



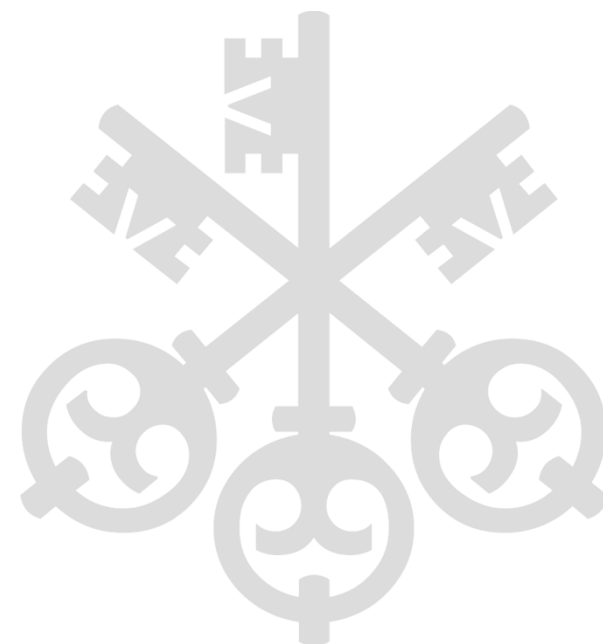
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# Welcome

On Track Insights – For index investors

December edition

Willem Keogh, Davide Guberti and Alessandra Calabretta



# Greener and Cleaner

Reducing climate risk and carbon exposure with the **MSCI SRI ETFs of UBS**

**Willem Keogh**

Head Passive & ETF Investment Analytics  
UBS Asset Management

**Davide Guberti**

Passive & ETF Investment Analytics  
UBS Asset Management



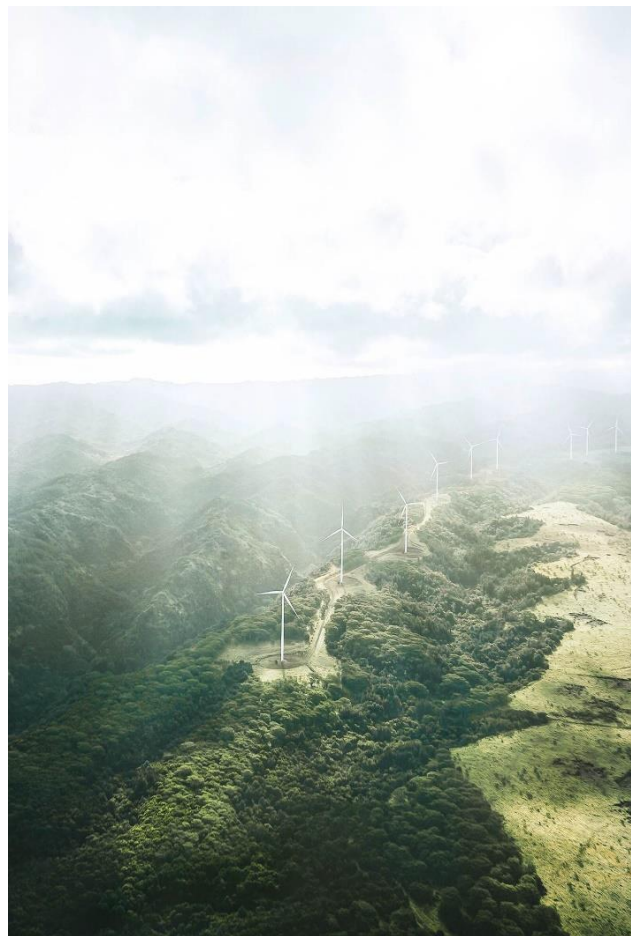
Section 1

# Introduction and motivation

# A clear focus on climate change

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Climate risks are now a focal point for investors and governments



// Investors urge European Companies to include climate risks in accounts

**Financial Times**  
November 16, 2020

// Moving towards zero pollution in Europe

**European Environment Agency**  
October 15, 2020

// U.N. chief presses EU to set tougher climate change target

**Reuters**  
November 19, 2020

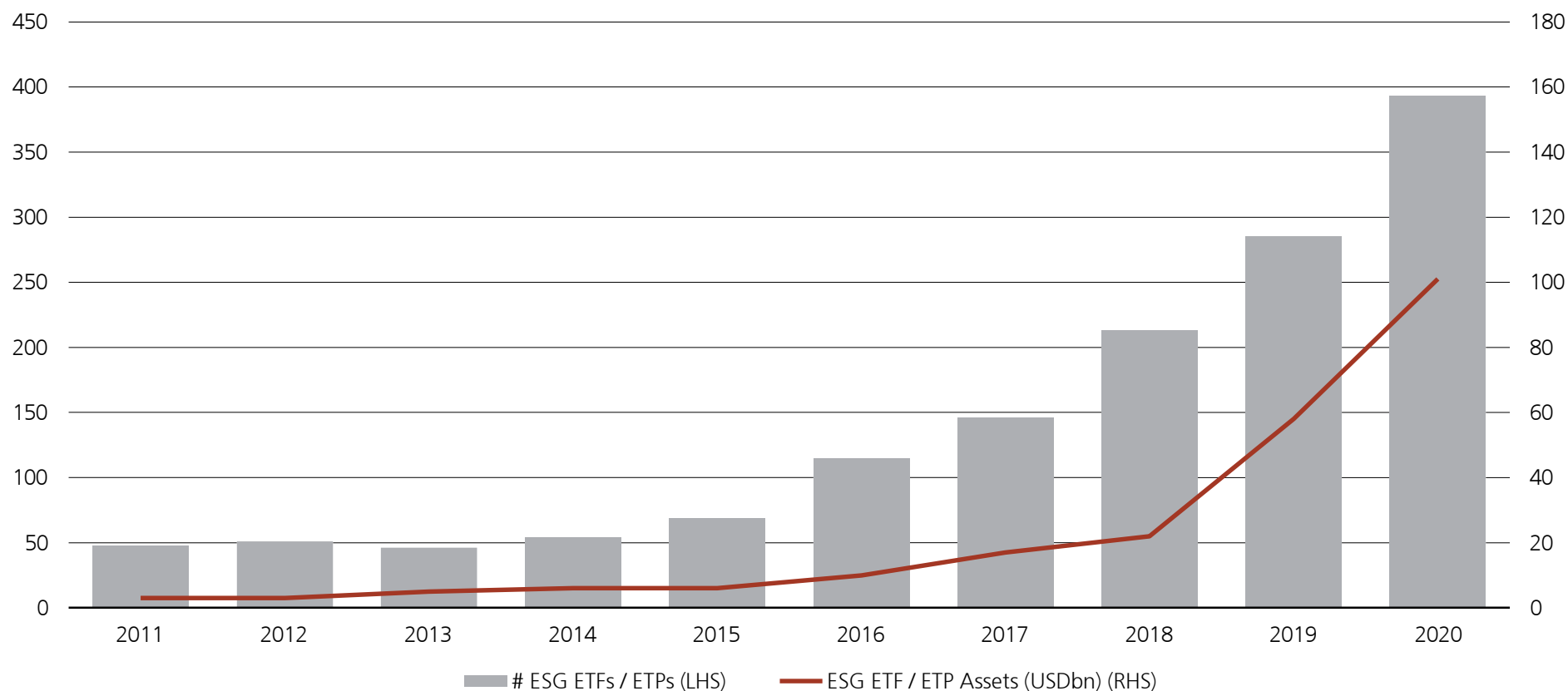
// Lagarde's ECB Won't Let Investors Delay Facing Climate Risk

