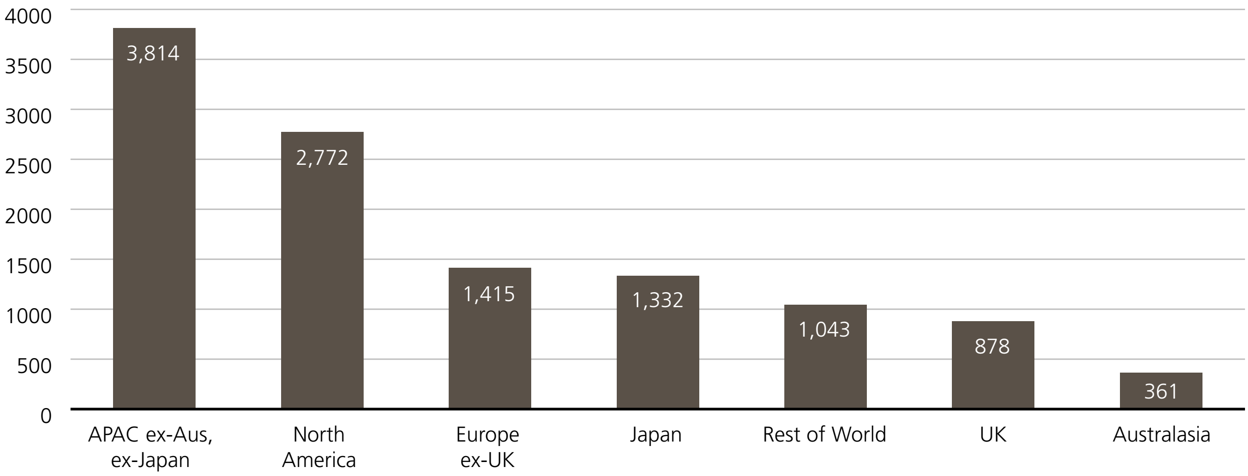
- Severance/post-employment related/clawback/malus provision – on severance we typically like to see packages that are less than two years fixed salary plus annual bonus
- Pay for performance alignment – we expect that remuneration should be aligned with company performance taken into consideration. We will oppose any pay proposal when this is not the case
- Long-term alignment – we typically like remuneration packages that are evaluated and vest on a long-term time horizon
- Poor disclosure – we will oppose any package where market best practice disclosure standards are not being met
- Pay quantum concerns

Capital allocation and management

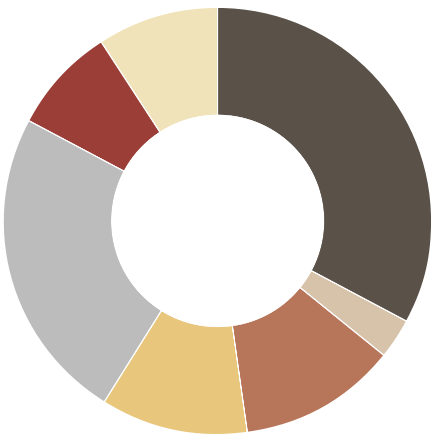
This accounted for 16% of the votes against management. In evaluating our rationales, the main reason for opposition centered on our very stringent share issuance policy. We will not support general share authorities of more than 20% with pre-emption rights, of which 10% can be without. This policy results in us voting against many of the issuances being sought in the APAC region and the UK, where limits are generally higher than these thresholds.

Further details on our votes against management are included in the following charts:

Meetings voted 2020

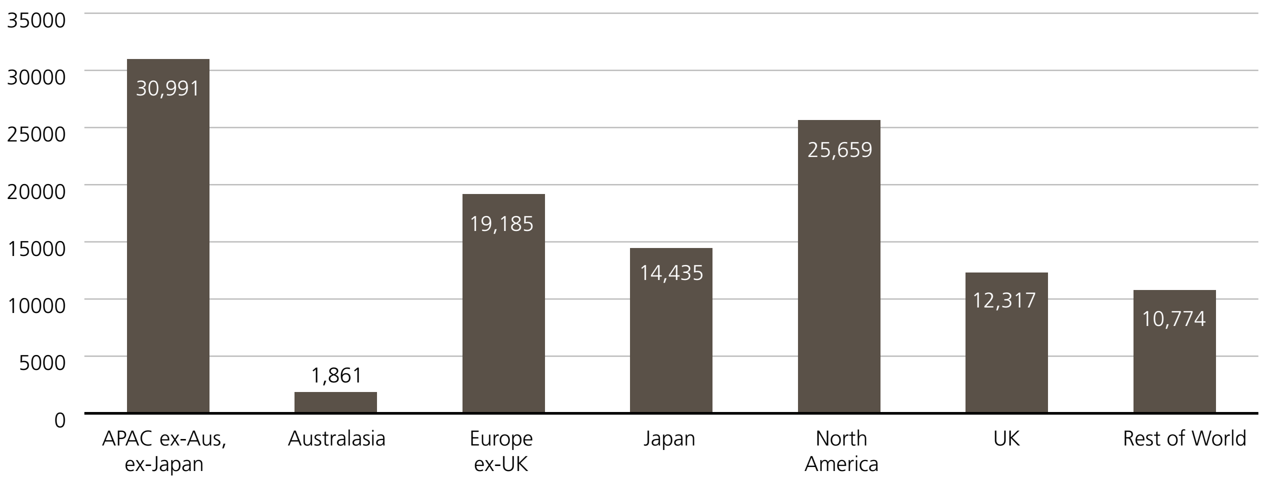


Breakdown of meetings voted by region in 2020

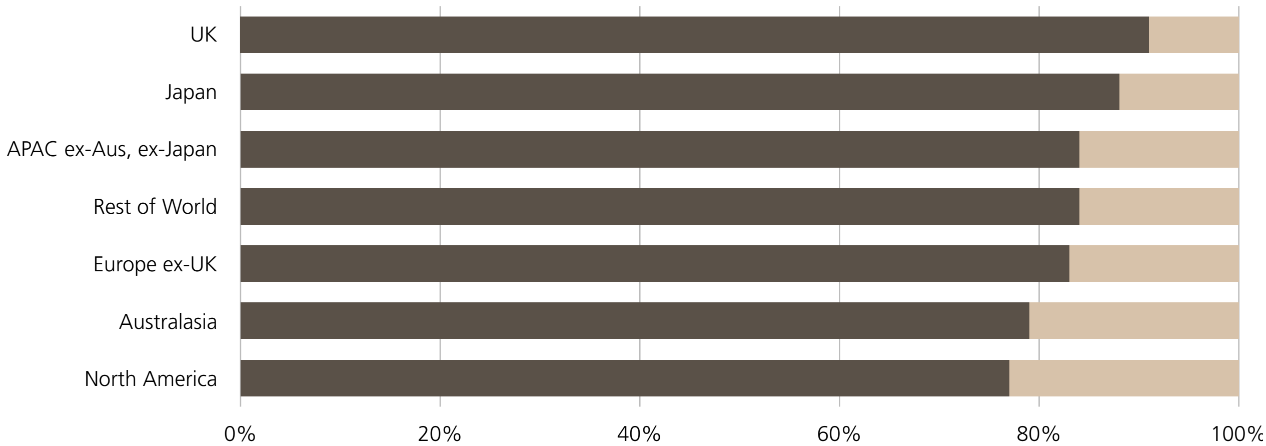


APAC ex-Aus, ex Japan	33%
Australasia	3%
Europe ex-UK	12%
Japan	11%
North America	24%
UK	8%
Rest of World	9%

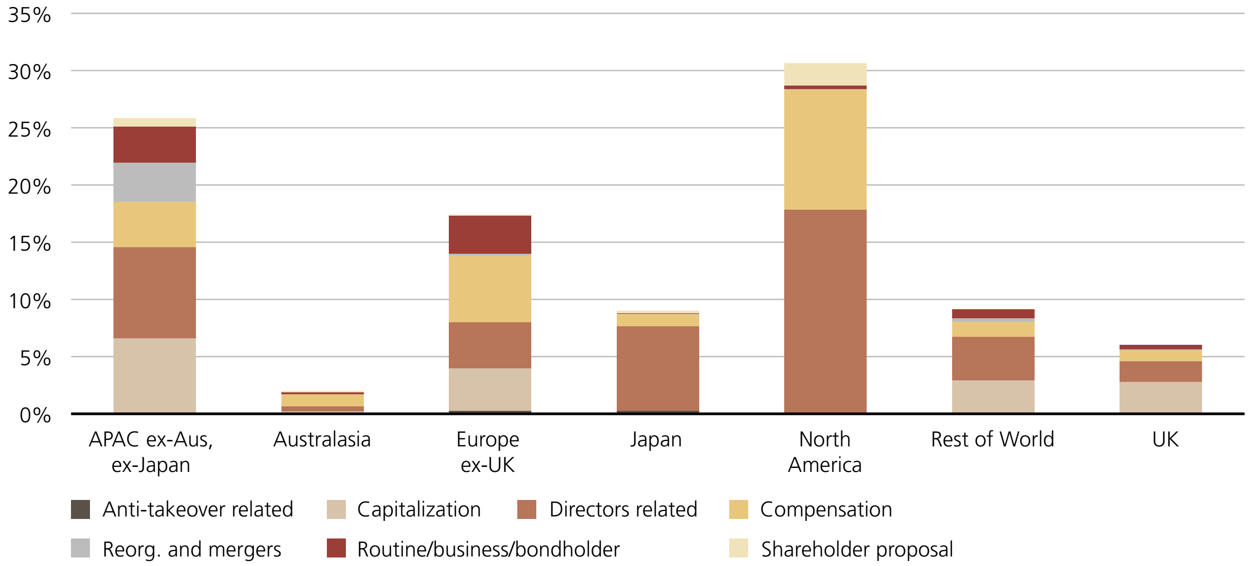
Resolutions voted 2020



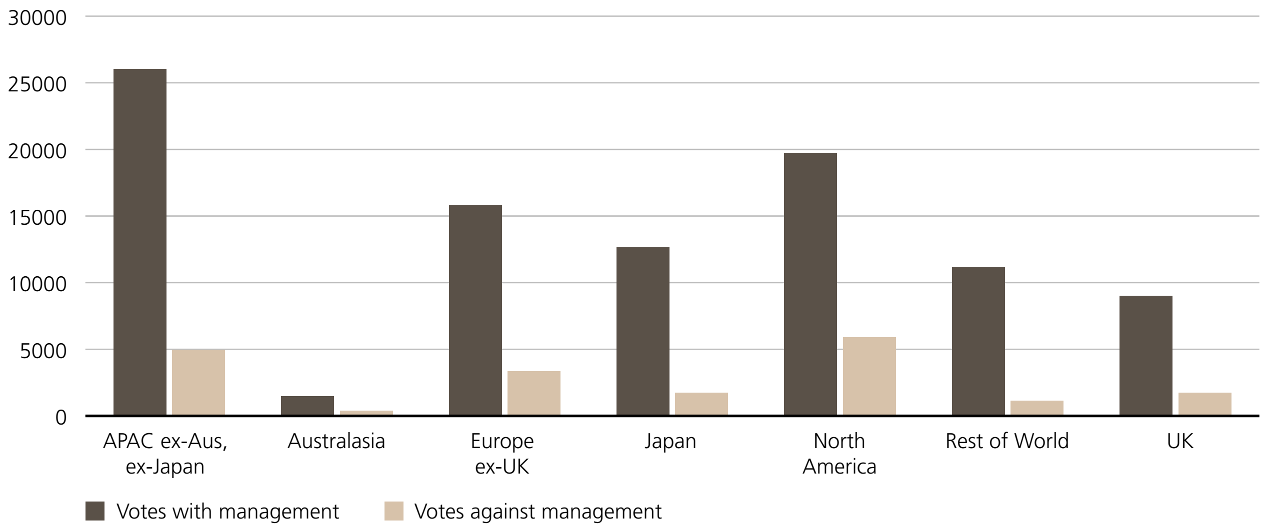
How we voted across regions as percentage of total votes



