Objective
The Emerging Markets Sustainable Equity strategy seeks to identify high long-term capital growth companies that provide products and services with a clear environmental and social benefit along with a high degree of resource efficiency. These tend to be young fast growing companies that address the sustainability challenges of the 21st century in emerging markets. These include UN Millennium Goals such as: eradication of extreme poverty and hunger, achieve universal primary education, combat HIV/AIDS, malaria and other diseases, and ensure environmental sustainability.

The portfolio manager seeks to manage exposure to value and growth using a blended style (i.e. style agnostic), which can vary in emphasis depending on the phase of the market cycle. The strategy is benchmarked to the MSCI Emerging Markets Index with an ex-ante tracking error of up to 10 percent.

Investment philosophy and process
The Emerging Markets Sustainable strategy applies a positive selection approach to identify companies that make positive contribution and address large and growing environmental (e.g. “climate change”, “water”) and social related challenges (“social development”). The strategy targets pure play, quality companies offering products, services and solutions with clear environmental benefits and a high degree of resource efficiency in sectors whose growth potential, in our opinion, has been underestimated by the market. “Climate change” covers the subsectors of cleaner energy & mobility, renewable & energy efficiency, waste & recycling. “Water” reflects utility, technology & infrastructure, treatment and efficiency. The third theme “social development” divides into healthcare products & operations, access to finance, access to communication, affordable housing, reduction of healthcare costs, nutrition as well as education.

Key points
- Emerging markets equity strategy of bottom-up best ideas selection of sustainable companies based on fundamental analysis, sustainability thesis and thematic exposure
- All cap strategy that invests very broadly, focusing on companies endorsing the goals of sustainable development in emerging markets, including climate change, water and social development
- Number of stocks 40 to 80, benchmarked to MSCI Emerging Markets Index, 8-year track record

Sustainable equity investment process
State-of-the-art portfolio construction and idea generation

1 Emerging Markets Sustainable Equity strategy incepted June 2008.
Our investment process relies on the identification of potential investment opportunities through qualitative and quantitative disciplines that are then subjected to intensive fundamental research to select the best ideas for the strategy. In determining the attractiveness of a stock we may also utilize qualitative research from a relatively small number of specialist sources, which have been developed over a long time period and have a history of adding value. These external sources complement and challenge our internal research findings.

**Portfolio construction**

Our fundamental analysis includes thorough consideration of valuation using our GEVS (Global Equity Valuation System) and the HOLT valuation system. We use information gleaned from meetings with company management and competitors, from dialogue with our own in-house research analysts and specialist portfolio managers, and from independent research sources and industry contacts. The Sustainable portfolio managers/analysts leverage UBS Asset Management large cap and other small & mid cap portfolio managers/analysts teams in Europe, US and Asia, which augments our investment decisions.

Although the research approach is structured for positive selection of companies, the Emerging Markets Sustainable Equity Strategy also applies the following negative criteria: arms, tobacco, pornography, alcohol, gambling and production of nuclear energy, as well as involvement in the agricultural application of genetically modified organisms. A limit of about 5 percent of turnover can be tolerated if the company as a whole has good environmental and social performance. Companies that do not meet internal environmental and labor standards at a basic level are also screened out.

The team does not exclude large caps, but generally 70 percent of the portfolio must be invested in small & mid cap stocks. Annual turnover is approximately 30 to 50 percent.

**UBS - A leader in sustainability**

The Emerging Markets Sustainable Equity strategy is managed by the Sustainable Investor team under the leadership of Bruno Bertocci as illustrated below. The team brings a wide range of experience and know-how to bear on our investment decisions, including environmental risk science, corporate experience, and in-depth research on corporate sustainability performance and databases. The team has built a state-of-the-art sustainability database with proprietary weightings.

**Vehicle availability**

- Segregated account

2 Certain vehicles may not be available to all investors. Please contact your local representative for more information.

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**Bruno Bertocci**
- Managing Director, Head of Sustainable Equities
- 39 years of investing experience

**Joseph Elegante**
- Executive Director, Senior Portfolio Manager
- 26 years of investing experience

**Dr. Dinah A. Koehler**
- Executive Director, Equity Specialist
- 27 years of investing experience

**Alix Foulonneau**
- Director, Equity Specialist
- 10 years of investing experience

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