

# Principal Adverse Sustainability Impacts Statement

UBS Fund Management (Luxembourg) S.A.  
(LEI: 549300AE48NQE4QVEH24) **June 2024**



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# 1. Summary

UBS Fund Management (Luxembourg) S.A., (LEI: 549300AE48NQE4QVEH24) 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 Fund Management (Luxembourg) S.A. (hereinafter also known as “**UBS-FML**” or “**the Management Company**”).

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

UBS-FML has delegated portfolio management to the following portfolio managers:

- UBS Asset Management (“**UBS-AM**”), a business division of UBS Group AG
- UBS Global Wealth Management (“**UBS-GWM**”), a business division of UBS Group AG
- Third party portfolio managers as part of our White Label Solutions business (“**WLS**”)

However, the Management Company remains ultimately responsible for the portfolio management function, hence, the delegation is subject to supervision and monitoring from the Management Company. In order to achieve this, the Management Company has implemented a robust oversight control framework.

The assessment of PAI is performed for all funds and discretionary portfolio management mandates managed by UBS-FML and includes both, sustainable and non sustainable strategies. The indicators provided in section 2 are based on PAI data from 3 May 2024.

UBS-FML actively considers certain PAI indicators as part of its sustainable investing strategies (SFDR Article 8 / 9). “**Article 8**” & “**Article 9**” are references to the specific product level disclosures prescribed by the EU regulation on sustainability related disclosures in the financial services sector (SFDR). Products have been positioned into these strategies during the reference period and will continue to be so in the future.

The availability and accessibility of reliable market data to compute the PAI indicator is still a challenge for the industry. UBS-FML will seek to improve data coverage as industry practice emerges and will assess indicators in order to have as broad a coverage as possible for future consideration into the investment process.

Specific considerations of PAI at product level by UBS AM and UBS GWM are further elaborated in the section 3.3 of the report.

For the WLS business, although third party portfolio managers consider PAI indicators where relevant, according to their own methodology, it is not feasible to make meaningful narrative disclosures per indicator at the level of the Management Company. Disclosure per product can be found in the respective product level disclosure. The impacts of these investments themselves were calculated and contributed to the figures below.

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:
















Even though 12 out of 20 PAI indicators have improved from reporting year 2022 to 2023, the metrics calculated for a number of PAI indicators have been impacted over the course of the year by changes to products under UBS-FML

governance (e.g. new fund launches, fund liquidations or transfers of funds to another management company), to 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 approach) and poor availability of data. The data coverage remains limited for three indicators (emissions to water, hazardous waste and radioactive waste ratio, and the unadjusted 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 the coming years with the stabilization of data exchange mechanisms within the industry, both coverage and data quality are going to improve.

Regulators have 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 metrics 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.

If investors wish to better understand ESG and sustainability related aspects of their investments, we recommend to consult the product specific documentation rather than this report at the level of the Management Company.

Translations of this summary can be found on the UBS-FML web site in the following languages:

- Czech: 
- Danish: 
- Dutch: 
- English: 
- Finnish: 
- French: 
- German: 
- Greek: 
- Hungarian: 
- Icelandic: 
- Italian: 
- Norwegian: 
- Portuguese: 
- Spanish: 
- Swedish: 

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

The below commentary in the column “Actions taken, and actions planned and targets set for the next reference period” does not always refer to all products under the governance of UBS-FML. If a reference is made to UBS Group AG (“UBS”), it means that the disclosure is applicable to all UBS business divisions referenced in this report. Otherwise we have explicitly indicated the relevant business division (e.g. “UBS-AM”, “UBS-GWM”).

The indicated data coverage figures are the proportion of investments included in the calculation in relation to the maximum that could possibly be included for the specific indicator (for example corporate indicator coverage is expressed only in relation to all investments in corporates, i.e. not in relation to the all investments).

The analysis of the year-on-year changes and the identification of the drivers carries certain complexities as outcomes may be a result of a combination of impacts of multiple factors, such as for example:

- Data availability
- Calculation methodology changes across various indicators
- Product level developments (fund transfers, launches, onboardings, liquidations etc.) and asset allocation changes

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	7'067'520 tCO <sub>2</sub>	7'801'851 tCO <sub>2</sub>	These absolute figures have decreased, but since the Assets under Management of UBS-FML have also decreased (mainly due to the transfer of Irish funds to our UBS management company in Ireland), the relative figures have not changed significantly. Data coverage: 86.26%	<b>UBS-AM</b> For specific SFDR Article 8 / 9 products, where relevant, UBS-AM selects investments based upon a low scope 1+2 carbon emissions, either absolute or relative to a benchmark. This is disclosed in Fund prospectuses and client investment management agreements, where applicable.  UBS-AM has run a dedicated climate engagement program since early 2018, focused on companies in high emitting sectors.
		Scope 2 GHG emissions	1'718'269 tCO <sub>2</sub>	1'863'097 tCO <sub>2</sub>		
		Scope 3 GHG emissions	49'758'078 tCO <sub>2</sub>	60'972'922 tCO <sub>2</sub>		
		Total GHG emissions	58'485'676 tCO <sub>2</sub>	70'499'868 tCO <sub>2</sub>		
	2. Carbon footprint	Carbon footprint	354.32 t/m€	296.05 t/m€	The change can be explained by the methodology update, see details on the sub-portfolio approach in section 3.2.3. Data coverage: 86.26%	
	3. GHG intensity of investee companies	GHG intensity of investee companies	960.00 t/m€	928.56 t/m€	Minor increase (below +5%) Data coverage: 94.61%	<b>UBS-AM</b> Where relevant, UBS-AM SFDR Article 8 / 9 products consider GHG intensity as part of a consolidated PAI metric as part of the “do no significant harm” (DNSH) assessment. When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual thresholds defined per indicator, a failure on a

