

# Principal Adverse Sustainability Impacts Statement

UBS Europe SE (5299007QVIQ7IO64NX37) June 2024



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# 1. Summary

UBS Europe SE (LEI: 5299007QVIQ7IO64NX37) 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 Europe SE and its branches covering the reference period from 1 January to 31 December 2023.

The EU Sustainable Finance Disclosure Regulations (SFDR) aims to provide more transparency on sustainability-related topics so that investors can make informed investment decisions. SFDR requires specific disclosures on how UBS Europe SE considers PAI, which are defined as the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee concerns, respect for human rights, anti-corruption, and anti-bribery matters.

UBS acknowledges a need for transparency of PAI of investment decisions on sustainability factors, therefore has defined and follows internal procedures on the identification and prioritization of adverse impacts as part of its investment decision making process. UBS believes that material sustainability issues matter for financial performance and we know that clients have an interest in many of these topics.

This statement covers PAI for all discretionary mandate accounts within UBS Europe SE. By aggregating the underlying instruments (e.g. equities, bonds, funds, hedge funds) of the mandates and calculating them by the use of pre-defined formulas, the following PAI have been published in this report:

- 9 mandatory climate and other environmental indicators,
- 5 mandatory social and governance indicators and,
- 2 voluntary PAI indicators (Investments in companies without carbon emission reduction initiatives & Lack of anti-corruption and anti-bribery policies).
- 4 indicators are applicable to investments in real estate, sovereigns and supranational bonds.

UBS Global Wealth Management actively considers PAI on sustainability only in its SFDR Article 8 sustainable investing solutions: UBS Manage Sustainable Investing [SI]. This is done by ensuring that funds selected for these portfolios, must meet SFDR Article 8 or 9 requirements, thereby demonstrating the Do No Significant Harm (DNSH) criteria (including PAI consideration) which form a mandatory element of the “sustainable investment” definition under SFDR Article 2(17). Similarly, PAI are also considered for direct investments in these portfolios as part of the DNSH test.

UBS acknowledges that the PAI framework and data are still evolving and that data availability for some of the indicators is still limited, however the following has been observed during the last two years:

Eight out of 18 indicators improved between 2022 and 2023 notwithstanding any coverage limitations for each of the individual PAIs.

The indicators calculated for a number of PAI have been impacted over the course of the year by changes in the current value of investments driven by major geopolitical developments, global financial market volatility, changes in methodology made by our vendor (such as the move to the sub-portfolio) and poor availability of data. The data coverage remains limited for three indicators (emissions to water, hazardous waste and gender pay gap) where many companies are still not reporting this data in earnest. This leads to an industry-wide gap in coverage for a large number of investee companies and, as a result, the metrics calculated for these indicators are both less accurate and less reliable. We expect that in coming years with the stabilization of data exchange mechanisms within the industry, both coverage and data quality will improve, as investment managers provide better data.

The regulator has indicated that additional PAI indicators and amendments to the methodology are to be expected. For the 2023 reporting, the latest industry guidance has been considered by applying a sub-portfolio approach. This approach involves dividing a portfolio into four sub-portfolios for corporates, sovereigns, real estate, and other investments, allowing for a more accurate calculation of indicators by only considering relevant positions for each

indicator. The sub-portfolio approach has had immediate impacts, such as driving up the relative position weights for each position in the portfolio. This approach allows for a more robust way of analyzing portfolios.

This summary is available in several languages. If you would like to further discuss the disclosures or require translations into additional languages, please contact your client advisor.

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

The below commentary in column “Actions taken, and actions planned and targets set for the next reference period” refers only to sustainable discretionary mandates based on Sustainable Investing Strategic Asset Allocation (SI SAA) SFDR Article 8 products, which at the time of writing represents the smaller part of the discretionary mandate book of UBS ESE. In addition, we provide explanations for indicators where significant changes between the reporting years have occurred.

For more details on the methodology, please refer to section 3.2. Methodology to identify and assess PAI in the decision-making process.