**Bloomberg**  
November 11, 2020

# Accelerating inflows and product launches in ESG ETFs

A tipping point has been reached in adoption of ESG solutions

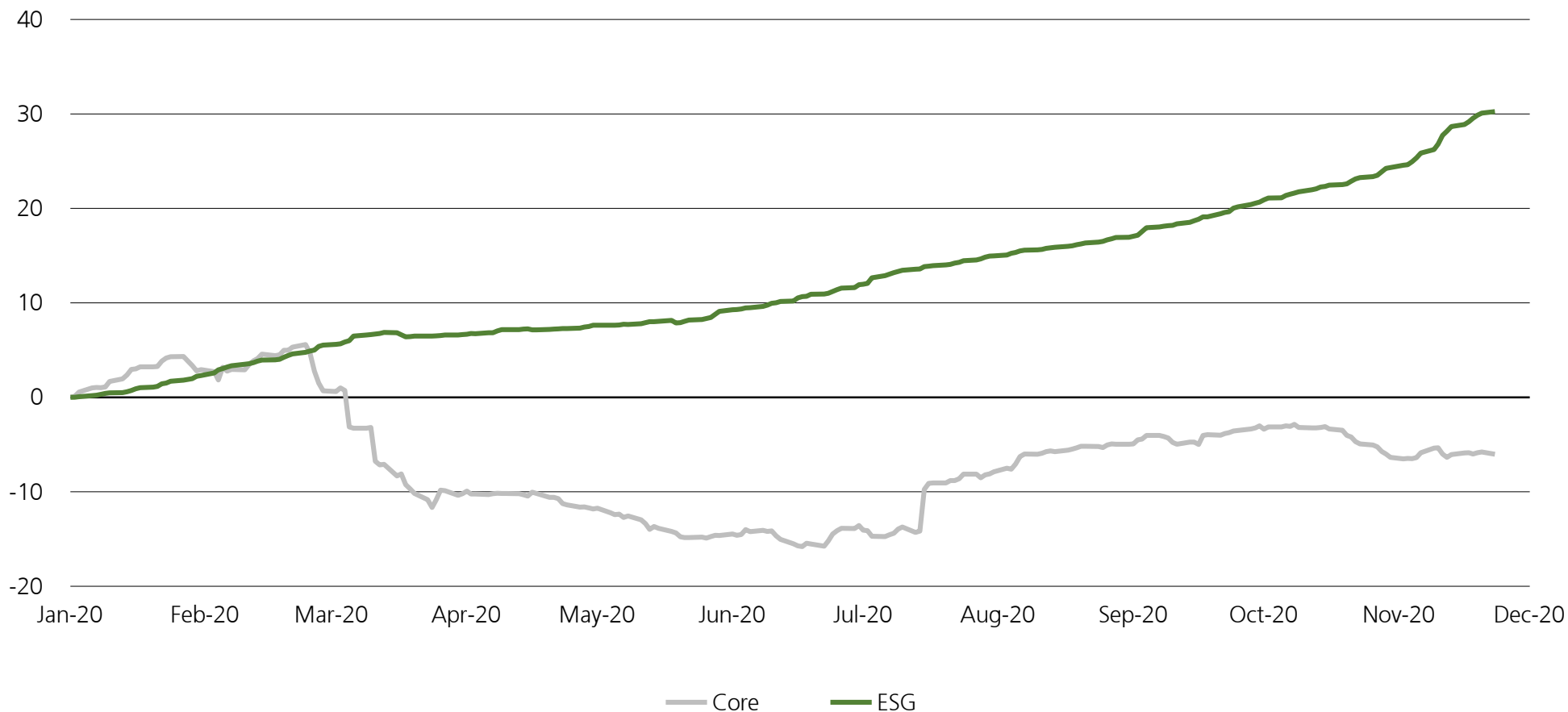
## ESG ETFs / ETPs Asset Growth



# Accelerating inflows into ESG ETFs

Flows into ESG solutions more resilient than core offerings since COVID-19

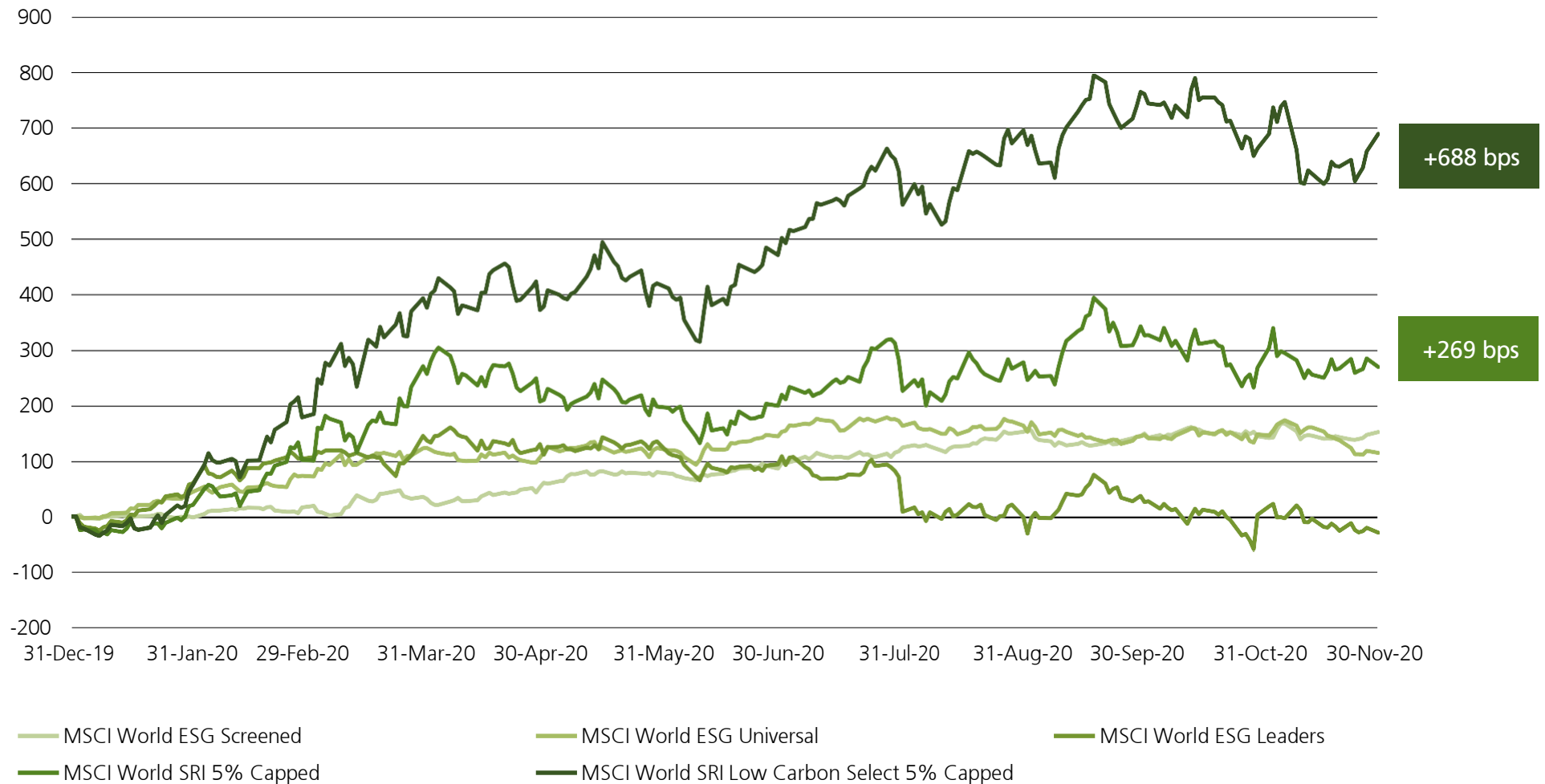
Year to date NNM (USD bn)