					single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to SFDR Article 2 (17).
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	7.33%	6.11%	The change can be explained by the methodology update, see details on the sub-portfolio approach in section 3.2.3. Data coverage: 94.74%
					<p><b>UBS-AM</b></p> <p>As per the UBS-AM Sustainability Exclusion Policy with scope and revenue thresholds outlined therein:</p> <ul style="list-style-type: none"> <li>- Companies that exceed a certain revenue threshold from thermal coal mining and its sale to external parties or from oil sands extraction are excluded.</li> <li>- Companies that exceed a certain revenue threshold from thermal coal-based power generation are excluded.</li> </ul>
	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	69.20%	75.66%	This indicator is not considered as part of the investment process. Data coverage: 62.76%
					<p><b>UBS-AM</b></p> <p>During the reporting period, the share of non-renewable energy consumption and production was not considered as part of the investment process.</p> <p>UBS-AM will assess this indicator for future consideration into our investment process, depending on availability of the metric.</p>
	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	8.57 GWh/m€	15.51 GWh/m€	This indicator is not considered as part of the investment process. Data coverage: 81.06%
		<i>Agriculture, Forestry and Fishing (A)</i>	1.14 GWh/m€	1.05 GWh/m€	
		<i>Mining and Quarrying (B)</i>	0.89 GWh/m€	2.17 GWh/m€	
		<i>Manufacturing (C)</i>	1.32 GWh/m€	0.77 GWh/m€	
		<i>Electricity, Gas, Steam and Air Conditioning Supply (D)</i>	2.34 GWh/m€	7.86 GWh/m€	
		<i>Water Supply; Sewerage, Waste Management and Remediation Activities (E)</i>	1.01 GWh/m€	1.24 GWh/m€	
		<i>Construction (F)</i>	0.31 GWh/m€	0.16 GWh/m€	
		<i>Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles (G)</i>	0.10 GWh/m€	0.12 GWh/m€	
		<i>Transportation and Storage (H)</i>	1.04 GWh/m€	1.69 GWh/m€	
		<i>Real Estate Activities (L)</i>	0.43 GWh/m€	0.45 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	7.86%	0.06%	The change can be explained by the methodology update, see details on the sub-portfolio approach in section 3.2.3. and a change of criteria applied by our vendor to identify companies negatively affecting biodiversity-sensitive areas. Data coverage: 95.28%
					<p><b>UBS</b></p> <p>UBS monitors companies that potentially violate any of the 10 principles of the UN Global Compact as well as companies that are flagged in the UBS sustainability and climate (SCR) risk watchlist, which considers activities negatively affecting biodiversity sensitive areas. Through our engagement, we seek to ensure that companies effectively close and remedy the breaches we have identified. Where companies present an ongoing risk, they may be withdrawn from the investable universe for specific sustainability strategies.</p> <p><b>UBS-AM</b></p> <p>Where relevant, UBS-AM SFDR Article 8 / 9 products consider activities negatively affecting bio-diversity sensitive areas as part of a consolidated PAI metric as part of the "do no significant harm" (DNSH) assessment. When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual</p>

					thresholds defined per indicator, a failure on a single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to SFDR Article 2 (17).  For companies flagged in an internal watchlist that monitors for breaches of UN Global Compact Principles, controversies are reviewed including conducting engagement where applicable and appropriate (note that we will exclude investment for SI Focus and Impact if no credible corrective action).
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested	0.01t/m€	2.67 t/m€	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 3.2.3.; Data coverage: 3.16%
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested	1.82 t/m€	2.11 t/m€	The data coverage for this indicator is 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 3.2.3. Data coverage: 33.62%

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

Adverse sustainability indicator	Metric	Impact [year 2023]	Impact [year 2022]	Explanation	Actions taken, and actions planned and targets set for the next reference period
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%	0.58%	This figure has decreased in line with our investment policies, processes and engagement approach, avoiding investments in companies that appear to be in violation of any of the ten principles of the UN Global Compact. Data coverage: 94.84%
					<b>UBS-AM</b> As per the UBS-AM Sustainability Exclusion Policy and product scope outlined therein, companies violating the United Nations Global Compact (UNGC) principles which do not demonstrate credible corrective action as determined by UBS-AM's Stewardship Committee are excluded. UBS-AM may engage with these companies to ensure that they undertake credible corrective actions. <b>UBS-GWM</b> For UBS-GWM SFDR Article 8 products, issuers/companies violating the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and who do not demonstrate credible corrective action do not qualify as sustainable investments within the portfolio.

