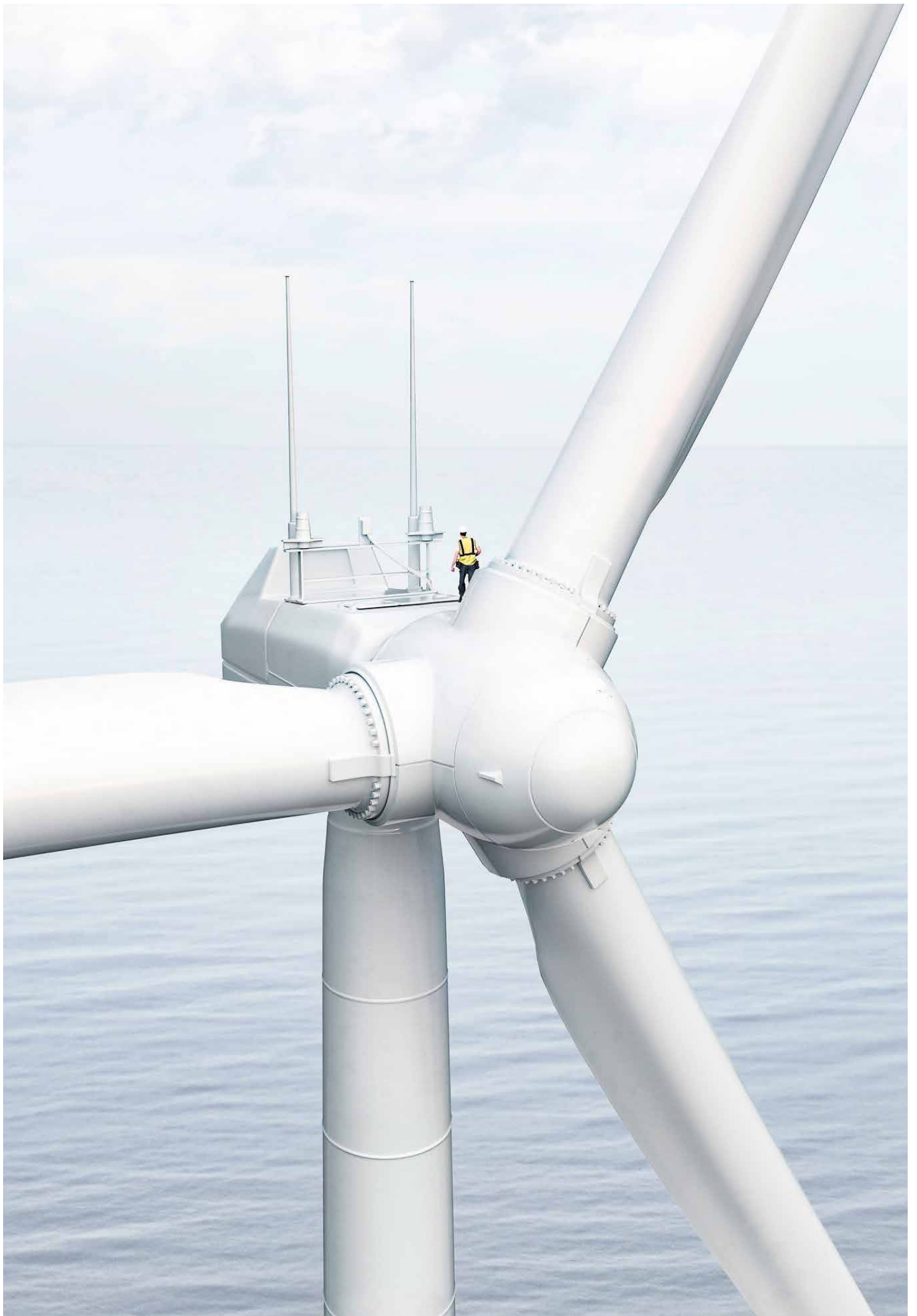


# Sustainable investment policy

Our approach to **sustainability in investments**





# Contents

4

**Introduction**

6

**Chapter 1**

Sustainable Investing – our vision and mission

8

**Chapter 2**

What drives sustainable investing

10

**Chapter 3**

From exclusion to impact: how we approach sustainable investing

20

**Chapter 4**

Our climate commitment

23

**Chapter 5**

Governance and commitments

25

**Chapter 6**

Appendix

## INTRODUCTION

Our mission is to enable our clients to achieve their financial objectives and solve their investment challenges by integrating sustainability across our offering and investment solutions.

UBS Asset Management (UBS-AM) is a large scale asset manager, providing traditional, alternative, real estate, infrastructure and private equity investment solutions to institutional investors, financial intermediaries and private clients worldwide.

At UBS-AM we define sustainability as the ability to leverage the ESG (Environmental, Social and Governance) factors of business practices seeking to generate opportunities and mitigate risks that contribute to the long-term performance of companies. We regard sustainable investing as a set of investment strategies that incorporate material ESG considerations into investment decisions.

It is our belief that ESG issues and opportunities can affect investment performance, and by considering these factors we can deliver better informed investment decisions. Hence, we regard sustainable investing (SI) as an integral element in fulfilling our fiduciary duties toward our clients.

This document explains UBS-AM's approach to sustainable investing, highlighting its implementation across the breadth of our business, from traditional asset classes to alternatives and incorporating both our active and passive investment areas. We review this document annually, and may update on an interim basis if required.

