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For professional / sophisticated clients
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WELCOME

On Track Insights – For index investors

September edition

Christopher Greenwald, Valeria Piani, Pravin Bagree & Alessandra Calabretta

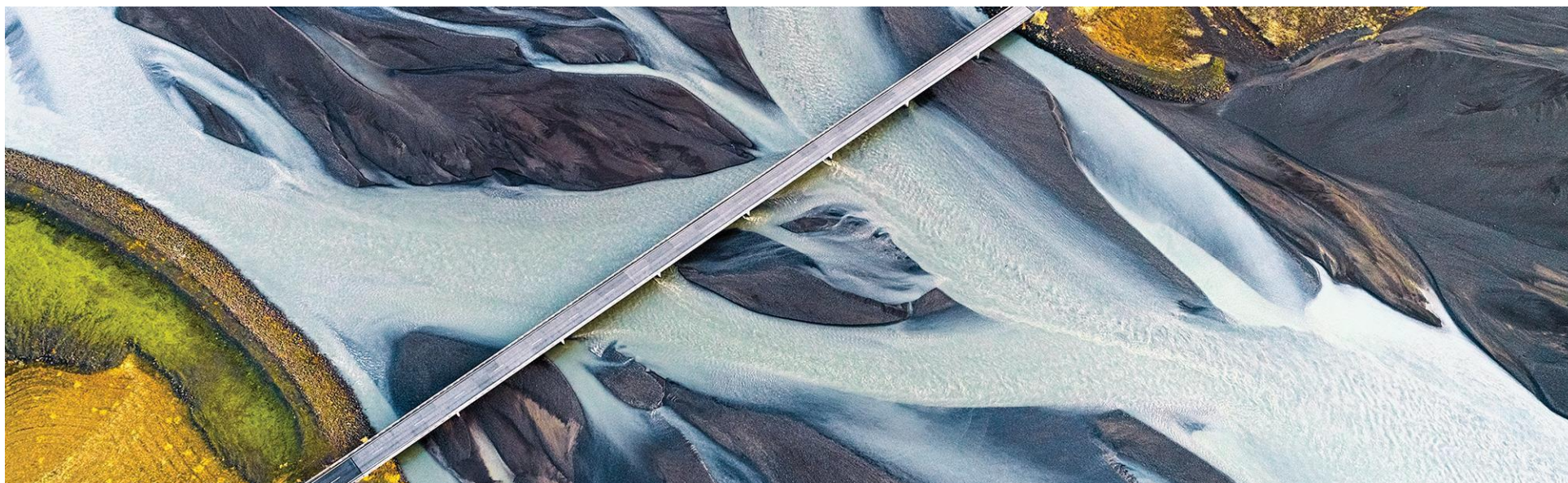


24th September 2020

UBS AM's stewardship strategy

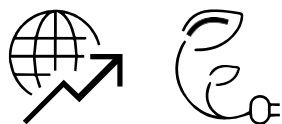
A key differentiator for our ETF offering

Christopher Greenwald and Valeria Piani, Sustainable and Impact Investing team



UBS-AM Sustainable and Impact investing differentiators

UBS Group commitment to sustainable investment



- UBS is the **diversified financials industry leader** in the Dow Jones Sustainability Index since 2015¹
- UBS **ranked first globally** in Sustainable and Impact Investing²
- UBS Group **has USD 488 billion** in core sustainable investments³
- **USD 9.1 billion** committed to **SDG-related impact investments**, including world's first Development Impact Bond ⁴
- **20+ year history** in managing sustainable investment funds

A leading provider of sustainable offerings



- UBS AM: USD **357bn ESG integrated** and USD **48bn in SI focused AUM**⁵
- **Fastest growing European asset manager** in SI focused AUM since Jan 2018.⁶
- **Leading sustainability ETF provider** with over USD 13bn in SI AuM. ⁷
- **A/A+ ratings from UNPRI** across all assessment modules.⁸
- 100% of **Active Equities and Active Fixed Income** integrate sustainability
- Broad range of **40+ SI focused strategies** across active and passive, fixed income and equities

Innovation through client-focused collaboration



- Developed **award winning Climate approach** with leading UK pension fund⁹
 - Active engagement in coordination with **Climate Action 100+**
- Developed **impact investing methodology** with **leading Dutch pension fund**
 - Invests in companies that offer products and services that help deal with key sustainability challenges
- Over **USD28bn** of dedicated Index solutions through **collaborations with clients**¹⁰

1 Source: S&P Global

2 2020 Awards from Environmental Finance, PWM The Banker, Euromoney

3 Sustainable investments across UBS Group, UBS 2019 GRI Annual Report

4 Source UBS 2019 GRI Annual Report

5 Assets under management as of June 2020

6 Growth in absolute AUM since Jan 2018, Source: Morgan Stanley, May 2020 and Morningstar

7 UBS AM SI Market share: 28%, Source Morningstar July 2020

8 2020 UN PRI Assessment

9 2017 Fund Launch of the Year Award, Funds Europe

10 Asset under management as of June 2020.



UBS ETFs – A leader on Sustainable Investments

- UBS ETFs is **one of Europe’s leading providers of Sustainable Investing ETFs** (86 ETFs, USD 16 bn, 28% market share)¹.
- UBS ETFs is a **pioneer** on many sustainable investment ETFs and has set the benchmark for the industry in terms of **innovation** (i.e. 5% issuer capped indices), **product shelf** (see table 1; wide range of currency hedged share classes) and **research** (publication of handbooks and whitepapers).
- UBS Sustainable Investment ETFs are **physically replicated** and **don't participate in a security lending program**².

