

Quick takes

Investor Insights from UBS Asset Management



Getting engaged

Investors want to make a **sustainable impact**

Everybody wants to get a return on their investments, but more and more, people also want to make a positive impact. Impact and engagement investing seeks to marry these two goals. According to the Global Impact Investing Network, "Impact investments are investments made into companies, organizations and funds with the intention to generate a positive social and environmental impact alongside a financial return." Individuals are now turning to professional asset managers to invest their money in just these types of strategies.

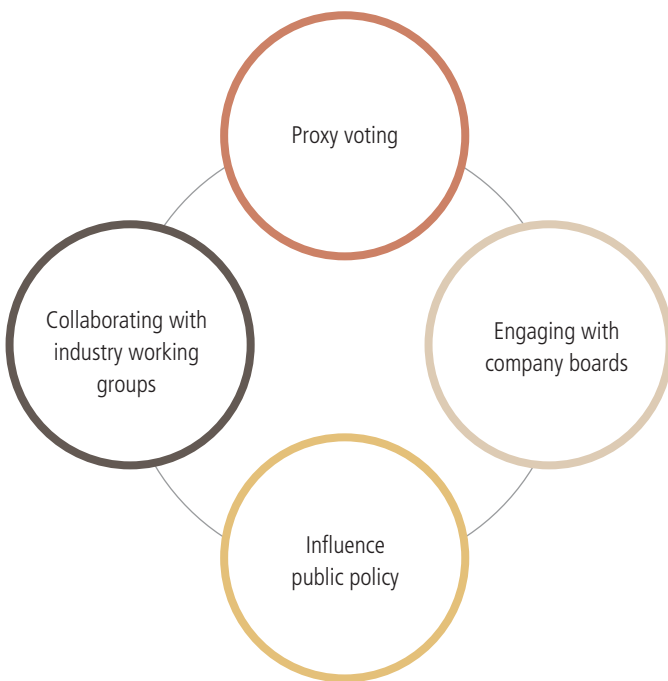
A natural progression

Impact and engagement investing is a natural progression within the growing sustainable investing (SI) universe as well as the fastest growing category of SI.

In the early days of “responsible investing,” investments largely focused on the exclusion of certain types of companies from portfolios, as investors chose not to fund companies that produced certain products they felt were harmful to society, such as weapons, tobacco or gambling.

Integration was the next wave of SI. Integration introduced the consideration of ESG—or environmental, social and governance—factors into all investment decisions. Evaluating these frequently intangible factors that can matter to a company’s performance and bottom line alongside traditional fundamental financial analysis just makes sense, particularly as the availability and quality of data continues to improve.

Exhibit 1. Voting and corporate engagement



For illustrative purposes only.
Source: UBS Asset Management, 2018

Impact and engagement investing goes a step further. Asset managers engage with companies to encourage them to improve their business models, the policies and operations they have in place, and the products and services they sell. The idea is for companies to be more sustainable from the perspective of profitability and return while having a positive impact on the environment or society.

Engaging with companies to create impact

There are two primary ways for shareholders, or investment companies who hold shares in public companies on behalf of their clients, to engage with companies. The first, and most basic, is simply voting on any issues that are being put before shareholders—technically the owners of a public company—at any company shareholder meeting. The other is to interact directly with the management or board of directors of a company.

By proxy

When an investment firm votes at a shareholder meeting on behalf of the beneficial, or actual, owner of the share of a company it is called proxy voting.

Issues before shareholders can include board issues such as approving the election of directors (considering diversity) consumer issues such as reporting on controversial business or financial practices, climate issues, which can include reporting on or limiting greenhouse gas (GHG) emissions, and so on. Voting on proposals in support of ESG-related issues may have a positive impact on the sustainability of a company and on the environment or society.

Getting personal

The other way an investment manager can engage with a company is to have direct communications with its board or senior management. Investment managers can address issues that are important to individuals that invest in an engagement and impact strategy. This contact can be through written communication or direct interaction with management. One of the benefits of hiring a professional investment manager is that they do this on behalf of their clients.

This is a step that goes beyond proxy voting as direct engagement is often generally focused on an issue that a shareholder has identified, not one that is presented solely by the company itself. Investors may collaborate with other investors or work with third party organizations to effect positive change in the firm’s corporate behavior.

Engaging for impact

Investors increasingly have the ability to engage with the companies they invest in as growing numbers of individuals express their desire to have their investments not only provide competitive returns, but encourage positive change for the environment and society.

The United Nations released 17 Sustainable Development Goals (UN SDGs) with specific targets at a September 2015 summit. These goals are the roadmap to 2030 for positive change in social and environmental impacts. Now that companies are starting to align their strategies with these goals, professional investors can help them through engagement.

Many companies can benefit from engagement. While some large companies may have sophisticated ESG programs, many others may not have started, and smaller companies may not have the resources to understand and pursue sustainability goals.

An investment firm that is engaging with multiple corporations can share its own expertise and advice as well as the best practices for sustainable development in a company's industry. In this way an impact and engagement investing platform can be a collaborative initiative. Individuals who are concerned about problems the world is facing, the professional investment manager they invest with and the companies that the investment firm invests in all can play a role: potentially creating a win-win-win situation.

Making money while making a difference

As sustainable investing gains momentum, investors have come to realize that it goes beyond following their personal beliefs. They have come to recognize it as a viable investment opportunity for potentially generating long-term returns. If you would like to consider an allocation to impact and engagement investing, talk to your Financial Advisor about UBS Asset Management's sustainable investing strategies.

Exhibit 2. Examples of UN sustainable development goals for impact engagement



For illustrative purposes only.
Source: UBS Asset Management, 2018

Winds of change

An example of impact investing at work

Different impact categories have different models and metrics. But the ultimate metrics that matter in impact investing are how many humans are better off and whether the environment is better off.

For instance, consider wind turbines for clean energy. For every wind turbine installed, we can estimate how many giga-watts (GW) of clean energy are produced. Each GW of clean energy displaces fossil fuel-sourced electricity on the local energy grid. And for every GW of clean energy, air pollution and carbon emissions go down.

Fewer humans are exposed to dirty air, fewer get sick, and fewer die every year. Less carbon enters the atmosphere, reducing global warming potential and slowing down the pace of climate change. These causal relationships can be quantified with existing science.

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