### **Barry Gill**

Head of Investments  
UBS Asset Management

### **Michael Baldinger**

Head of Sustainable & Impact Investing  
UBS Asset Management

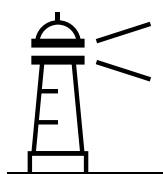


## UBS-AM sustainable and impact investing differentiators



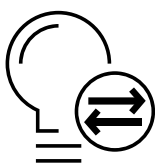
### UBS Group commitment to sustainable investment

- UBS is a member of the CDP A List 2020<sup>1</sup>
- UBS has been the diversified financials industry leader in the Dow Jones Sustainability Index since 2015<sup>2</sup>
- UBS ranks number one globally for Sustainable and Impact Investing<sup>3</sup>
- UBS Group has USD 488 billion in core sustainable investments<sup>4</sup>
- USD 9.1 billion committed to SDG-related impact investments, including world's first Multi-lateral development bank bond fund<sup>5</sup>



### UBS-AM is a leading provider of sustainable offerings

- Founding member of Net Zero Asset Managers initiative, committed to net zero emissions goal by 2050 or sooner<sup>6</sup>
- A+ ranking for our approach to Climate Stewardship from InfluenceMap<sup>7</sup>
- UBS-AM: USD 440.5bn ESG integrated and USD 97.1bn in SI focused AUM<sup>8</sup>
- 100% of Active Equities and Active Fixed Income integrate sustainability
- 40+ SI focused strategies across active and passive, fixed income and equities
- Fastest growing European asset manager in SI focused AUM since January 2018<sup>9</sup>
- Leading sustainability ETF provider with over USD 24bn in SI AUM<sup>10</sup>
- A/A+ ratings from UNPRI (UN backed Principles for Responsible Investment) across all assessment modules<sup>11</sup>



### Innovation through client-focused collaboration

- 20+ year history in managing sustainable investment funds
- Developed award winning Climate approach with leading UK pension fund<sup>12</sup>
- 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 which help deal with key sustainability challenges
- Over USD 73bn of dedicated Index solutions through collaborations with clients<sup>13</sup>

1 [www.cdp.net/en/companies/companies-scores](http://www.cdp.net/en/companies/companies-scores);

2 Source: S&P Global;

3 2020 Awards from Environmental Finance, PWM The Banker, Euromoney;

4 Sustainable investments across UBS Group, UBS 2019 GRI Annual Report;

5 Source UBS 2019 GRI Annual Report;

6 [www.netzeroassetmanagers.org](http://www.netzeroassetmanagers.org);

7 [influencemap.org/report/Asset-Managers-and-Climate-Change-cf90d26dc312ebe02e97d2ff6079ed87](http://influencemap.org/report/Asset-Managers-and-Climate-Change-cf90d26dc312ebe02e97d2ff6079ed87);

8 Assets under management as of December 2020;

9 Growth in absolute AUM since Jan 2018,

Source: Morgan Stanley, May 2020 and Morningstar;

10 Market share in Europe for sustainable ETFs: 20.9%, Source Etfbook as of 13 January 2021;

11 2020 UN PRI Assessment;

12 2017 Fund Launch of the Year Award, Funds Europe;

13 Asset under management as of December 2020.

## CHAPTER 1

# Sustainable Investing – our vision and mission

## UBS Group AG: commitment from the top

UBS's goal is to be the financial provider of choice for clients wishing to mobilize capital towards the achievement of the United Nation's Sustainable Development Goals (SDGs) and the orderly transition to a low carbon economy (the Paris Agreement). We work towards this goal by integrating sustainability into our mainstream offerings, through new and innovative financial products with a positive effect on the environment and society, and by advising clients on their philanthropy. And it is through the management of environmental and social risks, the management of our environmental footprint and our sustainability disclosure that we continue to set standards in the industry.

Our cross-divisional organization, UBS in Society, focuses our firm on this direction. UBS in Society is committed to making UBS a force for driving positive change in society and the environment for future generations. It will do so by focusing our firm on creating long term positive impact for clients, employees, investors and society.

The Corporate Culture and Responsibility Committee (CCRC)<sup>14</sup> supports the UBS Board of Directors in its duties to safeguard and advance the Group's reputation for responsible and sustainable conduct. It approves and monitors UBS in Society's overall strategy and annual objectives, reviews that the UBS in Society constitutional document is relevant and up to date, and oversees the program's annual management review.

The Group CEO<sup>15</sup> supervises the execution of the UBS in Society strategy and annual objectives. The Group CEO also informs the Group Executive Board (GEB) and Corporate Culture and Responsibility Committee (CCRC) about UBS in Society updates as appropriate.

Our commitment is implemented through a firm-wide management system steered by defined measurable objectives. Their achievement is reviewed on a semi-annual basis by the Head of UBS in Society, and on an annual basis by the Corporate Culture and Responsibility Committee.

Progress made in implementing UBS in Society's strategy, commitment, and objectives is reported as part of UBS's annual reporting. This reporting is reviewed and assured externally according to the requirements of the Global Reporting Initiative's (GRI) sustainability reporting guideline. We also regularly report on the implementation of our climate strategy and follow the recommendations provided by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and externally verify our greenhouse gas reporting according to ISO 14064.

Further information relating to these activities can be found in the [Constitutional Document of UBS in Society](#) and the most recent [UBS Sustainability Report](#)

<sup>14</sup> Responsibilities and authority of the CCRC are defined in Annex C of the Organization Regulations of UBS Group AG  
<sup>15</sup> As set out in the Group Functions Business Regulations



## UBS Asset Management

We believe that SI can result in better overall risk-adjusted outcomes for clients by primarily protecting against downside risks associated with Environmental, Social, and Governance (ESG) related issues. Sustainable investing is grounded in the broader use of ESG information in the investment analysis process and the belief that such information can lead to better informed investment decisions. By identifying long-term investment opportunities, anticipating and managing financially material risks, engaging with the relevant third parties, and creating products and services that take into account ESG considerations, we believe our investments will be more successful in the longer term and will positively impact society and the environment.

We are a large scale asset manager, providing traditional, alternative, real estate, infrastructure and private equity investment solutions to private clients, financial intermediaries and institutional investors worldwide. With a number of investment areas and a range of strategies within each area, the approach to ESG issues necessarily varies by product type and, to some extent, across countries/regions according to local regulations, market customs and client needs. This SI policy sets out our common vision on the integration of ESG material factors in investment decisions, and index constructions in the case of index strategies, and stewardship activities<sup>16</sup>.

This document explains UBS-AM's approach to SI in the context of UBS Group AG's overall sustainability strategy. This document also makes reference to specific policies, procedures and practices utilized by the investment teams within UBS-AM. We formally review our approach to SI annually and will update this document as necessary in the interim.

<sup>16</sup> Please note that, at this time, this document does not describe the approach that O'Connor UBS-AM's multi-strategy hedge fund investor, takes to sustainable investing.

## CHAPTER 2

# What drives sustainable investing

In recent years attitudes towards sustainable investing have undergone a transformational shift. Once a 'nice to have', today it is a clear 'must have' as more and more clients prioritize sustainable investing in their investment processes. We see four clear factors driving this trend all of which are structural, long-lasting, and set to be significant drivers of flow in the years ahead.

