Investing for generations to come

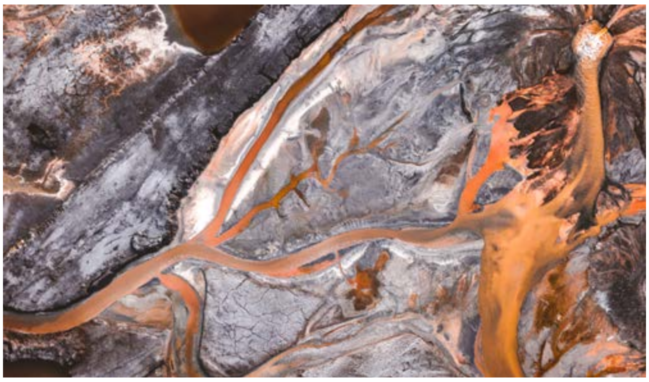
UBS Climate Aware – Rules-based equity investing

At the end of this century, temperatures on our planet are projected to reach unprecedent levels, causing a significant impact on the ecosystem, economy and our daily lives. The UBS Climate Aware rules-based equity strategy aims to mitigate climate-related risks and invests in companies that are adapting their business models and driving the transition to a low carbon economy forward.

The climate challenge
The consequences of climate change can no longer be ignored. Both the financial industry and asset owners must take action to address this crisis and mitigate its effects.
To limit global warming to 1.5° Celsius, a vast amount of capital is required to create a climate-smart economy: an estimated annual investment of USD 9 trillion by 2030 and over USD 10 trillion from 2031 to 2050 is required[1].

New opportunity
Governments, corporations, and investors are stepping up the deployment of climate technologies.

- Average annual climate finance flows reached almost USD 1.3 trillion in 2021/2022, nearly doubling compared to 2019/2020 levels[1].
- Government programs in the United States (US Inflation Reduction Act) and Europe (EU Green Deal) may open up more opportunities for investors in a market estimated to reach USD 9 trillion to USD 12 trillion in annual investment by 2030[2].



Why UBS Equity Climate Aware strategy?
In response to the risks posed by climate change and to support the global transition to a low carbon economy, UBS Asset Management developed the Climate Aware strategy. This rules-based strategy is designed to capitalize on the long-term transition to a low GHG emissions economy by investing in companies that are driving this transition forward, as well as those adapting their operating models.

Our investment team considers the transition to a low carbon economy through three pillars by aiming to have a higher exposure relative to the benchmark to:

Climate Mitigation: Companies that are addressing climate change in their own operations

Climate Adaptation: Companies with products and services that provide solutions for a low carbon future

Climate Transition: Companies in carbon-heavy industries that are transforming their existing business models

1 Source: https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/

2 Source: https://www.mckinsey.com/capabilities/sustainability/our-insights/playing-offense-to-create-value-in-the-net-zero-transition

Philosophy
Our methodology is constructed using a series of quantitative and qualitative metrics under three pillars: mitigation, adaptation and transition. By combining a multi-dimensional group of metrics, we guide portfolio construction toward a set of exposures aimed at reflecting the low GHG emission economy and the Net Zero 2050 scenario. Our approach is forward-looking, implementing a probability-based framework to capture the inherent uncertainty surrounding carbon data.

Process
To achieve its goals, the Climate Aware rules-based strategy increases or decreases exposures to index constituents based on their expected contribution to climate change.

We aim to reduce the size of the investment in companies that:
– have worse than average GHG emissions when converted to tons of CO_2 equivalent
– produce energy from coal
– have reserves of coal, oil and gas

We aim to increase the size of the investment in companies that:
– are most aligned to help meet the net zero emissions 2050 scenario
– have strategic development initiatives and revenues generated from clean technologies

Mitigation
Current carbon profile: We consider information about a company's direct and indirect carbon footprint (scope 1, 2 and 3 upstream emissions, measured as intensity levels).

Adaptation
Fossil fuel reserves and energy production: we allow underweighting companies generating electricity from coal power stations and the reduction of exposure to companies that hold proven reserves of coal, oil or gas.

Green opportunities and renewables: we increase the portfolio’s exposure to companies with strategic development initiatives of technologies that are conducive to a low carbon economy and revenues generated from clean technologies.

Transition
Glide path Transition score: We build a proprietary methodology that compares a company's carbon footprint trend with the required emission reduction implied by the Net Zero 2050 scenario for the respective industry. This approach allows us to estimate the likelihood that a company will achieve the required glide path targets.

Qualitative overlay: we improve the estimates of our quantitative model with a qualitative framework. We consider a number of forward-looking indicators of a company’s overall commitment to reducing its carbon footprint, including company’s disclosures under Science Based Target initiative (SBTi).