Breakdown of total votes against management by region and proposal type



Number of votes with and against management

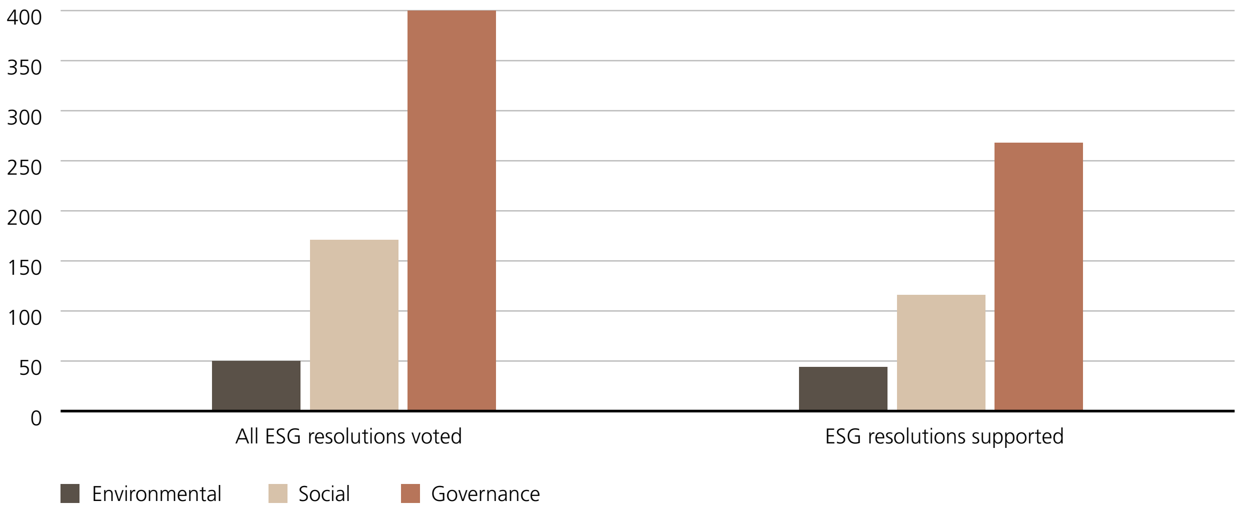


Shareholder resolutions relating to ESG issues

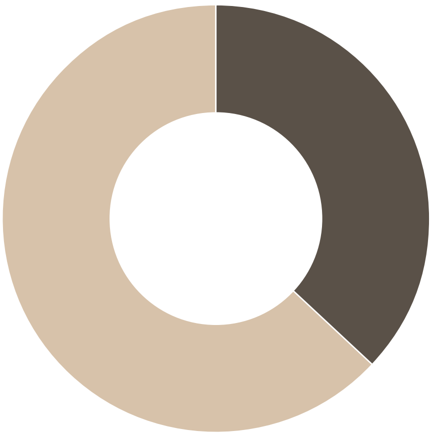
In 2020 we voted on 667 shareholder resolutions which were focused on ESG issues. 50 were related to environmental issues, 171 related to social issues and 400 related to governance issues.[8] Overall, we supported 64% of the total resolutions.

In percentage terms, these figures translated to support for:
- 88% of shareholder resolutions focused on environmental issues
- 68% of shareholder resolutions focused on social issues
- 67% focused on governance issues

Votes on ESG resolutions



Votes on ESG resolutions with and against management



Supported management	37%
Voted against management	63%

8 These figures exclude proposals in the Japanese market requesting to change the articles of association to address environmental issues.

Generally, we have not supported resolutions that were too prescriptive in nature, did not address material issues, or which asked companies to introduce policies and practices that had already been adequately addressed.

Conflicts of interest

We identified a potential conflict of interest for 133 shareholder meetings. As per our guidelines, where we identify a conflict of interest we vote strictly in line with our Proxy Voting policy, with any deviation to be reviewed by our Stewardship Committee. There were no votes during 2020 requiring the committee to override a vote where a conflict of interest had been identified.

Deviations from our Proxy Voting policy

During 2020 our Stewardship Committee reviewed the decisions for 69 shareholder meetings, and 137 proposals. This represented 0.7% of meetings voted. Of those proposals reviewed, the committee elected to support the change in voting recommendation for 125 resolutions, while deciding to remain with our initial voting policy recommendation for 12 proposals.

Stock lending

Stock lending can be beneficial to a fund or portfolio by providing an additional income stream. It can also benefit the market by providing liquidity. Many of our funds include the provision for stock lending, in some cases with a specific limit of the percentage of the fund which can be used for lending purposes at any one time. The income derived from this activity is invested back into the respective fund to support its growth and generate further investment opportunity.

However we recognize that there can be a trade-off, particularly when it comes to the exercise of voting rights. Voting rights linked to equity positions are not retained by the lending party, and are transferred under the control of the borrower: therefore, when shares are on loan, we are contractually unable to exercise voting rights in regards to that lending position.

Through our voting process we monitor eligible share positions where a loan position impacts an upcoming shareholder meeting. When we judge a vote to be particularly contentious, or where we believe it is in our client's best interests to do so, we will look to recall stock out on loan for our range of collective investment schemes. This is generally in exceptional cases and not for all positions. We do not borrow shares for the purpose of gaining additional voting rights.

The decision to recall shares in order to vote for a higher percentage of shares under management is generally dependent upon the following criteria:

- The issuer represents a significant holding; and/or
- The issuer is subject to our focused proxy voting/ engagement program; and/or
- The agenda for the shareholder meeting contains a proposal regarded as controversial according to our Proxy Voting policy or other circumstances, particularly where allowing shares to remain on loan may cause a risk to the long term value of the holding

In adopting this approach we seek to maximize our voting positions alongside the additional income stream, balancing the benefits of lending alongside our stewardship commitments.

During the year we identified a limited number of cases where we regarded it as necessary to recall shares, based upon the above criteria. These cases were:

- Pearson plc: the company was electing a new CEO and we regarded this vote to be significant.
- Paragon Banking Group plc: the company proposed changes to the remuneration scheme on a retrospective basis, over which we had concerns.

Proxy voting: reinforcing our engagements

We find that our voting actions are particularly effective when linked directly to our engagement with investee companies.

Climate change is a vital topic for UBS-AM, and we strongly believe it should be embedded in the strategy of any company we invest in. As we consider the board chair to have ultimate responsibility for the definition of company strategy, we have chosen to express our dissent on climate change commitments through a vote against the chair, where we deem the case to be serious and relevant. When the chair was not under election, we voted against a relevant board director.

Having strengthened our voting policy in 2020, we elected to vote against the board chair or a board director at the following companies, due to a lack of progress against the objectives for our climate related engagement program:

- Exxon Mobil Corporation
- Marathon Oil Corporation
- Korea Electric Power Corp
- Power Asset Holdings Limited

SECTION 7

Stewardship in practice

We have already illustrated the fundamental way in which Stewardship underpins our investment activities across our firm. Effective stewardship provides an opportunity for asset managers to identify and influence some of the most pressing environmental, social and governance issues facing investors today. In this section we highlight and discuss not just our individual engagement activities but also the ways in which those activities have informed and progressed action in areas which we regard as critical, such as climate change, the role of corporate purpose, corporate governance and social issues such as supply management. We also consider the impact of the COVID-19 pandemic.

The case studies featured in this section reflect specific ESG aspects which are materially relevant to the investment thesis. They do not necessarily reflect all ESG considerations pertinent to the company in question.

Climate Change

Engagement and voting on climate issues represent one of the most important ways in which we address climate change risks in our portfolios. For active strategies, engagement can inform our forward-looking fundamental understanding of the steps companies' management teams are taking to address climate change in their business models and risk management systems. For passive investments, corporate dialogue can address large negative externalities that impact the environment, the wider economy, and thereby index returns in the long term. We believe that to be successful and realize positive change a climate engagement strategy must be focused, oriented around a material framework relevant for both companies and investors, and collaborative in nature.

Raising climate risk issues in dialogue with senior management represents one of the most important mechanisms for translating the integration of climate risks into action with companies. To this end, we are conducting a strategic engagement program with companies in those sectors which have the greatest impact on climate. More specifically, since 2018, we have engaged with 50[9] companies in the energy and utilities sectors, representing 27% of the total emissions of the FTSE developed world Index.

To create the most effective dialogue within our thematic engagement program on climate change, we have developed a climate materiality assessment and framework to facilitate research and climate engagement dialogue across nine impacted sectors, including the two in focus, oil & gas and utilities. This framework, around which our engagement goals are oriented, is both financially material and well understood by corporate management teams. Specifically, we defined our objectives around the Taskforce on Climate-related Financial Disclosure (TCFD), an internationally recognized framework for both companies and investors to assess the impact of climate change on business strategy and to report on these impacts in traditional financial disclosures. We then conducted a detailed scorecard analysis for each company in the focus list in order to identify the most relevant areas of potential improvement, focusing on the core elements of the TCFD. These are:

- Governance of climate change
- Risk management
- Strategy and policy
- Metrics and performance
- Targets
- Lobbying activities
- Overall level of disclosure

To maximize both the coherence and effectiveness of our engagements, we pursued our climate engagement strategy through collaboration with other asset owners and asset managers. Specifically, UBS-AM is currently participating in 29 coalitions of investors within the investor initiative Climate Action 100+ (CA100+), leading eight of these groups across regions. Collaboration with other investors does not necessarily help to increase corporate access—in our experience, companies are generally happy to engage with us. Rather, collaborative engagement offers an opportunity to ensure that companies receive a single, consistent message from a number of the world's largest investors.

This consistency allows companies to focus on addressing the core issues linked to climate change rather than needing to reconcile divergent investor requests. Collaboration also allows investors to share various perspectives while combining expertise in order to better challenge and support corporate representatives in setting ambitious actions.

9 Six companies have been affected by mergers throughout the course of our engagement resulting on a different total number of target companies.

Finally, our dialogue with management is complemented by our voting decisions on climate issues. We are generally supportive of climate change resolutions that are reasonable, referring to the TCFD recommendations and aligned with long-term shareholder interest.

In line with this, we are supportive of proposals that request:

– Greater disclosure and transparency in corporate environmental policies in line with the recommendations of the TCFD framework

– Reporting on the financial and physical risks of climate change on the company's operations, and/or its response to rising regulatory, competitive, and public pressure to significantly reduce greenhouse gas emissions

– Good governance and risk management of climate change

– Short-, medium- and long-term targets to guide ambition on decarbonization actions

– An effective strategy for addressing key climate change issues and appropriate metrics for links between climate change targets and executive remuneration

In addition to supporting shareholder resolutions on climate, we also use our vote to express discontent at companies which fail to demonstrate adequate progress. We will generally vote against the chair of the board of companies we have engaged with for more than two years without seeing progress on climate change. We see our votes against management as a means to call for greater attention and action. As explained in the proxy voting statistics section, in 2020, we voted against the election of the chair or another board member of four companies in our focus list because of lack of progress on engagement focused on climate change.

The first phase of our thematic engagement on climate change comes to an end in March 2021. The table below summarizes our measure of progress in the engagement focus list. We are currently finalizing the escalation strategies to be taken for companies with limited and partial progress. Those actions will be implemented and communicated during the course of 2021.

Through dialogue with companies in relation to this pillar, UBS-AM contributes to the goals of SDG 7 on ensuring access to affordable, reliable, sustainable and modern energy for all and SDG 13 on taking urgent action to combat climate change and its impacts.

Progress	Number of companies	Percentage
Excellent (76–100% of objectives met)	8	18
Good (51–75% of objectives met)	18	40
Partial (26–50% of objectives met)	16	35
Limited (0–25%of objectives met)	3	7
Total	**45**	**100**

Six companies have been affected by mergers throughout the course of our engagement and two companies have not been assessed as they have been added later in the program, resulting on a total number of 45 target companies assessed.