# Doing well while doing good

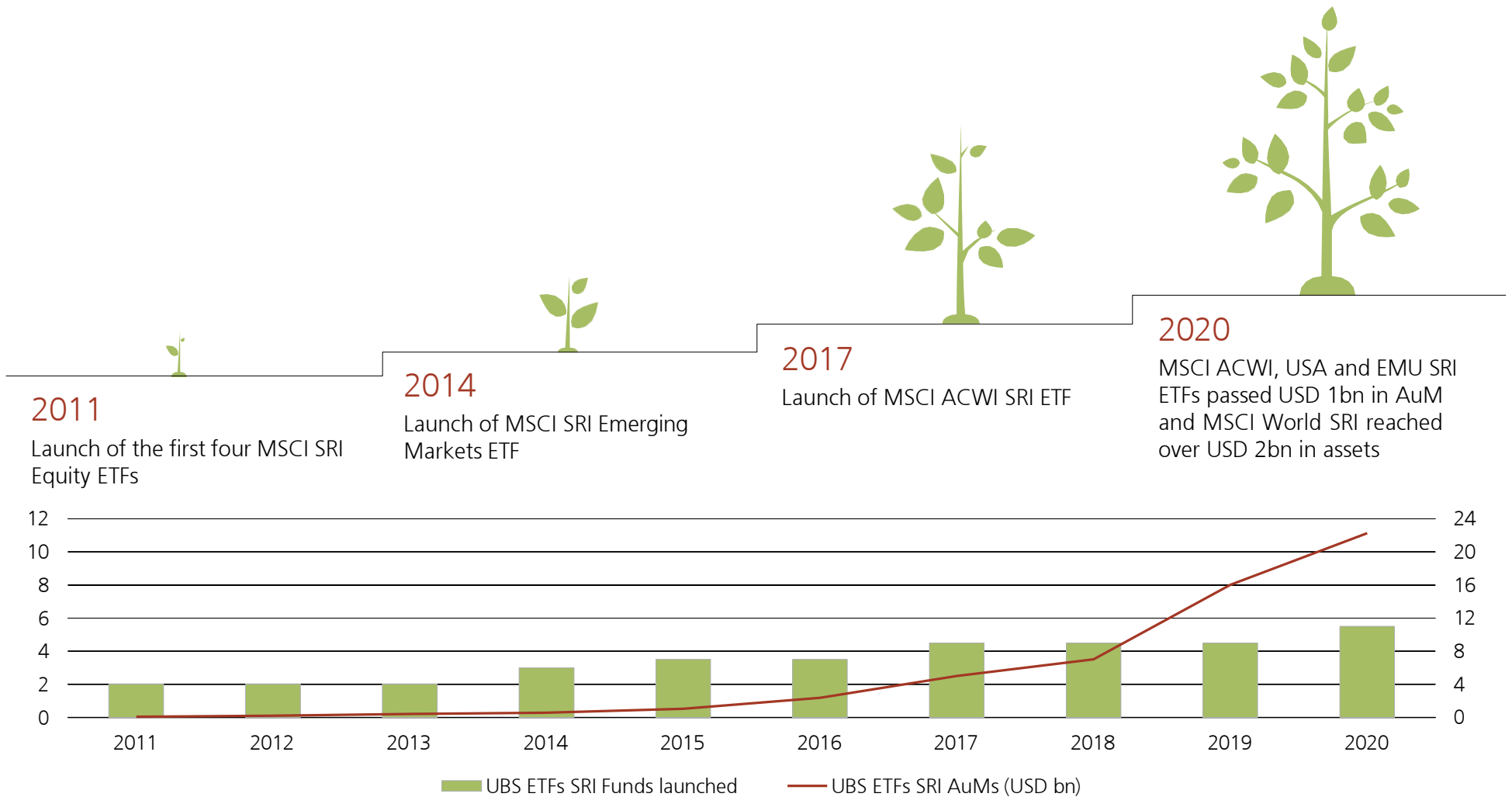
Robust relative outperformance by MSCI SRI indices since COVID-19

Excess total returns of selected ESG indices vs. MSCI World TR Net in USD



# The SRI tree keeps growing...

...but it is time for a trimming

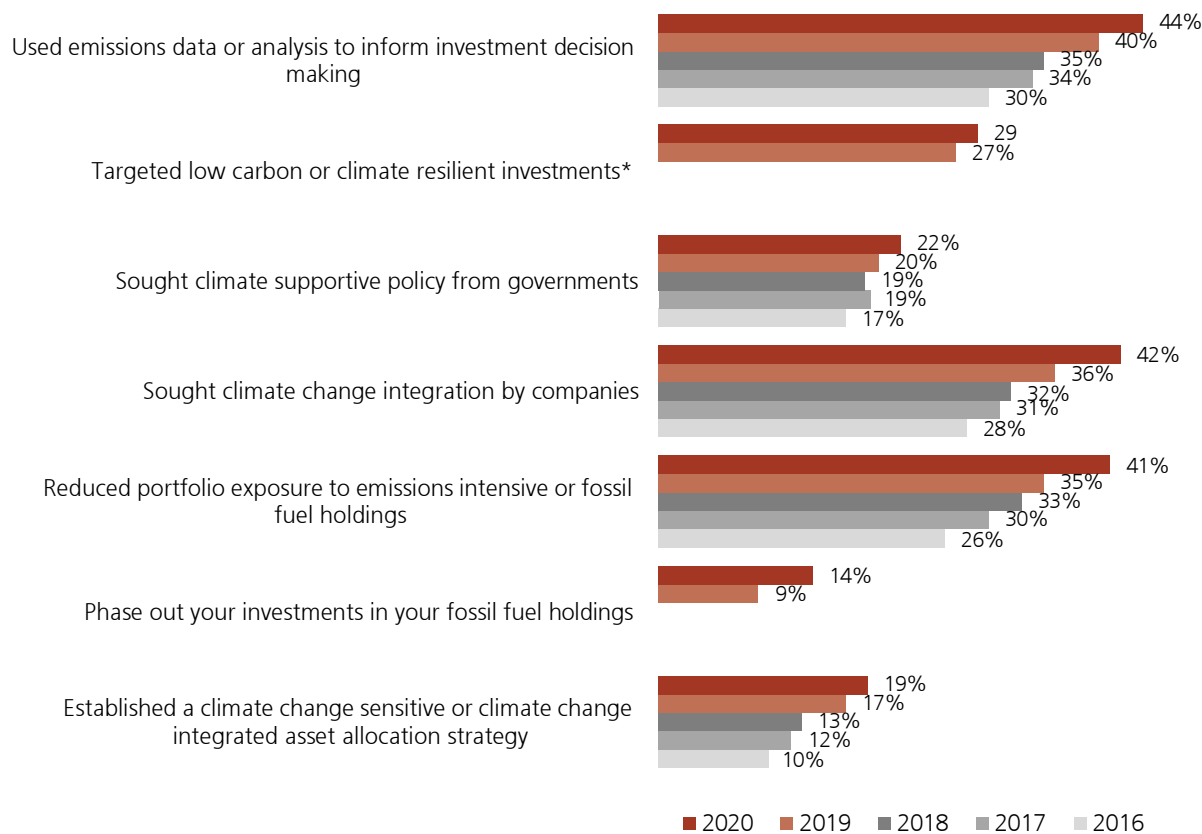




# How to mitigate climate change risks

Shifting investor preferences and increased focus on reducing exposure to emission intensive and fossil fuel holdings

## Strategies used by PRI signatories to mitigate climate change risks



**Increased use of emissions data, focus on reducing intensive emissions exposure**

**Increased focus on Climate change, climate change integration in asset allocation**

**Divestment from fossil fuels**

Source: PRI climate snapshot 2020. Data as of 17 July 2020.

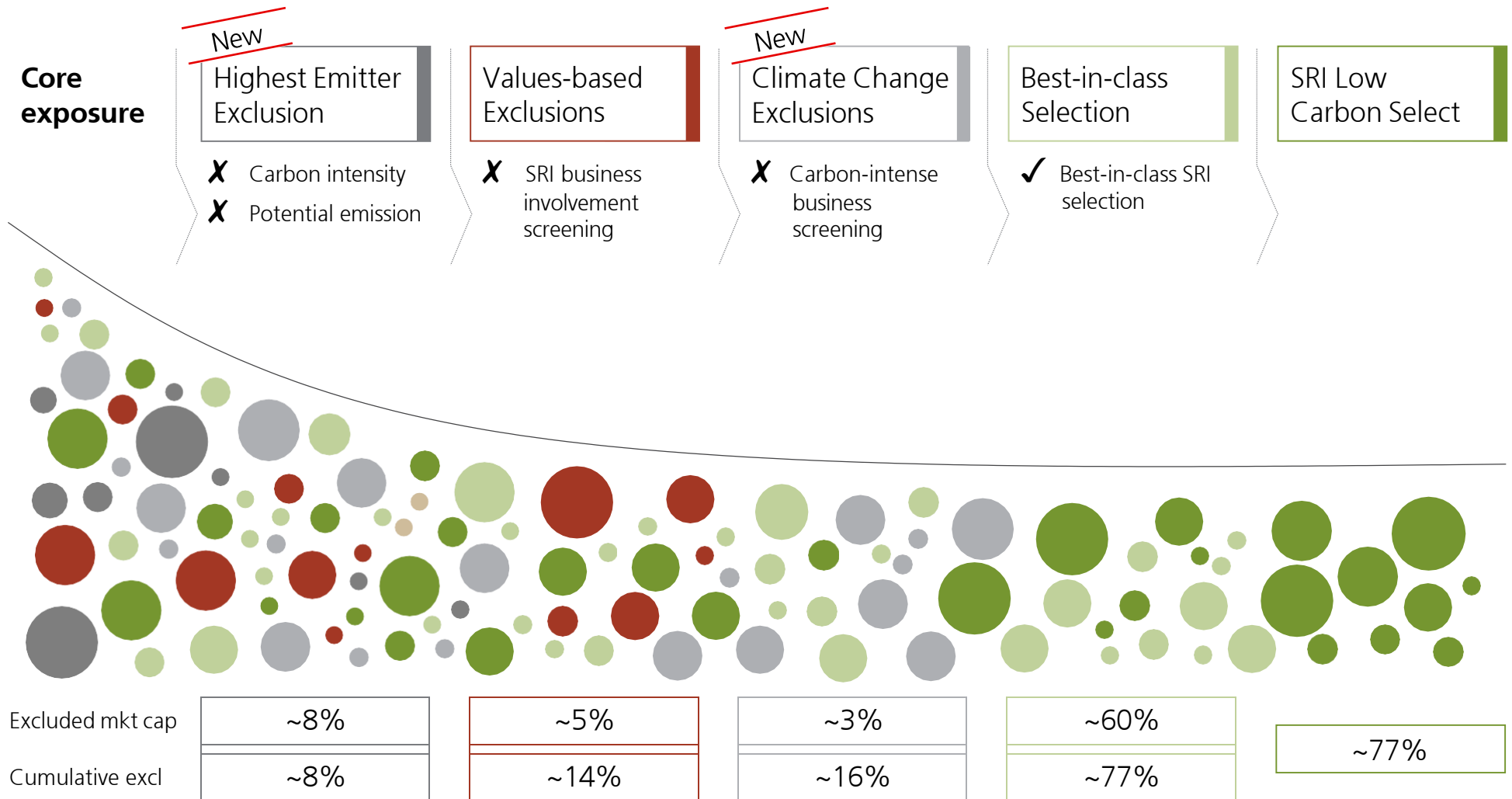
\* Signatories selecting "Targeted low carbon or climate-resilient investments" were required to provide further details on those investments from 2019 onwards. This means the 2020 data can be compared to data from 2019 but not from earlier years.

