

# Principal Adverse Sustainability Impacts Statement

UBS Fund Management (Luxembourg) S.A.  
(549300AE48NQE4QVEH24) June 2023



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# 1. Summary

UBS Fund Management (Luxembourg) S.A., (549300AE48NQE4QVEH24) considers Principal Adverse Impacts (“PAI”) of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of UBS Fund Management (Luxembourg) S.A.

This statement on principal adverse impacts on sustainability factors covers the reference period from 1<sup>st</sup> January to 31<sup>st</sup> December 2022.

UBS Fund Management (Luxembourg) S.A. (hereinafter also known as “UBS-FML” or “the management company”) has delegated portfolio management to the following portfolio managers:

- UBS Asset Management (“UBS-AM”), a business division of UBS Group AG
- UBS Global Wealth Management (“UBS-GWM”), a business division of UBS Group AG
- Third party portfolio managers as part of our White Label Solutions business (“WLS”)

However, the management company remains ultimately responsible for the portfolio management function, hence, the delegation is subject to supervision and monitoring from the management company. In order to achieve this, the management company has implemented a robust control framework.

The assessment of PAI is performed for all funds and discretionary portfolio management mandates managed by UBS-FML and includes both, sustainable and non sustainable strategies. The indicators provided in section 2 are based on the latest data available. We acknowledge that this data is still evolving, and that data availability is still limited for some of the indicators. This statement relates to the first year of reporting, which means no historical comparison is available.
















UBS-FML actively considers certain PAI indicators as part of its sustainable investing strategies (SFDR Article 8 / 9). “Article 8” & “Article 9” are references to the specific levels of product level disclosure prescribed by the EU regulation on sustainability related disclosures in the financial services sector (“SFDR”). During the reference period, products have and will continue to be positioned into these strategies in future.

UBS-FML will seek to improve data coverage as industry practice emerges and will assess indicators in order to have as broad a coverage as possible for future consideration into the investment process.

Specific considerations of PAI on product level by UBS AM and UBS GWM are further elaborated in the section 3.2 of the report.

For the WLS business, although third party portfolio managers consider PAI indicators where relevant, according to their own methodology, it is not feasible to make meaningful narrative disclosures per indicator at the level of the management company. Disclosure per product can be found in the respective product level disclosure. The impacts of these investments themselves were calculated and contributed to the figures below.

This summary of the disclosure in this report can be found at the links below for the following languages:

- |              |   |               |   |
|--------------|---|---------------|---|
| - Czech:     |  | - Icelandic:  |  |
| - Danish:    |  | - Italian:    |  |
| - Dutch:     |  | - Norwegian:  |  |
| - English:   |  | - Portuguese: |  |
| - Finnish:   |  | - Spanish:    |  |
| - French:    |  | - Swedish:    |  |
| - German:    |  |               |   |
| - Greek:     |  |               |   |
| - Hungarian: |  |               |   |

## 2. Description of principal adverse impacts on sustainability factors

The aforementioned narratives apply to the relevant portfolio managers, thus if some of them are not mentioned against certain indicators, it means that those managers do not take those indicators into account. If a reference is made to UBS Group AG (“UBS”), it means that the disclosure is applicable to all UBS business divisions referenced in this report.

### Indicators applicable to investments in investee companies

Adverse sustainability indicator	Metric	Impact [year 2022]	Impact [year 2021]	Explanation	Actions taken, and actions planned and targets set for the next reference period
<b>CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS</b>					
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	7,801,851 tCo2	N/A for this first reporting	<p><b>UBS-AM</b></p> <p>For specific SFDR Article 8 / 9 products, where relevant, UBS-AM selects investments based upon a low scope 1+2 carbon emissions, either absolute or relative to a benchmark. This is disclosed in Fund prospectuses and client investment management agreements, where applicable.</p> <p>UBS-AM has run a dedicated climate engagement program since early 2018, focused on companies in high emitting sectors.</p>
		Scope 2 GHG emissions	1,863,097 tCo2	N/A for this first reporting	
		Scope 3 GHG emissions	60,972,922 tCo2	N/A for this first reporting	
		Total GHG emissions	70,499,868 tCo2	N/A for this first reporting	
	2. Carbon footprint	Carbon footprint	296.05 t/m€	N/A for this first reporting	
	3. GHG intensity of investee companies	GHG intensity of investee companies	928.56 t/m€	N/A for this first reporting	<p><b>UBS-AM</b></p> <p>Where relevant, UBS-AM SFDR Article 8 / 9 products consider GHG intensity as part of a consolidated PAI metric as part of the “do no significant harm” (DNSH) assessment. When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual thresholds defined per indicator, a fail on a single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to SFDR Article 2 (17).</p>
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	6.11%	N/A for this first reporting	<p><b>UBS-AM</b></p> <p>As per the UBS-AM Sustainability Exclusion Policy with scope and revenue thresholds outlined therein:</p> <ul style="list-style-type: none"> <li>- companies that exceed a certain revenue threshold from thermal coal mining and its sale to external parties or from oil sands extraction are excluded.</li> </ul>