### A shift in societal values

Public awareness of ESG-related risks and opportunities has placed sustainable investing at the top of the global agenda and led to the creation of major milestones, including the Paris Agreement and the UN Sustainable Development Goals (SDGs). The COVID-19 pandemic has further highlighted the materiality of ESG issues.

### Changing perception of risk

Institutional investors, in particular pension funds, are pivoting toward sustainable investing, driven by growing regulatory obligations and changing perceptions of their fiduciary duties. Up to 77% of institutional investors plan to stop investing in non-ESG products by 2022, according to a recent study by PWC.<sup>17</sup>

### Sustainable investing performance

Evidence strongly suggests that investing in sustainable investing-focused funds won't compromise returns, particularly in the active space: a 2020 study by Morningstar of more than 700 European sustainable funds showed that over one, three, five and ten years the majority of those funds outperformed non-ESG funds<sup>18</sup>.

COVID-19 has further highlighted the resilience of sustainable investing-focused funds in distressed markets. According to MSCI, during the first six months of 2020 – a period of high market volatility – all major MSCI ESG ACWI indexes outperformed the MSCI ACWI<sup>19</sup>.

### Regulation

Growing regulatory pressure is increasingly driving institutional client demand, particularly in the EU.

Changes to existing regulations, led by the EU Taxonomy and Sustainable Finance Disclosure Regulation, look set to make reporting on ESG outcomes a requirement for client disclosures, which, in turn, will fundamentally underpin the continued flow of assets into sustainable investing funds. Beyond Europe we are seeing regulators in other markets, such as Switzerland and Asia, intensify their focus on sustainability.

17 [www.pwc.lu/en/sustainable-finance/esg-report-the-growth-opportunity-of-the-century.html](http://www.pwc.lu/en/sustainable-finance/esg-report-the-growth-opportunity-of-the-century.html)

18 [www.morningstar.in/posts/58587/esg-stocks-outperform-wider-market.aspx](http://www.morningstar.in/posts/58587/esg-stocks-outperform-wider-market.aspx)

19 [www.msci.com/www/blog-posts/is-esg-investing-a-price-bubble/02231869256](http://www.msci.com/www/blog-posts/is-esg-investing-a-price-bubble/02231869256)



# Defining the E, the S and the G



## Environmental Factors

Environmental issues can be both positive and negative from an investor's perspective. The assessment of these factors considers a company's ability to control their direct and indirect environmental impact. For example, how, and to what extent, is it limiting energy consumption, reducing greenhouse emissions, fighting resource depletion and protecting biodiversity? Is the company making a positive contribution, perhaps by developing new technologies, which can accelerate the transition to a lower-carbon future?



## Social Factors

Assessing social factors requires an evaluation of two key elements. The first relates to a company's strategy for developing its human capital, based on a series of fundamental, universally accepted principles. The second element is linked to the company's approach to broader human rights.



## Governance Factors

Governance encompasses corporate considerations such as levels of board diversity, executive pay, accounting policies, and ownership and control structures. Corporate behavior is also a constituent element of governance evaluations. For example, how transparent is a company around taxation? What are its policies in relation to anti-competitive practices? Does it uphold a clear set of business ethics?

Putting this into an investment perspective, taking material ESG risks into account as part of the research process drives our approach to ESG integration, a topic we expand on in Chapter 3. The insights from our ESG research and stewardship activities are used to inform portfolio managers' decision making processes. They are translated across asset classes, aligned with clients' preferences and their ESG risk appetite.

## CHAPTER 3


# From exclusion to impact: How we approach sustainable investing

A clear and robust framework defines the way we implement sustainability across our investment strategies. It encompasses two, overarching approaches:

- Investment strategies which integrate ESG considerations within the investment process
- Investment strategies which build on the foundations of ESG integration by adding additional layers of ESG criteria in order to invest for sustainable and impact oriented outcomes.

This framework comprises five pillars, each of which are discussed in greater detail on the following pages.

### ESG Integration Strategies



**Standard exclusions**

Avoidance of investments which are deemed undesirable either by UBS or our clients. UBS standard exclusions:

- Controversial weapons
- Thermal coal



**Screening and SI Assessment (ESG profile)**

- Integration of ESG factors in the investment process alongside traditional financial metrics
- ESG relevant risk analysis helps us look to the future, to identify long-term risks and opportunities, and invest accordingly




**Stewardship**

A fundamental element of sustainable investing is the role of stewardship. Acting as good stewards includes activities such as:

- Monitoring companies' ESG performance
- Engaging with management on identified risks and opportunities
- Voting consistently at shareholder meetings

### Sustainable and Impact Strategies



**Sustainability focused strategies**

Our sustainability focused strategies can be characterized by:

- Extended criteria for exclusions (which go beyond the standard exclusions)
- Positive sustainability characteristics
- Engagement is prioritized with ESG improvers
- Compliance with the EU-Taxonomy
- Risk based screening to identify those higher risk issuers which are to be avoided in the investable universe



**Impact (thematic) strategies**

Our Impact strategies meet the minimum criteria of the sustainability focused strategies and additionally include a verifiable impact measurement. The UN Sustainable Development Goals (SDGs) create the framework for impact investing

# ESG Integration Strategies



## Standard Exclusions

A fundamental element of sustainable investing is the role of fiduciary duty. In our view, acting as good stewards of our clients' assets entails the avoidance of investments which are deemed undesirable, either by us or our clients. As such we have defined a standard set of minimum exclusions.

### UBS Asset Management Exclusion Policy

Additional exclusions for sustainability focused / impact funds and where applicable, for ESG integrated funds, are outlined in the Investment Policy of the Sub-Fund in the Fund prospectus.

Further information:

To read our Standard Exclusion Policy, [please click here](#).



## Screening and sustainable investment assessments

### Scalable approach to ESG integration across actively managed assets

#### ESG integration: an overview

Investment teams at UBS-AM are provided with ESG information and are supported by the Sustainable and Impact Investing Research team.

ESG integration is driven by taking into account material ESG risks as part of the research process. For corporate issuers, this process utilizes the ESG Material Issues framework which identifies the financially relevant factors per sector that can impact investment decisions.

