Transitioning to a more sustainable future

Supporting your sustainable investment goals
“We are committed to bringing you the ideas and transparency you need to deliver on your investment priorities and values, without compromise.”

Suni Harford
President of Asset Management and UBS Group Executive Board sponsor for Sustainability and Impact, Member of UBS Group Executive Board
At UBS Asset Management, we focus on helping our clients achieve their sustainable investment and decarbonization objectives.

At UBS sustainability means thinking and acting with the long term in mind. It’s an integral part of our business, from the products, services and advice we offer, to the way we work and operate in society. For UBS this is nothing new. For over two decades, we have had a focus on sustainable finance. Today, it is embedded in our firm, our external commitments and our client promise: we want to be the financial provider of choice, to help clients mobilize their capital towards the achievement of the United Nations’ 17 Sustainable Development Goals and the orderly transition to a low-carbon economy.

To make sure we’re creating an impact we’ve chosen to focus our efforts on the planet, people and partnerships. In concrete terms, this means taking climate action and supporting the transition to a net-zero world; addressing wealth inequality through our philanthropy and community affairs efforts in health and education; and working with our unrivalled network of partners around the world. Our Group Sustainability and Impact organization is driving these aspirations and delivering on our commitments, not least of which is our promise to reach net zero across all aspects of our operations and client activities by 2050. As a founding member of the Net Zero Asset Managers initiative we’ve also committed to reaching net zero emissions across our clients’ portfolios by 2050 and have established clear interim targets.

With over 20 years’ sustainable investing expertise at UBS Asset Management, we continue to develop a range of sustainable strategies that are aimed at helping drive positive change, beyond just financial returns. Over the past four years, we have integrated Environmental, Social and Governance (ESG) factors across our investments. Today, our traditional active products integrate ESG risk factors into our investment decisions utilizing a systematic ESG research process. Where possible, we continue to develop our integration approaches where it is not yet feasible, such as with third-party hedge funds.

Over the next few pages, we outline UBS Asset Management’s sustainability ambition and our commitment to the low-carbon transition. This commitment was underscored recently when we were placed in the Top 10 in Continental Europe and #1 in Switzerland, and named an ‘Avant-Gardist’ in the Responsible Investment Brand Index 2021. This honor goes to asset managers who lead the way in commitment to sustainable investing.
Turning aspirations into actions

In today’s world, it is increasingly obvious that the consequences of climate change can no longer be ignored. We firmly believe that investors have the ability to effect real change, and that there doesn’t need to be a trade-off between positive returns and sustainability. In fact, we believe sustainable investing can result in enhanced overall risk-adjusted outcomes for clients, primarily by protecting against downside risks and identifying opportunities associated with environmental, social and governance-related issues.

By determining long-term investment opportunities, anticipating and managing financially material risks, engaging with relevant third parties, and creating products and services that take ESG considerations into account, we believe our investments will yield greater success for our clients while positively affecting society and the environment.

Four key areas of focus

1. Delivering innovative sustainable solutions
   - We are expanding our offering with the launch of new funds alongside the conversion of some of our existing shelf
   - We center our product innovation around people and planet
   - We are strengthening our leading customized ESG index solutions with proprietary methodologies
   - We are working to provide increased transparency on sustainable outcomes through enhanced reporting

2. Taking ESG integration to the next level
   - We are enhancing our ESG methodology and data sets to align with the United Nations’ Sustainable Development Goals and to identify issuer level impacts on growth opportunities.
   - We have strengthened our exclusions policy to reinforce our commitment to the low-carbon transition and the UN Global Compact standards

3. Leveraging our scale to drive positive change through stewardship and engagement at a global level
   - We are extending our engagement program beyond climate to include other UN SDG themes
   - We are leveraging our global scale and leading position as a passive investor to reinforce our engagement dialogues with companies and thereby drive progress towards meeting the UN SDGs
   - Good governance is a central prerequisite for sustainable outcomes in all of our portfolios

4. Leading industry collaborations to maximize impact
   - We actively seek opportunities to drive positive change through industry collaboration e.g. our role as a leading member of ClimateAction100+
   - To drive innovation we collaborate with a number of clients with shared ambitions around climate and social impact
   - As a founding member of the Net Zero Asset Managers initiative, we partner with like-minded asset managers to promote the transition to a low carbon society
How we integrate sustainability into the investment process

Managing ESG risks
We identify the most financially relevant sustainability factors that impact investment decisions and use our proprietary ESG risk dashboard to identify those companies with material ESG risks. We then incorporate those ESG risks within the investment decision-making process, alongside traditional financial analysis. This ESG risk analysis is embedded in our ‘UBS ESG Integration’ and ‘UBS Sustainable Investing’ fund families (see overleaf).

Identifying opportunities
Our analysis of ESG factors draws on different ESG data sources, both qualitative and quantitative, covering a wide range of topics including carbon footprint, health and well-being, human rights, supply chain management, fair customer treatment and governance. We establish a comprehensive, forward-looking view where we believe the most important ESG risks and opportunities reside.