Section 2

# The enhancements

# From core to the new SRI...

...through stringent exclusions and best-in-class selection



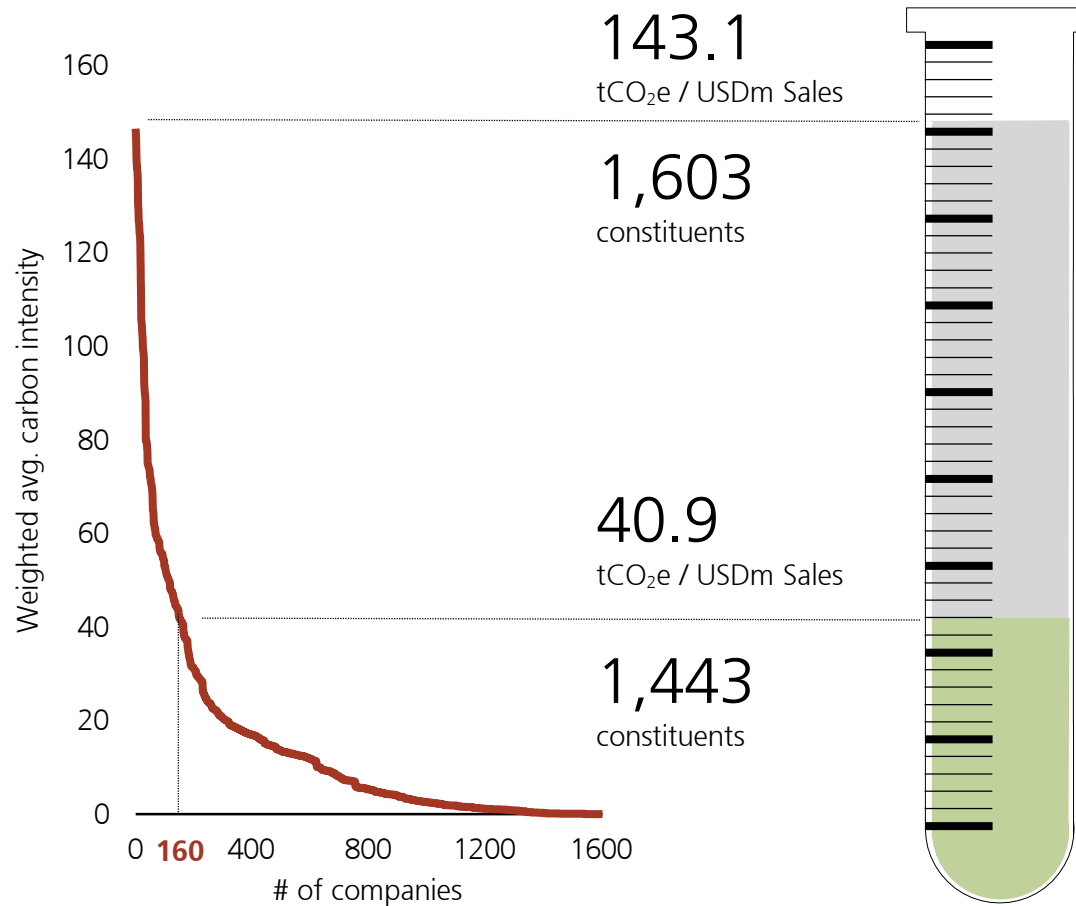
# Highest Emitter Exclusion

Portfolio carbon footprint is influenced by a few constituents

Highest Emitter Exclusion

New

## Illustration of carbon intensity per constituent



**X** Exclude worst 10% securities (by number) in terms of **carbon intensity**

**X** Exclude worst companies by **potential emissions**

**✓** Few exclusion substantially reduce the portfolio carbon footprint

Exclude ~10% of constituents

Reduce carbon intensity by more than 70%

# Customized SRI screening

The choice is to rely on the standard SRI screening, but include some customized climate change exclusions

## Business involvement screening

### Values-based Exclusions

- Controversial Weapons
- Nuclear Weapons
- Civilian Firearms
- Tobacco
- Alcohol
- Adult Entertainment
- Conventional Weapons
- Gambling
- GMO
- Nuclear Power Generation

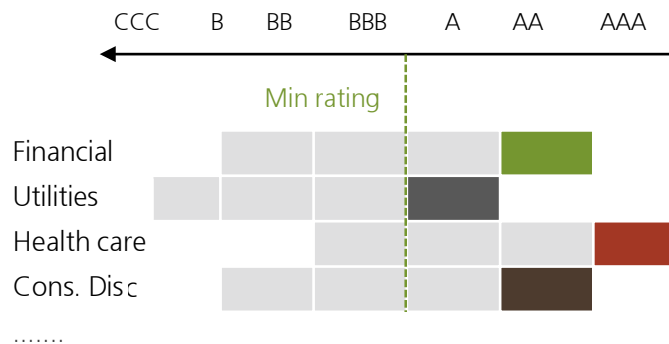
### Climate Change Exclusions

- Thermal Coal Mining
- Thermal Coal Power Generation
- Unconventional Oil & Gas
- Conventional Oil & Gas
- Oil & Gas Power Generation
- Fossil Fuel Reserves

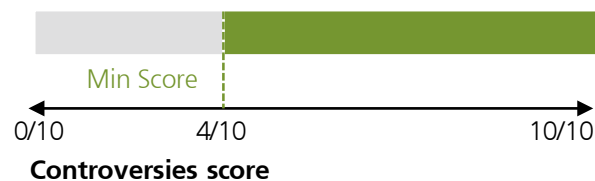
**New**

## Best-in-class Selection

### ESG rating



### Controversial companies



## SRI Low Carbon Select












Balanced portfolio



✓ Select Top 25% in each GICS sector

# Climate Change Exclusions

The MSCI market consultation would enhance the previous SRI, we decided to go even further

Climate Change Based Exclusions	MSCI SRI Pre Market Consultation <sup>Old</sup>	MSCI SRI Market Consultation	SRI Low Carbon Select <sup>New</sup> UBS
Thermal Coal Mining	30% 	0% 	0% 
Thermal Coal Power Generation	30% 	5% 	0% 
Unconventional Oil & Gas (Oil Sands, Shale Oil & Gas, Artic Drilling, etc.)	N/A	0% 	0% 
Conventional Oil & Gas	N/A	N/A	0% 
Oil & Gas Power Generation	N/A	N/A	0% 
Fossil-Fuel Reserves Exclusions	N/A	✓	✓
Carbon Emission Exclusion Criteria	N/A	N/A	10%  Heaviest Emitters

