EMs important role in a successful transition

UBS Global Emerging Markets Equity Climate Transition Fund

The transition to a more sustainable, low carbon global economy will also have increasing real-world effects on the emerging market countries. Investors that have EM exposure want to mitigate against investment risks related to climate change and the transition. While focusing on the climate topic, this fund aligns to various other UN Sustainable Development Goals as well.

Why is the transition to a low-carbon economy so important?

With regard to climate change, investors are faced with various challenges when it comes to managing physical risks such as production losses due to extreme weather events, transition risks such as falling demand for existing products, or regulatory risks. If these challenges are not addressed properly, the consequences will be severe for both the environment and businesses. Since conventional investment strategies rarely take long-term climate change trends into account, UBS Asset Management has developed a climate-aware framework. This allows investors to focus on their financial targets while knowing that the framework takes account of their climate change ambitions. This approach has been evolved and in 2022, the UBS Global Equity Climate Transition Fund was launched. Cognisant of the socio-economic implications of the transition to a low carbon economy, the strategy seeks alignment with five SDGs to mitigate the effects of this structural change on the society. The strategy also commits to decarbonize over time in-line with the Intergovernmental Panel on Climate Change's 1.5°C scenarios.

What are the challenges of the transition for emerging markets?

Emerging markets are likely to be amongst the worst affected by climate change and have most to gain from collective climate ambition. This will require emerging markets to transform their energy systems, yet shoring up support for the green transition during an economic crisis is set to face challenges. It will require supportive policies and business commitment to drive transformation, ensure that high-emission sectors are not left behind and employees are ready for future labour markets. Emerging markets face a number of challenges caused by rapid urbanisation, including growing pollution levels and rising energy demand. Meeting the challenge of urbanisation will require innovative collaboration models across public and private sectors, in order to build and modernise sustainable infrastructure.

Annual clean energy investment in the emerging markets must increase from USD 150 billion in 2020 to over USD 1 trillion by 2030[1] to meet net-zero emissions targets by 2050. Given the current context of public budget constraints, the private sector will play a critical role to achieve this goal. However, more efforts must be made to channel additional finance towards the clean energy transition. These key messages address the challenges and opportunities of setting the climate ambition for emerging markets:

- Supporting the energy transition in emerging markets
- Addressing sustainable urbanisation challenges
- Mobilising finance for the green economy

Investors play an important role in this transition by investing in solutions that will support the changes needed.

1 Green Economy and Energy Transition in Emerging Markets 2021
OECD Emerging Markets Network

Our Solution: UBS Global Emerging Markets Equity Climate Transition Fund

This fund

- is suitable for institutional investors, whose objective is to mitigate investment risks related to climate change and the transition to a low-carbon economy.
- is designed to immediately deliver a better Climate and ESG profile compared with the reference market cap benchmark.

aims to decarbonize over time, in line with the IPCC's 1.5°C scenarios – and targets net zero carbon exposure by 2050.

- aims to mitigate social and environmental effects with five UN Sustainable Development Goals.[1]
- offers cost-efficient, low-tracking error access to emerging markets equities.

1 The fund aims to aligns to five UN Sustainable Development Goals: Good Health & Well Being; Affordable & Clean Energy; Decent Work & Economic Growth; Responsible Consumption & Production and Climate Action. Please see below.

Portfolio construction based on quantitative and qualitative data

A broad variety of input factors

Mitigation
Current carbon profile

CO_2 emissions

Total carbon gas emissions in tons (tons CO_2e) generated covering scope 1, 2 & 3[1]

CO_2 intensity

CO_2 emissions covering scope 1, 2 & 3 divided by company revenues (CO_2e / USDm)[1]

Adaptation
Innovative technologies

Green Opportunities
Capturing companies focusing in clean technology capacity, strategic development initiatives, and revenue generated from clean technologies. Score enhanced by UBS Evidence Lab Deep Theme engine to capture climate technologies (via Natural Language Processing).