This orientation toward financial materiality ensures that analysts focus on sustainability factors that can impact the financial performance of

the company and therefore investment returns. ESG integration can also identify opportunities for engagement to improve the company's ESG risk profile and thereby mitigate the potential negative impact of ESG issues on the company's financial performance.

The Portfolio Manager employs a proprietary ESG Risk Dashboard that combines multiple ESG data sources in order to identify companies with material ESG risks. An actionable risk signal highlights ESG risks to the Portfolio Manager for incorporation in their investment decision-making process. For non-corporate issuers, the Portfolio Manager may apply a qualitative or quantitative ESG risk assessment that integrates data on the most material ESG factors. The analysis of material sustainability / ESG considerations can include many different aspects, for

instance: carbon footprinting, health and well-being, human rights, supply chain management, fair customer treatment and governance.

#### ESG integration: diving deeper

ESG integration is implemented by portfolio managers and analysts across all UBS-AM's active equity and fixed income strategies, leveraging a combination of proprietary methodology and tools. ESG integration enables portfolio managers to incorporate ESG considerations when they implement investment decisions, and allows ESG risks to be systematically monitored and compared to risk appetite and constraints. It also assists in portfolio construction through stock selection, investment conviction and portfolio weightings, as well as engagement and voting decisions. Furthermore, it is important for meeting the requirements and expectations of our clients.



At UBS-AM, in-house fundamental research is driven by a team of over 60 equity analysts and more than 25 credit analysts. They also provide a forward-looking ESG assessment based on a holistic review of financially material ESG issues with support from our team of dedicated SI Analysts. These ESG risk assessments serve as the basis for integrating ESG into the investment process by including a view of the most significant ESG issues and their potential impact on the investment case. These views support decision-making as portfolio managers weigh ESG risks against other financial considerations. ESG risks may be mitigated through stewardship activities (engagement & proxy voting) and are monitored on an ongoing basis.

Equity and credit analysts are able to bring their experience in the asset class and sector expertise to the ESG assessment. The ESG perspective is also carried out in line with the investment case and allows for considering intended risk, given that some ESG characteristics may already be reflected in the valuation.

Fundamental analysts are supported in this work by a dedicated team of SI research analysts. These analysts provide in-depth ESG research and stewardship expertise which amplifies the ESG knowledge and understanding across the different investment teams. This includes providing company specific and thematic research on material ESG issues, as well as engagement insights.

### **Prioritization**

The UBS ESG Risk Dashboard, a proprietary ESG monitoring tool, serves as the starting point for ESG integration. The Dashboard allows equity and credit analysts to quickly identify companies with significant ESG risks via the "UBS ESG Risk Signal". This clear, actionable signal serves as starting point for more in-depth analysis of the underlying sources of these risks and the links to their investment cases. The ESG Risk Signal combines data points from a number of reputable external research sources based on a proprietary methodology. It provides investment teams with a structured, holistic view of ESG risks across four different dimensions, allowing for industry relative comparisons (expressed via the UBS ESG Consensus Score) as well as the identification of outliers. If one or more pillars fail thresholds set, the issuer is flagged for severe ESG risks by the signal.

### **Analyst research**

The ESG Risk Signal is incorporated into fundamental equity and credit analysts' standardized ESG templates. They conduct an ESG risk assessment as part of their investment case for their companies under coverage. As part of this process, the analysts critically assess the ESG Risk Signal and underlying dimensions. They indicate whether they agree with the results, provide a rationale for their conclusions and assess the overall direction of the company's ESG performance.

The conclusion of the analysts' ESG reviews are encapsulated in an ESG Risk Recommendation expressed in terms of scale from 1 (negligible) to 5 (severe).

For companies where an ESG risk has been identified, but where the analyst does not believe that the risk signal flag is current, appropriate or material, an additional analysis may be conducted by the SI Research Analysts which then serves as the final reference point for the portfolio manager's investment decision making.

### **PM decision making**

In this way, ESG integration creates a situation in which equity and credit analysts, SI analysts and portfolio managers discuss the implications for investment research, potential engagements and outcomes at the portfolio level. This combination ensures that portfolio managers are fully aware of any material sustainability risks that could have a negative impact on portfolio performance. This understanding allows portfolio managers to make informed decisions where their investment convictions are expressed through instrument selection and weightings and embedded in the construction of the portfolio. Within this framework, a portfolio manager may choose to invest in a company with high ESG risks where this is seen to be adequately compensated by the expected investment return. Alternatively, the portfolio manager may choose to reduce their exposure to



the risks. In all such cases, the portfolio manager may also choose to engage the company to address and mitigate the ESG risks that have been identified with the aim of improving the overall investment outcome.

For SI focused strategies, with lower acceptable thresholds for ESG risks, the outcome of the integrated ESG research process influences the investable universe construction, based on clearly defined portfolio characteristics.

### ESG integration in Multi-Asset strategies

The Portfolio Manager takes ESG integration into account when allocating to underlying strategies, including target funds. For underlying strategies managed by UBS-AM, the Portfolio Manager identifies ESG integrated assets resulting from the ESG integration research process described above. For externally managed strategies, ESG integrated assets are identified via the third party manager research process.

### ESG integration in Index strategies

ESG risk integration takes place if the index methodology considers ESG criteria in the construction of the index. UBS-AM considers sustainability characteristics and risks as part of the relevant index selection process. The

portfolio manager tracks the reference ESG benchmark using full replication or stratified sampling depending on the investment universe, with a focus on minimizing transaction cost while managing the tracking error within a defined range.

#### Indexed Equities

Within Index Equities, we have extensive experience in incorporating sustainability factors in index funds and rules-based strategies, alongside three pillars: replicating third party indices, constructing custom indices in collaboration with clients, consultants, and index providers, and constructing proprietary rules-based strategies.

We have been managing index portfolios with ESG/SRI stock exclusion lists for over ten years. We apply customization not only on segregated mandates, but also construct new indices capturing specific themes/factors to be used as benchmarks for our pooled funds and ETFs. As a result of our in-depth research in the sustainable indexing space, we have been instrumental in the development of MSCI SRI indices and have strong relationships and maintain dialogue with index providers and ESG database providers on ESG-related topics.