Indicators applicable to investments in investee companies						
Adverse sustainability indicator	Metric	Impact [year 2023]	Impact [year 2022]	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	575,066 tCo2	624,648 tCo2	<p><b>Investment process</b> Our sustainability-focused discretionary investment solutions based on SI SAA target a broad range of environmental and social objectives. As such, not all instruments in these sustainability-focused discretionary investment solutions are optimized for the full range of PAI indicators. Assessment of greenhouse gas emissions can be part of the investment selection process where material but is not the sole objective.</p> <p><b>Investment funds</b> The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. These consider principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAI on sustainability factors.</p> <p><b>Direct investments</b> Where direct investments are used in our sustainability-focused discretionary investment solutions based on SI, PAI indicators correspond to the environmental and social topics on which UBS focuses as part of the scoring and screening methodology, and thus they are used as a proxy for PAI. The Climate Change topic score considers indicators such as GHG emissions and renewable energy consumption. A company's eligibility for inclusion in the portfolio is driven by both, its sustainability performance, and the materiality of the Climate Change topic to its industry. Furthermore, companies that score in the bottom</p>	
		Scope 2 GHG emissions	122,293 tCo2	129,163 tCo2		
		Scope 3 GHG emissions	4,121,347 tCo2	4,077,219 tCo2		
		Total GHG emissions	4,818,706 tCo2	4,831,053 tCo2		
	2. Carbon footprint	Carbon footprint	407.93 t€M	291.70 t€M		<i>The change can be explained by the methodology update, see details on the sub-portfolio approach in section 3.1.3.</i>
	3. GHG intensity of investee companies	GHG intensity of investee companies	996.71 t€M	884.44 t€M		
4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	9.14%	7.02%	<i>The change can be explained by the methodology update, see details on the sub-portfolio approach in section 3.1.3.</i>		
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	63.24%	72.92%			
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			<i>Several sectors show a higher issuer concentration leading to a higher volatility of results.</i>		



		<i>Agriculture, Forestry and Fishing (A)</i>	0.03 GWh/€M	0.04 GWh/€M		20% of the Climate Change topic are automatically excluded from the eligible investment universe.
		<i>Mining and Quarrying (B)</i>	0.62 GWh/€M	0.96 GWh/€M		
		<i>Manufacturing (C)</i>	2.23 GWh/€M	0.60 GWh/€M		
		<i>Electricity, Gas, Steam and Air Conditioning Supply (D)</i>	8.02 GWh/€M	4.65 GWh/€M		
		<i>Water Supply; Sewerage, Waste Management and Remediation Activities (E)</i>	0.53 GWh/€M	0.66 GWh/€M		
		<i>Construction (F)</i>	0.20 GWh/€M	0.15 GWh/€M		
		<i>Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles (G)</i>	0.54 GWh/€M	0.16 GWh/€M		
		<i>Transportation and Storage (H)</i>	1.17 GWh/€M	0.79 GWh/€M		
		<i>Real Estate Activities (L)</i>	0.62 GWh/€M	0.69 GWh/€M		
Biodiversity	7. Activities negatively affecting biodiversity-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	8.20%	0.04%	<i>The change can be explained by the methodology update, see details on the sub-portfolio approach in section 3.1.3. and a change of criteria applied by our vendor to identify companies negatively affecting the biodiversity-sensitive areas.</i>	
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested	0.07 t/€M	2.37 t/€M	<i>The data coverage for this indicator is significantly lower in comparison to other indicators. In addition,</i>	<p><b>Investment process</b></p> <p>Our sustainability-focused discretionary investment solutions based on SI SAA target a broad range of environmental and social objectives. As such, not all instruments in these</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	6.47 t/€M	4.85 t/€M	<p><i>the change can be explained by the methodology update, see details on the sub-portfolio approach in section 3.1.3.</i></p> <p><i>The data coverage for this indicator is significantly lower in comparison to other indicators. In addition, the change can be explained by the methodology update, see details on the sub-portfolio approach in section 3.1.3.</i></p>	<p>sustainability-focused discretionary investment solutions are optimized for the full range of PAI indicators. Assessment of water can be part of the investment selection process where material but is not the sole objective.</p> <p><b>Investment funds</b> The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. These consider principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAI on sustainability factors.</p> <p><b>Direct investments</b> Where direct investments are used in our sustainability-focused discretionary investment solutions based on SI, PAI indicators correspond to the environmental and social topics on which UBS focuses as part of the scoring and screening methodology, and thus they are used as a proxy for PAI. The Water topic score considers indicators such as water consumption. A company's eligibility for inclusion in the portfolio is driven by both, its sustainability performance, and the materiality of the Water topic to its industry. Furthermore, companies that score in the bottom 20% of the Water topic are automatically excluded from the eligible investment universe.</p> <p><b>Investment process</b> Our sustainability-focused discretionary investment solutions based on SI SAA target a broad range of environmental and social objectives. As such, not all instruments in these sustainability-focused discretionary investment solutions are optimized for the full range of PAI indicators. Assessment of waste can be part of the investment selection process where material but is not the sole objective.</p> <p><b>Investment funds</b> The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. These consider principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAI on sustainability factors.</p> <p><b>Direct investments</b> Where direct investments are used in our sustainability-focused discretionary investment solutions based on SI, PAI indicators correspond to the environmental and social topics on which UBS focuses as part of the scoring and screening methodology, and</p>
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thus they are used as a proxy for PAI. The Pollution and Waste topic score considers indicators such as hazardous waste management and hazardous products. A company's eligibility for inclusion in the portfolio is driven by both, its sustainability performance, and the materiality of the Pollution and Waste topic to its industry. Furthermore, companies that score in the bottom 20% of the Pollution and Waste topic are automatically excluded from the eligible investment universe.

**INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS**

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	0.41%	0.82%		<p><b>Investment funds</b></p> <p>The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. These consider principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAI on sustainability factors, including contraventions of the "UN Global Compact" principles. Fund managers must provide information related to whether the fund considers contraventions of UN Global Compact principles. Additionally, managers must share information related to controversial business activities which may lead to exclusions of companies whose business activities fall for example into the categories like weapons, tobacco, gambling, and adult entertainment.</p> <p><b>Direct investments</b></p> <p>For direct investments exposures in our sustainability-focused discretionary investment solutions based on SI, we exclude investments in controversial business activities (e.g. controversial weapons), as well as investments in companies with high severity environmental, social, or governance-related incidents that may negatively impact stakeholders, the environment, or the company's operations. Examples of such incidents could include bribery or damage to the environment when the company is directly responsible for such misconduct. We address violations of UN Global Compact principles through a number of underlying indicators related to the individual principles on human and labor rights, and the environment, rather than a single pass/fail indicator.</p>
	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	12.27%	32.92%	<i>The change can be explained by a change of criteria applied by our vendor to identify companies with processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises</i>	
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	12.19	14.25	<i>The data coverage for this indicator is significantly lower in comparison to other indicators.</i>	
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	36.29%	35.26%		
	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	0.02%	0.03%		



Indicators applicable to investments in sovereigns and supnationals

Environmental	15. GHG Intensity	GHG intensity of investee countries	407.18 t/€M	397.43 t/€M		
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.	8 7.13%	1 2.76%	<i>The calculation for this year considers both funds and direct investments, last year we were only able to report the social violations relating to direct investments.</i>	<p><b>Investment funds</b> The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. These consider principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAI on sustainability factors.</p> <p><b>Direct investments</b> Sovereign and supranational bonds are traditionally not accessed via direct investments in our sustainability-focused discretionary investment solutions based on SI.</p>

**Indicators applicable to investments in real estate assets**

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%	0.00%		<p><b>Investment funds</b> The majority of our sustainability-focused discretionary investment solutions are implemented through fund solutions. UBS Manage Sustainable Investing [SI] considers principal adverse impacts on sustainability factors via its investments in funds with a minimum proportion of sustainable investments. Investment managers must provide information related to whether the fund considers PAI on sustainability factors.</p> <p><b>Direct investments</b> Real estate investments are traditionally not accessed via direct investments in UBS Manage Sustainable Investing [SI].</p>
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	60.26%	0.01%	<i>For the 2023 figures, an undefined value has not been considered in the calculation compared to 2022, where a missing value was considered as zero.</i>	

**Other indicators for principal adverse impacts on sustainability factors**

<b>Adverse sustainability impact</b>		<b>Adverse impact on sustainability factors (qualitative or quantitative)</b>	<b>Metric</b>
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	21.83%
<b>Adverse sustainability impact</b>		<b>Adverse impact on sustainability factors (qualitative or quantitative)</b>	<b>Metric</b>
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	0.66%

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

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

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

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.

The description of procedures governing identification and prioritization of PAI, including methodologies to select additional indicators, and explanations of any associated margin of error and details of data sources used is provided in a dedicated internal policy approved on 30 June 2023 and updated on 30 June 2024.