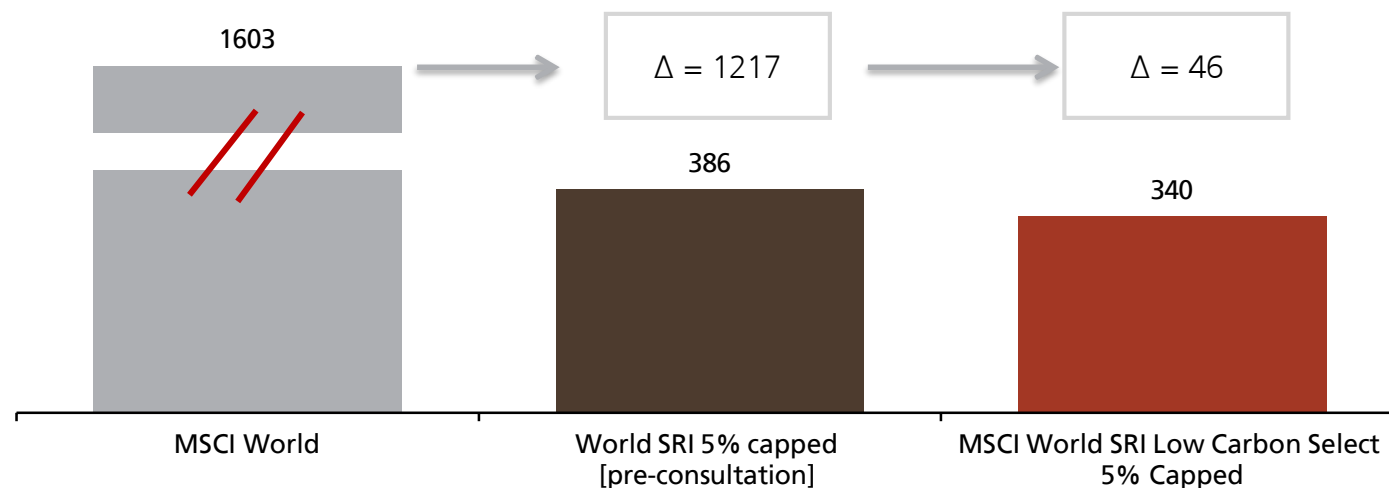
Section 3

# The results

# Enhancement analysis

The new approach will provide a substantial reduction in carbon intensity and maintain top ESG rating

## Number of constituents & sustainability statistics



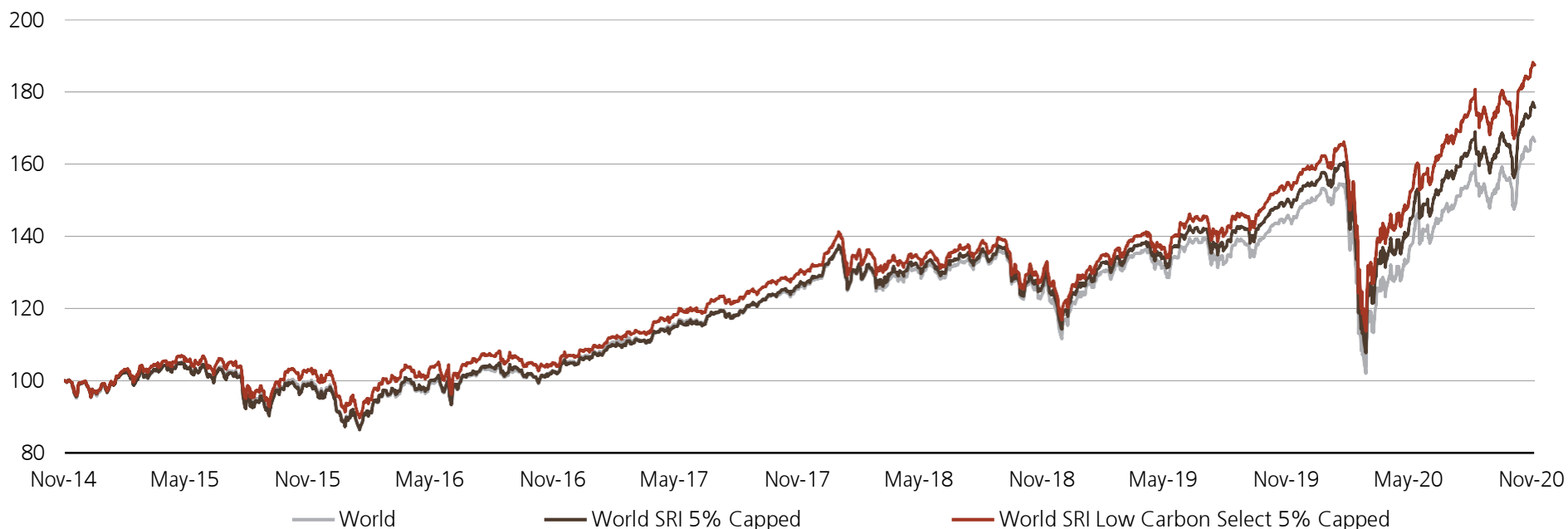
<b>ESG Quality Score</b>	6.66	8.11	8.12
ESG Ratings	A	AA	AA
<b>Weighted Average Carbon Intensity</b> tons CO <sub>2</sub> e / USDm sales	<b>143.08</b>	<b>105.75</b>	<b>34.95</b>



# MSCI World – performance analysis

Consistent outperformance of SRI Low Carbon Select, with considerable outperformance during COVID-19

## Long run performance comparison



	<b>MSCI World</b>	<b>MSCI World SRI 5%</b>	<b>World SRI Low Carbon Select 5% Capped</b>
<b>Total returns</b>	66.32%	75.70%	87.46%
Returns p.a.	8.83%	9.83%	11.02%
Volatility p.a.	15.64%	15.27%	14.90%
<b>Tracking error vs MSCI World</b>	0.00%	1.96%	2.64%

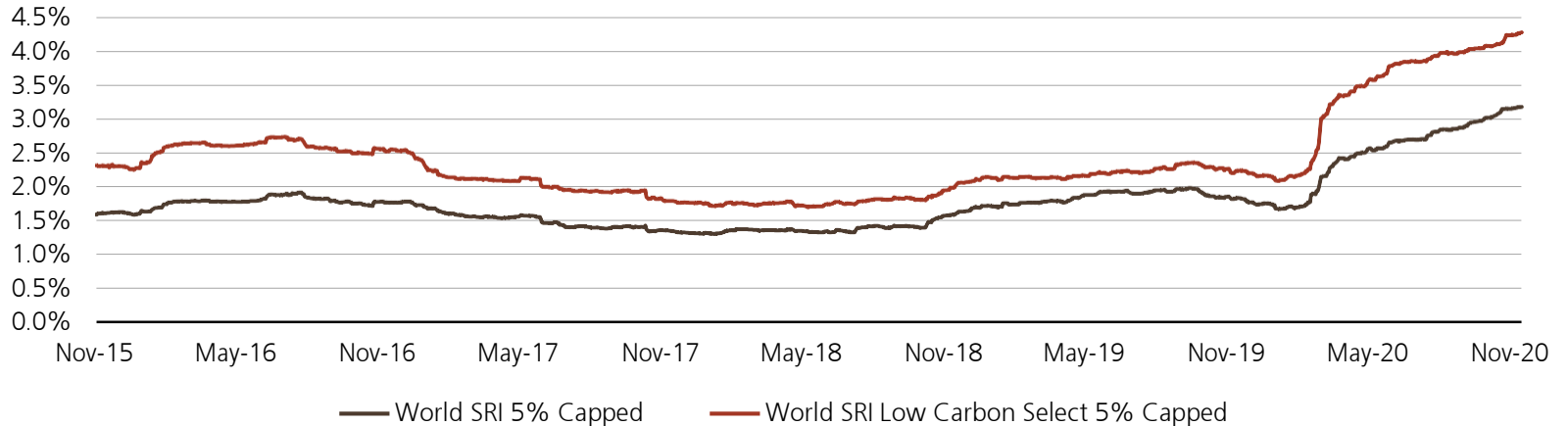
# MSCI World – performance analysis

Tracking error at 2.64% (vs 1.96%), outperformance has been consistent over time vs both MSCI World and World SRI