Adverse sustainability indicator	Metric	Impact [year 2022]	Impact [year 2021]	Explanation	Actions taken, and actions planned and targets set for the next reference period	
					- companies that exceed a certain revenue threshold from thermal coal-based power generation are excluded.	
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	75.66%	N/A for this first reporting		<b>UBS-AM</b> During the reporting period, the share of non-renewable energy consumption and production was not considered as part of the investment process. UBS-AM will assess this indicator for future consideration into our investment process.
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	15.51 GWh/m€			<b>UBS-AM</b> During the reporting period, energy consumption intensity per high impact climate sector was not considered as part of the investment process. UBS-AM will assess this indicator for future consideration into our investment process.
		Agriculture, Forestry and Fishing (NACE A)	1.05 GWh/m€	N/A for this first reporting		
		Mining and Quarrying (NACE B)	2.17 GWh/m€	N/A for this first reporting		
		Manufacturing (NACE C)	0.77 GWh/m€	N/A for this first reporting		
		Electricity, Gas, Steam and Air Conditioning Supply (NACE D)	7.86 GWh/m€	N/A for this first reporting		
		Water Supply; Sewerage, Waste Management and Remediation Activities (NACE E)	1.24 GWh/m€	N/A for this first reporting		
		Construction (NACE F)	0.16 GWh/m€	N/A for this first reporting		
		Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles (NACE G)	0.12 GWh/m€	N/A for this first reporting		
		Transportation and Storage (NACE H)	1.69 GWh/m€	N/A for this first reporting		
		Real Estate Activities (NACE L)	0.45 GWh/m€	N/A for this first reporting		
Biodiversity	7. Activities negatively affecting bio-diversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	0.06%	N/A for this first reporting		<b>UBS</b> UBS monitors companies that potentially violate any of the 10 principles of the UN Global Compact as well as companies that are flagged in the UBS sustainability and climate (SCR) risk watchlist, which considers activities negatively affecting biodiversity sensitive areas. Through our engagement, we seek to ensure that companies effectively close and remedy the breaches we have identified. Where companies present an ongoing risk, they may be withdrawn from the investable universe for specific sustainability strategies. <b>UBS-AM</b> Where relevant, UBS-AM SFDR Article 8 / 9 products consider activities negatively affecting bio-diversity sensitive areas as part of a consolidated PAI metric as part of the

Adverse sustainability indicator	Metric	Impact [year 2022]	Impact [year 2021]	Explanation	Actions taken, and actions planned and targets set for the next reference period
					<p>"do no significant harm" (DNSH) assessment. When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual thresholds defined per indicator, a fail on a single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to SFDR Article 2 (17).</p> <p>For companies flagged in an internal watchlist that monitors for breaches of UN Global Compact Principles, controversies are reviewed including conducting engagement where appropriate (note that we will exclude investment for SI Focus and Impact if no credible corrective action).</p>
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	2.67 t/m€	N/A for this first reporting	<p><i>Given the data on indicator "1.8 Emissions to water" is currently very limited, the coverage of these indicators for the purpose of UBS-FML PAI report dated 30 June 2023 is significantly lower in comparison to other data points.</i></p> <p><b>UBS</b> UBS pays close attention to companies that potentially violate any of the 10 principles of the UN Global Compact as well as companies that are flagged in the UBS sustainability and climate (SCR) risk watchlist, which considers emissions to water. Through our engagement, we seek to ensure that companies effectively close and remedy the breaches we have identified. Where companies present an ongoing risk, they may be withdrawn from the investable universe for specific sustainability strategies</p> <p><b>UBS-AM</b> UBS-AM will pursue enhanced data for natural capital risks including water-related risks.</p>
Hazardous waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	2.11 t/m€	N/A for this first reporting	<p><i>Given the data on PAI indicator "1.9 Hazardous waste and radioactive waste ratio" is currently very limited, the coverage of these indicators for the purpose of UBS-FML PAI report dated 30 June 2023 is significantly lower in comparison to other data points.</i></p> <p><b>UBS-AM</b> During the reporting period, data for hazardous waste and radioactive waste ratio was not available with sufficient coverage and quality for UBS-AM to consider this indicator. UBS-AM will pursue enhanced data for natural capital topics including hazardous waste-related risks.</p> <p>For companies flagged in an internal watchlist that monitors for breaches of UN Global Compact Principles, controversies are reviewed including conducting engagement where appropriate (note that we will exclude for SI Focus and Impact if no credible corrective action).</p>
<b>INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS</b>					
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.58%	N/A for this first reporting	<p><b>UBS-AM</b> As per the UBS-AM Sustainability Exclusion Policy and product scope outlined therein, companies violating the United Nations Global Compact UNGC) principles which do not demonstrate credible corrective action as determined by UBS-AM's Stewardship Committee are excluded. UBS-</p>

Adverse sustainability indicator	Metric	Impact [year 2022]	Impact [year 2021]	Explanation	Actions taken, and actions planned and targets set for the next reference period
					AM may engage with these companies to ensure that there are credible corrective actions. <b>UBS-GWM</b> For UBS-GWM SFDR Article 8 products, issuers/companies violating the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and who do not demonstrate credible corrective action do not qualify as sustainable investments within the portfolio.
11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	39.42%	N/A for this first reporting		<b>UBS-AM</b> During the reporting period, processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises were not considered as part of the investment process.  UBS-AM will assess this indicator for future consideration into our investment process.
12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	13.20%	N/A for this first reporting	<i>Given the data on PAI indicator "1.12 Unadjusted Gender Pay gap" is currently very limited, the coverage of these indicators for the purpose of UBS-FML PAI report dated 30 June 2023 is significantly lower in comparison to other data points.</i>	<b>UBS-AM</b> During the reporting period, data for unadjusted gender pay gap was not available with sufficient coverage and quality for UBS-AM to consider in our investment process in a meaningful way.  UBS-AM will assess this indicator for future consideration into our investment process.  As part of our social thematic program, we engage with companies on diversity. As part of these engagements we may encourage companies to conduct a pay gap analysis, disclose data and set targets to reduce the gap.
13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	31.34%	N/A for this first reporting		<b>UBS-AM</b> Where relevant, UBS-AM SFDR Article 8 / 9 products consider board gender diversity as part of a consolidated PAI metric as part of the "do no significant harm" (DNSH) assessment. When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual thresholds defined per indicator, a fail on a single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to SFDR Article 2 (17).  As part of the social thematic engagement program we engage with companies to encourage higher diversity levels at Board levels and set engagement goals to increase this.
14 Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0.06%	N/A for this first reporting		<b>UBS-AM</b> UBS-AM does not invest in companies involved in: cluster munitions, anti-personnel mines or chemical and biological weapons, nor does it invest in companies in breach of the Treaty on the Non- Proliferation of Nuclear Weapons.