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	1.34%	39.42%	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. Data coverage: 94.75%	<p><b>UBS-AM</b></p> <p>During the reporting period, processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises were not considered as part of the investment process.</p> <p>UBS-AM will assess this indicator for future consideration into our investment process, depending on availability of the metric.</p>
12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	12.43%	13.20%	The data coverage for this indicator is significantly lower in comparison to other indicators. Data coverage: 16.08%	<p><b>UBS-AM</b></p> <p>During the reporting period, data for unadjusted gender pay gap was not available with sufficient coverage and quality for UBS-AM to consider in our investment process in a meaningful way.</p> <p>UBS-AM will assess this indicator for future consideration into our investment process, depending on availability of the metric..</p> <p>As part of our social thematic program, we engage with companies on diversity. As part of these engagements we may encourage companies to conduct a pay gap analysis, disclose data and set targets to reduce the gap.</p>
13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	33.06%	31.34%	This figure has increased in line with our long-term intentions to foster gender and ethnic diversity at board and senior management levels as part of our global Diversity, Equity and Inclusion (DEI) program. Data coverage: 89.53%	<p><b>UBS-AM</b></p> <p>Where relevant, UBS-AM SFDR Article 8 / 9 products consider board gender diversity as part of a consolidated PAI metric as part of the “do no significant harm” (DNSH) assessment. When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual thresholds defined per indicator, a failure on a single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to SFDR Article 2 (17). As part of the social thematic engagement program we engage with companies to encourage higher diversity levels at Board levels and set engagement goals to increase this.</p>
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	0.04%	0.06%	UBS-AM does not invest in companies involved in or engage in transactions related to controversial weapons. For further details please refer to the comment on the right. Data coverage: 94.89%	<p><b>UBS-AM</b></p> <p>In line with UBS-AM’s Exclusion Policy UBS-AM does not invest in companies involved in: cluster munitions, anti-personnel mines or chemical and biological weapons, nor does it invest in companies in breach of the Treaty on the Non- Proliferation of Nuclear Weapons.</p> <p>UBS-AM considers a company to be involved in controversial weapons if the company is involved in development, production, storage, maintenance or transport of controversial weapons, or is a majority shareholder (&gt;50% ownership stake) of such a company.</p> <p><b>UBS-GWM</b></p> <p>For GWM SFDR Article 8 funds with direct actively managed strategies, companies that derive any revenues from controversial weapons, or have significant ownership in such companies are excluded.</p>



Indicators applicable to investments in sovereigns and supranationals

Adverse sustainability indicator	Metric	Impact [year 2023]	Impact [year 2022]	Explanation	Actions taken, and actions planned and targets set for the next reference period	
Environmental	15. GHG Intensity	GHG intensity of investee countries	388.89 t/m€	451.16 t/m€	This figure has decreased in line with our long-term intentions to contribute to a low carbon economy. Data coverage: 83.95%	<b>UBS-AM</b> Where relevant, UBS-AM SFDR Article 8 / 9 products consider GHG intensity as part of a consolidated PAI metric as part of the “do no significant harm” (DNSH) assessment. When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual thresholds defined per indicator, a fail on a single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to SFDR Article 2 (17).
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.	9 (7.44%)	7 (6.30%)	Due to the lack of look-through data at an industry level relating to target fund investments, we are not able to deduplicate social violations across target fund investments, resulting in double counting of the aggregated entity score relating to PAI indicator “16. Investee countries subject to social violations”. We therefore report here the social violations relating only to the direct investments of our products, for which this calculation is possible. UBS is working with vendors to capture this look-through data to provide a deduplicated figure across all investments for this metric in future reporting cycles. Data coverage: 83.95%	<b>UBS-AM</b> Where relevant, UBS-AM SFDR Article 8 / 9 products consider investee countries subject to social violations as part of a consolidated PAI metric as part of the “do no significant harm” (DNSH) assessment. When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual thresholds defined per indicator, a fail on a single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to SFDR Article 2 (17).

Indicators applicable to investments in real estate assets

Adverse sustainability indicator	Metric	Impact [year 2023]	Impact [year 2022]	Explanation	Actions taken, and actions planned and targets set for the next reference period	
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	0.19%	0.00%	No significant exposure has been identified. Data coverage: 78.69%	<b>UBS-AM</b> UBS-AM investments in real estate consider the two mandatory PAIs as part of the investment process for SFDR Article 8 products. For its indirect real estate investment products, UBS-AM is dependent on the disclosure and timely reporting of sustainability data by underlying managers. However, UBS-AM periodically engages with underlying managers to ensure managers provide relevant PAI data on a timely basis.
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	9.40%	0.17%	The data coverage for this indicator is significantly lower in comparison to other indicators. This can be explained by the absence of consistent energy performance	Fossil fuel exposure is addressed by UBS-AM’s Sustainability Exclusion Policy.

					certificate data in underlying real estate investments in North America and APAC regions. Data coverage: 19.74%
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**Additional climate and other environment-related indicators**

**CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS**

**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	
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	41.50%	21.34%	The change can be explained by the methodology update, see details on the sub-portfolio approach in section 3.2.3. Data coverage: 91.30%	<b>UBS-AM</b> For specific SFDR Article 8 / 9 products, where relevant, UBS-AM selects investments based upon low carbon emissions. This is disclosed in Fund prospectuses and client investment management agreements, where applicable. UBS-AM has run a dedicated climate engagement program since early 2018, focused on companies in high emitting sectors.

**Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters**

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

**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	
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 against Corruption	1.36%	5.02%	The change can be explained by the methodology update, see details on the sub-portfolio approach in section 3.2.3. Data coverage: 94.75%	<b>UBS</b> UBS has zero tolerance for bribery and corruption. We are committed to detecting and preventing bribery and corruption. Our employees and associated persons do business in a fair and transparent manner and must not promise, pay, receive, solicit, collude or arrange for the payment of a bribe, or anything of value to a private party or Public Official, to gain an unfair advantage (including facilitation payments) either directly or indirectly (via an Intermediary), to, or with the intent to: <ul style="list-style-type: none"> <li>- Obtain or retain business for or on behalf of UBS Group.</li> <li>- Accelerate, obtain, retain or fulfil a legal or regulatory requirement (facilitation payment) or any other advantage.</li> </ul>

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

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

#### 3.1 Policies relevant for the assessment of PAI in the decision making process

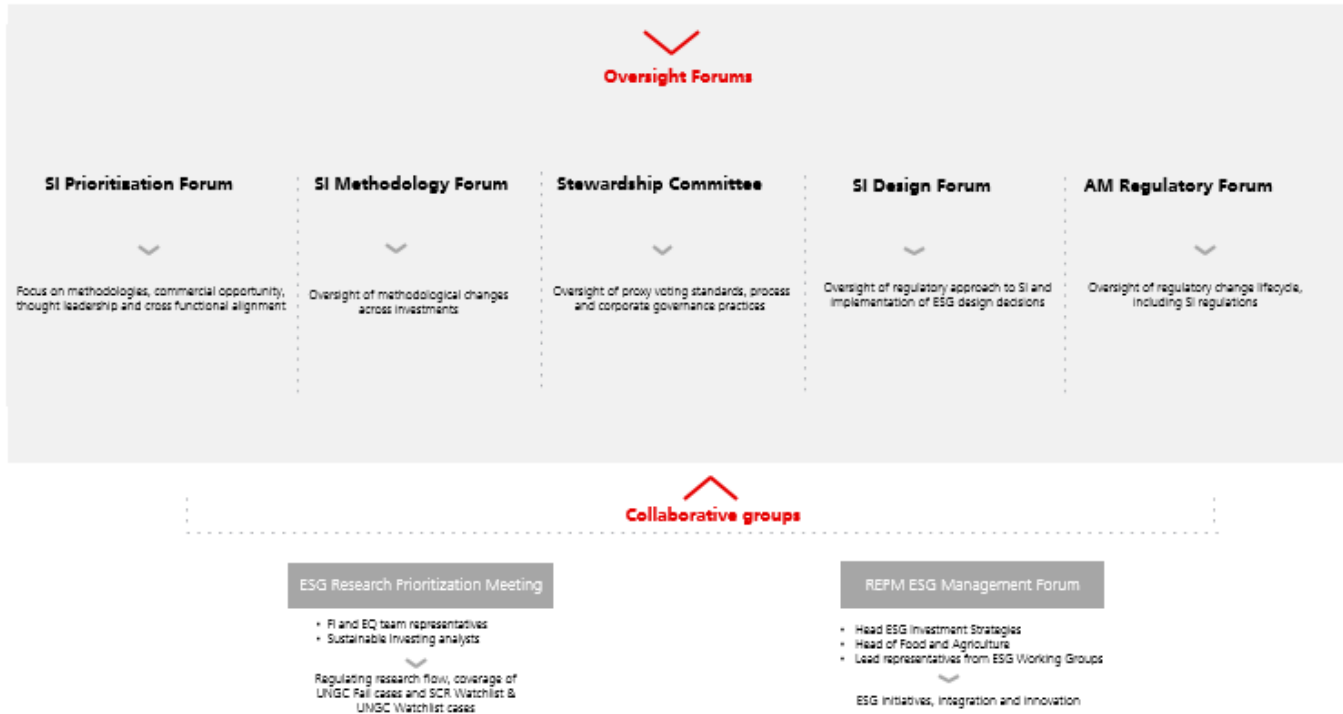
There are policies of UBS-FML and UBS-AM as a delegated portfolio manager, which are relevant for the consideration of PAI. These policies and information on their governance can be found in the table below:

Policy	Description	Governing body	Approved on
UBS Group Sustainability and Climate Risks	This document sets out the firm-wide and divisional requirements and standards for identification, assessment, approval, escalation, monitoring and reporting of SCR.  Sustainability and climate risks may manifest as credit, market, liquidity and operational risks for UBS, resulting in potential adverse financial, liability and reputation impacts. They may also negatively impact the value of investments.	UBS Group Risk Control	December 2023
UBS-AM Sustainable Investment Policy	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.	UBS-AM SI Methodology Forum	May 2021
UBS-AM Sustainable Exclusion Policy	This policy describes the exclusion approach of UBS Asset Management ("UBS-AM") and details those company activities which are excluded from the investment universe.	UBS-AM SI Methodology Forum	May 2024
UBS-AM Proxy Voting Policy	This policy describes UBS-AM's approach to proxy voting	UBS-AM Stewardship committee	March 2024
UBS-AM Global Stewardship Policy	This policy describes UBS-AM's stewardship approach. It describes the activities UBS-AM undertakes to monitor and, where necessary, intervene on matters that may affect the long-term value of assets into which we invest on behalf of our investors.	UBS-AM Stewardship committee	March 2024
UBS-FML Engagement policy	This policy describes the general principles of how engagement activities are integrated into the investment strategy of the portfolios managed by UBS-FML.	UBS-FML Portfolio Management Oversight	March 2024

Key responsibilities of the governing bodies:

1. UBS Group Risk Control supports the business to properly assess and manage Sustainability and Climate related risks.
2. For the UBS-AM SI Methodology Forum please refer to point 2. in the below section.
3. For the UBS-AM Stewardship committee please refer to point 3. in the below section.
4. The Portfolio Management Oversight team owns the UBS-FML specific Engagement Policy and oversees the delegated engagement activity.