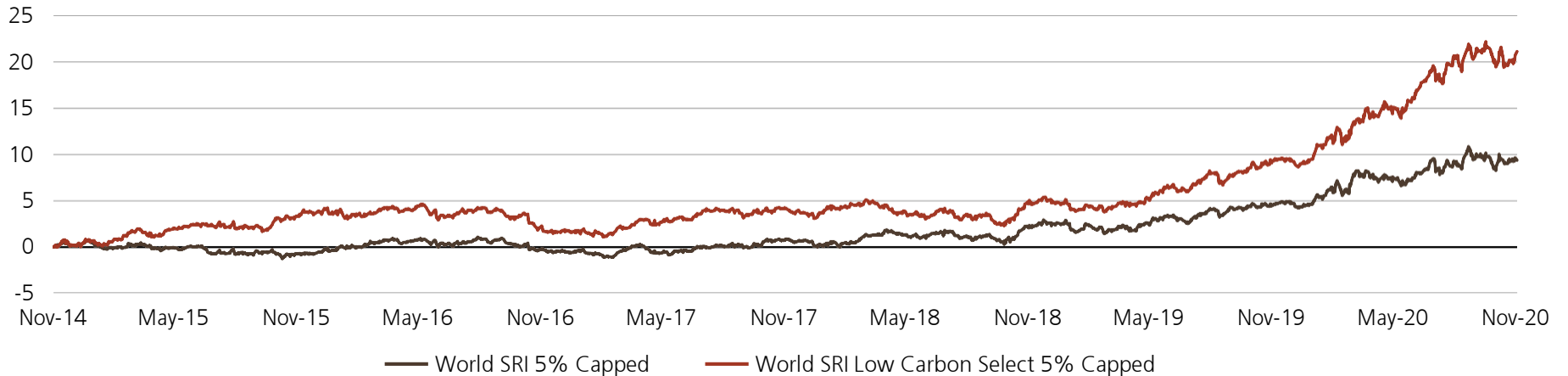
**252 Rolling Tracking Errors vs parent benchmark**

Rolling TE increased during COVID-19 vs historical average

Higher TE corresponds to higher performance

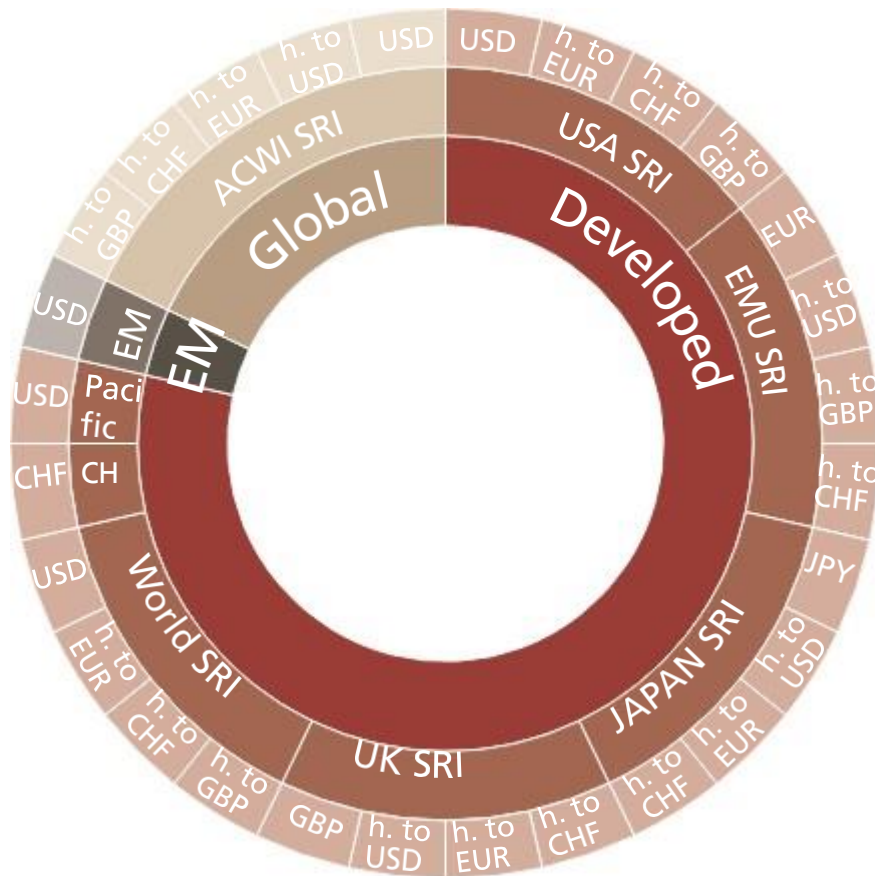


**Performance difference vs parent benchmark (in %)**



# Benchmark change overview

The benchmark change is applied across our whole SRI offering



 **20bn**

**USD AuM in ESG ETFs**

For Equity and Fixed Income

## **Our sustainable value proposition:**

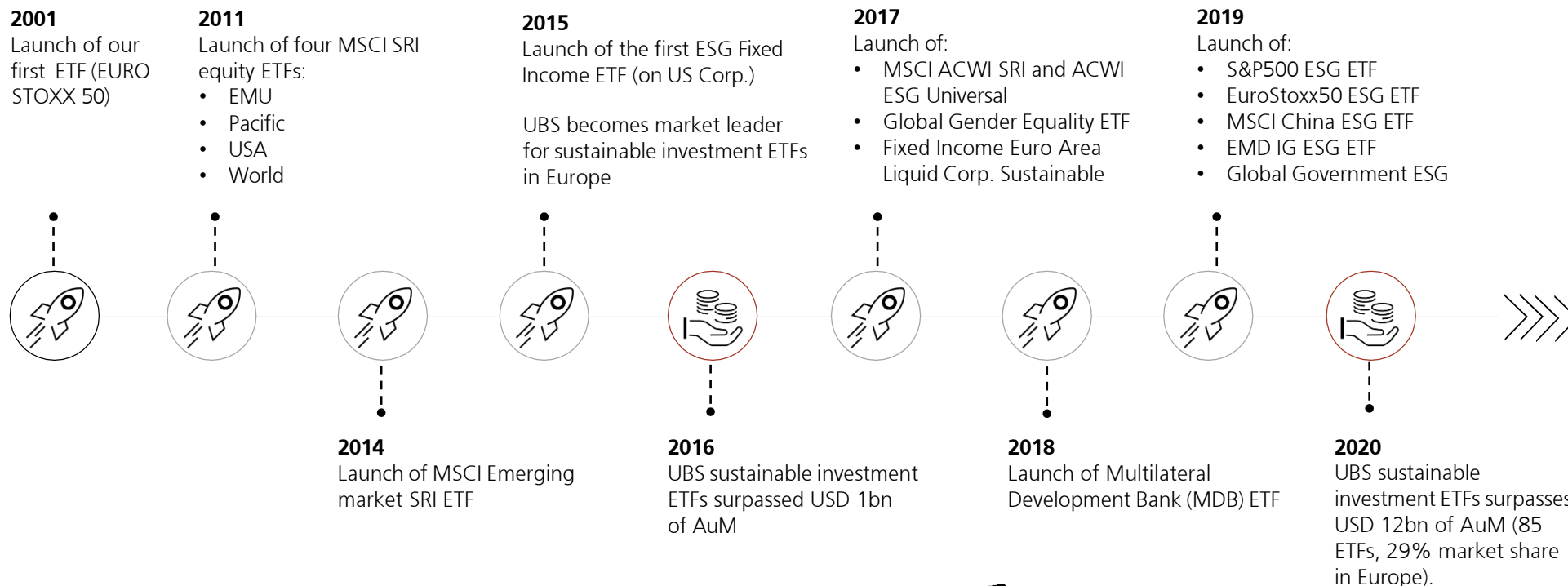
- Currency hedged share classes to major currencies
- Physically-replicating ETFs
- No securities lending
- Stewardship: Proxy voting & engagement