In 2017, we broadened our offering of sustainable ETFs with the launch of funds tracking MSCI ESG Universal indices as well as Solactive Equileap Global Gender Equality 100 Leaders

Index, which we developed in collaboration with the index provider. The index comprises the top 100 stocks globally with the highest gender equality score, as defined by Equileap: companies are ranked on 35 points according to 19 gender criteria. The 19 criteria are grouped in 4 categories (Gender balance in leadership & workforce, Equal compensation & work life balance, Policies promoting gender equality, Commitment to transparency and accountability).

We have carried out in-depth research and analysis on efficient implementation of ESG factors in rules-based strategies, with specific focus on climate change-related factors. In early 2017, following extensive quantitative and sustainability research, we launched a Climate Aware rules-based fund that utilizes our proprietary investment model incorporating a range of qualitative and quantitative climate-related metrics. The Climate Aware strategy aims to mitigate the risk of climate change by applying positive and negative 'tilts' related to climate change aspects, while aiming to deliver returns broadly in line with the underlying market cap weighted global index.

#### Indexed Fixed Income

In the index fixed income space, we offer a broad range of strategies on an exclusionary, focused or impact basis. We have extensive experience in incorporating risk-premia and sustainability factors in index and





## Responsible ownership and operation of real assets can have a significant positive impact on the environment and returns for our clients.

rules-based strategies, alongside three pillars: replicating third party indices, constructing custom indices in collaboration with clients, consultants, and index providers, and constructing proprietary rules-based strategies.

The fixed income ESG indexing approaches we offer can be summarized as follows:

### *Approach 1:*

We can use a standard benchmark but exclude securities in the portfolio. This would be the preferred method for a limited list of sectors or securities. Exclusion lists up to a certain market weight percentage of an index should be manageable within reasonable tracking error and the PM team manages around these exclusions.

### *Approach 2:*

When exclusions exceed a certain market weight percentage and/ or an important sector of an index is excluded, then we recommend selecting an adjusted index. These can be standard, off the shelf ESG and/or non-ESG indices that incorporate exclusions in the index constructions or customized solutions which can be fully tailored to the client's objectives. We would manage these strategies

with the same investment objectives as standard index portfolios: we would aim to construct an optimal portfolio that focuses on minimizing transaction costs and manage tracking error within defined ranges.

### *Approach 3: (currently only offered in the index global corporate space):*

A climate aware solution managed against a standard corporate bond index with index-like characteristics. Rule-based approach which employs tilts towards companies geared to support a low carbon economy using a forward looking probability-based assessment.

Be it an exclusion list, a customized index or an ESG index, our systems are flexible and allow us to successfully implement all the different approaches.

## Integration of ESG in Real Estate & Private Markets (REPM)

Responsible ownership and operation of real assets can have a significant positive impact on the environment and returns for our clients. While the financial objectives of our clients remain the primary focus of our investments, our responsible investment strategy also

considers long-term resilience and ESG factors, including climate change. REPM's responsible investment strategy has been developed by the REPM Sustainability Workgroup, which comprises professionals from several countries and disciplines including engineering and construction, operations, research, asset management, fund management as well as business management. It sets strategies and objectives at a global level and ensures our sustainability objectives are integrated into all REPM funds' investment strategies and property operations, with appropriate variation by country due to different certification and legislative requirements.

The responsible investment strategy is implemented by all operational functions during the entire ownership cycle of an underlying project, from its development or acquisition to the ongoing asset management, renovation, maintenance and marketing, through successful sale. Objectives are set in order to make achievements transparent and measurable. Performance is measured against objectives and results are reported to investors, clients and consultants.



For our individual assets, the sustainability performance is measured against recognized external benchmarks, such as the GRESB key performance indicators and third-party certifications (LEED, ENERGY STAR, BREEAM, MINERGIE®, Fitwell). For infrastructure, we also use the GRESB Infrastructure key performance indicators and benchmark reports for our individual investee companies. Based on these results, we are able to define specific measures to enhance the performance of each property or infrastructure asset.

Within the Multi-Manager (indirect) REPM businesses, ESG considerations are integrated within the entire investment process, including due diligence of new investments and ongoing ownership of existing investments through various processes and templates. Portfolio managers and/or decision-making bodies (for example Investment Committees) may exclude investments based on ESG and other risk factors. The responsible investment strategy is embedded throughout the ownership cycle of a REPM multi-manager investment because we believe that a significant positive impact is also possible indirectly on the environment and in returns generated for our clients.

### ESG approach in Hedge Fund Solutions (HFS)

The hedge fund industry has experienced considerable momentum in sustainable investing in recent years. A 2019 survey conducted by Preqin showed that 65% of participating hedge fund investors think that ESG will become more important in the next five years<sup>20</sup>. This was reinforced by HFS's own client survey, which indicated that 65% of survey respondents are actively pursuing ESG investments, and over 50% have an ESG policy<sup>21</sup>.

Hedge fund managers have begun to respond to this demand in earnest, dedicating an unprecedented level of resources to strategies that are centered on sustainable investments. As the second largest hedge fund allocator in the world<sup>22</sup>, we remain dedicated to selecting best-in-class managers with a demonstrated edge in their market and recognize the need to expand our due diligence lens in order to reliably assess the role of ESG considerations in financial and business performance. The core of our sustainable investing policy reflects the belief that the consideration of environmental, social and governance issues reinforces our fiduciary duty to clients. As such, our ESG investing framework aims to assess ESG-related risks and opportunities at

the investment and operational level, meriting dedicated attention in the due diligence process. Beyond integration, we believe the task of identifying and measuring sustainability outcomes requires partnerships with the wider UBS group, including the UBS-AM SI and Wealth Management teams, to lend specialized knowledge and skills when assessing the ability of hedge fund investments to achieve dual financial and sustainability objectives.

While there is considerable overlap between our existing due diligence process and one that incorporates ESG-led analysis, we believe that an intentional and enhanced framework will lead to nuanced insights around risk and return as well as the business stability of our managers. We are also in the process of developing capabilities that deliver on clients' sustainability objectives in the context of their hedge fund portfolios.

Our analysts across investments, risk, operational due diligence and investment structuring are responsible for assessing the degree to which relevant ESG factors are present at the strategy and business level. Over time, these outputs are expected to influence portfolio management decisions across our platform as well as inform dedicated SI portfolios.