## UBS-AM sustainability governance:



Source: UBS Asset Management, as at June 2024

## Key responsibilities of the forums:

1. The SI Prioritization Forum provides oversight of the SI strategic program, setting key priorities and strategic direction; makes key decisions of commercial relevance and ensures regulatory compliance and a successful delivery of the SI Program.
2. The SI Methodology Forum provides oversight of SI policies and guidelines, data and methodologies as well as investment process criteria applied in the Sustainable Investing framework (including exclusions, ESG integration, sustainable focused and impact offering) across investment areas.
3. The Stewardship Committee oversees the proxy voting standards, process, and corporate governance practices as well as engagement program activities (including exclusion decisions). It also oversees the research process on UNGC Global Compact credible corrective action and SCR (Sustainability and Climate Risk) Watchlist cases. The Stewardship Committee is the representative body for approving membership of industry organizations related to stewardship. Whereas, REPM specific stewardship activities are overseen by individual Investment Committees within each business area.
4. The SI Design Forum has oversight of regulatory approaches to SI and implementation of ESG design decisions.
5. The AM Regulatory Forum has oversight of regulatory lifecycle changes and SI regulations.
6. REPM's ESG Management Forum is chaired by REPM's Head of Sustainability and enables structured engagement and continual exchange and improvement of ideas and best practice knowledge. Comprising experts from multiple countries and disciplines, the forum oversees implementation of decisions on the ground by REPM's various Sustainability Working Groups.

## 3.2 Calculation of principal adverse impacts

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 the production of this report, including methodologies to select additional indicators, explanation of any associated margin of error and details of data sources used, is provided in a dedicated, internal policy approved on 30 June 2023.

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

### 3.2.1 Key responsibilities

The construction of the annual PAI report relies on a number of key processes. Some of these are supported by automation built for the purpose of data sourcing and calculation, while others will require intervention from individuals to ensure the report itself is constructed and published annually.

The following are the key components of the annual PAI production 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 UBS-AM and Fund Administration accounting systems 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 and repeatable methodology for calculation of our quarterly results. Annual results are created using a simple averaging of the four quarterly calculations. The methodology of the calculations is reviewed and supported by our internal ESG specialists within the UBS Chief Sustainability Office.
Report Construction	Construction of the report narratives and commentary is a joint effort between UBS-FML, UBS-AM and UBS-GWM.

### 3.2.2 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 assesses the selection of these two indicators carefully. A key driver for the selection of the above mentioned indicators was their superior data coverage over other indicators. UBS believes that better data coverage 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.

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

#### Calculation of Metrics

PAI calculations for the purpose of UBS-FML's PAI report, dated 30 June 2024 are based on the latest available information on the principal adverse impacts dated 3 May 2024.

The following instruments do not directly contribute to the PAI scores as they are not linked to investments in underlying companies: Cash, FX, Commodities, interest rate and all instruments solely based on cash, FX, Commodities and interest rate for example: structured products on gold, FX Futures, FX Options, Commodities, 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.

In 2023, our ESG data vendor updated its calculations to align with the latest industry guidance 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 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. In response to this, UBS revised its own methodology to ensure alignment between UBS data and third party fund data. For example, an indicator relevant to corporates will be calculated based on the sub-portfolio of corporate positions rather than based on the full portfolio. Therefore, the sub-portfolio approach has immediate impacts, such as increasing the relative weights for each position in the portfolio, as only the sub-portfolio value is used as denominator. The new approach allows for a more accurate calculation of indicators for the portfolios. .

#### Treatment of short positions and derivatives

There is limited data coverage relating to complex derivatives, and consequently structured products and a few hedge funds at a market level. As a result, the PAI contributions of these products cannot be 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. The PAI of long and short positions have been netted 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-AM does not take into account the probability of occurrence and the severity of principal adverse impacts as part of the existing internal methodology.

### 3.2.4 Margin of error in the annual PAI reporting

Under the principle of "all reasonable means", UBS-FML has an obligation to do its best to capture as much data as possible in order to fulfill the obligation of calculating the PAI metrics and constructing the PAI report.

The multitude of data sources and vendors used can have an impact on the PAI calculations. 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 measures in place to ensure we are confident in our calculation results:

1. A review of key metrics in the issuer dataset was undertaken to ensure that when looking at them holistically, they still make sense. This includes ensuring that both sovereign and corporate metrics are not received for the same issuer, making sure that the proxies used 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 its 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 on a per metric basis. 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 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, considerations have been built 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, the data vendors are being challenged to continually improve their coverage.
5. Where aggregated fund indicators are received from a vendor (either directly or via EET), the associated coverage is considered and, where appropriate, eligible assets value in the calculation of coverage for the relevant indicator.
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 the coverage figures drop where instruments are “unclassified” in the same way as in (4) where the PAI data is missing. This ensures that the metrics do not understate or overstate the coverage.