CASE STUDY

Korea Electric Power Corp

Sector

Utilities,
Electric Utilities

Region

Asia

Country

South Korea

ESG topics addressed

Strategy and business model, capital management, transparency and disclosure, environmental management and climate change

Summary of engagement

UBS-AM has been engaging with the company within Climate Action 100+ as a participating investor since 2018. The engagement has focused on the company's strategy to transition to a low carbon economy. More specifically, we have been asking management to enhance GHG emissions reduction targets, increase ambitions on renewable energy, define a coal phase-out plan and align disclosure with the TCFD framework. As the company has planned further investments in new coal plants in Vietnam (Vung Ang 2), Indonesia (Jawa 9 and 10) and other emerging markets and given the limited progress against our requests, we have co-signed a private letter to the board of the company, a public letter to the South Korean Ministry of Economy and Finance (a major shareholder in the company) and a media article to express our concerns. As a way of reiterating our expectations, we have also voted against the appointment of three board members at the extraordinary general meeting (EGM) in September 2020.

Outcomes and next steps

In 2020, the company approved the overseas coal fired power plants in Indonesia and Vietnam. However, it also confirmed soon afterwards that it will not pursue investments in new coal plants overseas, including two projects in the Philippines and South Africa. Additionally, the South Korean government has committed to achieve net-zero emissions by 2050, in combination with pledging to a national plan to close 30 coal-fired power plants by 2034 and ten of those by 2022. As KEPCO owns the majority of these plants, we expect these recent announcements will have strong implications for the company’s transition strategy. Going forward we will continue the dialogue with the company in collaboration with other investors in relation to the coal phase out timeline and action plan domestically and overseas. Equally, we will be looking for full alignment of corporate disclosure with the TCFD recommendations, including scenario analysis, metrics and performance.

CASE STUDY

ENI

Sector

Energy,
Integrated Oil & Gas

Region

Europe

Country

Italy

ESG topics addressed

Strategy and business model, capital management, transparency and disclosure, environmental management and climate change

Summary of engagement

UBS-AM has been engaging with the company within Climate Action 100+ as a lead investor together with another investment manager since 2018. The dialogue with management has focused on:

- The company's decarbonization strategy,
- Capital expenditure in fossil fuels extraction and renewables, scenario analysis, GHG emissions reduction targets,
- The link of executive remuneration with climate goals and
- Lobbying activities in support of the Paris Agreement.

We have interacted with the CEO, CFO, the chair of the remuneration committee, the sustainability and the IR department. As part of the dialogue, we have submitted an AGM statement for the board's consideration to acknowledge the progress made and encourage the company to keep its commitments, even during the challenging times of the COVID-19 pandemic.

Outcomes and next steps

At the beginning of 2020, the company announced new ambitious targets, including an 80% reduction in net scope 1, 2 and 3[10] emissions by 2050, with reference to the entire life-cycle of the energy products sold and a 55% reduction in emission intensity compared to 2018. This is in addition to previous commitments to achieve net-zero carbon footprint by 2030 for scope 1 and 2 emissions from upstream activities and net-zero carbon footprint for total scope 1 and 2 emissions by 2040.

During the year, the long-term incentive plan of the company has also been modified to include a new ESG objective with a 35% weight. The company has also published its principles to define the company's public policy positions on climate change and assess its participation in trade associations. Finally, the company has reviewed its oil and gas price assumptions and defined a flexible decline in oil production from 2025 together with ramping up its commitments in renewables and the circular economy. Going forward we will continue the dialogue with the company to align its capital allocation decisions to the Paris Agreement and include climate change considerations in audit and accounting.

10 Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain

CASE STUDY

CHUBU

Sector

Utilities,
Electric Utilities

Region

Europe

Country

Italy

ESG topics addressed

Strategy and business model, capital management, transparency and disclosure, environmental management and climate change

Summary of engagement

The company has been selected for engagement based on our proprietary methodology which measures how companies are transitioning to a low-carbon economy within a below 2°C scenario. Our dialogue with management started in 2019 and focused on conducting a scenario analysis, reviewing GHG emissions targets, increasing exposure to renewables, linking executive pay to climate metrics and aligning disclosure with the TCFD recommendations. Our dialogue has been with the head of the corporate management division and it has taken place in Japanese through simultaneous translation.

Outcomes and next steps

The company decided to split the business in Transmission and Distribution, Sales and Power Generation (through the 50% joint venture (Jera) with Japanese KEPCO which acquired all Chubu's thermal generation). It has taken previous feedback into consideration and started disclosing according to the TCFD framework. It now conducts scenario analysis linked to a 2°C scenario. Jera has also committed to an additional 5GW of renewables by 2025, higher carbon intensity reductions than the industry average in the country, and net zero emissions by 2050. Going forward, we are looking for new commitments on renewables and a more ambitious coal phase-out plan, currently only focusing on low efficiency plants (3.3% of total). Additionally, the company is still in the process of defining new 2030 climate reduction targets.

CASE STUDY

Encouraging the banking sector to take an active role in the climate transition

Sector

Financials,
Banks,
Diversified Banks

Region

Europe

Country

United Kingdom

ESG topics addressed

Strategy and business model, environmental management and climate change

Summary of engagement

The company has been under intense pressure from NGO's and shareholders to phase out the provision of financial services to the energy sector. This ultimately led to a shareholder resolution at the 2020 AGM. We engaged with management and the board on their climate strategy and decided to support the management resolution which commits the bank to becoming net zero by 2050. While the bank has admittedly lagged behind in implementing an action plan owing to other priorities, namely conduct and culture, which have formed part of our engagement program in the past, they believe they will be in a position to become a market leader on climate finance. We encouraged management to stay on track regarding the communication of its intermediary targets and methodology to avoid being subject to further action at the 2021 AGM.

Outcomes and next steps

The bank met their commitment to communicate its net zero plans to the market and we engaged with management to further understand the strategy, governance and methodology. They also communicated intermediate reduction targets in energy and utilities by 2025. We will seek to engage regularly to monitor progress, particularly on how changes in strategy lead to changes in its relationships with clients and new product development.

Corporate purpose and governance

Promoting best practice in the boardroom and ensuring that investee companies are sustainable and successful is one of the fundamental objectives of our stewardship approach.

That is why we review a company's structure and governance. We do this by considering and assessing a number of factors:

- The board of directors, including composition and effectiveness
- Shareholder rights
- Capital management
- Audit and risk oversight
- Remuneration
- Ethics and culture, including management of environmental and social factors

Corporate Purpose

We recognize that through the services they provide, the taxation revenues they generate and the employment opportunities they offer, successful companies support both economic growth and societal benefits. However they cannot operate in a vacuum; they constantly need to adapt and change as society and markets evolve.

To drive long-term sustainable success across a business it's vital that a company has a strong sense of purpose, reflected in the products and services they offer to customers.

Corporate purpose should be centered not just on financial outcomes or the maximization of returns for shareholders; it needs to consider all stakeholders, including shareholders, customers, employees, suppliers and society more generally.

A company's purpose can often be overlooked, or not even considered. But the question of why a company exists, what its objectives are and where it wants to be, creates a path for setting and implementing a successful strategy, ensuring that strategic decisions are being made in the long-term pursuit of this goal.

Going forward we will be seeking further insights from company boards, including via reporting, in relation to their company's purpose. How is it anchored into board and management discussions? What is its impact on the company's culture and how does it flow through the business as a whole?

During the first half of 2021 UBS Group AG will publish details of its own purpose, how it drives our firm's business and contribution to society.

Through dialogue with companies in relation to this pillar, UBS-AM contributes to the goals of SDG 10 on reducing inequality and SDG 16 on building effective, accountable and inclusive institutions at all levels.

Board of Directors

We believe good corporate governance should, in the long term, lead to better corporate performance and improved stakeholder value. Thus, we expect board members to view themselves as stewards of the company. They must be able to articulate the company's purpose and strategy clearly, with sufficient expertise, diversity and experience to be able to practice diligent oversight of management. They must be able to collectively exercise sound judgment and manage any effects the company may have on the environment and communities in which it operates.

Our goal when engaging with a company in this respect focuses on ensuring the board is structured in accordance with best practice, and that it operates effectively.

Business Ethics and Culture

The culture of a company starts with the board, who should be setting the highest possible standards of ethical behavior and accountability. This should translate into policies across the business that enable management to promote a company culture that is aligned with the set purpose and values of that company. Training and evaluations should reflect this and we consider that the board should have oversight of material breaches of the company ethics.

During our engagements we seek to examine how this is operates in practice, including:

- Whether the board is involved in meeting and gathering the views of stakeholders across the organization
- Whether the company has been fined for bribery and corruption matters
- Regulatory breaches
- High employee turnover
- The findings of employee surveys

We take a particularly strong stance against fraud or corruption and will vote against any director deemed related to such an incident. Furthermore, when it comes to culture we aim not just to examine the positives, but also any potential gaps identified and how the board is addressing these.

Diversity

We promote diversity throughout our dialogue with companies (including across gender, ethnicity, background, skills and experience) and expect all boards globally to have at least one female director. In developing markets that means engaging with laggards who do not have any female representation on the board, while in developed markets we hold companies to a higher standard and expect companies to meet regional requirements.

During the year we have increased our focus on ethnic diversity, including promoting the collection and reporting of ethnicity data where legally applicable, and supporting initiatives such as the Parker Review in the UK. It is our intention to engage further on these matters in 2021.

Remuneration

Our fundamental principle is that compensation should be aligned with the company's strategy alongside outcomes for shareholders. Executive pay should not be a 'race to the top'. How the company sets its pay scheme provides a lens into the thinking and culture of the board. The company, through an independent board process, should seek to implement a remuneration policy that suits the needs of the company. It's critical that the board can explain the reasoning underlying the remuneration scheme. So while we do not require companies to automatically adopt the same approach as peers, where there is a deviation from regular market practice then the threshold is higher in regards to transparency and explanation. We will often seek to engage with companies to learn why the scheme is appropriate and how it aligns with strategy and long-term shareholder interests, particularly where the scheme appears overly complex.

In addition we would expect executive board members to have a high level of personal shareholding in the company and performance targets that are aligned with strategy, with clear consideration given to the inclusion of material ESG topics such as climate change, health and safety and diversity.

COVID-19

During the year many companies canceled or suspended their dividends and share repurchase plans to retain much needed cash on the balance sheet following falls in revenue and increased economic uncertainty. We're supportive of this approach. Where a company's strategy has been impacted by lower growth or returns, this will inevitably affect the targets within executive remuneration schemes. In these circumstances it is appropriate that the impact on executive remuneration should be aligned with the experience of the wider workforce. In particular, where a company has made use of government aid, reduced headcount, frozen pay increases and waived employee incentives, we expect executive remuneration to mirror these circumstances. Where we have had concerns we engaged with the company and voted against remuneration proposals during the course of the year.

Strategy through products and services

Consumer preferences and expectations continue to evolve, with an increasing focus on sustainability. During our company analysis we will often evaluate the positive and negative externalities of their products and services on the environment and society as a whole. When engaging we will aim to highlight and help steer the company in mitigating negative externalities. With the establishment of the SDGs, we are also engaging with companies in regard to actions they are taking to meet the SDGs' objectives. We have created Impact led investment products which evaluate a company's contribution to achieving those objectives through their product and services.