Adverse sustainability indicator	Metric	Impact [year 2022]	Impact [year 2021]	Explanation	Actions taken, and actions planned and targets set for the next reference period
					<p>UBS-AM considers a company to be involved in controversial weapons if the company is involved in development, production, storage, maintenance or transport of controversial weapons, or is a majority shareholder (&gt;50% ownership stake) of such a company.</p> <p><b>UBS-GWM</b></p> <p>For GWM SFDR Article 8 funds with direct actively managed strategies, companies that derive any revenues from controversial weapons, or have significant ownership in such companies are excluded.</p>
<b>Indicators applicable to investments in sovereigns and supranationals</b>					
Environmental	15. GHG Intensity	GHG intensity of investee countries	451.16 t/m€	N/A for this first reporting	<p><b>UBS-AM</b></p> <p>Where relevant, UBS-AM SFDR Article 8 / 9 products consider GHG intensity as part of a consolidated PAI metric as part of the “do no significant harm” (DNSH) assessment. When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual thresholds defined per indicator, a fail on a single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to SFDR Article 2 (17).</p>
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law.	7 (6.3%)	N/A for this first reporting	<p><b>UBS-AM</b></p> <p>Where relevant, UBS-AM SFDR Article 8 / 9 products consider investee countries subject to social violations as part of a consolidated PAI metric as part of the “do no significant harm” (DNSH) assessment. When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual thresholds defined per indicator, a fail on a single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to SFDR Article 2 (17).</p>



Adverse sustainability indicator	Metric	Impact [year 2022]	Impact [year 2021]	Explanation	Actions taken, and actions planned and targets set for the next reference period
				<i>metric in future reporting cycles.</i>	
<b>Indicators applicable to investments in real estate assets</b>					
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	0.00%	N/A for reference year 2023	During the reporting period, neither exposure to fossil fuels through real estate assets, or exposure to energy-inefficient real estate assets were considered as part of the investment process. UBS-AM will assess these indicators for future consideration into our investment process.
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	0.17%	N/A for reference year 2023	

## Other indicators for principal adverse impacts on sustainability factors

CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric
Indicators applicable to investments in investee companies		
Emissions 4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	21.34%
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS		
Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric
Indicators applicable to investments in investee companies		
Anti-corruption and anti-bribery 15. Lack of anti-corruption and anti-bribery policies	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention	5.02%

## 3. Description of policies to identify and prioritize principal adverse impacts on sustainability factors

### 3.1 Calculation of principal adverse impacts

For the purpose of regulatory reporting on Principal Adverse Impacts on sustainability factors, UBS has decided to build an inhouse capability to produce an annual report in line with SFDR requirements.

PAI calculations for the purpose of UBS Fund Management (Luxembourg) S. A. report dated 30th June 2023 (as updated on 11th July)<sup>1</sup> are based on the latest available information on PAI dated 5th May 2023.

#### 3.1.1 Policies governing the annual PAI reporting requirement under SFDR

The description of procedures governing the production of this report, including methodologies to select additional indicators, explanation of any associated margin of error and details of data sources used, is provided in a dedicated, internal document approved on 30th June 2023.

The above policy is subject to annual review to capture all future regulatory developments that might affect the established PAI framework.

The construction of the annual PAI report relies on a number of key processes. Some of these are supported by automation built for the purpose of data sourcing and calculation, while others will require intervention from individuals to ensure the report itself is constructed and published annually.

The following are the key components of the annual PAI process, including their respective allocation within UBS:

Component	Description
Market data sourcing	UBS sources PAI related market data from vendors into our internal state of the art Cloud-based ESG data platform, providing a data service which is managed by our Data Operations team.
Position data sourcing	UBS sources position data relevant for each quarter end from UBS-AM and fund admin accounting systems in order to calculate the four quarter end results as required by the reporting regime.
Calculations	UBS has built an internal capability to calculate PAI data which provides a consistent, repeatable methodology for calculation of our quarterly results. Annual results are created using a simple averaging of the four quarterly calculations. The methodology of the calculations is reviewed and supported by our internal ESG Specialist, within the UBS Chief Sustainability Office.
Report Construction	Construction of the report narrative and commentary is a joint effort between UBS-FML, UBS-GWM & UBS-AM.

The following instruments do not directly contribute to the PAI scores as they are not linked to investments in underlying companies: Cash, FX, Commodities, interest rate and all instruments solely based on cash, FX, Commodities and interest rate for example: structured products on gold, FX Futures, FX Options, Commodities, interest rate swaps, commodity funds, precious metal funds. All other products are considered in scope for PAI reporting.

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<sup>1</sup> Note that this report was re-published on 11th July 2023 to include a detailed breakdown of PAI indicator 1.6 into the specific high impact climate sectors A-H + L.

In order to identify investments made in sovereigns and supranationals, UBS follows third party data provider's classification for the purpose of this report.

The PAI calculator has been built to accept position data from any date and calculate against any PAI reference date. The calculations relevant for the annual report are based on an average of holdings collected for the last business day at the end of each quarter in all discretionary and fund management accounts on a "per entity" basis. Note that for reporting year 2022, Q1 data is missing and the impacts are an average over Q2, Q3 & Q4 this still giving a fair representation of the impacts over the whole reporting period.

### 3.1.2 Methodology to select additional indicators as set out in Table 2 and 3 of Annex I SFDR RTS

The following additional indicators were selected for the 2022 reference period:

Climate and other environment-related indicator:

- PAI indicator 2.4 Investments in companies without carbon emission reduction initiatives.

Social and employee matters, respect for human rights, anti-corruption and anti-bribery matters indicator:

- PAI Indicator 3.15 Lack of anti-corruption and anti-bribery policies.

The key consideration for the selection of the two additional indicators for 2022 was data coverage. Specifically, the indicators selected are among those with the highest data coverage.

UBS may reassess the selection of the additional indicators on an annual basis depending on data availability and the changing business strategy over time.

### 3.1.3 Probability of occurrence and severity of PAI

At this stage, UBS-AM does not take into account the probability of occurrence and the severity of principal adverse impacts as part of the existing internal methodology.

### 3.1.4 Treatment of short positions and derivatives

There is limited data coverage relating to complex derivatives, and consequently structured products and a few hedge funds at a market level. As a result, the PAI contributions of these products cannot be included in the entity level PAI calculation results. They are, however, included in our definition of "current value of all investments" in the denominator of our calculations.