Table 1: UBS Sustainable Investment product shelf by asset class and shade of green

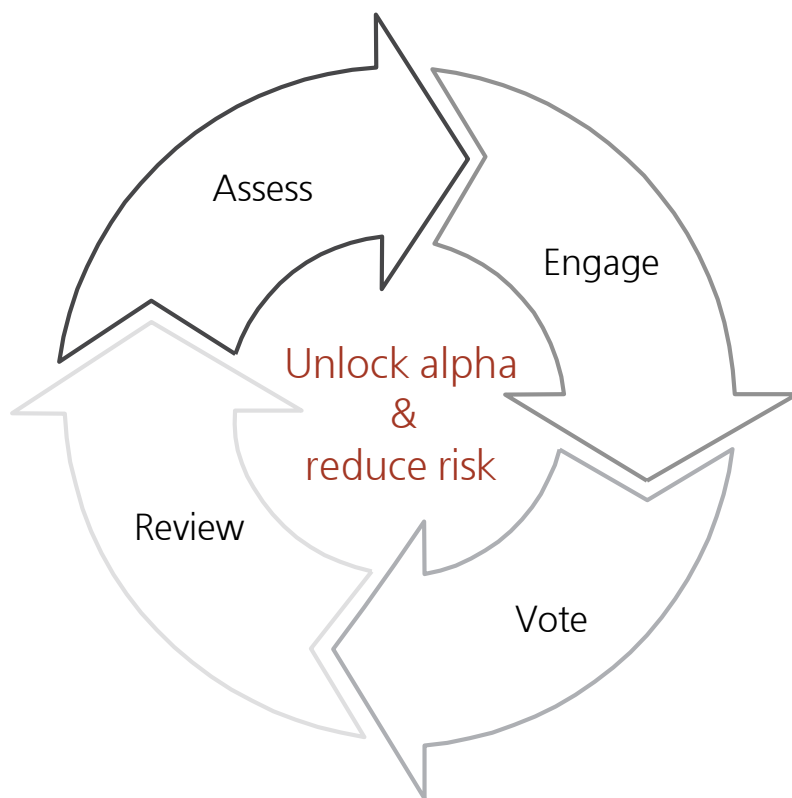
EQUITY		FIXED INCOME		
Dark green		Medium green	Light green	Thematic
MSCI SRI		S&P and STOXX ESG	MSCI ESG Universal	Solactiv / Equileap
ACWI	USA	S&P500 ESG	ACWI	Gender Equality
World	EMU	EURO STOXX 50 ESG	China	
EM	UK			
Pacific	Switzerland			
Japan				
Dark green			Light green	Thematic
MSCI SRI			JPM ESG	Solactive / UBS
US Corporate			Global Sovereign ESG	Sustainable Dev. Banks
Euro Corporate			EMD IG ESG	
Global Corporate				

¹ Source: Morningstar, end August 2020.

² Note: There is a challenge to screen the collateral which is managed across various ETFs by the same ESG standards as the specific ETF has.

Transparent and proactive investment **stewardship**

Leveraging our strength as a large, diversified asset manager to drive positive, material change



Core part of the investment process

- Investing in impactful companies to support UN SDGs
- Grounded in driving performance and avoiding downside risks
- High quality engagements on sustainability issues with senior executives and board members

Combined strengths across active and index strategies

- Maximization of outcomes by combining insights from active investments with voting power of index linked strategies¹
- Stewardship approach pursued consistently across fixed income and equities on behalf of UBS-AM to maximize impact of engagement outcomes

Strong external collaboration

- Helping to further ESG best practices across the investment industry
- Leading within the Climate Action 100+ coalition
- Recognized strengths in climate voting and engagement²
- Concrete outcomes including:
 - Repsol's Net Zero commitment (first in the industry)
 - Equinor's commitment to align of strategy with Paris Agreement

¹ In 2019, UBS AM voted on 10,000+ company shareholder annual meetings, with 1,400+ meetings with companies and 358 proactive engagements

² #1 Asset Manager on climate voting, ShareAction, A rating on climate voting/engagement, Influence Map

Engagement: our prioritization approach

Active and passive strategies

We prioritise engagement cases based on financial exposure, high ESG risks, poor performance on thematic issues of concerns and presence of controversies.

Engagement as a core part of the investment process relying on



The UBS **ESG Material Issues framework** which identifies the 3 to 5 most financially relevant factors across 32 different industry sectors



The UBS **ESG Risk Dashboard** which combines scores and data from internal and external sources to flag companies with elevated sustainability risks

Once a case is identified, in-depth research is conducted and the goal of engagement is to collect more information and influence corporate practices to trigger better financial performance in the long term. (i.e. reduce risks and unlock alpha).