Fossil fuel reserves

Fossil fuel (coal, oil and gas) reserves measure as potential green house gas (GHG) emissions in tons of CO_2

Transition
Glide path probability

Net-Zero Scenario Glide Path probability

Quantitative model that compares the company's carbon footprint trend with the required emission reduction implied by Net Zero. Allows to estimate the probability that the company will achieve those glide path targets

Low carbon commitment score

Score considers the following 6 qualitative/disclosure related indicators:
- Reported carbon emissions
- Emission reduction objectives
- Emission reduction policy
- Energy efficiency initiatives
- Years observed
- Disclosures under SBTi

Sustainability
UN SDGs and ESG

Overall ESG Consensus Score

Multi-source ESG score combining data from within UBS as well as third-party ESG scores from MSCI and Sustainalytics

Sustainable Development Goals

Measures alignment with the following SDGs:
- Good Health and Well Being
- Affordable Clean Energy
- Decent Work and Economic Growth
- Responsible Production and Consumption
- Climate Action

For illustrative purposes only. Additional note: In the context of this fund, Impact is also measured via the CO_2 reduction targets which are aligned with EU Climate Benchmark targets

On the way to net zero: sustainable metrics of the fund

Indicative climate and sustainable metrics	Relative target exposure
1. Climate	
Carbon Intensity Scope 1,2,3 (revenue based, separately)[1]	-40.0% / -17.0% / -8.0%
Fossil Fuel Reserves Factor[2]	-20.0%
Green Opportunities Factor[3]	+15.0%
Glide Path Transition Factor (forward looking factor)[4]	+15.0%
2. CTB Alignment	
Carbon Intensity Scope 1&2 (EVIC based, separately)[5]	-30.0%
Exposure to NACE high impact sectors (at least as high as the benchmark)[6]	>0.0%
3. ESG exposure	
UBS ESG consensus score[7]	+10.0% (typically 15.0%)
4. SDG exposure[8]	
SDG 3, 7, 8, 12, 13 – Good Health and Well Being, Affordable Clean Energy, Decent Work and Economic Growth, Responsible Production and Consumption, Climate Action	>0.0% (typically 5.0%)

Source: UBS Asset Management. Data as July 2023. Indicative portfolio parameters reflect indicative characteristics for the strategies unless otherwise noted.

Based on a simulated portfolio – for illustrative purposes

1 Carbon emissions intensity as measured by the weighted average CO_2 equivalent emissions (in tons) divided by revenues (in USDm)
2 Fossil fuel (coal, oil and gas) reserves measured as potential greenhouse gas (GHG) emissions in tons of CO_2
3 Captures companies focusing on clean technology capacity, strategic development initiatives and revenue generated from clean technologies
4 Quantitative model that compares the company's carbon footprint trend with the required emission reduction implied by Net Zero 2050 scenario. Allows to estimate the probability that the company will achieve those glide path targets
5 Carbon emissions intensity as measured by the weighted average CO_2 equivalent emissions scope 1 and 2 (in tons) divided by EVIC
6 Aggregate weight of companies with NACE Sector Code in the following list: A, B, C, D, E, F, G, H, L
7 Multi-source ESG score combining data from within UBS as well as third-party ESG scores from MSCI and Sustainalytics
8 Relative SDG score shown is the average (equal-weighted) relative score across SDG 3, 7, 8, 12 & 13

Alignment to UN Sustainable Development Goals

One of the key features of the fund's strategy is its alignment with some selected SDGs. To deliver on the social and environmental impact objectives, the strategy design tilts towards companies that align with the UN SDGs Good Health, Affordable Clean Energy, Decent Work and Economic Growth, Responsible Production and Consumption and Climate Action.

SDGs

- Add tilts on selected SGD at Production level
- Motivated by the combination of climate transition and inclusion, aiming for a contribution to societal norms
- We consider SDGs 3,7,8,12 and 13