### 3.1.5 Data sources

- UBS regards the availability of good data, analytics and technology capabilities as essential enablers for achieving a more sustainable future. UBS carefully selects ESG data vendors to support the PAI calculations based on: data quality, update frequency (to ensure we are always utilizing the latest available data) and coverage.
- The calculation of PAI metrics requires the combination of internal position weightings with one or more external PAI indicator values for relevant instruments, for 2022 primarily sourced from MSCI, <https://www.msci.com/notice-and-disclaimer-for-reporting-licenses>. As UBS invests in both funds and direct investments, we source data at both levels for reporting purposes as follows:
  - 1) Issuer level data, sourced through vendors, based on corporate disclosures of the underlying companies, combined with vendor research. Throughout 2022, we have maintained oversight as to the coverage of issuer level data and are confident that the coverage on an issuer level is remarkably high. We do however see coverage on an indicator-by-indicator basis fluctuate and, in particular for water emissions, hazardous waste and gender pay gap, the disclosures by corporates remains exceptionally low leading to significant data gaps in these areas. UBS is committed to continually improving the PAI data coverage for these indicators through a multi-vendor strategy going forward.
  - 2) Fund level data, sourced through vendors and internally:

- Where funds are manufactured by 3rd party management companies, we rely on vendor PAI calculations to capture the PAI data attributable to positions in 3rd party target funds.

Note: where vendors are unable to provide PAI data for key funds, UBS is able to capture PAI data from 3rd party manufacturers, where they are able to provide this to us.

### 3.1.6 The “all reasonable means” principle

Under the principle of “all reasonable means”, we have an obligation to do our best to capture as much data as possible in order to fulfill the obligation of calculating the PAI metrics and constructing the PAI report. We have addressed this in the following ways:

1. UBS has maintained oversight on the level of coverage of positions in direct investments (equities, fixed income) and we have challenged our data vendor to continually improve their coverage. We are further building expanded cross-reference service to enhance this mapping capability to a wider set of market data sources.
2. Real Estate & Private Markets (REPM) does not collect PAI data on closed-ended funds that are past their investment period and funds in wind down. REPM relies on “best efforts” to obtain PAI related data for funds in scope and the approach for “best efforts” varies depending on business areas i.e. direct and indirect investment products. REPM requests this data from directly controlled investments. REPM does not maintain direct control of the underlying funds and assets in our indirect investment products (e.g., fund-of-funds), and must therefore rely on PAI data submitted by fund managers. REPM is using “best efforts” to ensure underlying fund managers provide the relevant data throughout the due diligence and monitoring processes on a timely basis. However, if coverage of PAI data is less than 100%, REPM is still reporting in line with the available and collected data to fulfil regulatory requirements. Portfolio Managers engage periodically with underlying managers as part of the due diligence, ESG monitoring, AGM meetings etc. to continually encourage improvement in ESG practices among underlying funds and ensure SFDR requirements (including collection of PAI data) are continually being met.

### 3.1.7 Margin of error

The two most prolific data related issues are coverage (where companies have not reported their PAI data) and methodology (as pre-aggregated numbers either from vendors or from EET manufacturers will differ from provider to provider due to their internal aggregation methodologies). UBS has put several measures in place to ensure we are confident in our calculation results.

1. UBS calculates coverage internally on a per metric basis. This allows us to understand the level of accuracy of the metric produced, based on how much data was available for the underlying investments. This will also allow us to isolate key metrics where the vendor data is insufficient which, in turn, prompts further investigation into alternative vendors for future reporting.
2. Due to industry-wide and well known data gaps, calculations may lack the required input data to ensure complete and accurate results.
3. Due to above mentioned limitations on data coverage and known data issues, an insignificant population of assets couldn't be included in the calculation of PAI disclosed in this report. UBS-AM is expecting to lower this threshold in future reports as more data will be published and available going forward.

## 3.2 Our policies relevant for the assessment of PAI in the decision making process

UBS-FML acknowledges a need for transparency of principal adverse impacts of investment decisions on sustainability factors, therefore has defined and follows internal procedures on identification and prioritization of adverse impacts and considers these as part of its investment decision making process

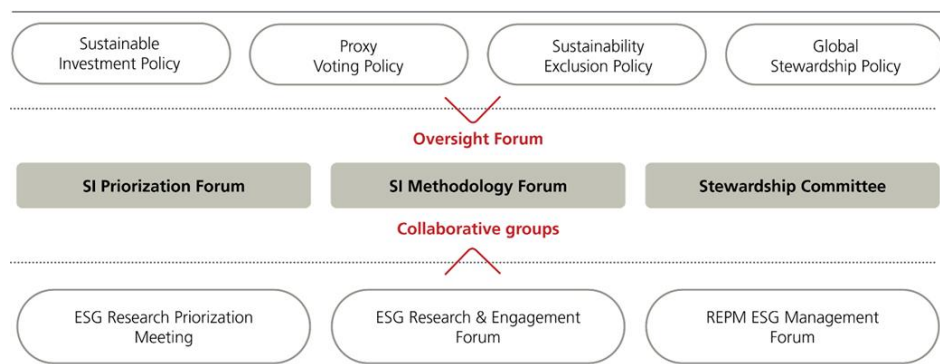
There are policies of both UBS-FML and UBS-AM as a delegated portfolio manager which are relevant for the consideration of PAI disclosed in the following sections, these policies and information on their governance can be found in the table below:

Policy	Description	Governing body	Approved on
UBS-AM PAI Declaration	Describes how PAI is considered in the decision making process	UBS-AM SI Governance	June 2023
UBS Group Sustainability and Climate Risks	This document sets out the firm-wide and divisional requirements and standards for identification, assessment, approval, escalation, monitoring and reporting of SCR.  Sustainability and climate risks may manifest as credit, market, liquidity and operational risks for UBS, resulting in potential adverse financial, liability and reputation impacts. They may also negatively impact the value of investments.	UBS Group Risk Control	December 2022
UBS-AM Sustainable Investment Policy	This document explains UBS-AM's approach to sustainable investing, highlighting its implementation across the breadth of our business, from traditional asset classes to alternatives and incorporating both our active and passive investment areas.	UBS-AM SI Methodology Forum	Expected by end Q2 2023
UBS-AM Sustainable Exclusion Policy	This policy describes the exclusion approach of UBS Asset Management ("UBS-AM") and details those company activities which are excluded from the investment universe.	UBS-AM SI Methodology Forum	December 2022
UBS-AM Proxy Voting Policy	This policy describes UBS-AM's approach to proxy voting	UBS-AM Stewardship committee	March 2023
UBS-AM Global Stewardship Policy	This policy describes UBS-AM's Responsible Ownership approach. It describes the activities undertaken by investors to monitor and, where necessary, intervene on matters that may affect the long-term value of investee companies.	UBS-AM Stewardship committee	Expected by end Q2 2023
UBS-FML Engagement policy	This policy describes the general principles of how engagement activities are integrated into the investment strategy of the portfolios managed by UBS-FML.	UBS-FML Portfolio Management Oversight	March 2021

Information about policies to identify and prioritize PAI for other delegated portfolio managers can be found on the website of these portfolio managers.