Section 4

# Appendix

# The pioneer in sustainable investments

Our journey with passive sustainable investing started in 2011



 **16%**  
**European ETFs CAGR**  
Dec 2012 – July 2020

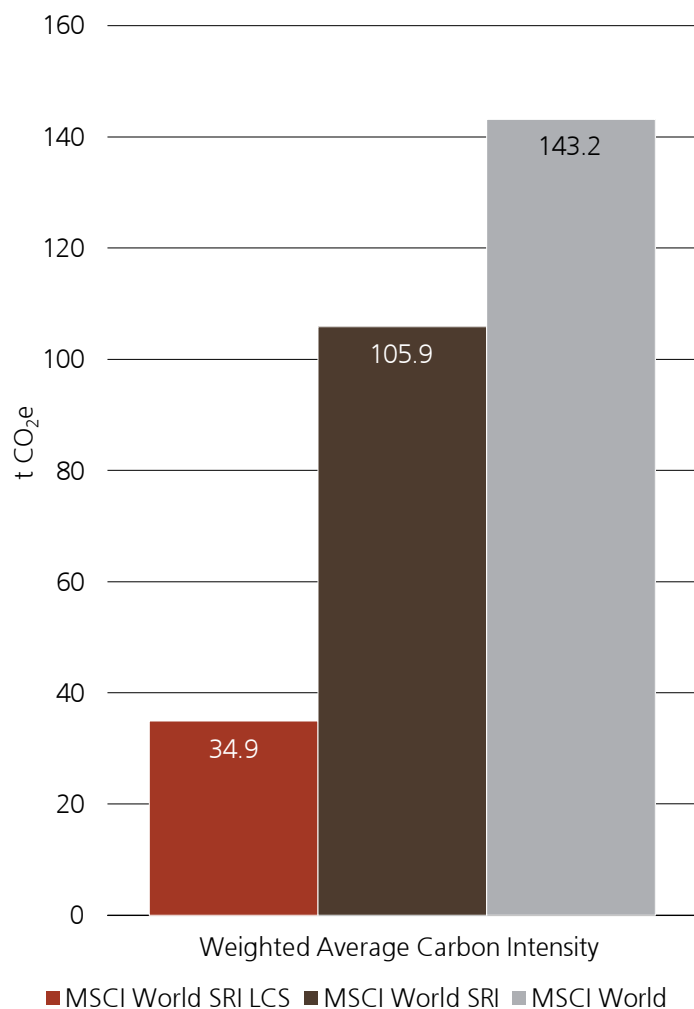
 **25%**  
**UBS ETFs CAGR**  
Dec 2012 – Sep 2020

 **100%**  
**UBS SI ETFs CAGR**  
Dec 2012 – Sep 2020

MSCI ACWI, USA and EMU SRI ETFs passed USD 1bn in AuM and MSCI World SRI reached over USD 2bn in assets.

# Weighted Average Carbon Intensity

Substantial reduction compared to parent benchmark



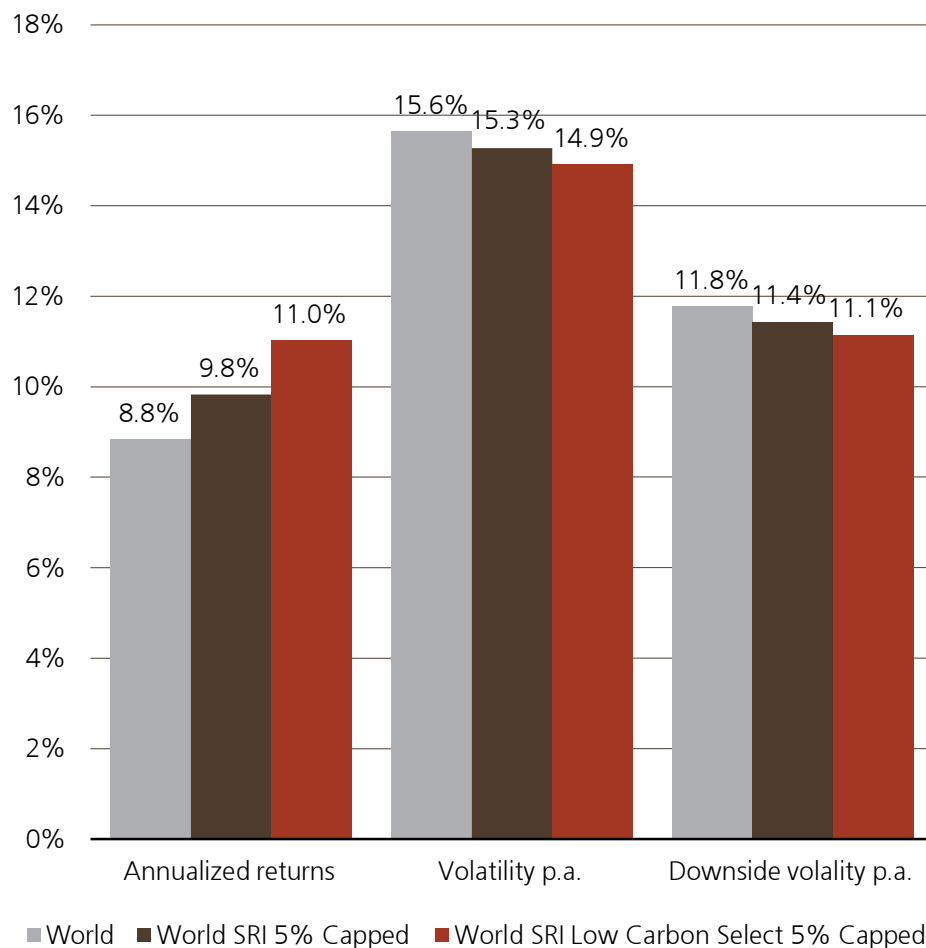
## Weighted Average Carbon Intensity by sector

(t CO <sub>2</sub> e / USDm Sales)	MSCI World SRI LCS	MSCI World SRI	MSCI World
Energy	295.8	404.8	454.4
Utilities	284.1	980.3	2,049.8
Materials	168.7	479.9	635.0
Consumer Staples	54.1	66.0	52.2
Real Estate	38.4	170.0	124.6
Industrials	29.8	106.1	114.6
Consumer Discretionary	24.7	28.2	34.7
Communication Services	23.0	23.0	17.6
Information Technology	19.1	19.6	20.6
Health Care	16.4	22.1	21.4
Financials	4.5	4.6	18.2
<b>OVERALL</b>	<b>34.9</b>	<b>105.9</b>	<b>143.2</b>