Source: UBS Asset Management 2020, for illustrative purposes only.

Thematic engagements



Focused on specific themes considered material, analyzed by available internal and external research and aligned with the overall sustainability and sustainable investment strategy of UBS,

- Climate change
- Impact

Engagements on controversies



Focused on companies involved in serious breaches of international standards. The United Nations Global Compact Principles are accepted as the general reference framework to define cases of concern

Our engagements in numbers

During 2019 ...

We held **+ 1,400 meetings** with prospective or investee companies.



Of these, **358 met our definition** of engagement

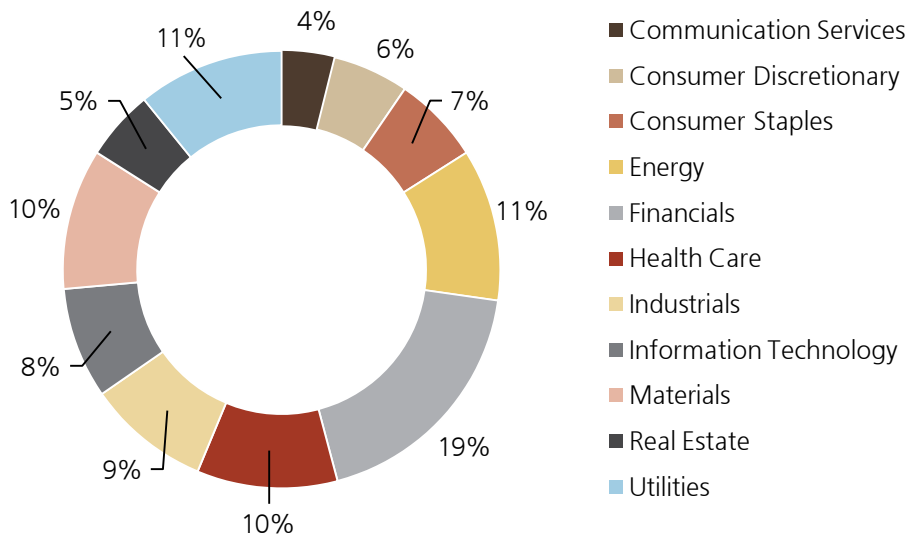


They covered **231 companies** across regions and sectors



13% of these engagements were **collaborative** with other investors.

Percentage of companies engaged by sector in 2019



Level of access to companies during 2019

Level of representation	Number of meetings	Percentage on the total
CEO/CF0 and Other C-Suite	187	52%
Chair and Non- Executive board members	120	34%
Corporate secretary or legal counsel	50	14%
IR	279	78%
ESG expert	105	29%
Other	39	11%
Total engagements	358	

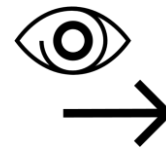
Source: UBS Asset Management 2020, for illustrative purposes only.

Our engagements in numbers

Many of our engagements linked to the integration cases cover multiple topics.

How often has been raised these topics on total cases?

Corporate Governance	53%
Strategy and Business Model	42%
Remuneration	39%
Environmental Management and Climate Change	37%
Transparency and disclosure	30%
Capital Management	23%
Human Capital Management and Labour Standards	18%
Operational Management	16%
Community Impact and Human Rights	8%
Audit and Accounting	7%



For our engagements, we set specific expectations and track progress against these.

Examples of outcomes include:

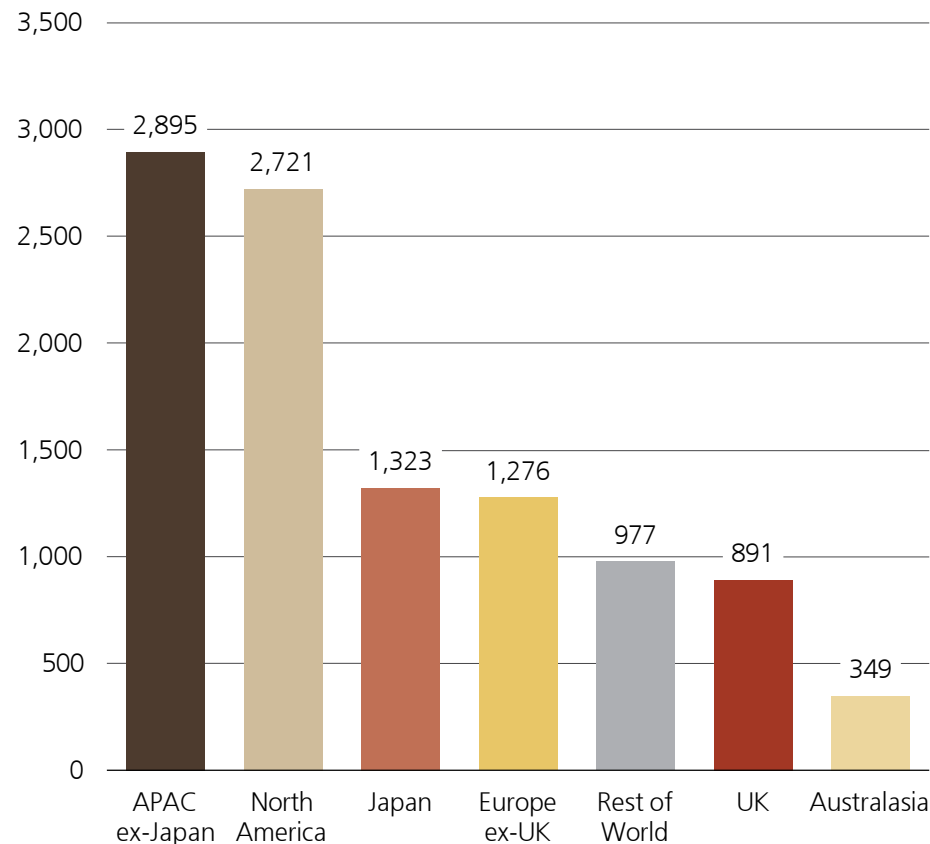
- Boards refreshment to better oversee management's delivery of business strategies
- Setting of long term GHG emissions targets in carbon intensive companies
- Enhancements to pay structures to ensure better alignment with shareholders interest
- Increased disclosure of material ESG information
- Better practices to mentor, train and retain employees across genders