Information on the governing bodies of these policies:

### UBS-AM sustainability governance



Source: UBS Asset Management, as at December 2022

Key responsibilities of the forums:

1. The SI Prioritization Forum provides oversight of the SI strategic program, setting key priorities and strategic direction; makes key decisions of commercial relevance and ensures regulatory compliance and a successful delivery of the SI Program.
2. The SI Methodology Forum provides oversight of SI policies and guidelines, data and methodologies as well as investment process criteria applied in the Sustainable Investing framework (including exclusions, ESG integration, sustainable focused and impact offering) across investment areas.
3. The Stewardship Committee oversees the proxy voting standards, process, and corporate governance practices as well as engagement program activities (including exclusion decisions). It also oversees the research process on UNGC Global Compact credible corrective action and SCR (Sustainability and Climate Risk) Watchlist cases. The Stewardship Committee is the representative body for approving membership of industry organizations related to stewardship

### 3.3 How we identify and prioritize principal adverse impacts in the decision making process

UBS-AM takes adverse impacts into account in a variety of ways across its investment processes. The extent to which adverse impacts are considered depends on the product feature or client objective.

#### 3.3.1 Exclusions

##### *UBS AM Exclusion Policy*

There may be instances where investing in certain companies with substantially elevated environmental, social or reputational risks outweigh the benefits. The [UBS-AM Exclusion Policy](#) lays out the details of how UBS AM addresses such instances to avoid adverse impacts and the product scope to which exclusions are applied.

##### *Exclusion scope*

- Controversial weapons exclusions apply to actively managed funds and rule-based Climate Aware funds under the direct investment management of UBS-AM.
- Depleted uranium exclusions, applies to actively managed fixed income and equities funds as well as rule-based Climate Aware funds under the direct management of UBS-AM.<sup>2</sup>
- Thermal coal mining and oil sands exclusions apply to actively managed fixed income and equities funds as well as rule-based Climate Aware funds under the direct investment management of UBS-AM.<sup>1</sup>
- Controversial behavior exclusions apply to actively managed fixed income and equities funds under the direct management of UBS-AM that are classified by UBS-AM as Article 8 of the Sustainable Finance Disclosure Regulation (SFDR), “Sustainability Focused” or “Impact”.<sup>1</sup>
- Thermal coal power generation exclusion applies to actively managed fixed income and equities funds under the direct investment management of UBS-AM that are classified by UBS-AM as “Sustainability Focused” or “Impact”<sup>1</sup>
- Controversial business activities exclusions apply to actively managed fixed income and equities funds under the direct investment management of UBS-AM that are classified by UBS-AM as “Sustainability Focused” or “Impact”<sup>1</sup>
- Engagement-related exclusions apply to actively managed fixed income and equities funds as well as rule-based Climate Aware funds under the direct management of UBS-AM that are classified by UBS-AM as “Sustainability Focused” or “Impact”<sup>1</sup>

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<sup>2</sup> Fixed income scope includes Money Market funds but does not include Fixed Maturity Funds, unless the exclusions are noted in the offering documents of such funds. Investments in other funds (including ETFs and single investor funds / mandates) and derivatives on indices are excluded from these rules. Derivatives on single names are included in these exclusion rules.

Exclusions noted under this policy are not applicable to sovereigns and government-related issuers, index-tracking funds, third-party funds where UBS AM only serves as a sub-advisor or where UBS-AM is not the portfolio manager or the Sponsor of the fund (unless otherwise agreed with the Sponsor), US collective funds managed by UBS Asset Management Trust Company, and other US funds or private investment funds managed by UBS O'Connor LLC, UBS Hedge Fund Solutions LLC, UBS Realty Investors LLC, UBS Farmland Investors LLL, or UBS Asset Management (Americas) Inc., unless such exclusions are disclosed in the funds' offering documents.

### *Controversial weapons*

UBS-AM does not invest in companies involved in: cluster munitions, anti-personnel mines or chemical and biological weapons, nor does it invest in companies in breach of the Treaty on the Non-Proliferation of Nuclear Weapons. UBS-AM considers a company to be involved in controversial weapons if the company is involved in development, production, storage, maintenance or transport of controversial weapons, or is a majority shareholder (>50% ownership stake) of such a company.

Controversial weapons are regulated by the following international treaties and conventions:

- Cluster munitions: The Convention on Cluster Munitions (2008) which prohibits the use, stockpiling, production and transfer of cluster munitions.
- Anti-personnel mines: The Ottawa Treaty (1999) which prohibits the use, stockpiling, production and transfer of anti-personnel mines.
- Biological Weapons: Biological Weapons Convention (1975) which prohibits the use, stockpiling, production and transfer of biological weapons.
- Chemical weapons: The Chemical Weapons Convention (1997) which prohibits the use, stockpiling, production and transfer of chemical weapons.
- Nuclear Weapons: The Treaty on the Non-Proliferation of Nuclear Weapons (1968) which limits the spread of nuclear weapons to the group of so-called Nuclear-Weapons States (US, Russia, UK, France and China).

In addition, Depleted Uranium Manufacturers are excluded, i.e. companies involved in the production of depleted uranium weapons, ammunition, and armour, including companies that manufacture armour piercing, fin stabilized, discarding sabot tracing rounds; Kinetic Energy Missiles made with depleted uranium penetrators; and depleted uranium enhanced armour, including composite tank armour.