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

##### 3.1.1. Key responsibilities

The construction of the annual PAI report relies on a number of key processes. Some of these are supported by automation for the purpose of data sourcing and calculation, while others require manual 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 all relevant booking centers that form part of our UBS Europe SE entity 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 by averaging the four quarterly calculations. The methodology of the calculations is managed by our internal ESG Specialists, within the UBS Chief Sustainability Office.
Report construction	Construction of the report narrative and commentary is a joint effort between representatives within UBS Europe SE and Global Wealth Management Chief Investment Office (who manages the discretionary investment solutions for GWM clients.)

### 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 2023 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.

UBS assessed the selection of these two indicators carefully based their superior data coverage over other indicators which leads to more meaningful results.

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

### 3.1.3. Methodology to identify and assess PAI in the entity-level reporting

#### Calculation of Metrics

PAI calculations for the purpose of UBS Europe SE PAI report dated 30 June 2024 are based on the latest available information on the principal adverse impacts dated 18 April 2024.

The following instruments do not directly contribute to the PAI as they are not linked to investments in underlying companies, supranationals, sovereigns and real estate. Cash, FX, commodities, interest rate and all derivative instruments based on cash, FX, commodities and interest rate (e.g. structured products on commodities, FX Futures, FX Options, interest rate swaps, commodity funds, precious metal funds). All other products are considered in scope for PAI reporting.

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 calculations relevant for the annual report are based on holdings collected for the last business day at the end of each quarter in all discretionary and fund management accounts.

PAI calculations include all active client positions at the end of each quarter. Where a trade is executed, but not settled by the end of the quarter then these positions that we intend to sell remain included while those that we intend to purchase are included in the next quarter calculations.

In 2023, UBS updated its PAI calculations to align with the latest industry guidance by applying a sub-portfolio approach. This approach involved dividing a portfolio into four sub-portfolios (corporates, sovereigns, real estate, and other investments) allowing for a more accurate calculation of 8 indicators, (namely 1.2, 1.4, 1.7, 1.8, 1.9, 1.10, 1.11 and 1.14), by only considering relevant positions for each indicator. The sub-portfolio approach has had immediate impacts, such as driving up the relative position weights for each position in the portfolio. The new approach allows for a more robust way of analyzing portfolios, increasing the accuracy of the solution considerably.

#### Treatment of short positions and derivatives

There is limited data coverage relating to complex derivatives, and consequently structured products and a few hedge funds (approx. 2.8% of AuM) at a market level. As a result, the PAI contributions of these products are not 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. Where possible, we have followed the regulatory recommendation and

incorporated short positions within PAI calculations by applying a “net long” approach at an ISIN level. That is the PAI of long and short positions have been netted within the same portfolio at the level of the individual investee undertaking, sovereign, supranational or real estate asset, but without dropping below zero. Negative net positions were reported on an ISIN level, treated as “0” and consequently disregarded from PAI calculations.

### **Probability of occurrence and severity of PAI**

At this stage, UBS ESE 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. Margin of error in the annual PAI reporting**

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.

Due to the many sources of data and many vendors in the industry offering PAI data, the level of error in the calculations can be impacted. The two most prolific issues are coverage (where companies have not reported their PAI data) and methodology (as pre-aggregated numbers either from vendors or from manufacturers will differ from provider to provider due to different internal aggregation methodologies). Thus, UBS has put several measures in place to ensure we are confident in our calculation results.

1. A review of key metrics in the issuer (direct investments) dataset was undertaken to ensure that when looked at holistically, they still make sense. This includes ensuring that we are not receiving both sovereign and corporate metrics for the same issuer, making sure that the proxies we are using to assess the corporate, sovereign and real estate proportions of the portfolio do not add up to more than 100%.
2. UBS has reviewed the methodologies used by our vendors. This ensures that aggregated data sourced from vendors is reliable and meets our expectations in terms of how it is calculated and its level of accuracy.
3. UBS calculates coverage internally per metric. 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 also allows us to isolate key metrics where the vendor data is insufficient which, in turn, prompts further investigation into alternative vendors where required.
4. Where PAI data is missing for an instrument, we have built considerations into our calculation of coverage which results in a lower coverage in these scenarios. This ensures missing data is considered to assess the accuracy of each metric. Furthermore, we have challenged our data vendor to continually improve their coverage.
5. Where we receive aggregated fund indicators from a vendor (either directly or via European ESG Template (EET)), we consider the associated coverage and, where appropriate, eligible assets value in our calculation of coverage for the relevant indicator. This ensures we do not assume the fund provider has full coverage of the underlying positions in their fund and considers this when assessing accuracy for our internally calculated metrics.
6. UBS has made an internal decision to treat instruments where it is unclear if they are in scope of PAI reporting or not, as in scope until proven otherwise. The result of this is that our coverage figures drop where we have “unclassified” instruments in the same way as in (4) where the PAI data is missing. This ensures that we do not understate our metrics or overstate our coverage.