<sup>20</sup> Preqin, February 2020.

<sup>21</sup> UBS Hedge Fund Solutions, November 2020

<sup>22</sup> HFM InvestHedge Billion Dollar Club, published October 2020



## Stewardship

### Stewardship in practice

#### Proxy voting

It is our belief that voting rights have economic value and should be treated accordingly. As a result we consider voting to be an important part of our fiduciary duty to clients and integral to both the investment process and our overall stewardship approach. We have been voting on a discretionary basis on behalf of our clients since 1995 and implemented our first internal voting policy in 1998. The policy continues to be reviewed annually to take into account changes in global standards and best practice related to Corporate Governance and Sustainability.

While there is no absolute set of standards that determine appropriate governance under all circumstances, and no set of values that will guarantee ethical board behavior, there are certain principles which we consider are appropriate to protect the economic value of our clients' investments. Our policy is therefore applied globally but also allows us the discretion to reflect local laws or standards where appropriate.

Our approach is to vote in all markets, unless we feel that by doing so we will impede our ability to manage a portfolio, or that the logistics involved in voting are prohibitive and would not deliver sufficient benefit to clients.

#### Engagement

We believe that engaging with investee companies and prospective investee companies can steer those companies toward longer-term issues that drive company value and that we believe will likely contribute to the success of the investment thesis over time. These discussions relate to the governance structure and increasingly to longer-term sustainability trends that have a material impact on company performance, such as climate change, environmental management and human capital performance. These efforts involve reaching out to both executive and, ideally, non-executive, board members in order to influence the company strategy. Finally, engagements entail working closely with corporate management to take appropriate and concrete measures to unlock long-term value.

Most fundamentally, engagements linked to the investment case provide a differentiated means of creating better longer-term returns for clients. Such engagements lead investment teams to approach each company's investment decision as an owner, transforming the investment process from simply developing a view on the current short-term price in the market to instead making a commitment to work collaboratively with companies on realizing positive change. UBS-AM's proxy voting and

engagement activities are overseen by the Stewardship Committee. The Stewardship Committee is chaired by the Head of Investments and comprises the Head of Sustainable and Impact Investing, Head of Active Equities, the Head of Systematic and Index Investing, the Head of Research and Stewardship and the Head of Global Institutional Client Coverage.

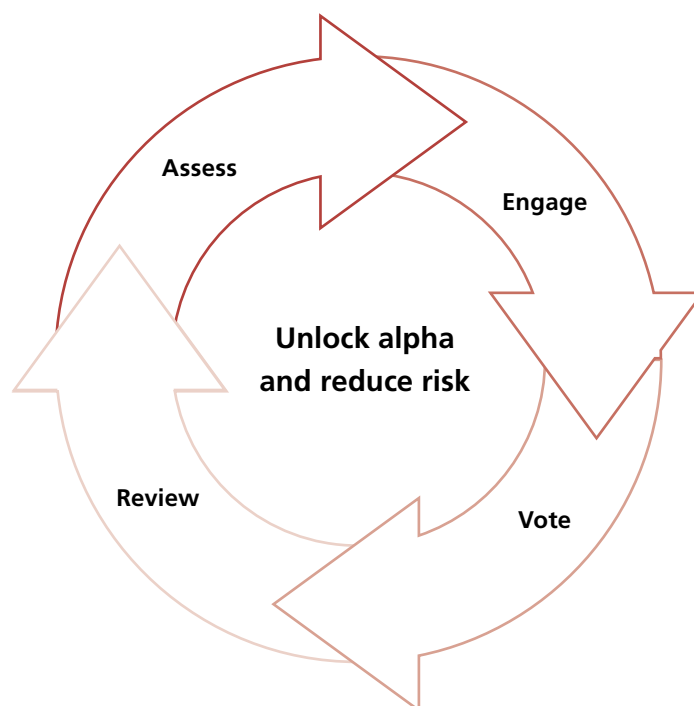
Further information: As part of its investment processes, UBS considers adverse impacts. To read our Adverse Impact Statement, [please click here](#).

Further information: UBS Asset Management 2020 Stewardship Report, [please click here](#).

Further information: UBS Asset Management Stewardship Statement, [please click here](#).

Further information: UBS Asset Management Proxy Voting Policy, [please click here](#).

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



### Core part of the investment process

- 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

- Seeking to maximize outcomes by combining insights from active investments with voting power of index linked strategies
- Stewardship approach pursued consistently across fixed income and equities on behalf of UBS-AM looking 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
- Concrete outcomes including
  - Repsol's NetZero commitment (first in the industry)
  - Equinor's alignment of strategy with Paris Agreement

# Sustainable and Impact Framework



## Sustainability Focused Approach

We have a range of sustainability focused funds which help clients pursue particular opportunities for more targeted sustainable investment. Thematic funds invest in companies that provide products and services providing concrete solutions to specific environmental and/or social challenges, seeking to benefit from the future growth anticipated in these areas while contributing capital to an inclusive and lower carbon economy. These funds are focused on areas such as the energy transition, water, human development, food, the global environment and climate change. They enable investors to tap into specific trends or increase portfolio exposure to particular sustainable themes.

The four criteria we take into account:

1

### Activity based exclusions

Exclusions are applied in various areas based on products and involvement (e.g., tobacco, coal, controversial weapons).

2

### Risk based screening

Risk based screening is applied to identify those higher risk issuers which are to be avoided within the investable universe.

3

### Superior ESG profile

The portfolio composition places a higher weight on those issuers with positive sustainable characteristics and / or a superior carbon profile.

4

### Active dialogue

Maintaining an active dialogue with and the exercising of voting rights in selected companies in order to improve their sustainability profile.







## Impact Approach

Our impact strategies invest with the intention to contribute to measurable positive social and environmental impact alongside financial returns. They meet the minimum criteria of sustainability focused strategies and additionally include a verifiable impact measurement. The UN Sustainable Development Goals (SDGs) create the framework for impact investing.

### Impact investing: Essential requirements

In order for impact investing in listed equities to succeed long-term, it should generate a competitive financial return, equal to or better than a broad benchmark. In addition, a true impact strategy should meet three other requirements: intentionality, measurement and verifiability and additionality.