Source: UBS Asset Management 2020, for illustrative purposes only.

Voting: facts and figures

- Vote in **57** countries globally
- Seek to vote consistently and in line with UBS policy and principles across all strategies
- In 12 month period ending 31st December 2019 submitted votes at **10,432 shareholder meetings, upon 104,372 separate resolutions**
- Voted against management recommendation on 18,091 proposals, being just over **17%** of total resolutions vote
- Voted against management on at least 1 proposal at **66%** of meetings
- We voted against management on 860 occasions because of a lack of gender diversity as measured against our defined thresholds by markets
- Supported **60%** of 780 shareholder resolutions on ESG issues including **82%** of environmental resolutions

Number of votes cast



Source: UBS Asset Management, voting data for year to 31 December 2019

Thematic engagement: climate change

Target companies



- Focus on: companies in Oil & Gas, Utilities (ex. Water) sectors that are laggards according to our climate change model



- Engagement with 49¹ companies (21 oil & gas, 28 utilities)
- Regions: North America, Europe, Asia and Australia
- 150 meeting with companies since inception
- We have been able to assess progress against engagement objectives for 35 companies in the list (as in May 2020): 11% show limited, 57% some, 26% good and 6% excellent progress.
- In 2020, we voted against 4 company board due to lack of progress toward our engagement goals.

Engagement objectives



- Alignment with the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations
- Evidence of the Board's oversight of climate related risks and opportunities and integration in remuneration packages and board selection processes
- Evidence of integration of climate change in risk management
- Existence of scenario analysis and reflections on impact on the business model
- Disclosure on strategy and initiatives for reducing GHG emissions
- Disclosure of goals and progress to reduce normalized GHG emissions
- Ensure consistency of indirect and direct lobbying activities on climate change with the Paris Agreement

Source: UBS Asset Management, for illustrative purposes only.

¹ The engagement list has been reviewed and updated in June 2019

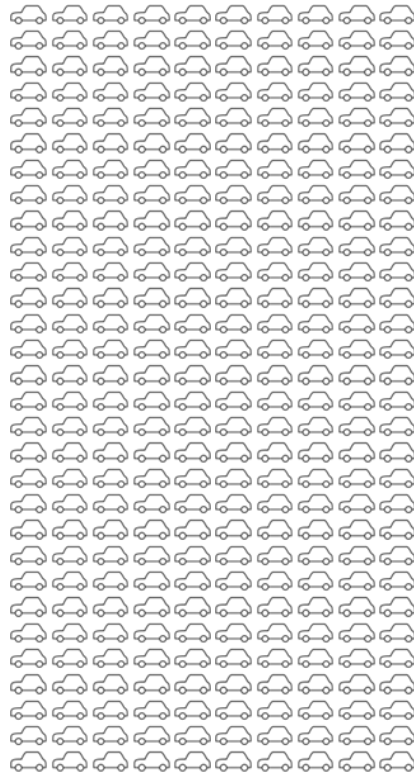
Climate Engagement focus list

The companies in our list represent 27% of CO2 emissions (scope 1 and 2) of the entire benchmark (FTSE All developed)

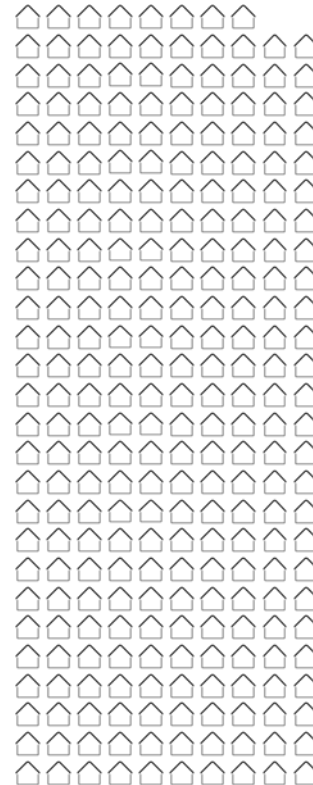
Total emissions are equivalent to:



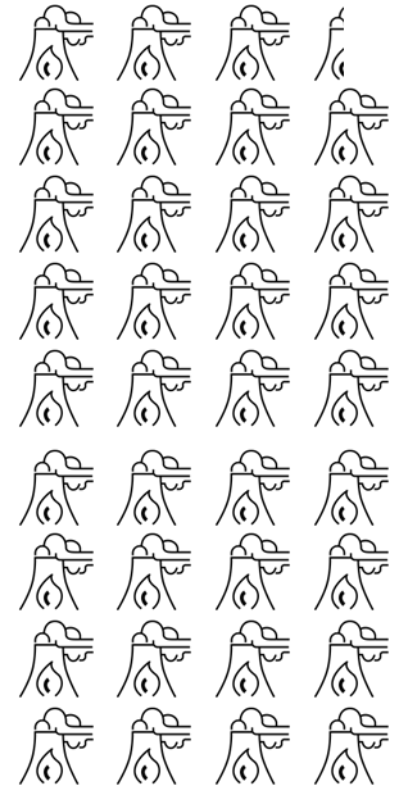
300 million passenger vehicles per year



Electricity use in 268 million homes per year



380 coal-fired power plants per year



Source: UBS Asset Management, 2019, for illustrative purposes only.

Climate change engagement strategy

The power of collaboration with other shareholders

Strategy



- A combination of collaborative and individual engagements
- Strong relationship with analysts and PMs for stocks held in active strategies
- 3-year engagement programme with several interactions with target companies
- Dialogue with heads of sustainability and board members (CEO, CFO, SID, Chairs)
- Coordination with proxy voting decisions
- Quarterly feedback on progress of engagement and the fund methodology through the Advisory Committee
- Interim and final evaluations on results achieved through application of scorecards and tracking systems

Climate Action 100+



- A five-year investor-led initiative to engage more than 100 of the world's largest corporate greenhouse gas emitters
- Launched in December 2017 and now has the support of 370 investors, representing over USD 35 trillion of assets under management
- Aims to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change risks.
- Coordinated by the Asian Investor Group on Climate Change (AIGCC), Ceres Investor Network on Climate Risk and Sustainability, the Investor Group on Climate Change (IGCC), the Institutional Investor Group on Climate Change (IIGCC) and the Principles for Responsible Investment (PRI).
- We are part of **29 coalitions in total and leading on 8** (60% of our engagement target list)

Source: www.climateaction100.org

Case study:

Addressing climate change in the oil & gas sector

Sector: Oil & Gas

Region: Europe

Topic addressed: Strategy and Business Model; Remuneration, Capital Management, Environmental Management and Climate Change; Transparency and Disclosure



Engagement objectives

We engaged with the company in the last 2 years to encourage the company to align its business strategy, capital allocation and targets to the Paris Agreement.

Linked to Climate Action 100+

Equinor - Engagement outcomes today

- In April 2019, the company signed a joint statement with UBS as a co-lead within the Climate Action 100+ initiative.
- In January 2020, the company has announced a zero emissions ambitions on scope 1 and 2 for its Norwegian assets and a 50 per cent reduction of a carbon intensity indicator including scope 1,2 and 3 emissions.
- In Q2 2020, the company has completed the global review on lobbying activities and a portfolio stress testing using more ambitious assumptions than in the past.
- Future dialogue will focus on supporting the company to commit to net zero emissions across the value chain by 2050 and enhance disclosure on alignment of capex with scenario analysis.

Source: UBS Asset Management, 2020, for illustrative purposes only.

Further transparency around stewardship

Regular reporting and publicly available reports

Portfolio information

- Quarterly reporting to clients, including voting detail and engagement examples

Public website information

- 2019 Stewardship report
- Stewardship policy
- Proxy voting policy
- Proxy voting record
- White paper on the added value of stewardship
- ESG Integration in active equity
- ESG Integration in fixed income
- Thought leadership research on ESG topics
- PRI reporting framework responses
- PRI assessment report

Source: UBS Asset Management 2020, for illustrative purposes only.

The screenshot displays the UBS Asset Management website's 'Sustainable and Impact Investing' page. The header includes the UBS logo, 'Asset Management – Global', and a 'UBS logins' button. A navigation menu lists various asset classes: Equities, Fixed Income, Hedge Funds, Liquidity and Cash, Multi Asset, Real Assets/PE, Passive/ETFs, Platform Services, and Sustainability. The main heading is 'Sustainable and Impact Investing' with the tagline 'Redefining the way you think about sustainable investing'. A featured image titled 'Becoming climate aware' includes a 'Read our WEF20 white paper' button. To the right, there is a section for 'Insights from Global Head of Sustainable and Impact Investing Michael Baldinger' with a 'Follow Michael on LinkedIn' button. Below that is a newsletter sign-up section: 'Keep informed about new sustainable and impact solutions and thought leadership papers.' with a 'Subscribe to SI newsletter' button. At the bottom of this section are 'Our products' and 'Contact us' buttons. The next section is 'Matching our SI approaches to your needs', stating 'We know that there is no 'one size fits all' approach to sustainable investing. That's why we look at it across all of them.' It lists four approaches: Exclusion, ESG Integration, Sustainability Focus, and Impact. The 'Our approach' section states: 'We have a range of products across asset classes that have sustainability playing a significant role in the investment process. We also offer tailored solutions that span the sustainability spectrum, including ESG integration, tilt toward a specific E, S or G factor, thematic, positive screening, impact or exclusions.' The footer features four icons with associated statistics: a person icon for '+18 employees dedicated to SI¹', a graduation cap for 'Around 900 investment professionals¹', a bar chart for 'USD 39bn SI-Focused USD 243bn ESG Integrated assets under management¹', and a classical building for '20 years of SI business history'.