### 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. UBS applies controls to ensure the highest possible data quality is maintained, both third-party and internal, and regularly reassesses vendors to monitor their performance against market from a coverage and quality perspective.
- The calculation of PAI metrics requires the combination of internal position weightings with one or more external PAI indicator values for relevant instruments, for 2023 primarily sourced from MSCI, <https://www.msci.com/notice-and-disclaimer-for-reporting-licenses>. As UBS invests in both funds and direct investments within discretionary mandates, we source data at both levels for reporting purposes as follows:
  - 1) Issuer level data is sourced through vendors, based on corporate disclosures of the underlying companies, combined with vendor research. Throughout 2023, we have maintained oversight as to the coverage of issuer level data relating to our discretionary mandate positions and are confident that the coverage on an issuer level is remarkably high. We do however see coverage per indicator 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.
  - 2) Fund level data is sourced through vendors and directly from the fund manufacturer.
    - UBS discretionary mandates invest in both UBS and 3rd party funds. As a distributor, UBS Wealth Management does not have access to the underlying positions of these funds, however through vendor solutions the aggregated PAI data relevant to investment in funds is available.
    - Where funds are manufactured by a UBS Management Company, this PAI data is calculated in-house, using the issuer level PAI data captured by our vendor. This data is then utilized as part of the calculation approach for our legal entity calculations.
    - Where funds are manufactured by 3rd party management companies, we rely on vendor PAI calculations to capture the PAI data.

## 3.2 Methodology to identify and assess PAI in the decision-making process

Among the services UBS Europe SE offers to its Wealth Management clients, there is also a range of sustainable investing products. These products give clients the ability to invest in instruments and strategies with an explicit focus on sustainable investing.

For clients being subject to European regulations, we consider Principal Adverse Impacts as an integral part of the definition of what constitutes a sustainable investing instrument. In accordance with client preferences, for those clients who actively seek to pursue sustainable investments, UBS Wealth Management has introduced frameworks and processes to control their sustainable investing exposure and to help mitigate potential for significant harm caused by this exposure via PAI. As part of the discretionary offering, which is the focus for this statement, such sustainability preferences are only taken into account for the sustainability-focused discretionary investment solutions (Article 8 products, see below).



### 3.2.1 UBS Manage Sustainable Investing [SI]:

- **Funds:** At present, UBS Manage SI considers principal adverse impacts on sustainability factors via its investment in funds with sustainable investments. Investment managers must provide information related to whether the fund considers principal adverse impacts on sustainability factors, including contraventions of UN Global Compact principles. Additionally, managers must share information related to if controversial business activities which may lead to exclusions of companies whose business activities fall for example into the categories like weapons, tobacco, gambling and adult entertainment. As the transparency on the PAI grows across the industry, also thanks to the growing maturity and adoption of the EET reporting, UBS will continue to monitor the availability of data and continue to strengthen our screening criteria in the context of funds selection.
- **Single Securities:** (if applicable):  
At present, the consideration of principal adverse impact is based on UBS CIO sustainability scores methodology for issuers, where sustainability data from the best-in-class data providers is sourced and systematically processed to calculate a score for six sustainability topics: (i) Climate Change, (ii) Water, (iii) Pollution and Waste, (iv) People, (v) Governance and (vi) Products and Services. The score of a topic, ranges from zero to ten, (zero demonstrating weak performance and ten demonstrating a strong performance in a given topic). The companies that score below the bottom 20% percentile threshold of the topics (i)-(v) are considered not to pass principal adverse impact requirements and thus are excluded from the sustainable share of portfolio. The selection of PAI indicators corresponds to the environmental and social topics on which UBS focuses as part of the scoring methodology and screening process. Further details on UBS single securities methodology on consideration of PAI can be found on UBS website: [ubs.com/dnsh](https://ubs.com/dnsh)