### *Thermal coal mining and oil sands*

Companies that generate more than 20% of their revenues from thermal coal mining (including lignite, bituminous, anthracite and steam coal) and its sale to external parties are excluded.

Additionally, companies that generate greater than 20% of their revenues from oil sands (also known as tar sands) extraction (reserves associated with extraction revenues and extraction) are excluded.

### *Thermal coal power generation*

Companies that generate greater than 20% of their revenues from thermal coal-based power generation are excluded.

### *Controversial behaviour*

Companies violating the United Nations Global Compact (UNGC) principles which do not demonstrate credible corrective action as determined by UBS-AM's Stewardship Committee are excluded from the investment universe of our actively managed Sustainability-Focused and Impact fixed income and equities funds under the direct management of UBS-AM.

In addition, the UBS Sustainability and Climate Risk framework also applies to our Real Estate and Private Markets (REPM) business that specifies controversial activities where we do not do business and guidelines and assessment criteria for areas of concern such as transactions with companies involved in controversial weapons, oil sands, coal



mining, hydraulic fracturing amongst others. These guidelines and assessment criteria apply to direct investments in real estate and infrastructure.

### 3.3.2 ESG Integration

Adverse impacts may be considered as part of the risk integration process, which will differ by asset class. Any specific portfolio carbon targets would be disclosed in offering documents. For indexed products, ESG risk integration takes place if the index methodology considers ESG criteria, including principal adverse impact indicators in the construction of the index. UBS-AM considers sustainability characteristics and risks as part of the relevant index selection process.

### 3.3.3 Creation of Sustainability Focus / Impact products designed to reduce adverse impacts

UBS-AM has developed a number of financial products that are designed to provide performance similar to that of standard benchmarks, but with a reduced level of adverse impacts. For actively managed SI focused products where UBS-AM is the primary portfolio manager, sustainability – including the analysis of adverse impacts – plays a role in the investment process. Companies that exhibit elevated sustainability risks are actively avoided through the rule set for portfolio construction of SI focused products. Impact products go one step further, actively seeking to invest in companies and projects with positive social and environmental external impacts on society or the environment. These products in scope of this report are categorised as SFDR Article 8 or 9.

UBS-AM considers an investment to be sustainable according to Article 2.17 SFDR if the issuer meets the three given criteria, namely:

- a) it contributes to an environmental or social objective;
- b) DNSH any of such objectives; and
- c) it follows good governance practices.

When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual thresholds defined per indicator. A fail on a single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to article 2 (17) SFDR.

For **strategies** which track an index, indicators for adverse impacts on sustainability factors may be taken into account by the index provider as appropriate to the index family. The indices tend to consider environmental factors such as the Greenhouse gas (GHG) Intensity defined as Scope 1 + Scope 2 GHG emissions (tons CO<sub>2</sub>E) per million USD of revenue and social factors such as social violations which indicate issuers with a verified failure to respect established norms regarding human rights or labour rights.

### 3.3.4 Asset Management's Real Estate and Private Markets (REPM)

REPM business incorporates physical and transition risks into its investment and ongoing management processes. We consider key transition risks using our proprietary in-house ESG Dashboard which assesses over 1,500 of our directly controlled real estate assets' environmental performance against pathways and targets. We are in the process of refreshing our energy/emission/water/waste reduction targets with help from our sustainability consultants across the world which would apply at portfolio level, supported by individual asset-level action plans towards those targets. Our primary emission reduction strategies focus on implementing improvement measures to minimize energy demand, improve energy efficiency, installing renewables on site where feasible and procuring green energy from third parties where on-site renewables are not sufficient. We may in the future also employ secondary carbon reduction strategies, including the purchase of energy credits to offset any residual emissions as we approach our net-zero targets.

Natural capital risks are also considered within our real estate and private market investments. We 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 use an integrated pest management (IPM) system

that utilizes regional best practices to achieve the crop protection objective while also protecting people and the environment.

### 3.3.5 UBS-GWM

At UBS-GWM, a number of Article 8 funds have indirect exposure to sustainable investments via investments in target funds with a minimum proportion of sustainable investments. As part of the due diligence and selection process, the Portfolio Manager checks if there are processes undertaken by the target fund to take into account PAI on sustainability factors, such as exclusions of controversial weapons or contraventions of UN Global Compact principles. The Portfolio Manager also checks if there are processes undertaken by the target funds to align sustainable investments with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. Issuers/Companies violating the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and who do not demonstrate credible corrective action do not qualify as sustainable investments within the portfolio.

In the case of article 8 funds with direct actively managed strategies, the funds shall exclude issuers that derive any revenues from controversial weapons<sup>3</sup>, or have significant ownership in such companies. Issuers violating global norms such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and who do not demonstrate credible corrective action, do not qualify as sustainable investments within the portfolio.

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<sup>3</sup> Controversial weapons refer to the following: Anti-personnel mines – Ottawa Treaty (1999), Biological weapons – Biological Weapons Convention (1975), Chemical weapons – Chemical Weapons Convention (1997), White Phosphorous weapons – Convention on Certain Conventional Weapons (1980), Cluster munitions – Convention on Cluster Munitions (2008), Nuclear weapons – Treaty on the Non-Proliferation of Nuclear Weapons (1968).

## 4. Engagement policies

### 4.1 Corporate engagement

As UBS-FML has delegated portfolio management to UBS-AM, UBS-GWM or third party portfolio managers. UBS-FML puts reliance on the engagement policies developed by the delegated portfolio managers. Their engagement policies explain how the portfolio managers:

- Monitor investee companies on relevant matters, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance,
- Conduct dialogues with investee companies,
- Manage actual and potential conflicts of interests in relation to their engagement;

Consideration of adverse impacts as part of the UBS-AM stewardship policy

As part of the UBS-AM stewardship policy, third party research is used to identify companies that may be in breach of international standards, as outlined in the United Nations Global Compact Principles. Where appropriate, UBS-AM engages with companies to close and remedy the identified breaches and address any management failures so as to avoid repeating the mismanagement or mistake in the future. Through our stewardship research process we will also seek to identify companies where material ESG and sustainability risks may present a future negative impact, and will utilize engagement and proxy voting to minimize adverse impacts where appropriate. Where UBS-AM has direct ownership of a physical asset, it aligns its partners to prescribed standards and KPIs which are monitored so that remedy actions can be taken if performance and standards fall short.