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This document contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to our future business development. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

More explanations of financial terms can be found at ubs.com/glossary

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Current ETF topics

Currency hedged exchange traded funds

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UBS Asset Management

Quick refresher on currency hedged ETFs

What are currency hedged ETFs?

- Currency hedging can help to reduce the impact of changes in FX rates on an ETF's performance when the underlying portfolio's currency is different from the investor domestic (or preferred) currency
- In order to mitigate FX risk, currency hedged ETFs combine an exposure to a portfolio of securities with a FX forward overlay, where the latter is necessary to hedge the portfolio currency into the target (hedged) currency.
- For example, an ETF tracking MSCI Japan hedged to EUR intends to deliver the performance of the local unhedged MSCI Japan index in EUR, without being impacted by appreciation/depreciation of the currency pair. The ETF contains a FX forward that will neutralise the EURJPY performance that an investor would be exposed to if they held the unhedged MSCI Japan ETF denominated in EUR.
- For hedging purposes, the FX forward maturity is one month and spans from one month-end to the next one

What drives the cost of a FX Forward?

1. Transaction Costs. Market spreads are incurred on both the near and far leg of the FX forward contract. The more illiquid the currency pair the higher the cost. E.g. EM FX Forwards generally cost more than G10 equivalents. FX Forward costs tend to rise at quarter, half and full year end due to balance sheet constraints at investment banks arising from regulatory ratio calculation dates.
2. Holding Costs. Also known as the "cost of carry", the higher the interest rate differential between the two currencies the greater the cost for an investor. Historically higher USD interest rates (as compared to EUR interest rates) has meant a drag on returns for a EUR hedged investor.

Source: UBS Asset Management, September 2020.

Pandemic response by FED has led USD 1 month Libor to converge with EUR, GBP and CHF equivalents



Source: Bloomberg. Data as of 3 September 2020.

Holding costs have fallen therefore as interest rates have converged hence the drag from a FX Forward has decreased

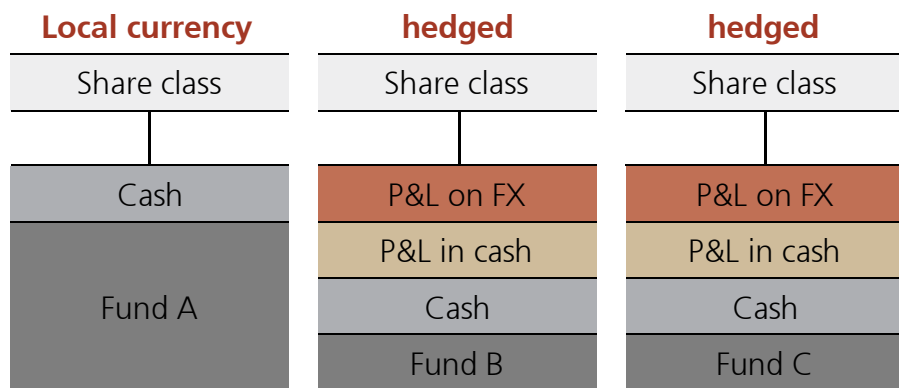


Source: Bloomberg. Data as of 3 September 2020.

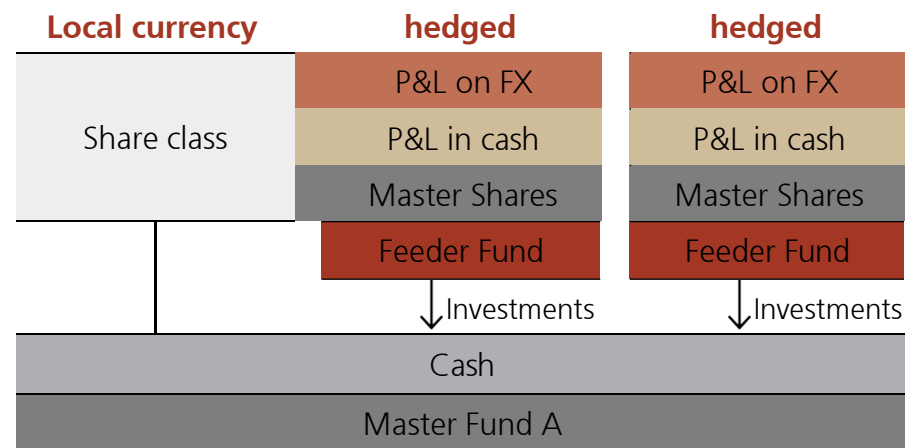
Currency-hedged share class framework reduces costs for UBS ETF investors