Why UBS-AM?
Our systematic and indexing approach is bolstered by research, innovation and efficient implementation

Stability and expertise
– Over 35 years' indexing experience, over USD 781 billion AUM (as of 31 March 2024)
– Indexing PMs with 15+ years of industry experience on average
– Focus on research and innovation

Robust, proven investment process
– State-of-the art proprietary portfolio management system
– Focus on customization

Wide product range, broad client base
– 400+ funds, 200+ indices
– Clients in 30+ countries
– ETFs, pooled funds, segregated mandates

Opportunities

– Highly diversified global equity strategy with focus on risks and opportunities arising from the transition to a low carbon economy
– Cost-efficient, customizable solution
– Not excluding entire sectors, instead increasing the portfolio’s exposure to climate technologies vs. benchmark
– The strategy is aligned to forward-looking carbon reduction targets with a focus on companies performing in line with the globally agreed climate change goals (net zero emissions 2050 scenario)
– An active engagement policy including voting at the general meetings of companies around the world that need to adapt their business, strategy, and corporate governance in order to reduce climate risks and meet globally agreed climate change goals

Risk

– The strategy invests in equities and may therefore be subject to high volatility
– Due to market volatility, the unit price may fall below the purchase price paid
– May be influenced by currency fluctuations
– May be subject to geopolitical risks
– Sustainable tilts may lead to performance deviating from the benchmark.
– The long-term nature of climate models and data, new scientific evidence and newly available data may have an impact on the accuracy of net zero targets. These changes may occur for a number of reasons and may alter the baseline data regarding portfolio issues, such as: recalibration of data due to significant changes in data coverage, availability or quality, and recalibration of data due to a significant change in the composition of the benchmark.

Investment guidelines (targets at rebalance)

Expected maximum tracking error vs. Index	1.00% (typically 0.50%)
Relative stock weight[1]	± 0.20% carbon related groups ± 0.075% rest of industry groups
Sector and country relative exposure[1]	± 0.50%
Industry relative exposure[1]	± 0.50% carbon related groups, ± 0.25% rest of industry groups
Expected maximum 1-way turnover[2]	10% p.a.
BARRA style factor relative exposures[1]	± 0.50
Relative beta[1]	± 2%
Approximate number of stocks[1]	Broad market exposure

1 Constraints related to investment guidelines at rebalance.
2 Maximum turnover is indicative and assumes normal market conditions. It may not reflect the realized turnover and is not a guide to the future.

Glossary

Greenhouse gases: Greenhouse gases or carbon dioxide equivalents are generally viewed as a cause of global warming potential relative to carbon dioxide. The six greenhouse gases covered by the UN Kyoto Protocol are: carbon dioxide (CO_2), methane (CH4), nitrous oxide (N_2O), sulfur hexafluoride (SF6) hydrofluorocarbons (HFCs) and perfluorocarbons (PFCs). Each gas has a global warming potential (GWP) measured as the ratio of heat trapped by one metric tonne of the gas to that of one tonne of CO_2 over a specified time period.

Rules-based strategy: The UBS-AM climate aware rules- based strategy uses indexing, quantitative and sustainability research capabilities to construct a rules-based strategy that applies positive and negative 'tilts' related to climate change aspects, while aiming to deliver returns broadly in line with the underlying global equity index.

Net Zero Emissions by 2050 Scenario (NZE Scenario): Normative scenario that shows a pathway for the global energy sector to achieve net zero CO_2 emissions by 2050, with advanced economies reaching net zero emissions in advance of others. This scenario also meets key energy-related Sustainable Development Goals (SDGs), in particular universal energy access by 2030 and major improvements in air quality. It is consistent with limiting the global temperature rise to 1.5 °C (with at least a 50% probability), in line with emissions reductions assessed in the Intergovernmental Panel on Climate Change (IPCC)'s Sixth Assessment Report (source: IEA)

For marketing and information purposes by UBS.

For professional clients / qualified investors only.

Before investing in a product please read the latest prospectus and key information document carefully and thoroughly.

Any decision to invest should take into account all the characteristics or objectives of the fund as described in its prospectus, or similar legal documentation. Investors are acquiring units or shares in a fund, and not in a given underlying asset such as building or shares of a company. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith, but is not guaranteed as being accurate, nor is it a complete statement or summary of the securities, markets or developments referred to in the document. Members of the UBS Group may have a position in and may make a purchase and / or sale of any of the securities or other financial instruments mentioned in this document. Units of UBS funds mentioned herein may not be eligible for sale in all jurisdictions or to certain categories of investors and may not be offered, sold or delivered in the United States. The information mentioned herein is not intended to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not a reliable indicator of future results. The calculated performance takes all costs on the fund level into consideration (ongoing costs). The entry and exit costs, which would have a negative impact on the performance, are not taken into consideration. If whole or part of the total costs to be paid is different from your reference currency, the costs may increase or decrease as a result of currency and exchange rate fluctuations. Commissions and costs have a negative impact on the investment and on the expected returns. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency and exchange rate fluctuations. This information pays no regard to the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient. Future performance is subject to taxation which depends on the personal situation of each investor and which may change in the future. The details and opinions contained in this document are provided by UBS without any guarantee or warranty and are for the recipient's personal use and information purposes only. This document may not be reproduced, redistributed or republished for any purpose without the written permission of UBS Asset Management Switzerland AG or a local affiliated company. Source for all data and charts (if not indicated otherwise): UBS Asset Management

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

A summary of investor rights in English can be found online at: ubs.com/funds.
More explanations of financial terms can be found at ubs.com/glossary

UBS AG
Asset Management
P.O. Box
CH-8098 Zürich ubs.com/am