In addition to the scoring methodology, the following PAI indicators are considered in the screening of companies for controversial business activities or/and sustainability-related incidents. Investments which would be subject to such controversial business activities or/and sustainability-related incidents are not eligible for modules constructed with a sustainable investing focus:

- Violations of UN Global Compact principles through a number of underlying indicators related to the individual principles on human and labor rights, and the environment, rather than a single pass/fail indicator.
- Land use and biodiversity negative impact.
- Exposure to controversial weapons.

UBS is continuously reviewing the sustainability data landscape and is assessing the possibility to onboard further indicators.

### 3.2.2 Traditional UBS discretionary mandate solutions without sustainable investing objectives:

Traditional UBS discretionary mandate solutions do not explicitly consider sustainability-related factors. In this sense, principle adverse impacts on sustainability factors are not actively considered in the investment process.

## 4. Engagement policies

### 4.1 Corporate engagement

UBS Global Wealth Management (UBS GWM) regards stewardship as an important part of fiduciary duty, as well as an important tool within sustainable investment strategies. Most of our discretionary portfolios comprise investment funds from third-party fund managers, including our Asset Management business division. Generally, UBS GWM acts as an asset allocator and manager of these portfolios but does not control portfolio construction and management within the underlying fund investment solutions. Consequently, as well as developing a climate risk assessment management framework for overall portfolios based on underlying investment holdings, we also aim to understand the climate risk management practices established by the managers of the underlying funds (including their PAI frameworks).

To that end, UBS GWM regularly asks its investment fund partners to provide information on their approach to climate risk issues. This includes the extent to which environmental-/climate-risk management processes have been developed and implemented within their businesses with relevance to frameworks such as the TCFD and the MAS Guidelines on Environmental Risk Management for Asset Managers, where these are required by relevant regulators. We are committed to ongoing regular communications with our fund partners on the development of environmental-/climate-risk management processes, as they apply to their strategies.

In the general case of individual wealth management, UBS merely receives authorization for the client custody account, i.e. UBS acts as a representative that submits declarations of intent on behalf of the client. However, the client remains the owner of the equities and thus the shareholder. UBS does not directly engage with investee companies in clients' portfolios and does not influence their activities or risks.

UBS does not exercise any of the rights to vote derived from its holdings of equities in a discretionary portfolio. If UBS acquires fund units, the asset management company of the fund is normally authorized to exercise the rights to vote associated with the fund assets from the holdings of equities.

### 4.2 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 our interactions with our financial regulators and supervisors. These are subject to ongoing oversight and control by the second and third lines of defense.

We continue to see a greater focus on, and demand for, transparency and disclosure around climate and decarbonization, and we participate in dialogue with industry and regulators on these topics.

Globally, our firm is a member of several associations where the aforementioned topics are addressed and further considered, including for European entities. At the specific level of UBS Europe SE this includes: the Green and Sustainable Finance Cluster Germany; the Association of German Banks (Bundesverband deutscher Banken e.V.); the sustainable finance industry working groups of the European Bank Federation (EBF) and of the Association for Financial Markets in Europe (AFME); and the International Sustainability Standards Board (ISSB).

### 4.3 Adaption of the policies

UBS 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 Europe SE 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. Partnerships within the financial services sector, as well as with standard-setters, regulators and clients, are a critical part of our sustainability strategy and approach to climate, underpinning our efforts to progress toward our stated ambitions.

At the end of 2023, UBS was engaged in a variety of sustainability- and impact-related memberships and commitments, either at Group level or at the level of the business divisions, Group Functions or the Group Entities. For example, UBS is a founding member or current signatory of groups such as the Task Force on Climate-related Financial Disclosures (the TCFD), now organized under the ISSB, the Net-Zero Banking Alliance (the NZBA), the Net Zero Asset Managers (the NZAM) initiative, the Glasgow Financial Alliance for Net Zero (GFANZ) and the Partnership for Carbon Accounting Financials (PCAF). Members of UBS senior management contribute to many of the working groups within these bodies and our Group CEO joined the GFANZ Principals Group in 2023. UBS has thorough processes in place for renewing existing memberships and for vetting new ones. They are listed in the document [Sustainability Report Supplementary Information](#).