Unique framework to serve investors with different funding currencies

Sub fund model



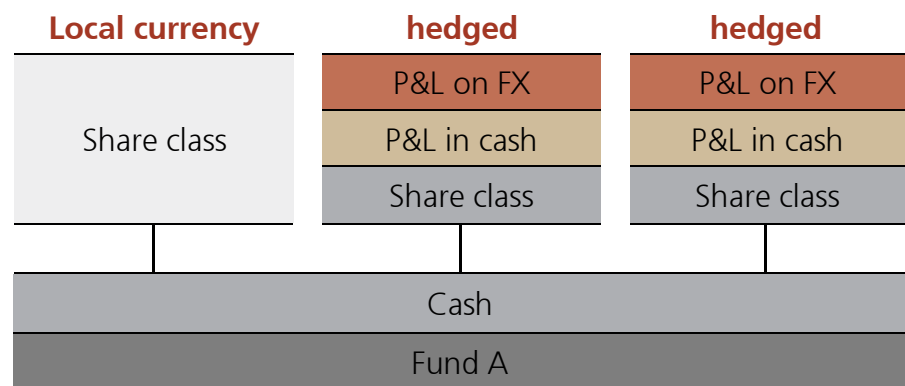
Master / Feeder model



Features of the multi share class framework:

1. **One common portfolio**
2. **Netting opportunities** on P/L investment activities
3. **Rebalancing and custody** per line costs payable **only once** for the common assets
4. **Replication process** with bigger asset portfolio results in **smaller cash drag** and tracking error risk
5. **Conversions** between currency-hedged share classes of the same sub-fund are **supported**
6. **Lower conversion costs** for MMs and APs

Hedged Share Class model

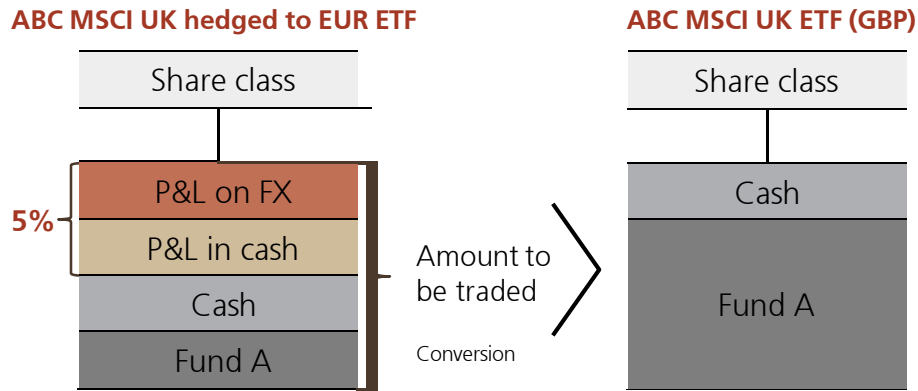


Source: UBS Asset Management, September 2020. For illustrative purposes only.

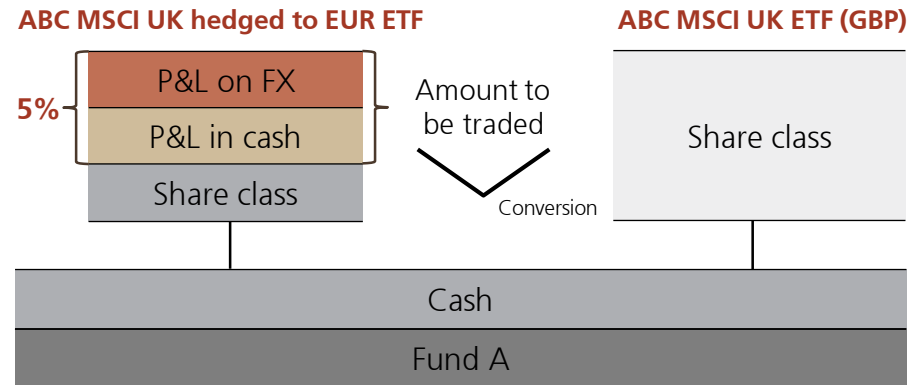
Switching between FX Hedged and unhedged exposures is much cheaper in share class versus sub-fund model

Tactical allocation change of GBP5m : Conversion from EUR hedged to GBP unhedged

Sub fund model



vs. Share-Class model



In both sub-funds, **the complete conversion amount needs to be traded** (assume IR = HR = 95%):

- **Custody:** 143 lines/sub-fund * 2 sub-funds * custody GBP 5
= **GBP 1'430**
- **Trading cost:** 1 (fund out) * GBP 5m * [1bps (equity trading) + 1bps (FX Forward)] * 95% + 1 (fund in) * GBP 5m * [1bps (trading) + 50bps (stamp duty)]
= **GBP 26'450**
- **Total:**
= **GBP 27'880**

Total conversion costs in bps:

- GBP 27'880 / GBP 5'000'000 = **56 bps**

Only the amount sitting in the hedge needs to be traded (assume IR = HR = 95%):

- **Custody:** 143 lines/sub-fund * 1 sub-funds * Custody GBP 5
= **GBP 715**
- **Trading cost:** 5% (P&L) * GBP 5m * [1bps (trading) + 50bps (stamp duty)] + 95% * GBP5m * [1bps (FX Forward)]
= **GBP 1'750**
- **Total:**
= **GBP 2'465**

Total conversion costs in bps:

- GBP 2'465 / GBP 5'000'000 = **5 bps**

Source: UBS Asset Management, September 2020. For illustrative purposes only.