Through dialogue with companies in relation to this pillar, UBS-AM contributes to the goals of SDG 10 on reducing inequality and SDG 16 to Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

CASE STUDY

Takeda Pharmaceutical Company

Sector

Health Care, Pharmaceuticals, Biotechnology and Life Sciences

Region

Asia

Country

Japan

ESG topics addressed

Community impact and human rights, strategy and business model, transparency and disclosure

Summary of engagement

We took the lead in engaging with Takeda on their Access to Medicine (AtM) Strategy, as part of the Access to Medicine Foundation's collaborative engagement initiative. The foundation launched a long-term engagement project and publishes index results every two years. This index is a building block for tracking pharmaceutical company progress towards SDG 3 by 2030. We identified the following issues for engagement:

- The expansion of their equitable pricing strategies
- Project specific access plans for late-stage projects
- Enhancing transparency in relation to filling for market approvals
- Impact measurement conducted, including the integration of Shire within their Access to Medicine strategy, following Takeda's acquisition of the company in 2019.

We have held two meetings with the company to progress the engagement. The first took place at our offices in London while the second meeting took place over the phone (considering COVID-19 travel restrictions). We met with eight company representatives including ESG experts, the corporate secretary and other individuals involved in the Access to Medicine strategy. We had a positive dialogue with the team and are confident that Takeda continues to progress in its strategy to access to medicines.

Outcomes and next steps

Takeda has progressed on all engagement areas. It covers a large number of innovative medicines with its equity pricing strategies, having launched an initiative to ensure a systematic process is used for all late-stage projects to provide access plans and enhancements in relation to filing market approvals; noting that this is taking more time than they would have liked, considering the Shire integration. We were also pleased to learn about the company's collaboration with Duke University to create an Access to Health Impact Measurement Framework. This model is being designed not just to measure the direct impact to patients but also to monitor the difference programs are making to the healthcare system more broadly. Takeda is seeking to set an industry standard and is collaborating with peers and governments in doing so. The company has disclosed that in 2019, 125,000 patients were supported with treatments to improve and extend lives, 4,000+ healthcare providers were trained and 1.1 million patients screened, as part of Takeda's holistic Access to Medicine approach.

CASE STUDY

Wulianye Yibin Company

Sector

Consumer Staples, Beverage and Tobacco, Distillers and Vintners

Region

Asia

Country

China

ESG topics addressed

Corporate governance, environmental management and climate change, transparency and disclosure

Summary of engagement

We engaged with the company due to a flag in our ESG risk dashboard. We were unable to find appropriate disclosures on material ESG topics to evaluate their practices and finalize the investment thesis for the company. Our initial research also indicated a need for board refreshment. We arranged a call with the company's IR team who had gathered all requested information. During the meeting, we learned that the company has policies and practices in place to reduce material ESG risks. Additionally, we were pleased to learn that the company was receptive to our sharing of best practices with regards to ESG reporting and our request to enhance disclosures for their next reporting cycle. The company also confirmed they were working on a board refreshment strategy, given the lack of diversity and board independence.

Outcomes and next steps

The company acknowledged our request for better information and committed to enhance disclosures during the next reporting cycle. We are awaiting the publication of their next set of reports to review progress made. We will also review the proxy in advance of the next AGM to see if board refreshment has been initiated. We will further the engagement if there is a lack in progress made on our engagement goals.

CASE STUDY

Encouraging executive pay's alignment with financial performance

Sector

Information Technology, Software and Services, Internet Services and Infrastructure

Region

North America

Country

US

ESG topics addressed

Corporate governance, remuneration

Summary of engagement

The company is an active holding. As we did not support the company's say-on-pay vote at the 2019 AGM and had further concerns on executive pay and governance going into the 2020 AGM, we engaged with the company twice during 2020:

Firstly, we met with the company's IR head ahead of the 2020 AGM. We then met off-season with the board chair and IR to discuss the 2020 AGM outcomes and outline our concerns and expectations related to:

- The inadequate link between executive pay and long-term performance
- The presence of a classified board and supermajority required for certain articles changes.

We believe that an entrenched board which is not accountable to investors, and executive pay that is not aligned with long-term investors' interest are both factors which pose risks.

Outcomes and next steps

While the company has made some progress and provided commitments to further improvements going forward, the 2020 AGM saw material dissent when it came to the election of certain non-executive directors and executive pay. While we voted in favor of the election of board members, we did not support the advisory vote on executive remuneration as pay frameworks did not provide adequate alignment with shareholders' long-term interests. The company will disclose any changes to its board, executive pay and governance in their proxy statement ahead of the 2021 AGM. We will assess any progress made against expectations and commitments and we will seek further engagement in case we do not see adequate progress.

CASE STUDY

Supporting stronger business focus, innovation and capital allocation

Sector

Discretionary, Automobiles and Components, Auto Parts and Equipment

Region

Europe

Country

Germany

ESG topics addressed

Capital management, corporate governance, human capital management and labor standards, strategy and business model

Summary of engagement

Following engagement with the board chair in 2019, we intensified our dialogue with the company in 2020 as they were announcing steps towards restructuring. We held meetings throughout the year with the supervisory board chair, CEO, CFO, chief human resource officer and investor relations. In addition we wrote a letter to the supervisory board to provide feedback and share our observations. In our dialogue, we encouraged the company to focus its business activities and accelerate restructuring; improve the supervisory board's oversight on capital allocation decision making, speed up innovation, increase diversity of thought and skills sets to represent the company's global scope and support the company's strategic and cultural evolution.

Outcomes and next steps

We are pleased with the company's receptiveness to our feedback and have established a constructive dialogue. It has modified the capital allocation and technology review process at the supervisory board level, closed less efficient plants, and indicated that further divestures will occur. We've gained more confidence in the company's human capital management strategy and its goal to further strengthen diversity of thought. Following the announcement of a leadership change at the executive board level in Q4, the release of its mid-term targets and the CEO’s publication of the new vision for the business, our positive engagement outlook and associated investment thesis have all been confirmed. We aim to continue the dialogue with the company to monitor progress.

CASE STUDY

Pressing for higher governance standards and effective disclosure

Sector

Media and Entertainment

Region

Eurasia

Country

Russia

ESG topics addressed

Environmental management and climate change, operational management, remuneration, transparency and disclosure

Summary of engagement

The company was prioritized for engagement to help to inform our in-house research, after the company flagged in our ESG risk dashboard for severe risk. The signal was driven by a low UBS ESG Consensus Score as well as governance concerns. We held a call with the company's head of investor relations as well as ESG specialists and encouraged improvements on remuneration together with disclosure. We gained more confidence in the company's ability to attract and retain talent, data security risk oversight and efforts to manage climate change related risks stemming from its data center footprint.

Outcomes and next steps

We are encouraged by the company's progress and receptiveness thus far, including the publication of its first sustainability report, and see positive engagement momentum. Nevertheless, we would expect further improvements, especially on corporate governance and remuneration practices, before considering an upgrade of our ESG risk recommendation and inclusion of the company in our SI focused investable universe.

People

People represent one of the largest assets for companies, both in their direct operations and their supply chain. We believe protecting, mentoring and nurturing employees has a material impact on the bottom line. Equally, we believe that developing, maintaining and enhancing a company's license to operate within its countries of operations is fundamental for ensuring business continuity and supporting economic, environmental and social development of local communities.

The current COVID-19 pandemic has increased the significance of the social dimension. It has tested the ability of companies to ensure employees' health. In 2020, we monitored companies' efforts to protect the mental and physical wellbeing of their workforce, facilitate remote working conditions, protect salaries and benefits and ensure that employees are granted enough flexibility to accommodate work and family needs. This crisis will likely result in a permanent shift in ways of working and companies have to be equipped to face this long lasting trend.

Human capital management

Corporate performance is assessed by evaluating the presence and quality of human capital management policies, unionization rates, turnover, health and safety metrics, employee training, mentoring and career opportunities, parental leave, employee surveys and employee share purchase programs. Additionally, UBS-AM has access to information provided by third parties on gender performance across the workforce. We believe that gender diversity should not happen at board level only and companies should invest in their women employees to ensure an equal gender representation at middle and top management levels. We see the gender pay gap measured through mean and average salaries across gender as a useful indicator to indicate companies' progress. We have also expanded our focus to broader diversity topics including sex, ethnicity and disabilities as we believe that diversity of skillsets and perspectives is material across sectors and regions.

Human rights

Corporate performance is assessed by evaluating the presence and quality of a human rights policy and implementation practices, including periodic due diligence and assessments. We consider the UN Guiding Principles on Business and Human Rights (UNGPs) as a useful tool to frame our discussions with companies around the three pillars of "protect, respect and remedy." When researching and engaging with companies, we also consider the OECD Responsible Business Conduct Principles framework.

Social issues in the supply chain

We expect companies to hold their suppliers accountable and request the same ESG standards they have committed to at a corporate level. Corporate performance is measured by the presence of supply chain management, internal and external audit, and participation in industry partnerships to tackle child labor, modern slavery, minimum and living wages, collective bargaining and health and safety.

Through dialogue with companies in relation to this pillar, UBS-AM contributes to the goals of: SDG 1 on ending poverty, SDG 3 on ensuring healthy lives and promoting well-being for all, SDG 4 on ensuring inclusive and equitable quality education and promoting lifelong learning opportunities, SDG 5 on achieving gender equality, SDG 8 on promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all and SDG 10 on reducing inequality.

CASE STUDY

Embracer

Sector

Communication Services, Media and Entertainment, Interactive Home Entertainment

Region

Europe

Country

Sweden

ESG topics addressed

Business conduct and culture, human capital management and labor standards, strategy and business model, transparency and disclosure

Summary of engagement

The company was selected for engagement on account of a low consensus score and governance score in our ESG risk dashboard. Our initial meeting with management found the sustainability strategy to be in its early stages of development so we wrote a letter suggesting important actions to be taken to make their framework more robust, including a benchmarking study, employee engagement survey and creating a culture of accountability. Management was receptive to our suggestions and we conducted a follow-up meeting to review the recommendations.

Outcomes and next steps

The company has established a system for collecting relevant ESG data. Next steps are for the company to seek investor feedback on their proposed ESG KPIs and establish other best practices in relation to human capital management, including a global employee survey.

CASE STUDY

Encouraging solid human capital practices

Sector

Industrials, Commercial and Professional Services, Research and Consulting Services

Region

Europe

Country

France

ESG topics addressed

Business conduct and culture, community impact and human rights, corporate governance, human capital management and labor standards, remuneration

Summary of engagement

UBS-AM has engaged with the company since 2019, given our financial exposure, increasing levels of executive pay and the presence of third parties' allegations on poor working conditions in developing countries. The company relies on a large workforce globally and the emergence of the COVID-19 pandemic has increased the need for continuous dialogue with management on their response to the crisis. While there are not strong concerns with the company in relation to corporate governance, we have asked management to consider the application of different KPIs for the LTIP and STIP and reflect on the nature of current financial targets linked to pay to ensure they are sufficiently flexible. Additionally, we continued our engagement on gender diversity to address current gaps on the presence of women in senior level positions. We had interactions with the company's vice CEO, the head of CSR (corporate and social responsibility) and IR to discuss our concerns.

Outcomes and next steps

The company has added employee representatives to the board of directors and established a new CSR committee at board level. Management has also demonstrated a prompt attitude during the pandemic by allowing 200,000 employees to work from home in just a few weeks. Employees' well-being and health and safety seem to be at the core of the company's strategy. The group monitors adherence of each of its 460 sites to the company’s hygiene and security standards on a daily basis. In addition, some subsidiaries have pursued and achieved external certifications on their COVID-19 response. The 2020 scorecard from Equileap has shown positive progress by the company across several items in relation to gender diversity. The company has established a target to have at least 30% of women on the executive committee by 2023. To achieve this target, and other broader diversity ambitions across disability, sex and ethnicity, management has set up several initiatives, including an internal networking project to raise awareness, a mentoring program for high-potential employees and revision of the recruitment process. The company is currently strengthening relationships with local trade unions and we will continue to monitor any developments on dialogue with international workers’ representations.