### Impact comes from intention

Intentionality requires that the universe for impact portfolios consists of companies with products or services that generate positive impact (tied to the UN SDGs).

Listed companies that possess these attributes comprise a narrow slice of a broad benchmark. They exclude industries that do not contribute to the UN SDGs and have other country, industry and factor biases. This has significant implications for investment returns, portfolio construction and risk management.

### Measurement and verifiability are essential

Measurement and verifiability are critical components of impact investing because they provide the basis for demonstrating the difference which impact investing makes on the world. This is particularly important because the investor needs assurance that capital has been deployed effectively and that there is an incremental result of the investment. Because impact data is neither standardized nor even disclosed by many companies, there is a need to

use experience and judgment to help shape the universe. Our expectation is that it will take quite some time for standards to develop and that they will likely follow parallel efforts by other groups, such as the Sustainability Accounting Standards Board (SASB), which is focusing on standards for material ESG disclosure.

### Additionality through engagement

While measurement metrics for impact investing can be developed through better data, additionality has represented a unique challenge to mainstreaming impact investing in publicly traded equities. Additionality requires that an investment realizes positive change that would have otherwise not occurred, which is extremely challenging in public markets where investors provide no direct funding to companies and where liquidity entails a limited price impact from any particularly investment made. We believe that additionality can only be realized through long-term engagements with companies in the portfolio oriented around positive change.



## CHAPTER 4

# Our climate commitment



A finance gap currently exists between the financial commitment needed to meet the goals of the Paris Agreement - to keep the average rise in global temperatures to well below 2°C above pre-industrial levels. But as scientific models improve, and as the predicted climate outcomes become starker, demands are growing for global warming to be held, not just at 2°C, but at 1.5°C by 2100. Achieving the Paris goals demands unprecedented levels of investment. In short, the climate finance gap needs to be closed.

As one of the world's largest managers of private and institutional wealth, UBS is committed to closing the climate finance gap. We believe we can do this in two ways: through our own actions, and by developing products and services that allow our clients to channel their capital toward a climate-smart future.

In 1989, UBS was the first Swiss bank to appoint an environmental officer to help focus on sustainability goals. Four years later, we were one of the earliest signatories to the United Nations Environment Programme (UNEP FI), and in 2016 we became a member bank of the Task Force on Climate-related Financial Disclosures (TCFD).

Our Chairman is a signatory to the European Financial Services Round Table's statement in support of a strong, ambitious response to climate change. Also, our Group CEO is a member of the Alliance of CEO Climate Leaders, an informal network of CEOs convened by the World Economic Forum and committed to climate action. Within UBS-AM, our Head Sustainable Equity Team is a member of the TCFD. UBS's activities are underpinned by a clear climate strategy, designed to support our clients and our firm in preparing for an increasingly carbon constrained world. Specifically, our climate strategy underlines our commitment to the SDGs on climate action and on affordable and clean energy. It supports an orderly transition to a low-carbon economy, as defined by the Paris Agreement.

Many clients share our climate commitment and want to use their capital in ways that can address a warming world. This was a key finding from a global survey of institutional asset owners that we conducted in 2019. Most European investors said that within five years environmental factors could be playing a more important role in their investment processes than financial factors.

With regards to climate risk, UBS is collaborating on two fronts. Firstly, we are part of the United Nations Environment Programme Finance Initiative (UNEP FI) TCFD working group for banks to refine methodologies, scenarios and data sources to assess climate-related financial risk in loan portfolios. Secondly, we are pilot-testing the Paris Agreement Capital Transition Assessment (PACTA) to shape the development of methodologies and study the alignment of corporate lending portfolios with the Paris Agreement benchmarks.

We aspire to drive positive change in society and the environment for future generations. Our climate strategy underlines our commitment to the SDGs on climate action and on affordable and clean energy as well as the Paris Agreement.

As part of our commitment to helping further ESG best practices across the investment industry we are an active participant in Climate Action 100+, a coalition of some of the world's largest institutional investors, who are committed to engaging with 167 companies that are critical to the net-zero emissions transition. Currently UBS-AM is involved in 29 and leads on eight coalitions within Climate Action 100+.



In 2020 our climate commitment was further underscored as UBS-AM became a founding member of the Net Zero Asset Managers Initiative, a group of 30 international asset management firms committed to support investing aligned with net zero greenhouse gas emissions by 2050 or sooner.

Additionally, in 2020 UBS-AM became a signatory to One Planet Sovereign Wealth Funds initiative and UBS Group AG was recognized as a climate leader by CDP.

Further information: to read UBS Group AG's Climate Strategy, [please click here](#).

### Delivering Net Zero

- Global investors will work in collaboration with clients to achieve the target-based net zero goal by 2050 or sooner
- Delivery of the commitment also includes prioritising the achievement of real economy emissions reductions within the sectors and companies in which the asset managers invest.
- As part of the initiative, asset manager signatories have made a number of commitments including to:
  - Work in partnership with asset owner clients on their decarbonisation goals
  - Set an interim target for the proportion of assets to be managed in line with net zero emissions by 2030
  - Implement a supporting stewardship and engagement strategy, with a clear escalation and voting policy
  - Create investment products to facilitate increased investment in climate solutions.









## CHAPTER 5

# Governance and commitments

The Sustainable and Impact Investing team is responsible for the strategy and implementation of sustainable investing at UBS-AM.

### The Head of the SI team:

- Has overall responsibility for the SI strategy of UBS-AM.
- Is a member of the UBS in Society Steering Committee. The committee ensures firm-wide execution of the UBS in Society strategy.
- Is responsible for overseeing the implementation of UBS-AM's SI strategy, and reports into the UBS-AM Executive Committee, chaired by Suni Harford, President, UBS-AM.
- Member of the UBS Group AG Sustainable Finance Committee

The SI team's responsibilities can be divided into three key activities:

### SI Business Strategy

Responsible for the overall management of the SI strategy and providing reporting on those activities as part of UBS's overall sustainability objectives and strategy. In addition this team is responsible for the internal and external activation of SI, ensuring alignment in the approaches, content and messaging.

### SI Research and Stewardship

Responsible for sourcing and distributing ESG data to investment teams across UBS-AM, educating and collaborating with investment teams on best practices around using material extra-financial data in forward-looking investment analysis, and overseeing UBS-AM's engagement and proxy voting programs.