Conclusions

1. Convergence of major G10 rates (especially USD) towards 0 means the cost of certain FX Forwards has substantially decreased.
2. Clients are able to receive ETF returns in their hedged currency for a much reduced drag especially for ETFs where the underlying components are USD denominated.
3. UBS ETF is a pioneer of the share class model and has implemented it across the vast majority of our ETF funds including equities, fixed income and commodities.
4. Clients are able to switch versus NAV for a low cost due to this structure.
5. For our FI ETFs in particular our PMs have made great effort to allow conversions with 0 equitisation fees (clients convert at NAV flat!) in most cases.

Source: UBS Asset Management, September 2020.

Risk information

UBS ETFs investing in equities

UBS Exchange Traded Funds invest in equities and may therefore be subject to high fluctuations in value. For this reason, an investment horizon of at least five years and corresponding risk tolerance and capacity are required. All investments are subject to market fluctuations. Every fund has specific risks, which can significantly increase under unusual market conditions. The fund's assets are passively managed. As a result, the net asset value of the fund's assets is directly dependent on the performance of the underlying equities. Losses that could be avoided via active management will not be offset.

UBS ETFs investing in Real Estate Funds

The funds invest in real estate funds under Swiss law that are denominated in CHF and invest exclusively in Swiss properties. The price of the underlying fund units is not determined by estimates of market value but by investor supply and demand. All investments are subject to market fluctuations. Every fund has specific risks, which may increase considerably in unusual market conditions. Please contact your client advisor if you wish to receive further information on the investment risks associated with this product.

UBS ETFs investing in Metals

The UBS Exchange Traded Fund investing in metals may be subject to considerable fluctuations in value. Investors therefore require an investment horizon of at least five years and corresponding risk tolerance and capacity. All investments are subject to market fluctuations. All funds have specific risks, which may significantly increase under unusual market conditions. The fund's assets are passively managed. As a result, the net asset value of the fund's assets is directly dependent on the performance of the underlying equities. Losses that could be avoided via active management will not be offset.

UBS ETFs investing in Oil and Commodities

The Fund delivers the returns of a broadly diversified commodity index and may therefore be subject to high fluctuations in value. For this reason, an investment horizon of at least five years and corresponding risk tolerance and capacity are required. The returns payable on the Fund are dependant on payments received by the Fund from the Swap Counterparty under the terms of the Relevant Swap and, therefore, are subject to the credit risk of the Swap Counterparty. In the event that the Swap Counterparty defaults under the terms of the Relevant Swap, the Fund may suffer a loss. Assets are passively managed meaning losses that could be avoided via active management will not be offset. The net asset value of the Fund's assets are materially dependent on the performance of the underlying investments. In case the currency of the product is different from your reference currency, the return may increase or decrease as a result of currency fluctuations. All investments are subject to market fluctuations. Every fund has specific risks, which can significantly increase under unusual market conditions.

UBS ETFs investing in HFR

The Fund delivers the returns of a broadly diversified hedge fund index and may therefore be subject to high fluctuations in value. For this reason, an investment horizon of at least five years and corresponding risk tolerance and capacity are required. The returns payable on the Fund are dependent on payments received by the Fund from the Swap Counterparty under the terms of the Relevant Swap and, therefore, are subject to the credit risk of the Swap Counterparty. In the event that the Swap Counterparty defaults under the terms of the Relevant Swap, the Fund may suffer a loss. Assets are passively managed meaning losses that could be avoided via active management will not be offset. The net asset value of the Fund's assets are directly dependent on the performance of the underlying investments. In case the currency of the product is different from your reference currency, the return may increase or decrease as a result of currency fluctuations.

UBS ETFs investing in Fixed Income

This UBS Exchange Traded Fund invests in government bonds of a single country and may therefore be subject to fluctuations in value. For this reason, an investment horizon of at least five years and corresponding risk tolerance and capacity are required. All investments are subject to market fluctuations. Every fund has specific risks, which can significantly increase under unusual market conditions. As a result, the net asset value of the fund's assets is directly dependent on the performance of the underlying index. Losses that could be avoided via active management will not be offset.

UBS ETFs investing in Multi Asset Portfolios

The Fund is highly dynamic and may exhibit above-average potential growth and investment performance, depending on the economic environment. For this reason, an investment horizon of at least five years and corresponding risk tolerance and capacity are required. The Fund is exposed to the investment risk arising from the Reference Strategy underlying the Swaps. In the event that the swap counterparty defaults under the terms of the relevant swap, the Fund may suffer a loss. The Fund's assets are passively managed. As a result, the net asset value of the Fund's assets is materially dependent on the performance of the underlying investments. Losses that could be avoided via active management will not be offset. The Reference Strategy is a rules based Algorithm designed to target consistent returns but may not be effective in delivering such returns.

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