CASE STUDY

Assessing executive pay during the pandemic

Sector

Consumer Discretionary, Retailing, Apparel Retail

Region

Europe

Country

UK

ESG topics addressed

Human capital management and labor standards, remuneration

Summary of engagement

In advance of the 2020 AGM we flagged the company for engagement as it was proposing both a salary and variable award opportunity increase for the CEO and CFO despite making use of government aid through the UK's furlough scheme during the COVID-19 pandemic. We met with the chair of the remuneration committee who explained that the company took a very proactive approach at the start of the virus and furloughed all non-essential staff. However, throughout the course of the lockdown the company realized it was not as materially impacted as it had initially thought, and in fact had performed better than the previous fiscal year. Consequently, it committed to repaying all funds it had received from government. Furthermore, the remuneration committee determined that it was appropriate to offer an increased compensation package to the CEO and CFO taking into consideration growth of the company and the lack of a pay rise for the CEO for several years. The remuneration chair also communicated that given the industry in which the company operates, the committee felt the need to retain top management's talent.

Outcomes and next steps

Despite the company's rationale, and no major concerns with the quantum of the increase, we did not support the proposal at the 2020 AGM as the timing of this increase was not appropriate given that staff under furlough did not receive 100% of base salary. Apart from our position on the pay increases, we also highlighted our concerns around the lack of deferral periods on variable pay elements, and a preference for the audit to be put to tender every 10 years. The remuneration proposal passed at the AGM, but had an 18% vote against. We will follow up with the company regarding its plans to make any changes to the current remuneration arrangements in preparation for the next AGM.

Controversies

We believe that companies with an especially high level of controversies represent an investment risk. Therefore we flag these companies for additional attention in our ESG risk dashboard. In line with our overall approach to stewardship we also engage with these companies on their progress towards resolving the various ESG risks they present.

To inform our research and engagement, we identify investments which potentially violate the 10 principles of the UN Global Compact. We do this by using a selected service provider, specifically MSCI ESG Research, to screen for companies that are highlighted within their methodology as breaching one or more of the principles.

In each case we review the cause of the breach, the responsibility of the corporate, the time elapsed, and the actions taken to date. We take into account public reporting on the case, communications by the company involved, reports by NGOs and other third parties, and the results of investigations by other investors, where these are available. Where it is identified that the case is material, relevant, or represents a systematic management failure then these will be put forward for engagement. We seek to ensure that companies effectively close and remedy identified breaches and both communicate with stakeholders and ensure they have addressed any management failures.

Our objectives in each engagement are to ensure the company has closed the breach. Also that a clear and transparent route exists by which negative impacts are compensated for. Furthermore, it is our aim to see the company prevent any repetition, including actions it has taken to improve its management, operations and internal controls. Finally, we want to see companies communicating effectively with their stakeholders.

We monitor and track progress through public communications and making direct contact with the company. We recognize that given the nature of the issues facing many companies any changes will not occur immediately. Therefore we expect the majority of our engagements to be ongoing. We will only close the case when we consider that the objectives have been met. However, when we consider that the objectives have not been met, then we will escalate the case. This may involve a voting sanction against the company, or a decision to add the company to a 'grey' list where active investments need to be reviewed.

Since 2019 we have conducted engagements with 19 issuers across fixed income investments that have recorded violations of the UN Global Compact. In 2020, given a lack of progress or responsiveness by two issuers, our fixed income team decided to exclude those issuers from their active holdings.

CASE STUDY

Vale

Sector

Materials, Precious Metals and Minerals

Region

South America

Country

Brazil

ESG topics addressed

Environmental management and climate change

Summary of engagement

Engagement with Vale has been necessary as a consequence of the catastrophic Brumadinho tailings dam failure in January 2019, which followed the earlier failure of a tailings dam at Samarco, where Vale is a joint venture partner, in November 2015. Alongside the scale of social and environmental impacts arising from these events, the combination of both incidents suggested systematic failings within Vale in its management of tailings risks. In the aftermath of Brumadinho, UBS-AM engaged directly with the company and joined a collaborative engagement coordinated by the Principles for Responsible Investment (PRI).

Outcomes and next steps

The engagement objectives have been to see Vale put a robust remediation plan in place that includes the consultation of all affected stakeholders, changes to procedures to prevent occurrence at its other sites, and better disclosure and life-cycle management of the company's tailings storage facilities. A number of these changes have taken place and our focus is now on the effective implementation of these measures. The PRI coordinated engagement closed in November 2020 and we will continue to engage directly with the company going forward.

CASE STUDY

Petrobras

Sector

Energy, Integrated Oil and Gas

Region

South America

Country

Brazil

ESG topics addressed

Business conduct and culture

Summary of engagement

Petrobras is flagged in the ESG risk dashboard for failing to comply with UNGC principle 10 on corruption, associated with the Car Wash (Lava Jato) scandal which first broke in Q2 2014. The incident exposed internal governance weaknesses in Petrobras as well as an absence of rigor in its compliance systems.

Outcomes and next steps

Our engagement with the company shows that Petrobras has made considerable progress in terms of internal oversight, supplier screening and compliance culture. Petrobras settled its outstanding cases with the US Department of Justice (DoJ) and the Securities Exchange Commission (SEC) in September 2018. However, the company remains subject to oversight requirements and is required to submit annual plans for further development of corruption controls to the DoJ between 2019-21. UBS-AM continues to engage with the company. While we consider many of the objectives have been met in principle, we are looking for confirmation that the extensive changes are being implemented effectively.

CASE STUDY

Rio Tinto

Sector

Materials, Precious Metals and Minerals

Region

APAC

Country

Australia

ESG topics addressed

Community impact and human rights, environmental management and climate change

Summary of engagement

Controversy emerged at Rio Tinto in the middle of 2020 when the company's Australian iron ore mining activities resulted in the destruction of cultural heritage at Juukan Gorge. We have spoken with the company directly and as part of a multi-investor engagement. Rio Tinto's board review and an Australian parliamentary inquiry demonstrates a lack of coordination between internal parties on mining activity and the presence of cultural heritage. The structure of teams addressing key social themes, and weaknesses in stakeholder management contributed to the incident.

Outcomes and next steps

Rio Tinto has responded with action, including a review all of its mine sites, placing cultural heritage into its line management controls, implementing a new Integrated Heritage Management Plan, and establishing a centralized Social Performance function. It is also reviewing its existing agreements with Traditional Owners and Indigenous Peoples and is embarking on a process of updating the language where needed. We will continue to engage with Rio Tinto on its response to this incident, its management of cultural heritage across the company, and its work on a ensuring a more inclusive management of its activities.

CASE STUDY

Rebuilding a license to operate

Sector

Pharmaceuticals

Region

Europe

Country

Switzerland

ESG topics addressed

Business conduct
and culture;
corporate governance,
human capital management
and labor standards,
remuneration

Summary of engagement

Over the last three years, we've intensified our engagement with the company. It flagged on our ESG risk dashboard, due to its repeated involvement in business ethics controversies. These controversies not only damaged its reputation, but also led to high fines and negatively impacted its license to operate in some markets. Fixed income, equity, SI analysts and portfolio managers have jointly engaged the company, following a change in leadership and the identification of positive momentum for engagement.

Outcomes and next steps

Over the past three years, the company has been receptive to our feedback. We've seen good overall progress towards driving cultural change, with a clear tone from the top, an integrated compliance function at the executive level, strong employee training efforts and the absence of new controversies. Executive pay structure and board composition is now in line with our expectations and we consider the engagement to have been successfully completed. The positive progress and settlement of legacy bribery and corruption cases has resulted in an upgrade of our ESG risk recommendation ahead of ESG data providers, with the company becoming eligible for SI focused funds. We changed our underweight position and increased our exposure across strategies. Given our exposure, we will continue our annual dialogue with the chair and remuneration committee chair.

Stewardship beyond listed equity

Stewardship extends well beyond the remit of listed equity. As a large scale asset manager whose business spans the investment spectrum, stewardship has relevance across all asset classes in which we operate. In this chapter we explore stewardship in the context of fixed income strategies, as well as real assets.

Fixed income

The purpose of our stewardship activities in fixed income is to address sustainability issues with a material impact on both companies and external stakeholders. This allows us to address specific issues negatively impacting the financial case and credit profile, broad issues such as climate change with implications across sectors, and questions arising from UNGC controversies.

In 2020 we introduced an engagement question into the template that fixed income credit analysts use to conduct their ESG assessments of companies. This template now allows credit analysts to identify possible engagement opportunities through their ESG integration work by highlighting cases where companies are able to make improvements in their performance which can in turn contribute to the investment case.

We foster discussion between credit and equity analysts because we believe this leads to more effective engagement on sustainability issues. Often, what is material to a fixed income investor from an ESG perspective is also material to an equity investor. We understand there may be differences in perspective, because fixed income investors focus much more on potential downside risks, and corporate governance and time frames play a different role. In this regard, fixed income and equity investors may disagree on capital allocation (especially between share buybacks and debt reduction) as well as in takeovers and, after a credit event, in bankruptcy settlement. We recognize the need for company management to hear both perspectives, while ensuring that agendas are shared and agreed prior to engagement meetings to ensure alignment on key engagement questions.

CASE STUDY

ConocoPhilips

Sector

Energy, Integrated Oil and Gas

Region

North America

Country

US

ESG topics addressed

Environmental management and climate change

Summary of engagement

ConocoPhillips is a corporate credit issuer included in UBS-AM's climate engagement program. During 2020 we participated in a Climate Action 100+ coalition call with the company's sustainability and climate change specialists to provide feedback on a potential revision of its 5%–15% GHG Scope 1 and 2 emissions target in 2017–30 and the company's climate risk strategy.

Outcomes and next steps

The discussion was followed by the announcement of a revised ambition of 35%-45% reduction in Scope 1 and 2 carbon intensity in 2017-2030, and net zero by 2050. We also had a direct engagement with the company involving the credit analyst, where we discussed the company's strategy for meeting these targets, how a recently announced acquisition fits into its climate strategy, the credit implications for the company's exposure to land regulation, and its board governance.

CASE STUDY

Fortum

Sector

Utilities,
Electric Utilities

Region

Europe

Country

Finland

ESG topics addressed

Capital management,
environmental management
and climate change,
remuneration,
strategy and business model,
transparency and disclosure,

Summary of engagement

UBS-AM has engaged with the company within Climate Action 100+ as a lead investor together with another investment manager since 2018. Dialogue with management has taken place both at CEO, CFO and chair level, both by the SI and fixed income analysts. Our engagement objectives have focused on the company's climate change strategy, especially after the significant increase of financial exposure to Uniper and upcoming consolidated accounting. More specifically, we have requested full alignment of the company's disclosure with the TCFD recommendations, more ambitious and long term GHG emissions reduction targets, clear timelines for a coal phase out in Europe and Russia, the inclusion of climate metrics in executive compensation and a global analysis of both direct and indirect lobbying activities. In 2020, we submitted an AGM statement to reiterate our expectations to management. During the year, we were also asked by CA100+ to lead the dialogue with Uniper and have started additional dialogue with the company's CEO and head of sustainability.

Outcomes and next steps

During its Capital Markets Day in December 2020, the company announced an overall net zero emissions target by 2050 for global operations and by 2035 for the European assets. Uniper has also committed to set scope 3 emissions targets in 2021. The company has set more goals in terms of capital allocation to renewables and increased capacity of clean energy. In addition, the most recent sustainability disclosure has been more aligned with TCFD recommendations and Uniper has committed to follow suit in 2021. Future dialogue will focus on setting a short- and mid-term roadmap to achieve long-term ambitions, and better clarifying the company's decarbonization strategy in Eastern Europe and Russia to investors. Coal phase out in Germany will also remain a priority. Finally, we will continue to request a global review of lobbying activities in support of the Paris Agreement and an integration of the updated climate goals in executive remuneration.