### SI Investment Specialists

Responsible for the development of SI products and solutions. The SI specialists also support reporting deliverables, working closely with the SI research and stewardship team. Finally, this unit works closely with client-facing professionals to better understand client needs and market trends and to provide education on sustainability.

### Further documentation: reporting and policies

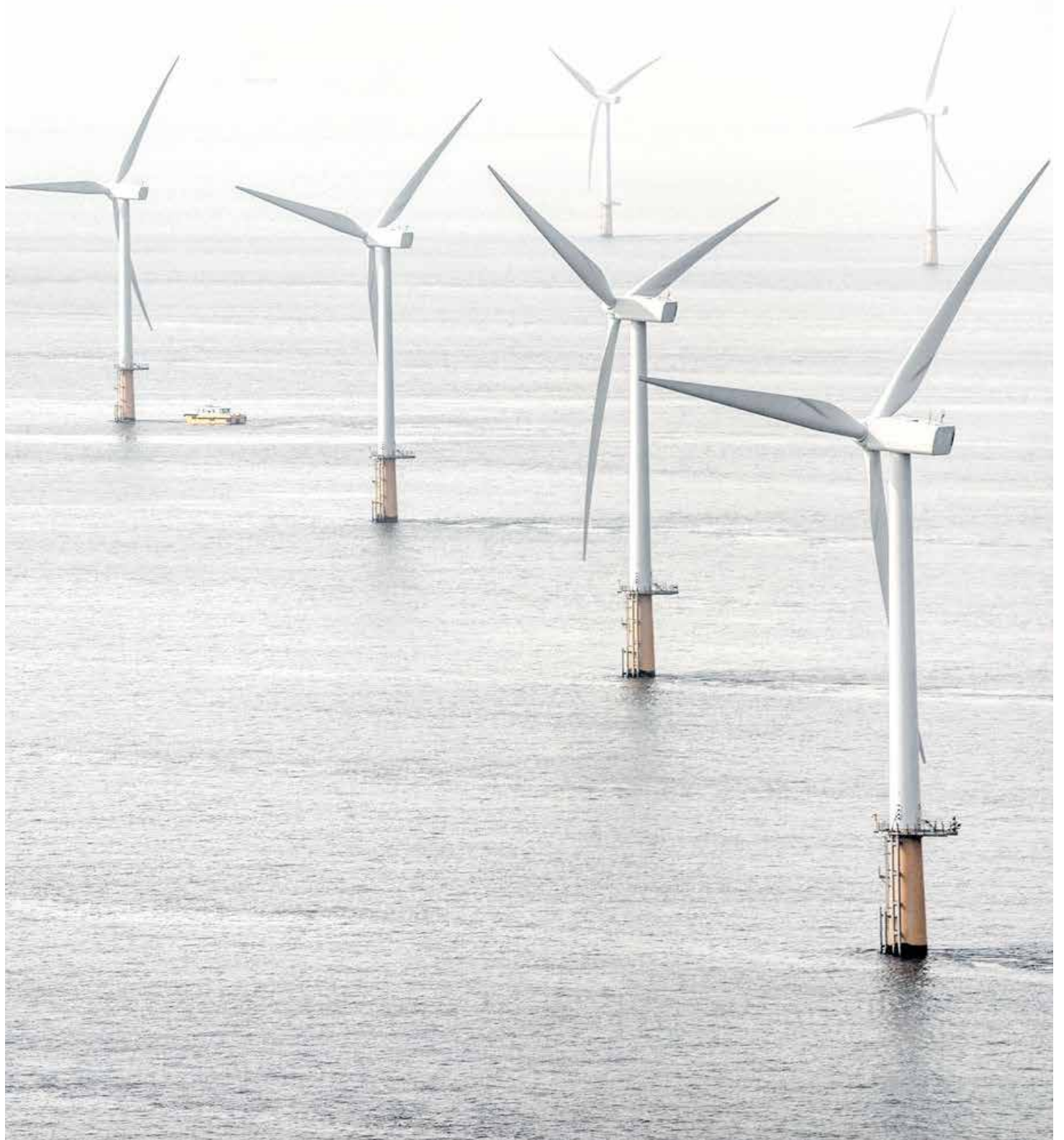
Information regarding our current sustainable investing approach, activities and policies are available on a dedicated section of UBS-AM website. To read please [click here](#)

Further information: integration of sustainability risk in the remuneration process – [please click here](#).

### Further information and contact details:

For further information regarding Sustainable and Impact Investing at UBS Asset Management, please contact the SI operating office, [sustainableandimpact@ubs.com](mailto:sustainableandimpact@ubs.com).





## CHAPTER 6

# Appendix

### Our commitment to stewardship codes

UBS-AM is a signatory to, or has given commitment to, the following codes of best practice in relation to investment stewardship:

- International Corporate Governance Network (ICGN) Global Stewardship Principles
- UK Stewardship Code
- Japanese Stewardship Code
- Hong Kong SFC Principles of Responsible Ownership
- ISG Stewardship Framework (USA)
- Australian FSC Standard 23 on Principles of Internal Governance and Asset Stewardship
- Taiwan Stewardship Principles for Institutional Investors

### Our commitment to industry initiatives and best practice

UBS-AM is currently a member of, or supporting, the following global groups and initiatives:

- Asian Corporate Governance Association (ACGA)
- Global Real Estate Sustainability Benchmarks (GRESB)
- EFAMA Stewardship, Market Integrity AND ESG Investment Standing Committee
- International Corporate Governance Network (ICGN)
- Institutional Investor Group on Climate Change (IIGCC)
- National Association of Real Estate Investment Managers (NAREIM)– Sustainability and Investment Management Working Group
- Principles for Responsible Investment (PRI)
- Sustainable Accounting Standard Board (SASB)
- UK Investor Forum
- US Green Building Council
- US Sustainable Investment Forum (USSIF)
- Workforce Disclosure Initiative (WDI)
- Financial Stability Board’s Taskforce on Climate-related Financial Disclosure (TCFD)
- Transition Pathway Initiative (TPI)
- Farm Animal Investment Risk & Return (FAIRR)

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**Americas**

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