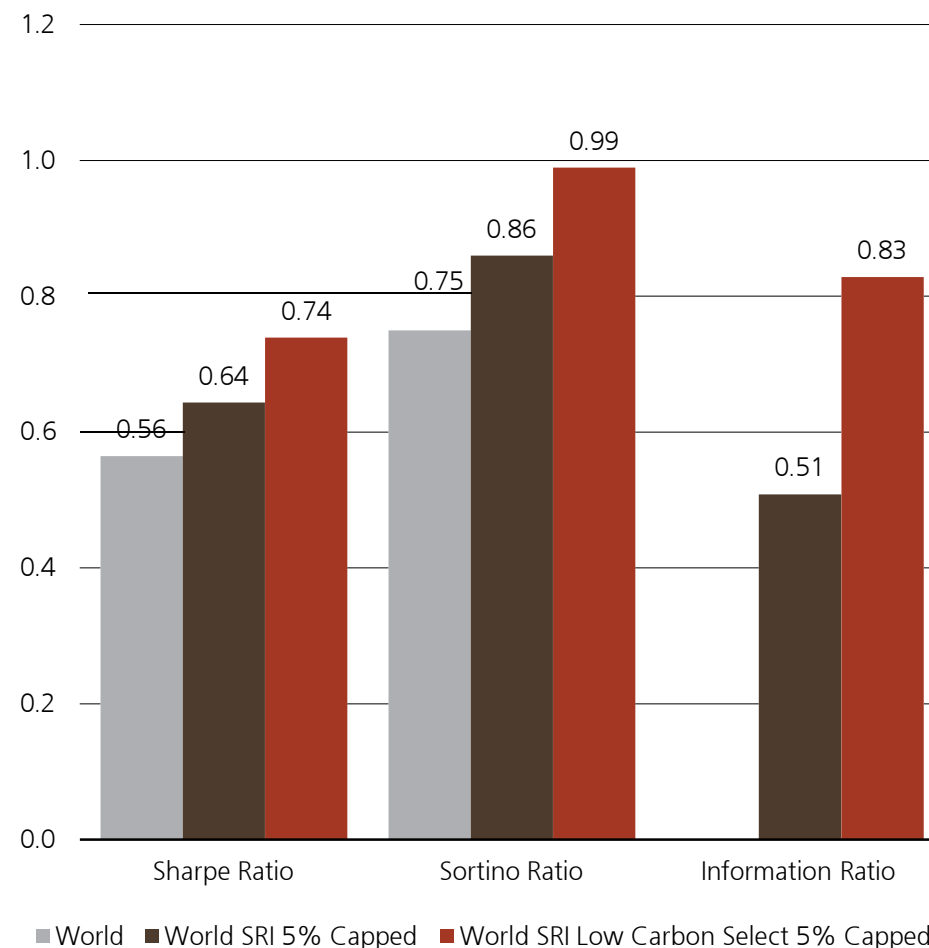
# MSCI World – performance analysis

Higher returns combined with lower volatility = better risk-returns metrics

## Risk-Return metrics



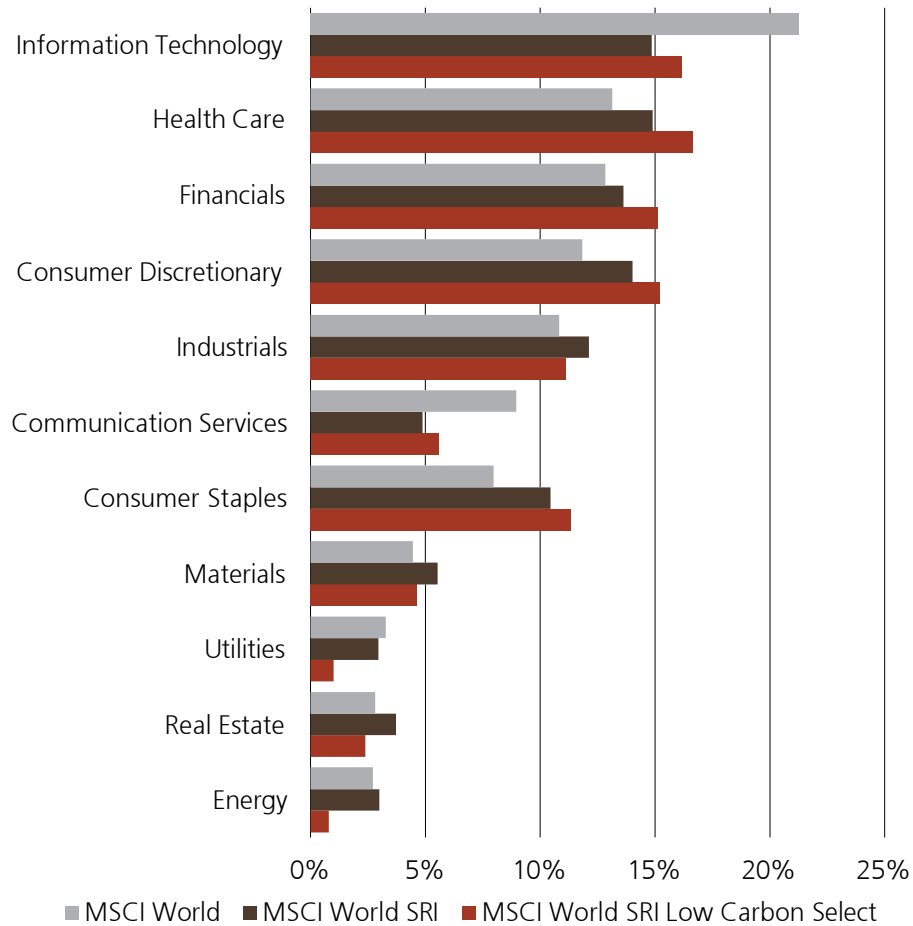
## Risk-Return ratios (Assume Risk-free=0)



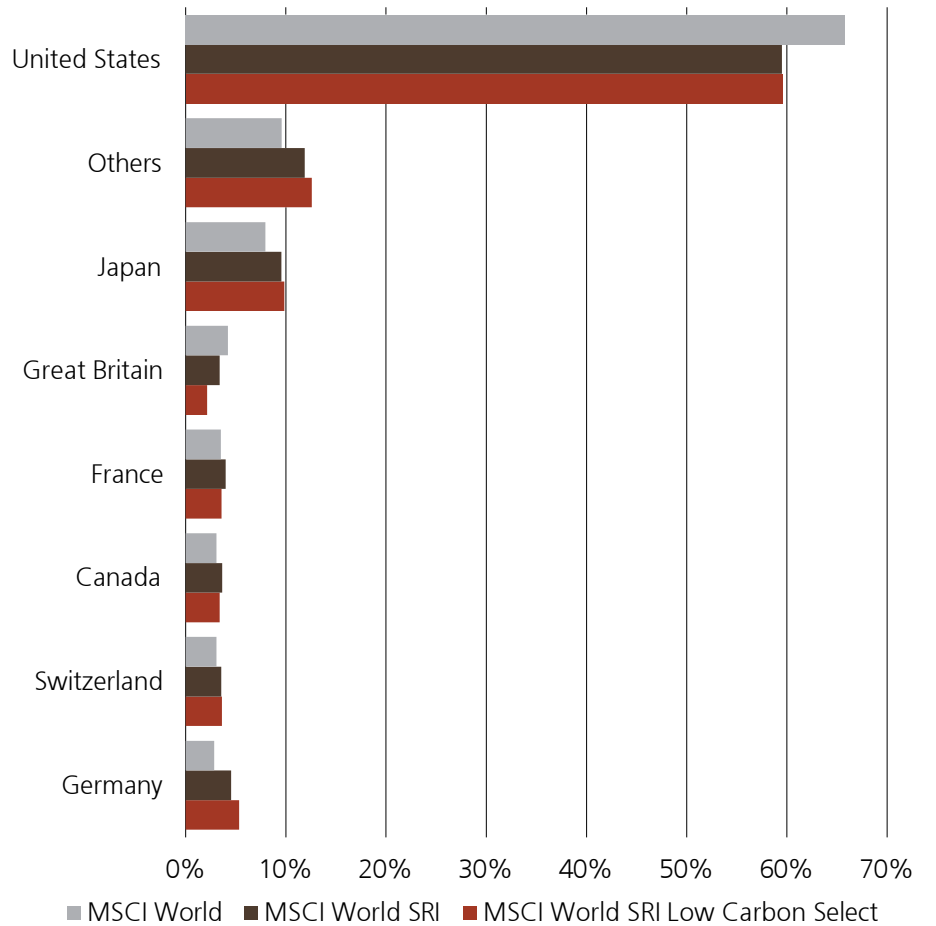
# Breaking down the composition

Sector and country breakdown vs MSCI World

## Sector breakdown



## Country Breakdown





# Sustainable impact

MSCI sustainable impact report<sup>1</sup> and link to SDGs

SGD Theme	SGD Sub Theme	SGD Goal	MSCI World <sup>2</sup>	MSCI World SRI LCS 5% Issuer Capped <sup>3</sup>	
<b>Basic Needs</b>	Nutrition	Zero Hunger	0.30%	0.70%	
	Major Disease Treatment	Good Health and Well Being	1.80%	4.80%	
	Sanitation	Clean Water and Sanitation	0.40%	0.70%	
	Affordable Real Estate	Sustainable Cities and Communities	0.10%	0.10%	
	Access to Energy & Water	Clean Water and Sanitation; Affordable and Clean Energy			
<b>Empowerment</b>	SME Finance	Decent Work and Economic Growth; Industry, Innovation and Infrastructure	0.10%	0.10%	
	Education	Quality Education	0.00%	0.00%	
	Sustainable Jobs	Decent Work and Economic Growth			
	Digital Divide	Industry, Innovation and Infrastructure			
<b>Climate Change</b>	Alternative Energy	Climate Action	0.50%	0.80%	
	Energy Efficiency	Industry, Innovation and Infrastructure; Climate Action	1.90%	5.30%	
	Green Building	Sustainable Cities and Communities	0.30%	0.50%	
	Climate Adaptation	Climate Action			
<b>Natural Capital</b>	Sustainable Water	Clean Water and Sanitation	0.10%	0.20%	
	Pollution Prevention	Responsible Consumption and Production; Life on Land	0.10%	0.30%	
	Sustainable Agriculture	Life on Land			
<b>Governance</b>	Bribery & Ethics	Peace, Justice and Strong Institutions			
	Governance Structure	Peace, Justice and Strong Institutions			
	Civil Liberties	Peace, Justice and Strong Institutions			
			<b>TOTAL</b>	<b>5.8%</b>	<b>13.6%</b>



<sup>1</sup> Table shows revenue exposure to Sustainable Impact Solutions and reflects the extent to which company revenue is exposed to products and services that help solve the world's major social and environmental challenges. It is calculated as a weighted average, using portfolio weights.

<sup>2</sup> Based on MSCI World Index

<sup>3</sup> Based on MSCI World SRI Low Carbon Select 5% Issuer Capped index

Source: MSCI ESG Manager, UBS Asset Management Pro-forma composition data effective as of 01 December 2020, weights based on closing prices as of 18 November 2020.

Section 5

# Disclaimers

# Risk information

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