CASE STUDY

BP

Sector

Energy, integrated oil and gas

Region

Europe

Country

UK

ESG topics addressed

Capital management,
environmental management
and climate change,
remuneration,
strategy and business model,
transparency and disclosure

Summary of engagement

UBS-AM has been engaging with the company within Climate Action 100+ as a participating investor since 2018. Dialogue with management has taken place both at C-suite, board and sustainability department level with the involvement of our SI, fixed income and equity analysts. Dialogue has focused on the content of the shareholder resolution that we co-filed in 2019 requesting a decarbonization strategy, GHG emissions reduction, capital allocation and remuneration in alignment with the goals of the Paris Agreement.

Outcomes and next steps

A newly appointed CEO and chair are both open to dialogue with shareholders. At the beginning of 2020, the company announced a net zero emissions target by 2050 including scope 1, 2 and 3 emissions and completed a global review of lobbying activities on climate change. In August 2020, the company furthered its climate response framework by adding five targets for 2030:

1. Reduction of Scope 1 and 2 carbon emissions by 30%–35% and Scope 3 emissions by 35%–40%
2. A 30% reduction in refinery throughput
3. 10x increase in low-carbon investments
4. Increase renewable generating capacity
5. Reduction in oil and gas production by 40% compared to 2019 levels

The company has also improved disclosure on the assessment of its capital expenditure against different low carbon scenarios. Future dialogue will focus on the application of the new capital expenditure framework to future projects, the coverage of the long-term carbon intensity ambition, engagement with customers, emissions linked to trading, and the just transition[11].

11 In this context, the just transition seeks to ensure that the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically – be they countries, regions, industries, communities, workers or consumers

CASE STUDY

Supporting an effective chair succession

Sector

Discretionary, Automobiles and Components, Automobile Manufacturing

Region

Europe

Country

Germany

ESG topics addressed

Corporate governance,
remuneration,
strategy and business model

Summary of engagement

During our annual meeting with the chair in June 2020, we had an opportunity to discuss the company's strategic evolution in the light of the sector’s transformational trends, including digitalization and electrification. SI, listed equity and fixed income analysts joined the meeting. Our aim was to understand the firm's ability to reduce complexity and capital intensity and how the supervisory board is overseeing management’s decision-making in that regard. In anticipation of the chair succession in 2021, we explained our concerns regarding the company's plans under the former CEO to transition into such role, following a cooling-off period of only two years. We reiterated our preference for a truly independent successor.

Outcomes and next steps

In December, the company announced a new, independent chair candidate who will be up for election at the 2021 AGM. To inform our proxy voting decision making, we plan to continue our engagement as the company is changing leadership at the supervisory board level.

Alternative assets

Our role as stewards of assets covers both traditional and alternative assets. When we are investing directly in real estate or infrastructure assets, we have the opportunity and responsibility to influence and monitor ESG performance of underlying investments. In order to guide our efforts, we have established specific ESG targets for our direct investments to achieve over the next five years.

When we invest indirectly through funds or funds of funds, our investment teams engage with fund managers based on the results of a UBS ESG survey and GRESB ratings, if available. While our exposure to the underlying assets is indirect, we can still exercise influence and pressure on the funds' managers to improve their ESG policies and performance.

Tackling targets

A clear goal towards delivering sustainable and ultimately, better-performing assets for our investors

	Real estate targets (rolling 5 years)[12]	Progress against our targets (5-year period)[13]	Current achievement (5-year period)
	Reduce by 12.5% energy consumption	Electricity to power 16,000+ houses	10.8% reduced
	Reduce by 10% water consumption	Water to fill 540 olympic swimming pools	12.6% reduced
	Reduce by 10% operating costs	USD 28.0m electricity and water cost savings[14]	16.4% reduced
	Reduce by 12.5% greenhouse gas emission	30,000 cars taken off the road	22.2% reduced
	Achieve portfolio-wide 50% recycling rate	180,000+ tons of waste diverted[15]	50.0% diverted[16]

Source: UBS Asset Management, Real Estate & Private Markets (REPM). Based on latest available data as at February 2021

13 Science-based targets utilizing the absolute-based approach, in line with the Paris Agreement

14 Based on the UNBS-AM GRESB Portfolio Analysis Report 2020 (for Amalgamated RE); reflects like-for-like change data for the five-year period ended 31 December 2019

15 Based on estimated average electricity cost of USD 131.9 per megawatt hour and average water cost of USD 2.8 per cubic meter. Cost prices as at 2019

16 Recycling rate metric based on measurable data for the one-year period ended 31 December 2019

CASE STUDY

Promoting renewable energy and local communities

Type of investment

Direct infrastructure

Sector

Energy

Region

North America

Country

US

ESG topics addressed

Community impact and human rights, environmental management and climate change

Summary of engagement

We regarded the company, a portfolio of three wind farms, as an attractive opportunity to acquire renewables assets in the US. Our case was further supported by the company's plans to replace its existing wind turbines with newer, improved equipment, a process known as repowering. Repowering is expected to enhance the long-term sustainability of the facilities by increasing the efficiency and capacity factor of each wind farm and lowering expected operating costs. In addition, the increased efficiency will likely improve the company's contribution towards the energy industry's transition to a low carbon future. Our review also identified that projects located on multiple parcels of land in rural locations would require significant community involvement and communication with landowners to ensure the satisfaction of all community stakeholders. Based on conversations with the portfolio's asset manager during the site visits, we concluded that the company was taking the right approach to community engagement (i.e., frequent town halls to educate the community.)

Outcomes and next steps

Through exclusive negotiations with our partner, we were able to close the transaction in September 2019. Repowering began in the fall of 2019 and was completed in November 2020. Post repowering, the facilities' output totals 383 megawatts of capacity.

CASE STUDY

Springfields Outlet

Type of investment

Direct real estate

Sector

Real Estate,
Retail REITs

Region

Europe

Country

UK

ESG topics addressed

Community impact, environmental management and climate change

Summary of engagement

We carried out a social value assessment for a shopping and leisure center. The social value report details the social, economic and environmental value that has been generated annually and how this relates to the SDGs. The assessment was used to estimate how the property management team, the suppliers and retailers have contributed to each of the 17 SDGs and the UN's 2030 Agenda for Sustainable Development. We collected data on their activities and initiatives, specifically those that have generated value for local people, their communities and society at large. Supporting the local community is an integral part of the outlet's foundations, ranging from engagement with schools, supporting local charities, to sponsoring regional music festivals and awards. Sixty percent of the 600 staff employed on site live within five miles of the site's location in Spalding, UK. With backing from UBS, Springfield utilizes 25 local contractors with 64% based within 20 miles of Spalding, adding to the local economy, lowering carbon emissions and keeping down costs.

Outcomes and next steps

Through our analysis, we have calculated the real estate investment provides 81% of local employment, 96 weeks of apprenticeships, 18% of total supply spend to local business, 230 hours volunteered to support community projects, 1.43 tons of CO2 emissions saved through investing in LED lighting and the installation of electric car chargers, and 100% of waste diverted from landfill. We are now working actively with the property manager to undertake similar measurement at other properties, compare the results and share best practice. Our aim is to have a social value across not only our UK portfolio but other properties and portfolios held by us globally.

CASE STUDY

Influencing commitment to ESG

Type of investment

Multi-manager real estate

Sector

Real estate

Region

Multiple

Country

Multiple

ESG topics addressed

Transparency and disclosure

Summary of engagement

The third party fund manager first participated in the GRESB survey in 2014. For the next three submissions it significantly underperformed GRESB and peer group averages. UBS MM-RE has been lobbying and encouraging the fund manager to enhance and improve their ESG efforts, particularly since 2016, as our stake in the fund has grown materially over time. As our holding has grown we have become an increasingly important investor, both to the manager and as a representative of other investors in the investor representative group. Since 2018, UBS MM-RE has has chaired the fund's investor representative group, further amplifying our voice and increasing pressure on the fund manager to act. We have used this position of influence to drive the ESG message and focus the fund manager on ESG as an issue (along with various other matters).

Outcomes and next steps

The fund has recently improved its GRESB score significantly, to 87 points (versus average 72) and now ranks sixth out of 117 unlisted diversified European funds. We believe that indirect pressure has encouraged the fund manager to respond to engagement on the topic of ESG, giving rise to the substantial GRESB score improvement in recent years. We have also encouraged the fund to consider the issue beyond GRESB results; the fund manager has recently brought their ESG advisory team in-house, appointed a new global head of ESG and created a comprehensive strategy to identify ESG-related risks and pursue science based environmental targets.

CASE STUDY

Promoting sustainable farming

Sector

Consumer Staples,
Food,
Beverage and Tobacco,
Agricultural Products

Region

North America

Country

US

ESG topics addressed

Environmental management and climate change

Summary of engagement

The firm is a well-known fifth generation family grower, packer and shipper of tree fruit, based in the Pacific Northwest, farming 3,600 acres of various tree fruits. They employ both conventional and organic farming practices. They lease orchards from our portfolios which we have enrolled in the Leading Harvest ESG Management Program. This is a comprehensive set of ESG standards for farm management with 13 Principals and Objectives, 33 Performance Measures and 77 Indicators. Compliance is evaluated by independent auditors. One of the 33 Performance Measures is to implement an Integrated Pest Management (IPM) system that uses regional best practices to achieve the crop protection objective while also protecting people and the environment.[17]

IPM is an ecosystem-based strategy that focuses on long-term prevention of pests or their damage through a combination of techniques such as biological control, habitat manipulation, modification of cultural practices and use of resistant varieties. Pesticides are only used after all of the above methods have been utilized and monitoring indicates they are needed to remove the specific target organism according to established guidelines and treatments. Pest control materials are selected and applied in a manner that minimizes risks to human health, beneficial and non-target organisms, and the environment.

Outcomes and next steps

The firm employs IPM on all 3,600 acres of tree fruit that they farm, including the orchards they lease from our portfolios. The result is a reduced use of pesticides, and when pesticides are used they are selected and applied in such a way that minimizes their possible harm to people, non-target organisms, and the environment.

17 Source: Leading Harvest Farmland Management Program

SECTION 8

Dialogue with policy makers and standard setters

As a large scale global asset manager we have a role to play in representing the views of the investment community on matters of policy and standards generally. Given the speed with which regulation and policy relating to sustainable finance is developing in many parts of the world, we regard dialogue with policy makers and standard setters as part of our fiduciary role which allows us to best represent our clients' interests. In this section we expand on some of the key initiatives in which we participated during 2020.

Regulatory standards

UBS-AM has a well-established dedicated policy team which leads the firm's global engagement with policymakers and standard setters. During 2020, we engaged on a range of topics, with a focus on sustainable investing (SI).

As a firm, it is our ambition to support the development of regulatory standards globally. We achieve this through interaction with our trade associations, regulators and other policymakers. Given we are an asset manager with many years' experience of SI and differing market conditions, our engagement has been constructive in contributing practical insights to consultation responses and other meetings with regulators.

Highlighting the ways in which the industry works has proven effective in helping design an internationally compatible SI framework that can be widely delivered to our clients to assist them in meeting policy goals.

The SI team additionally participates in several working groups and initiatives aimed at enhancing standard setting, both on emerging and consolidated ESG topics. Similarly, our markets experience has contributed to the dialogue on recent market events to support a globally coherent framework that is fit for long-term recovery.

Our goal is to promote best practice industry standards by contributing to the development of regulatory standards and guidelines and employing progressive and innovative solutions to meet those standards.

Regional initiatives

A core part of our engagement has been in the EU given its leadership in developing a comprehensive SI framework. However, we have also been active elsewhere as SI initiatives take hold across the globe. The initiatives that we have worked on include:

European Union

- Legislative initiatives under the *EU's Action Plan on Sustainable Finance* such as the taxonomy, disclosures and governance.
- 'Second wave' sustainable finance initiatives including the EU eco-label, sustainable corporate governance and corporate reporting and data.
- Preparing for the EU's forthcoming *Revised Action Plan on Sustainable Finance.*

United States

- Proposals by the US Department of Labor (DOL) for US pension plans on SI and proxy voting. Initially controversial, the final rules were beneficial in adopting an industry compatible approach to SI and a principles-based approach to proxy voting.