Additionally, due to the high presence of estimated data in scope 3 GHG emissions, combined with concerns about overlapping emissions between companies in the same portfolio, scope 3 metrics may be misleading to the reader. For example, double counting may occur when reporting scope 3 greenhouse gas emissions aggregated at portfolio level, because one company’s value chain greenhouse gas emissions may be another company’s direct greenhouse gas emissions. Thus, Scope 3 needs to be interpreted with caution.

### 3.2.5 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 reporting year 2023 primarily sourced from MSCI, <https://www.msci.com/notice-and-disclaimer-for-reporting-licenses>. As the products invest directly into instruments and in target funds, data at both levels are sourced for reporting purposes as follows:
  - 1) Issuer level data, sourced through vendors, based on corporate disclosures of the underlying companies, combined with vendor research. Throughout 2023, the coverage of issuer level data has been monitored and the coverage on an issuer level has been assessed as being remarkably high. The coverage on an indicator-by-indicator basis fluctuated and, in particular for Water Emissions, Hazardous Waste and Gender Pay Gap, the disclosures by corporates remained exceptionally low leading to significant data gaps in these areas.
  - 2) Fund level data, sourced through vendors and directly from target fund manufacturers.
    - The products invest in both, UBS and 3rd party managed funds. Consequently, no look-through to the underlying positions of these 3rd party managed funds is possible, however through vendor solutions the aggregated PAI data relevant to investments in funds is available.

- Where target funds are manufactured by a UBS management company, this PAI data is calculated in-house, using the issuer level PAI data captured by the vendor. This data is then utilized as part of the calculation approach for the legal entity calculations.
- Where funds are manufactured by 3rd party management companies, UBS-FML relies on vendor PAI calculations to capture the PAI data.

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

UBS-AM takes adverse impacts into account in a variety of ways across its investment processes. The extent to which adverse impacts are considered depends on the product feature or client objective.

#### 3.3.1 Exclusions

There may be instances where investing in certain companies with substantially elevated environmental, social or reputational risks outweigh the benefits. The [UBS-AM Exclusion Policy](#) lays out the details of how UBS AM addresses such instances to avoid adverse impacts and the product scope to which exclusions are applied.

WLS funds typically apply their own exclusions, which are described in the fund prospectuses.

#### 3.3.2 ESG Integration

Adverse impacts may be considered as part of the risk integration process, which will differ by asset class. Any specific portfolio carbon targets would be disclosed in offering documents. For indexed products, ESG risk integration takes place if the index methodology considers ESG criteria, including principal adverse impact indicators in the construction of the index. UBS-AM considers sustainability characteristics and risks as part of the relevant index selection process.

#### 3.3.3 Creation of Sustainability Focus / Impact products designed to reduce adverse impacts

UBS-AM has developed a number of financial products with a reduced level of adverse impacts. For actively managed SI focused products where UBS-AM is the primary portfolio manager, sustainability – including the analysis of adverse impacts – plays a role in the investment process. Companies or investments that exhibit elevated sustainability risks are actively avoided through the rule set for portfolio construction of SI focused products. Impact products go one step further, actively seeking to invest in companies and projects with positive social and environmental external impacts on society or the environment. These products in scope of this report are categorised as SFDR Article 8 or 9.

UBS-AM considers an investment to be sustainable according to Article 2.17 SFDR if the issuer meets the three given criteria, namely:

- a) it contributes to an environmental or social objective;
- b) DNSH any of such objectives; and
- c) it follows good governance practices.

When assessing DNSH, we consider selected PAI indicators based on availability and appropriateness. These indicators are combined into a signal based on individual thresholds defined per indicator. A fail on a single indicator leads to an investment failing the DNSH test overall, therefore making the investment not count as a sustainable investment according to article 2 (17) SFDR.



For strategies which track an index, indicators for adverse impacts on sustainability factors may be taken into account by the index provider as appropriate to the index family. The indices tend to consider environmental factors such as the Greenhouse gas (GHG) Intensity defined as Scope 1 + Scope 2 GHG emissions (tons CO<sub>2</sub>E) per million USD of revenue and social factors such as social violations which indicate issuers with a verified failure to respect established norms regarding human rights or labour rights.

### 3.3.4 Asset Management's Real Estate and Private Markets (REPM)

Real Estate & Private Markets (REPM) does not collect PAI data on closed-ended funds that are past their investment period and funds in wind down. REPM relies on "best efforts" to obtain PAI related data for funds in scope and the approach for "best efforts" varies depending on business areas i.e. direct and indirect investment products. REPM requests this data from directly controlled investments. REPM does not maintain direct control of the underlying funds and assets in our indirect investment products (e.g., fund-of-funds), and must therefore rely on PAI data submitted by fund managers. REPM is using "best efforts" to ensure underlying fund managers provide the relevant data throughout the due diligence and monitoring processes on a timely basis. However, if coverage of PAI data is less than 100%, REPM is still reporting in line with the available and collected data to fulfil regulatory requirements. Portfolio Managers engage periodically with underlying managers as part of the due diligence, ESG monitoring, AGM meetings etc. to continually encourage improvement in ESG practices among underlying funds and ensure SFDR requirements (including collection of PAI data) are continually being met.