ESG considerations are embedded across our direct real estate teams through tenant engagement to drive change and external sustainability assessments to identify asset improvement opportunities and energy reduction programs. Please refer to our [2022 Stewardship Annual Report](#).

### 4.2 Proxy voting

Regarding the exercise voting rights and other rights attached to shares, UBS-FML puts reliance on the Stewardship Policy of UBS-AM, where voting rights have been delegated to UBS-FML who have in turn delegated to UBS-AM.

Moreover, clear guidelines have been given by UBS-FML which have to be considered by UBS-AM in case votes have to be exercised on controversial items.

Where UBS-FML have delegated the voting activity to UBS-AM, the corresponding reporting based on the UBS-AM Global Stewardship Policy is available under the following link:

<http://www.ubs.com/global/en/asset-management/investment-capabilities/sustainability.html>

Where UBS-AM has not been delegated voting activity, it is the responsibility of the portfolio manager to deal with the relevant voting rights. The corresponding reporting is available under the following link in a document referred to as list of engagement policies of delegated portfolio managers and relevant reporting.

<https://www.ubs.com/content/dam/assets/am/global/doc/engagement-policy-links-fml.pdf>

### 4.3 Public policy engagement

Financial market stability is largely dependent on the overall economic, regulatory and political environment, and the conduct of firms within the sector. UBS actively participates in political discussions to share our expertise on proposed regulatory and supervisory changes. UBS also actively engages in discussions relating to corporate responsibility and

sustainability. Sustainability and sustainable finance continue to remain key focus topics in its interactions with our financial regulators and supervisors. These are subject to ongoing oversight and control by the second and third lines of defence.

Regarding climate, UBS' engagement aims to share expertise on an orderly transition towards a net-zero economy. Its sustainability and climate governance ensures alignment of the engagement, based on its climate strategy and net-zero planning, and clear accountabilities regarding regulatory and governmental developments.

With its public policy engagement, UBS mainly considers PAI regarding climate change (greenhouse gas emissions), biodiversity and human rights.

## 4.4 Adaption of the policies

Engagement policies and processes are reviewed on an ongoing basis, enhanced, monitored and adapted when insufficient progress is identified, and also in order to incorporate additional PAI indicators and to ensure the key environmental, social and governance topics are taken into consideration.

## 5. Reference to international standards

UBS-FML has not committed to any international standard individually. However it is a significant entity of UBS Group AG (UBS), therefore all the below disclosures are given on behalf of UBS Group AG.

Over the years UBS has committed to various business conduct codes, international standards for due diligence and reporting initiatives in order to meet the expectations of our stakeholders. At the end of 2022, UBS was engaged in more than 60 sustainability-and impact-related memberships and commitments, either at Group level or at the level of the business divisions or Group Functions or the Group Entities. They are listed in the document Sustainability Report Supplementary Information:

[UBS Sustainability Report](#)

On a global level, UBS supports the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (the TCFD), where it was a founding member in 2015 and continues to support the TCFD's development, with formal representation in the Task Force since 2016.

UBS also supports the Taskforce on Nature-related Financial Disclosures (TNFD). It is contributing to helping address these challenges through our efforts in the TNFD. It is also exploring collaboration with peers on critical topics, such as nature scenarios, and is supporting new initiatives, such as the establishing of a TNFD national consultative group in Switzerland, hosted by Swiss Sustainable Finance and the UN Global Compact's Swiss network. Through industry collaboration, UBS applied the UNEP FI-developed ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) tool to assess potential concentrations of sensitive exposures.

In 2022, UBS endorsed the initiative of the IFRS Foundation International Sustainability Standards Board (ISSB) to establish international sustainability disclosure standards. In Switzerland, where headquarters are located, UBS expressed support to many governmental disclosure initiatives. On a regional basis, UBS contributes to various fora in order to engage with policymakers regarding the European Commission's Sustainable Finance Action Plan, as well as with policymakers in our key Asia Pacific jurisdictions and the Americas.

### 5.1 The Paris agreement

UBS is committed to standing with its clients to help them achieve their net-zero goals and to support the work governments around the world are doing to move the real economy to align with the Paris Agreement 1.5°C commitment. In this sense, UBS supports the goals of the Paris Agreement which includes aligning our own operations and business activities with the pathway of a five-step net-zero plan to:

- (i) measure carbon emissions;
- (ii) define a roadmap and set targets;
- (iii) reduce climate impact;
- (iv) finance climate action and support the transition of our clients; and
- (v) communicate and engage.

UBS has established a suite of metrics and targets to drive execution of our net-zero transition plan and monitor the progress of results in the near, medium and long term.

Conscious of the potential adverse financial, liability and reputational risks that can arise from sustainability and climate risks, in 2021 UBS published its ambition to align our financing portfolio with the objectives of the Paris Agreement. In its analysis, UBS prioritized sectors that have the highest carbon impact, as per the guidelines of the Net-Zero Banking Alliance (the NZBA), and also applied additional considerations in its prioritization.

Additionally, UBS-AM works alongside its clients and portfolio companies to support their efforts to transition in line with the Paris Agreement-aligned 1.5°C net-zero pathways. It proactively and constructively provides feedback and support to corporate clients on their net zero- aligned transition strategies, plans and progress.

UBS believes that material sustainability issues matter for financial performance and know that clients have an interest in many of these topics. The Chief Investment Office (CIO) remains convinced that the net-zero transition will prove to be one of the most consequential investment trends in subsequent decades. UBS offers advice and solutions that help guide and implement this view to the extent possible and where relevant in line with its fiduciary duties.

UBS uses scenario-based approaches to assess our exposure to physical and transition risks stemming from climate change. However, in the portfolio management services, UBS is not currently considering climate scenario in its investment decision-making processes. The main PAI taken into account in this alignment with the objectives of Paris Agreement is greenhouse gas emissions.

## 5.2 Reduction in climate adverse impacts as part of our net zero commitments

In 2020, our Asset Management business division became a founding member of the Net Zero Asset Manager Initiative (the NZAMI) and published its net-zero interim target, committing to align 20% of total assets under management (AuM) to be managed in line with net zero by 2030.