Switzerland

- Principle based Guidelines for the Swiss asset management industry on SI developed by Swiss Sustainable Finance and Asset Management Association Switzerland
- UBS provided input to the Swiss State Secretariat for International Finance (SIF) on the future Swiss sustainable finance framework.

APAC

- Rules by the Securities and Futures Commission (SFC) in Hong Kong on climate risk management and
- Guidelines by the Monetary Authority of Singapore (MAS) on environmental risk management.

Systemic Risk and COVID-19

We contributed to regional and international policymakers' reviews of the March 2020 market constraints as a result of COVID-19. This was done through surveys and industry letters addressing market action, regulatory reliefs, and lessons learned exercises that have been under discussion since Autumn 2020 to evaluate the interplay which different financial market participants have shown.

Asset managers and the markets have a key contribution to make to the COVID-19 recovery and we support approaches which facilitate this, including the role that specific funds play in the economy, and a recovery in line with SI objectives.

Trade Associations (SI specific)

Global

- ICI Global
- International Capital Markets Association (ICMA)
- International Swaps and Derivatives Association (ISDA)
- Impact Management Project

Europe

- European Fund and Asset Management Association (EFAMA)
- The Investment Association (IA)
- De Nederlandsche Bank Sustainable Development Goals

Working Group

- Association of the Luxembourg Fund Industry (ALFI)
- Bundesverband Investment und Asset Management (BVI)
- Asset Management Association Switzerland (AMAS)
- Swiss Bankers Association (SBA)
- Swiss Sustainable Finance (SSF)

US

- The Investment Company Institute (ICI)

APAC

- Asia Securities Industry and Financial Markets

Association (ASIFMA)

- Hong Kong Investment Funds Association (HKIFA)
- Investment Management Association of Singapore (IMAS)

Sustainability Public Consultations 2020

Europe

- European Supervisory Authorities (ESAs) Consultation on the Sustainable Finance Disclosure Regulation (SFDR) RTS
- ESAs Survey on Templates for Environmental and/or Social Products under SFDR
- European Commission (EC) Consultation on EU Taxonomy Delegated Acts
- EC Consultation on the Renewed Sustainable Finance Strategy
- Input to EFAMA on SFDR Practicalities for EC Letter
- Input through EFAMA to EC's Development of Ecolabel Criteria for Financial Products
- EC's Consultation on Alternative Investment Fund Managers Directive Review
- Swiss SIF questionnaire on potential amendments to financial market legislation based on EU regulation and to prevent greenwashing

US

- DOL ERISA Financial Factors in Selecting Plan Investments
- DOL ERISA Fiduciary Duties Regarding Proxy Voting and Shareholder Rights

APAC

- HK SFC Consultation on Management and Disclosure of Climate-related Risks by Fund Managers (public and private consultations)
- HK SFC Private Consultation on revising the 2019 ESG funds circular
- MAS Final Guidelines on Environmental Risk Management (Asset Management)
- Environmental Risk Management Handbook on Best Practices by the Singapore Financial Centre Advisory Panel
- Green Finance Industry Taskforce (Convened by MAS) Consultation Paper on for Singapore-based financial institutions to identify activities that can be considered green or transitioning towards green

Update on our work with standard setters and other investors

Collaborating with other investors

Where we believe the effectiveness of engagement and the chance of success can be increased, we're willing to work both formally and informally with collective bodies, or to collaborate with other shareholders. By speaking to companies with a unified voice, investors can communicate their views more effectively while allowing the companies to focus on a smaller and more coordinated number of requests from the financial community.

Collaboration with peers can bring clear benefits, such as building knowledge and skills, sharing resources and increasing attention from corporate management. However, there is a chance that negotiation and coordination costs might hamper the advantages of collaboration. Therefore, at the outset, we must try to confirm that:

- Working with other investors is permitted by law and/or regulation
- A general alignment of views and agreement on issues of concern and potential solutions exists
- Dialogue will be undertaken privately
- We, as an investment firm, have the resources to effectively contribute to the research of, and dialogue with, selected companies.

We assess the outcomes of the collaborative engagements we participate in by using the same criteria we apply to our individual engagements. These assessments focus on progress against agreed engagement objectives.

Collaborative engagements are not the only channel for us to work with our peers and raise awareness on sustainable investing. We are also active members of industry working groups and advisory committees to advance standard setting on key ESG strategic issues for UBS-AM. We assess the effectiveness of these initiatives through the quality of final deliverables and alignment with our internal positions.

In 2020, we shared our expertise and worked within the following groups and collaborations:

Climate Action 100+

Climate Action 100+ is a collaborative engagement initiative coordinated by five partner organizations: Asia Investor Group on Climate Change (AIGCC); Ceres; Investor Group on Climate Change (IGCC); Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI). Launched in December 2017, it now has the support of over 545 investors, representing more than USD 52 trillion AUM. The initiative's aim is to engage with high greenhouse gas emitters, together with other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement on climate change. Of those chosen for engagement, there are 100 'systemically important emitters', which together account for two-thirds of annual global industrial emissions, plus more than 60 others which have significant opportunities to drive the clean energy transition. UBS-AM is currently directly involved in 29 coalitions of investors within Climate Action 100+ and leads eight of the company dialogues across regions. UBS-AM is also a member of the IIGCC Climate Action 100+ European Advisory Group.

Investor Forum

UBS-AM is a founding member of the UK Investor Forum, a not-for profit organization inspired by the Kay Review, which has developed a collective engagement framework. A total of 52 member practitioners are currently funding the forum. Since inception, it has developed collaborative engagements with 40 companies. In 2020, we were involved in three, focusing on Barclays (climate change), Boohoo Group (working practice issues within the supply chain) and Ryanair (shareholder rights). Through the forum, we also joined a meeting with the Board of Rio Tinto to talk about board effectiveness, oversight and accountability, and the issue of license to operate. In December 2020, we also participated in a collective meeting with another company regarding an emerging controversy on product safety and began discussions for a more formal collaboration in 2021. For further information on the Forum's activities in 2020, please refer to 2020 Annual review.

FAIRR

Supporting dialogue on ESG risks caused by intensive livestock production, the FAIRR Initiative is a collaborative investor network that raises awareness of the material ESG risks and opportunities caused by intensive livestock production. We are members of the initiative and are actively involved in the collaborative sustainable protein supply chain engagement. Currently we participate in phase five, leading and supporting on various dialogues with companies. This phase is focused on time-bound commitments that enable consumers to transition to healthy and sustainable diets. We also use the Initiative's research in our own integration and engagement activities.

Access to Medicines Foundation

UBS-AM signed the Access to Medicine Investor Statement as we believe access to medicine is material to long-term shareholder value creation. We contribute to, and use the analysis generated from the Index in our research processes. We continue to collaborate with other investors in engaging on access to medicine, leading and supporting on various dialogues with companies.

Advancing impact measurement standards

UBS-AM has been working with PGGM to develop metrics which measure the external impact of companies on the environment, public health, water and food security. This work has focused on moving beyond the standard ESG KPIs measuring the company's own operational performance, to developing metrics that measure the tangible impact of companies' products and services.

As part of this project, we have been engaging companies to communicate our expectations of impact reporting so as to drive better disclosure.

During 2020, UBS-AM has collaborated with PGGM and the Dutch Central Bank's Sustainable Finance Platform SDG Impact Assessment Working Group on the formulation of a series of informative documents that can help corporates and investors in disclosing data and information linked to individual SDGs. The aim of these documents will be to serve as a guidance in order to measure impact, drive better information and discourse by companies on impact.

UBS-AM is also a member of the Impact Management Project's advisory group which is working to develop a consensus on impact measurement for investors.

Finally, UBS-AM has also been working together with S&P Dow Jones with the goal of establishing questions to help companies disclose impact metrics. UBS-AM believes that adequate impact reporting will only be possible through collaboration within the investment management industry to develop clearer guidance clarifying the expectations of investors on impact investing.

Sector specific net zero standards

Several companies have announced decarbonization milestones and net zero ambitions. However, these are often based on varying definitions of scope and boundaries, a range of views on what net zero looks like, and differing opinions in ways of achieving it. This raises challenges over investors' ability to assess the underlying ambition, as well as difficulties in comparing between different companies and peer groups. As an active member of Climate Action 100+, UBS-AM has participated in roundtable discussions with other investors, as well as with companies in the oil and gas, diversified mining and steel sectors. Industry participants have been drawn from companies who have been leaders in announcing their own decarbonization milestones, as well as net zero targets. The purpose of the discussions has been to create common understanding of good practice in terms of setting targets and ambitions, with a broader intention of seeking convergence in how such forward-looking statements are expressed.

SFAMA (formerly Swiss Funds and Asset Management Association) working group: Advancing sustainable investing in Switzerland

UBS-AM is a member of the Asset Management Association Switzerland (formerly Swiss Funds and Asset Management Association (SFAMA)) /Suisse Sustainable Finance (SSF) Working Group on Sustainable Asset Management. The group was established in March 2019. In June 2020, it successfully reached its goal and published detailed recommendations for the Swiss asset management industry on how to implement sustainable practices effectively. The group will remain in place to continue driving sustainable finance in the market, with UBS-AM actively contributing.

The Biopharma Sustainability Roundtable

We are an active investor member of this sector-specific collaboration network, contributing towards the Biopharma ESG Communication Guidance, which aims to improve communications on material ESG topics between investors and companies.

UK Investment Association (IA) working group on climate change

UBS-AM is part of the UK Investment Association (IA) Working Group on climate change. The group carries the following objectives:

- Developing the IA policy position on climate change (with particular regard to the transition to net zero, the UK's 2050 target and industry position in the lead-up to the UK's hosting of the UN Climate Change Conference, COP 26)
- To support the development of climate-related disclosures
- Develop industry positions on climate change risk management and reporting, including support for initiatives such as the joint FCA-PRA Climate Financial Risk Forum
- Define implications of climate change for firms in their role as businesses and the investors' role as stewards.

During 2020, the working group developed the IA climate change position which outlined the role of both investment managers and the UK government in bringing about the transition to a sustainable future. The position paper includes seven commitments from the industry and three asks of government.

Paris Aligned Investment Initiative

UBS-AM has been participating in the Paris Aligned Investment Initiative (PAII), and provided a co-chair for the initiative's working group on listed equity and corporate fixed income. We committed to this initiative because we recognize the importance of establishing an agreed definition of what alignment to below two degrees or net-zero by 2050 means for asset owners and asset managers. The PAII was launched in May 2019 by a group of European asset owners, led and coordinated by IIGCC. It's aim is to understand the concepts and issues related to aligning portfolios to the Paris Agreement goals, assess methodologies, and analyze the implications of alignment on the characteristics of portfolios. Four different asset classes – sovereign bonds, listed equities, corporate fixed income and real estate – have been covered by the framework with more than 70 investors representing over USD 16 trillion assets under management participating. A draft version of a Net Zero Investment Framework was published in August 2020 for the purposes of consultation.

PRI Academic network

UBS-AM has been a member of the advisory committee of the PRI Academic Network since 2019. This workstream aims at closing the gap between academia and practitioners on the topic of sustainable investing. As contributors to the group, we have provided feedback on academic papers as well as participating in the 2020 PRI Academic Conference to share a practitioner's view of the work done on the effectiveness of the network as a collaborative initiative among investors.

SECTION 9

Information provided to clients and the public

UBS Group AG

At a Group level, all policies and reports pertaining to sustainability standards and commitments are publicly accessible on our global website. The principal disclosure document is the UBS Sustainability Report, compiled in accordance with GRI reporting standards and externally assured.