### 3.3.5 UBS-GWM

At UBS-GWM, a number of Article 8 funds have indirect exposure to sustainable investments via investments in target funds with a minimum proportion of sustainable investments. As part of the due diligence and selection process, the Portfolio Manager checks if there are processes undertaken by the target fund to take into account PAI on sustainability factors, such as exclusions of controversial weapons or contraventions of UN Global Compact principles. The Portfolio Manager also checks if there are processes undertaken by the target funds to align sustainable investments with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. Issuers/Companies violating the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and who do not demonstrate credible corrective action do not qualify as sustainable investments within the portfolio.

In the case of article 8 funds with direct actively managed strategies, the funds shall exclude issuers that derive any revenues from controversial weapons<sup>1</sup>, or have significant ownership in such companies. Issuers violating global norms such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and who do not demonstrate credible corrective action, do not qualify as sustainable investments within the portfolio.

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<sup>1</sup> Controversial weapons refer to the following: Anti-personnel mines – Ottawa Treaty (1999), Biological weapons – Biological Weapons Convention (1975), Chemical weapons – Chemical Weapons Convention (1997), White Phosphorous weapons – Convention on Certain Conventional Weapons (1980), Cluster munitions – Convention on Cluster Munitions (2008), Nuclear weapons – Treaty on the Non-Proliferation of Nuclear Weapons (1968).

## 4. Engagement policies

### 4.1 Corporate engagement

As UBS-FML has delegated portfolio management to UBS-AM, UBS-GWM or third party portfolio managers, UBS-FML puts reliance on the engagement policies developed by the delegated portfolio managers. Their engagement policies explain how the portfolio managers:

- Monitor investee companies on relevant matters, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance,
- Conduct dialogues with investee companies,
- Manage actual and potential conflicts of interests in relation to their engagement;

#### Consideration of adverse impacts as part of the UBS-AM Stewardship Policy

UBS-AM has run a dedicated climate engagement program since early 2018, focused on companies in high emitting sectors. In addition, UBS-AM has also run a social thematic engagement program since 2021 and has had a focus on companies violating the United Nations Global Compact (UNGC) principles which do not demonstrate credible corrective action as determined by UBS-AM's Stewardship Committee and are excluded from SI Focus and Impact portfolios. UBS-AM may engage with these companies to ensure that they undertake credible corrective actions.

Through our stewardship related research we will seek to identify companies where material ESG and sustainability risks may give rise to a negative impact in the future, and will utilize engagement and proxy voting to minimize adverse impacts where appropriate. Where UBS-AM has direct ownership of a physical asset, it aligns its partners to prescribed standards and KPIs which are monitored so that remedy actions can be taken if performance and standards fall short.

ESG considerations are embedded across our direct real estate teams through tenant engagement to drive change and external sustainability assessments to identify asset improvement opportunities and energy reduction programs. Please refer to our [2023 Stewardship Annual Report](#).

All PAIs may be considered as part of our corporate engagement, proxy voting and public policy engagement activities.

### 4.2 Proxy voting

Regarding the exercise of voting rights and other rights attached to shares, UBS-FML puts reliance on the Stewardship Policy of UBS-AM, where voting rights have been delegated to UBS-FML who have in turn delegated to UBS-AM.

Moreover, clear guidelines have been given by UBS-FML which have to be considered by UBS-AM in case votes have to be exercised on controversial items.

Where UBS-FML have delegated the voting activity to UBS-AM, the corresponding reporting based on the UBS-AM Global Stewardship Policy is available under the following link:

<http://www.ubs.com/global/en/asset-management/investment-capabilities/sustainability.html>

Where UBS-AM has not been delegated voting activity, it is the responsibility of the portfolio manager to deal with the relevant voting rights. The corresponding reporting is available under the following link in a document referred to as list of engagement policies of delegated portfolio managers and relevant reporting.

<https://www.ubs.com/content/dam/assets/am/global/doc/engagement-policy-links-fml.pdf>

All PAIs may be considered as part of our corporate engagement, proxy voting and public policy engagement activities.

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

Regarding climate, UBS' engagement aims to share expertise on an orderly transition towards a net-zero economy. Its sustainability and climate governance ensures alignment of the engagement, based on its climate strategy and net-zero planning, and clear accountabilities regarding regulatory and governmental developments.

All PAIs may be considered as part of our corporate engagement, proxy voting and public policy engagement activities.

## 4.4 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-FML has not committed to any international standard individually. However, it is a significant entity of UBS Group AG (UBS), therefore all of 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 or 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 [UBS Sustainability Report](#).

UBS also supports the Taskforce on Nature-related Financial Disclosures (TNFD). It is contributing to 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 and, in the same year, our firm was a founding member of the Wolfsberg Group of Banks, which was originally set up to promote good practice in combating money laundering;
- 2002 – Carbon Disclosure Project 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;
- 2020 – UBS is a founding signatory of the Net Zero Asset Managers initiative since 2020 and the Net-Zero Banking Alliance (since 2021). And it is a founding member of the Wolfsberg Group, an association of global banks that aims to develop financial services industry standards regarding anti-money laundering, know-your-client and counter-terrorist financing policies.