## 5.3 Our commitment to industry initiatives and best practice

UBS actively engages in regular discussions about corporate responsibility and sustainability issues with specialists in peer banks, and more widely through trade bodies and associations. Sharing experiences and assessments of corporate responsibility and sustainability issues helps UBS to compare and improve its strategy, approach and tools.

The structure of its transition plan to Net Zero follows the recommendations of the Glasgow Financial Alliance for Net Zero (GFANZ) outlined in the “Financial Institutions Net-zero Transition Plans” guidelines. This forms part of UBS’ engagement with our peers in the financial services industry in order to determine how best to support and finance clients’ transition to a low carbon economy. Contributing to such frameworks, including also by the NZBA, in turn forms an important basis for developing our own approach to transition finance. Some of additional key commitments include:

1992 – one of the first financial institutions to sign up to the UN Environment Programme bank declaration (the UNEP FI);

2000 – one of the first companies to endorse the UN Global Compact and, in the same year, our firm was a founding member of the Wolfsberg Group of Banks, which was originally set up to promote good practice in combating money laundering;

2002 – Carbon Disclosure Project founding signatory;

2014 – UBS endorsed the “Soft Commodities” Compact from the Banking Environment Initiative and the Consumer Goods Forum, which reaffirms its commitment to developing and implementing responsible business standards;

2019 – UBS became a founding signatory of the UN Principles for Responsible Banking (the PRB). The PRB constitutes a comprehensive framework for the integration of sustainability across banks.

UBS is a founding signatory of the Net Zero Asset Managers initiative since 2020 and the Net-Zero Banking Alliance (since 2021). And it is a founding member of the Wolfsberg Group, an association of global banks that aims to develop financial services industry standards regarding anti-money laundering, know-your-client and counter-terrorist financing policies. With all these initiatives, UBS is indirectly addressing a number of PAI in its investment decision processes (such as greenhouse gas emissions, biodiversity, social and employee matters).

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

- Asian Corporate Governance Association (ACGA)
- Global Real Estate Sustainability Benchmarks (GRESB)
- EFAMA Stewardship, Market Integrity AND ESG Investment Standing Committee
- International Corporate Governance Network (ICGN)
- Institutional Investor Group on Climate Change (IIGCC)
- National Association of Real Estate Investment Managers (NAREIM)– Sustainability and Investment Management Working Group
- Principles for Responsible Investment (PRI)
- Sustainable Accounting Standard Board (SASB)
- UK Investor Forum
- US Green Building Council
- US Sustainable Investment Forum (USSIF)
- Workforce Disclosure Initiative (WDI)
- Financial Stability Board’s Taskforce on Climate-related Financial Disclosure (TCFD)
- Transition Pathway Initiative (TPI)
- Farm Animal Investment Risk & Return (FAIRR)

## 5.4 UN Global Compact, OECD Guidelines and UN Guiding Principles on Business and Human Rights

UBS is committed to respecting human rights, as set out in the UNGPs, in our business activities. UBS believes this is a responsible approach underlining its desire to reduce, as far as possible, potentially negative impacts on society. The commitment in this important area is long standing. In 2000, UBS was among the first companies that pledged to adhere to the UN Global Compact Principles, including on human rights. The principles of the Global Compact today the largest corporate responsibility initiative globally, stem from the Universal Declaration of Human Rights, the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the UN Convention Against Corruption.

In 2011 UBS came together with other banks and formed the Thun Group of Banks to jointly consider these developments and to share experiences regarding the implementation of the UNGPs. To this end, the Thun Group of Banks has published two discussion papers on the financial sector’s implementation of the UNGPs. The second paper, for example, focused on the proactive agenda of the Organisation for Economic Co-operation and Development (the OECD) on Responsible Business Conduct and in particular the OECD’s 2019 publication titled Due Diligence for Responsible Business Conduct in General Corporate Lending and Securities Underwriting. UBS is a member of the Advisory Group to the OECD.

Recognizing our commitment to promoting human rights, we:

- established a UBS Position on human rights in 2006, and have been regularly updating the UBS Human Rights Statement;
- will not engage in commercial activities that make use of child labour and forced labour, or that infringe the rights of indigenous peoples; and
- will continue our work internally and externally with the Thun Group of Banks and the OECD, to understand how best to implement the UNGPs across our operations.

The PAI indicators 1.10 and 1.11 are relevant for this section.

## 5.5 Biodiversity

UBS' approach to managing the risks and opportunities related to natural capital and biodiversity across our activities is in line with its commitment to mobilize capital toward the achievement of the United Nations' (UN) 17 Sustainable Development Goals (the SDGs) and its participation in the TNFD. UBS recognizes the challenges of transitioning toward a society that can meet both human needs while living within natural constraints. And it looks forward to the setting of global policy objectives and goals through the Convention on Biological Diversity, having seen how powerful this has been for climate in the UN Framework Convention on Climate Change.

UBS strives to play an active role in creating new global standards that enable clients, companies and the financial sector to manage nature-related risks and opportunities, as well as addressing potential adverse impacts and generating positive impacts.

Given the release of the TNFD beta framework draft guidance for financial institutions in November 2022, UBS is piloting the TNFD disclosure recommendations and financial-sector-specific guidance. This not only enables UBS to further advance on its journey toward less nature-adverse and more nature-positive outcomes, but also drives forward standardization in disclosure practices. UBS has continued the development of its approach toward managing nature-related risks and opportunities is set out below, following the TNFD draft disclosure recommendations.

Additionally, UBS participates in various work streams of the Natural Capital Finance Alliance (the NCFA), which aims to provide the knowledge and tools that help the financial sector align portfolios with global biodiversity goals. Most notably UBS participated in the advisory committee for the second stage of the NCFA's ENCORE project tool. In 2022, it also supported the development of a new methodology by the WWF to measure nature risk in investment portfolios.

UBS seeks to promote nature-related drivers, including biodiversity, focusing on key stakeholder groups (clients, vendors, employees and society at large).

The PAI indicator 1.07 is particularly relevant to this section.



## 6. Historical comparison

The earliest historical comparison will be provided in June 2024.