UBS also supports the Taskforce on Nature-related Financial Disclosures (TNFD). Its contribution includes 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.

Relevant 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;
- 2002 – Carbon Disclosure Project (CDP) 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 Operating Principles for Impact Management since 2019.

UBS did not incorporate forward-looking climate scenarios into its sustainable portfolio construction in 2023. We did, however, focus on understanding possible approaches to integrating climate considerations into capital markets' assumptions for various asset classes, and the respective implications for strategic asset allocations. In addition, we continued to explore climate-related datasets and how they might inform these assumptions. Finally, we continued to conduct investment research on climate and inform our clients about climate-related risks and opportunities.

## 5.1 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 United Nations Guiding Principles on Business and Human Rights (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 to 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 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, available at [www.ubs.com/gri](http://www.ubs.com/gri);
- Will not engage in commercial activities that make use of child labor and forced labor, 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, 1.11, and 1.16 are particularly relevant to this debate. UBS takes factors stemming from these industry initiatives into account when investing directly into stocks and bonds in sustainable portfolios.

Please refer to section 3 Description of policies to identify and prioritise principal adverse impacts on sustainability factors, which explains the methodology for measuring the adherence to international standards.

## 5.2 Biodiversity

Our approach to understanding impacts and dependencies related to natural capital and biodiversity and managing the resulting risks and opportunities across our activities, reflects our commitment to mobilize capital toward achieving the United Nations' (UN) 17 Sustainable Development Goals (SDGs). Nonetheless, UBS is aware that natural capital is inherently more challenging to define in financial terms due to a lack of easily available data and standardized methodologies. Therefore, we strive to play an active role in creating new global standards that can help clients, companies and the financial sector manage nature-related risks and develop opportunities, while also addressing potential adverse impacts and generating positive impacts. That is why UBS is honored to be part of the efforts of the Taskforce on Nature-related Financial Disclosures (the TNFD), including leading its financial sector working group, and contributing to the development of the recommendations it released in September 2023.

Building on our first integrated UBS Group Climate and Nature Report for 2022, we developed our activities and disclosures for 2023 by leveraging the recommendations set by the TNFD. UBS will continue to develop our disclosures on nature dependencies, impacts, risks and opportunities over the next few years, aligned with the TNFD recommendations and regulatory requirements.

During the course of 2023, we also contributed to the debate and improvement of knowledge and innovation in this area through our thought leadership activities and capacity building exercises. For instance, UBS ran a Nature Academy to train key staff about nature-related issues, frameworks, standards, risks and opportunities.

The PAI indicators 1.1, 1.7, and 1.9 are particularly relevant to this section. UBS takes factors stemming from these industry initiatives into account when investing directly into stocks and bonds in sustainable portfolios.

Please refer to section 3 Description of policies to identify and prioritise principal adverse impacts on sustainability factors, which explains the methodology for measuring the adherence to international standards.



## 6. Historical comparison

There are many external factors that might influence the calculated PAI numbers. Clients can choose to make use of our sustainable offerings or instead to invest in more traditional offerings. Our SI offering allows clients to invest in assets that may have a positive impact on the environmental, social factors, and governance. Sustainability drove UBS' ambitions for 2022 and 2023 and as such we continue to partner with our clients to help them mobilize their capital toward a more sustainable world. Eight out of 18 indicators improved between 2022 and 2023 notwithstanding any coverage limitations for each of the individual PAIs. The indicators calculated for a number of PAI have been impacted over the course of the year by changes in the current value of investments driven by major geopolitical developments, global financial market volatility, changes in methodology made by our vendor (such as the move to the sub-portfolio) and poor availability of data. The data coverage for 2023 remains limited for three indicators (emissions to water, hazardous waste and gender pay gap) where many companies are still not reporting this data in earnest.

For the 2023 reporting, the latest industry guidance has been considered by applying a sub-portfolio approach which had immediate impacts, such as driving up the relative position weights for each position in the 2023 portfolio. In light of these methodology changes, the most recent figures are hardly comparable or differ considerably to the ones published prior. Details on the significant changes between figures reported for the two years are discussed within section 2 with the majority of the differences stemming from the change to the sub-portfolio approach, methodology changes made by our vendor and / or poor availability of data.