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

## 5.1 The Paris agreement

UBS is committed to standing with its clients to help them achieve their net-zero goals and to support the work governments around the world are doing to move the real economy to align with the Paris Agreement 1.5°C commitment.

As part of our transition plan, which outlines principles supporting our ambition to achieve net-zero greenhouse gas (GHG) emissions across our scope 1, scope 2 and specified scope 3 activities, we have set targets in financing, investing and own operations. To underpin these targets, we have defined various actions that we strive to implement in the short-, medium- and long-term. In line with our continued transition plan development, we will continue to define additional actions and refine current plans to further drive progress toward our targets.

Additionally, UBS-AM works alongside its clients and portfolio companies to support their efforts to transition in line with the Paris Agreement-aligned 1.5°C net-zero pathways. It proactively and constructively provides feedback and support to corporate clients on their net zero- aligned transition strategies, plans and progress.

Since 2022, UBS-FML uses scenario-based approaches to assess our exposure to physical and transition risks stemming from climate change. This forward-looking analysis is based on data from an external vendor (S&P TruCost). However, in the portfolio management services, UBS is currently not directly considering climate scenario in its investment decision-making processes. The main PAI taken into account in this alignment with the objectives of Paris Agreement is greenhouse gas emissions.

## 5.2 Reduction in climate adverse impacts as part of our net zero commitments

In 2023, UBS Asset Management made progress toward delivering its 2030 target of aiming to align 20% of UBS Asset Management's total assets under management (AuM) with net zero, using science-based portfolio alignment approaches. This Preacquisition UBS aspiration will be reassessed in 2024.

## 5.3 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, UBS:

- 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 labour and forced labour, 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 new products are being manufactured and therefore also in the decision making process of these products.

## 5.4 Biodiversity

UBS' 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.

## 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 environmental, social and governance factors. 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. The total PAI exposures for 12 out of 20 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.

Please find hereafter an overview of the development of the PAI indicators since inception of this reporting (i.e. over the last 2 years):

Indicators applicable to investments in investee companies				
Adverse sustainability indicator	Metric	Impact [year 2023]	Impact [year 2022]	
<b>CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS</b>				
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	7'067'520 tCO <sub>2</sub>	7'801'851 tCO <sub>2</sub>
		Scope 2 GHG emissions	1'718'269 tCO <sub>2</sub>	1'863'097 tCO <sub>2</sub>
		Scope 3 GHG emissions	49'758'078 tCO <sub>2</sub>	60'972'922 tCO <sub>2</sub>
		Total GHG emissions	58'485'676 tCO <sub>2</sub>	70'499'868 tCO <sub>2</sub>
	2. Carbon footprint	Carbon footprint	354.32 t/m€	296.05 t/m€
	3. GHG intensity of investee companies	GHG intensity of investee companies	960.00 t/m€	928.56 t/m€
4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	7.33%	6.11%	
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	69.20%	75.66%	
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	8.57 GWh/m€	15.51 GWh/m€	
	<i>Agriculture, Forestry and Fishing (A)</i>	1.14 GWh/m€	1.05 GWh/m€	

		<i>Mining and Quarrying (B)</i>	0.89 GWh/m€	2.17 GWh/m€
		<i>Manufacturing (C)</i>	1.32 GWh/m€	0.77 GWh/m€
		<i>Electricity, Gas, Steam and Air Conditioning Supply (D)</i>	2.34 GWh/m€	7.86 GWh/m€
		<i>Water Supply; Sewerage, Waste Management and Remediation Activities (E)</i>	1.01 GWh/m€	1.24 GWh/m€
		<i>Construction (F)</i>	0.31 GWh/m€	0.16 GWh/m€
		<i>Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles (G)</i>	0.10 GWh/m€	0.12 GWh/m€
		<i>Transportation and Storage (H)</i>	1.04 GWh/m€	1.69 GWh/m€
		<i>Real Estate Activities (L)</i>	0.43 GWh/m€	0.45 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	7.86%	0.06%
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested	0.01t/m€	2.67 t/m€
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested	1.82 t/m€	2.11 t/m€

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

Adverse sustainability indicator		Metric	Impact [year 2023]	Impact [year 2022]
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%	0.58%
	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	1.34%	39.42%
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	12.43%	13.20%
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	33.06%	31.34%



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	0.04%	0.06%
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#### Indicators applicable to investments in sovereigns and supranationals

Adverse sustainability indicator	Metric	Impact [year 2023]	Impact [year 2022]
Environmental 15. GHG Intensity	GHG intensity of investee countries	388.89 t/m€	451.16 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.	9 (7.44%)	7 (6.30%)

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

Adverse sustainability indicator	Metric	Impact [year 2023]	Impact [year 2022]
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	0.04%	0.00%
Energy efficiency 18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	7.78%	0.17%

#### Additional climate and other environment-related indicators

#### CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS

#### Indicators applicable to investments in investee companies

Adverse sustainability indicator	Metric	Impact [year 2023]	Impact [year 2022]
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	41.50%	21.34%

#### Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

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

#### Indicators applicable to investments in investee companies

Adverse sustainability indicator	Metric	Impact [year 2023]	Impact [year 2022]
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	1.36%	5.02%