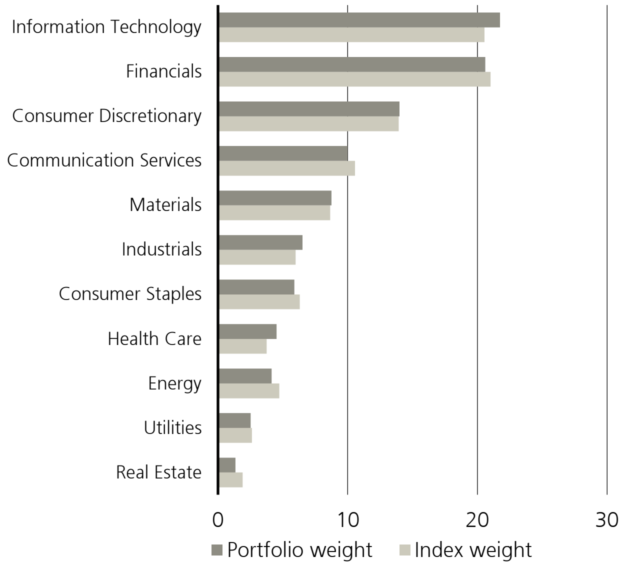
Here's a simplified description of the scoring methodology:

- Break down company revenues from products and services by activity type (e.g., alternative fuel production)
- Map these activity types to specific SDG targets under the Sustainable Development Goals initiative (e.g., SDG target 7.2: increase share of renewable energy)
- Measure the percentage of a company's revenue attributable to each SDG (if applicable)
- Assign high scores to companies generating most of their revenue form activities attributable to the relevant SDGs

Indicative portfolio composition

Sector weights relative to MSCI Emerging Markets Index in %

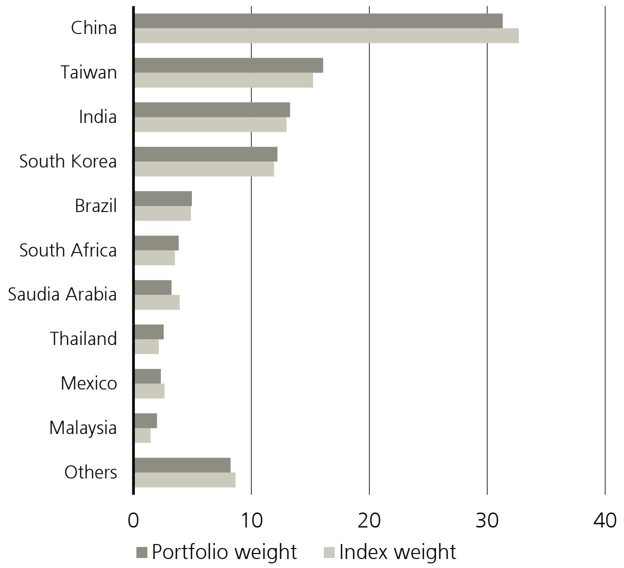
Simulated portfolio as of **31 March 2023**



Source: UBS Asset Management

Top ten country weights relative to MSCI Emerging Markets Index in %

Simulated portfolio as of **31 March 2023**



Source: UBS Asset Management

Opportunities

– The fund provides access to emerging markets equities in one single transaction
– The fund aims to have a better exposure vs. the MSCI Emerging Markets Index in terms of climate and other ESG metrics
– The fund invests in alignment with specific United Nations Sustainable Development Goals (SDGs)
– The Fund uses a rules-based ‘climate aware’ investment approach taking into account both qualitative and quantitative criteria to achieve its objectives[1]

Risks

– Equity risk: Equities can lose value rapidly and typically involve higher risks than bonds.
– Sustainability risk: an environmental, social or governance event or condition could cause an actual or a potential material negative impact on the value of the investment
– Derivatives risk: derivatives can be highly sensitive to changes in the value of the asset on which they are based which can increase the size of losses and gains
– Counterparty risk: counterparties on trades may default or not comply with contractual obligations resulting in loss

1 The fund is based on the methodology underpinning the UBS Climate Aware rules-based strategies

Why UBS Asset Management?

Strong track record

One of the fastest organically growing index managers globally[1] with more than USD 480bn[2] assets under management

Truly global

Clients in 33 countries worldwide

Proprietary rules-based / self-indexing

Applying screening/ tilts based on client specified metrics – sourcing fundamental and ESG data from a range of third party databases

Highly skilled

Long-term experience in constructing rules-based strategies by a Systematic & Index Investments team of +30 professionals

Extensive Sustainability capability

Robust in-house Sustainable Investment team offering profound market research

1 Based on proprietary analysis of publicly available industry data
2 As of 31 March 2023

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