UBS Asset Management

The following documents are available on the global website of UBS-AM:

Our Sustainable Investment Policy
Global Stewardship Policy
Stewardship Annual Report
Proxy Voting Policy
Global voting information
US mutual funds voting information
Canadian mutual funds voting information
Australian mutual funds voting information
2020 PRI assessment report
2020 PRI transparency report

Strong results in the 2020 GRESB Assessment
GRESB Infrastructure Assessment
GRESB Real Estate Assessment

Our voting record is disclosed publicly online on a quarterly basis. For our regulated funds in the USA, Canada and Australia we disclose our annual voting record on a fund-by-fund basis.

During 2020 we added further information regarding our proxy voting activity to the dedicated SI section of our public website. We now publicly disclose the main reason for any voting action which is against the recommendation of the company. This enables the company in question to understand the rationale for our voting action, improves transparency for our clients, and ensures that we meet the requirements of the Shareholder Rights Directive II in relation to disclosure of significant votes. Further details can be found here.

We aim to ensure our stewardship activities are transparent and reported in a fair and balanced way through regular disclosures to our clients and the public.

Client reporting

Client reporting is conducted quarterly and includes details of voting and corporate engagement activities undertaken during the quarter across all strategies. In these reports we provide several case studies across regions and sectors, with detailed information on companies we decided to engage with, issues addressed and progress made. All case studies include company names.

Our clients are also provided with portfolio specific voting information, to meet their own requirements in relation to the strategies they are invested in. For our UK clients we are now able to report in accordance with the format introduced by the PLSA (Pensions and Lifetime Savings Association).

In 2020, we also provided aggregated information and case studies on engagement tailored by strategies when requested by clients. In 2021, we will continue to work on making this level of tailored reporting more widely available to our clients.

Stewardship Annual Report

Our Stewardship Report is published annually and covers the activities of the previous calendar year (1 January – 31 December). It is signed off by the President of UBS-AM. Our report includes both qualitative and quantitative information on our proxy voting and engagement activities across asset classes, together with details of our dialogue with standard setters and policy makers.

The indicators disclosed in relation to ESG resolutions, companies engaged, engagement meetings and dialogue on environmental and social issues fall within the scope of UBS Group AG's GRI audit conducted by Ernest and Young, the purpose of which is to ensure that all data represented within the report is fair and balanced.

Within our Stewardship Report we provide case study examples of dialogue, engagement approaches, outcomes achieved and next steps. This year, we have also included the names of some companies in engagement case studies and increased the level of information provided on policy, processes and governance of stewardship, in order to align with the requirements of the new UK stewardship code. We are still mindful that our engagement activity, especially current activity, may be confidential or sensitive. That is why in some cases we have chosen not to fully disclose all information, particularly if we feel this could hinder the outcome of our discussions with companies.

Appendix 1

Schedule of companies we engaged with in 2020 (A–Z)

A2A S.p.A.
ABB Ltd.
AbbVie, Inc.
Adobe Inc.
Aflac Incorporated
AGCO Corporation
AGL Energy Limited
Agree Realty Corporation
Allstate Corporation
Ally Financial Inc
Amazon.com, Inc.
Ameren Corporation
American Electric Power Company, Inc.
American Express Company
American Tower Corporation
Americold Realty Trust
Ameriprise Financial, Inc.
ANIMA Holding S.p.A.
ANTA Sports Products Ltd.
Apache Corporation
ASOS plc
AstraZeneca PLC
Athene Holding Ltd. Class A
Atlantia S.p.A
Aviva plc
Azure Power Global Ltd.
Babcock International Group PLC
BAE Systems plc
Baloise-Holding AG
Banca Mediolanum SpA
Banco Bilbao Vizcaya Argentaria, S.A.
Bank of America Corp
Bank OZK
Barclays PLC
Bayer AG
Bloom Energy Corporation Class A
Blueprint Medicines Corp.
BNP Paribas SA Class A
BorgWarner Inc.
BP p.l.c.
Braskem S.A.
Bright Horizons Family Solutions, Inc.
British American Tobacco p.l.c.
BT Group plc
Bunge Limited
Calliditas Therapeutics AB
Capital One Financial Corporation
Carnival Corporation
Carvana Co. Class A
Cembra Money Bank AG
Cenovus Energy Inc.
Century Pacific Food, Inc.
CF Industries Holdings, Inc.
Chevron Corporation
China Mengniu Dairy Co., Ltd.
China Resources Land Limited
Chubu Electric Power Company,Incorporated
CIT Group Inc.
Citigroup Inc.
Citrix Systems, Inc.
Clariant AG
CLP Holdings Limited
CMS Energy Corporation
Comcast Corporation Class A
COMET Holding AG
Compagnie de Saint-Gobain SA
Compagnie Financiere Richemont SA
Compleo Charging Solutions AG
Conagra Brands, Inc.
ConocoPhillips
Continental AG
Conzzeta AG
Cornerstone Ondemand, Inc.
Covestro AG
Credit Suisse Group AG
CRH Plc
Daetwyler Holding AG
Daimler AG
Deutsche Boerse AG
Deutsche Pfandbriefbank AG
Deutsche Post AG
Deutsche Telekom AG
Digital Realty Trust, Inc.
Dixons Carphone PLC
Dominion Energy Inc
dormakaba Holding AG

Duke Energy Corporation
easyJet plc
Edwards Lifesciences Corporation
Elanco Animal Health, Inc.
Eli Lilly and Company
Embracer Group AB Class B
Endeavour Mining Corporation
Enel SpA
Eni S.p.A.
EOG Resources, Inc.
Equinor ASA
Equity LifeStyle Properties, Inc.
Erste Group Bank AG
Euronav NV
Expedia Group, Inc.
Faurecia SA
Ferguson Plc
FG New America Acquisition Corp Units Cons of 1 Sh A + 1/2 Wt 31.08.27
FirstEnergy Corp.
Flow Traders NV
Forbo Holding AG
Fortis Inc.
Fortum Oyj
Freeport-McMoRan, Inc.
GAM Holding AG
Generac Holdings Inc.
Georg Fischer AG
GFL Environmental Inc
Gilead Sciences, Inc.
GlaxoSmithKline plc
Glencore plc
GoDaddy, Inc. Class A
Grainger plc
Grand City Properties SA
Hartford Financial Services Group, Inc.
Hess Corporation
HP Inc.
HUGO BOSS AG
Iberdrola SA
Imperial Brands PLC
Imperial Oil Limited
Implenia AG
Incyte Corporation
Ingersoll Rand Inc.
Intuit Inc.
Invesco Ltd.
Iovance Biotherapeutics Inc
Itron, Inc.
ITV PLC
Johnson and Johnson
JPMorgan Chase and Co.
Julius Baer Gruppe AG
Kansai Electric Power Company, Incorporated
Keysight Technologies Inc
Kingspan Group Plc
Kirin Holdings Company, Limited
Kissei Pharmaceutical Co., Ltd.
Korea Electric Power Corporation
Laboratory Corporation of America Holdings
Lam Research Corporation
Landis+Gyr Group AG
LANXESS AG
Leeno Industrial Inc.
LEG Immobilien AG
Lemonade Inc
Lincoln National Corporation
Linx SA
LivaNova Plc
LKQ Corporation
Lloyds Banking Group plc
Lonza Group AG
Lyft Inc Class A
MacroGenics, Inc.
Madison Square Garden Entertainment Corp Class A
Mail.ru Group Ltd. Sponsored GDR
Marathon Oil Corporation
Markel Corporation
Marks and Spencer Group plc
Marsh and McLennan Companies, Inc.
Mediobanca S.p.A.
Melrose Industries PLC
MercadoLibre, Inc.
Merida Industry Co., Ltd.
Metall Zug AG Class B
MetLife, Inc.
Meyer Burger Technology AG
Micron Technology, Inc.
Microsoft Corporation
Mirati Therapeutics Inc.
MMC Norilsk Nickel PJSC
Mobile TeleSystems PJSC
Mondelez International, Inc. Class A
Mothercare plc
MSandAD Insurance Group Holdings, Inc.
Munich Reinsurance Company
N Brown Group plc
Nestle S.A.

Netflix, Inc.
Novartis AG
NovoCure Ltd.
Novozymes A/S Class B
NVIDIA Corporation
NXP Semiconductors NV
OMV AG
OneSpaWorld Holdings Ltd.
Origin Energy Limited
ORIX Corporation
Palo Alto Networks, Inc.
PayPal Holdings Inc
Pearson PLC
Pinnacle West Capital Corporation
Power Assets Holdings Limited
Procter and Gamble Company
Prologis, Inc.
Prudential Financial, Inc.
Prysmian S.p.A.
Qantas Airways Limited
Ramsay Health Care Limited
Recruit Holdings Co., Ltd.
Repsol SA
Rio Tinto plc
Roche Holding Ltd
Royal Dutch Shell
Royal Mail plc
RPS Group Plc
RWE AG
Safehold Inc.
Sampo Oyj Class A
Sanofi
SAP SE
Schneider Electric SE
Schweiter Technologies AG
Serco Group plc
ServiceNow, Inc.
Shaftesbury PLC
Shop Apotheke Europe NV
SIG plc
Sika AG
Skyworks Solutions, Inc.
SLM Corp
SoftBank Group Corp.
Softcat Plc
South32 Ltd.
Southern Company
Spectris plc
Spectrum Pharmaceuticals, Inc.
Stadler Rail AG
State Street Corporation
Stericycle, Inc.
Stryker Corporation
Suncor Energy Inc.
Synchrony Financial
T. Rowe Price Group
Takeda Pharmaceutical Co. Ltd.
Take-Two Interactive Software, Inc.
TAL Education Group Sponsored ADR Class A
TCS Group Holding Plc Sponsored GDR Class A RegS
Teleperformance SE
Tesco PLC
Thales SA
Tinkoff Bank JSC
Toyota Motor Corp.
Uber Technologies, Inc.
Ubisoft Entertainment SA
UBS Group AG
Unibail-Rodamco-Westfield SE Stapled Secs Cons of 1 Sh
Unibail Rodamco + 1 Sh WFD Unib Rod
Unilever PLC
Uniper SE
Universal Display Corporation
Vail Resorts, Inc.
ViacomCBS Inc.
VINCI SA
VMware, Inc. Class A
Volkswagen AG
Vontobel Holding AG
Voya Financial, Inc.
V-ZUG Holding AG
Walmart Inc.
WEC Energy Group Inc
Wells Fargo and Company
Western Digital Corporation
Wolters Kluwer NV
Woodside Petroleum Ltd
World Wrestling Entertainment, Inc. Class A
Wuliangye Yibin Co., Ltd. Class A
Xcel Energy Inc.
Yamaha Motor Co., Ltd.
Yandex NV Class A
Yelp Inc
Yunnan Energy New Material Co., Ltd. Class A
Zurich Insurance Group Ltd

Appendix 2

Schedule of collaborative initiatives

UBS-AM is currently a member of, or supporting, the following global groups and initiatives:

Asian Corporate Governance Association (ACGA)
DNB SDG Impact Assessment Working Group
EFAMA Stewardship, Market Integrity and ESG Investment Standing Committee
Farm Animal Investment Risk and Return (FAIRR)
GRESB
IFC Operating Principles for Impact Management
Impact Management Project (IMP)
Institutional Investors Group on Climate Change (IIGCC)
International Corporate Governance Network (ICGN)
Investor Statement of the Access to Medicine Index
National Association of Real Estate Investment Managers
Principles for Responsible Investment (PRI)
Sustainability Accounting Standards Board (SASB)
Swiss Sustainable Finance (SSF)
Taskforce on Climate Related Financial Disclosure (TCFD)
The Biopharma Sustainability Roundtable
Transition Pathway Initiative (TPI)
UK Governance Forum
UK Investor Forum
US Green Building Council

For a full list of initiatives supported by UBS AG, please refer to the "Driving Change In Business" section of UBS's sustainability report.

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Americas
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