Promoting change
An important part of our sustainability integration approach is the role of stewardship. We engage with companies to help them strengthen their commitments to better environmental and social outcomes. The COVID-19 pandemic has underscored the role businesses can play in society and raised expectations around the role of a good corporate citizen. We have seen a growing demand for companies to consider not just shareholder returns, but also the impact which their company has on the environment and the communities in which they operate.

Visit our website ubs.com/am-si for more details of our sustainability commitment, product offerings, and sustainable investing insights.

Integration and stewardship:
an intrinsic part of our traditional active investment decision-making process

ESG risk signals, investment insights, company models, proxy voting activities and engagement notes are all housed and shared by analysts, portfolio managers and the ESG research and stewardship analysts.

shared platform for enhanced collaboration
Proprietary ESG risk signal
Investment cases are actively monitored, and – where needed – we aim to influence corporate behavior through active dialogue and proxy voting.

Engagement on ESG issues
More informed decisions for portfolio managers
Taking into account ESG factors as part of the portfolio construction is mandatory for our Sustainability Focus and Impact strategies. For ESG Integration strategies, investment teams have access to ESG factors & information.

Investment teams supported by a dedicated team of ESG research and stewardship analysts with specific ESG expertise

ESG research
Fundamental research

The UBS-AM ESG risk dashboard signals companies with higher ESG risks.

Fundamental analysts and material ESG risks
We are committed to engaging with companies to help them transition to a lower carbon future and play an important role in solving today’s climate change emergency.

Stewardship is an integral part of our traditional investment process. We firmly believe that engagement is a two-way dialogue through which we can work to influence a company’s behavior.

We prioritize corporate engagement based on an assessment of financial exposure, high ESG risks, poor performance on thematic issues of concern and presence of controversies.

In 2020, our active engagement covered 277 companies across regions and sectors (+20% from 2019), 10% of these engagements were collaborations with other investors.

We voted against management recommendations for at least one proposal at 64% of meetings. This resulted in a total of 19,288 proposals voted against (16.7% of total resolutions voted).

We strive to collaborate with companies on improvements. Where companies show insufficient progress on climate issues, we have an escalation process which may lead to exclusion from our sustainable and Climate Aware strategies.

In 2020 we received an ‘A’ leadership band for engagement and voting on climate from Influence Map, and A+ or A across all modules of the UN Principles of Responsible Investment Annual Assessment (including an A+ in Stewardship).

We proactively monitor companies’ ESG performance, engage with decision makers on identified risks and opportunities and use our voting activities to help drive positive change.

For the 2020 calendar year we submitted votes at 11,615 shareholder meetings, and upon 115,222 separate resolutions. This covered 96% of shareholder meetings where we had an eligible position to vote.

The votes covered a range of ESG issues.

We voted against management recommendations for at least one proposal at 64% of meetings. This resulted in a total of 19,288 proposals voted against (16.7% of total resolutions voted).

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How we approach stewardship

Percentage of companies engaged by sector in 2020

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication Services</td>
<td>5%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>11%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>5%</td>
</tr>
<tr>
<td>Energy</td>
<td>6%</td>
</tr>
<tr>
<td>Financials</td>
<td>20%</td>
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<tr>
<td>Health Care</td>
<td>10%</td>
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<tr>
<td>Industrials</td>
<td>13%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>10%</td>
</tr>
<tr>
<td>Materials</td>
<td>6%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5%</td>
</tr>
<tr>
<td>Utilities</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: UBS Asset Management 2021. For illustrative purposes only
A global overview of our ESG Integration and Sustainable Investing Products at UBS Asset Management

<table>
<thead>
<tr>
<th>UBS fund family</th>
<th>UBS Non-ESG</th>
<th>UBS ESG Integration</th>
<th>UBS Sustainable Investing</th>
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</thead>
<tbody>
<tr>
<td>ESG/SI Category</td>
<td>Non-ESG Integration</td>
<td>ESG Integration</td>
<td>ESG Promotion</td>
</tr>
<tr>
<td>EU SFDR</td>
<td>Art. 6</td>
<td>Art. 6</td>
<td>Art. 8</td>
</tr>
<tr>
<td>Naming convention</td>
<td><em>Sustainable / ESG</em> not part of name</td>
<td><em>Sustainable or thematic reference</em> generally part of the name</td>
<td><em>Impact or thematic reference</em> generally part of the name</td>
</tr>
</tbody>
</table>

### Financial Goals
- Competitive risk-adjusted financial returns

### Non-financial Goals
- Identify and assess material environmental, social and governance risks
- Benefit the environment and society
- Contribute to sustainable outcomes

### Client expectation
- Clients seek protection from downside risk by considering ESG aspects alongside traditional financial metrics in the research process
- Clients seek to improve risk-adjusted returns and realize sustainability objectives by investing in leading or improving sustainable companies and avoiding controversies
- Clients seek to generate measurable, verifiable, positive sustainability outcomes while generating competitive financial returns

### UBS Asset Management Sustainability Exclusion framework

<table>
<thead>
<tr>
<th>Exclusion framework</th>
<th>Controversial weapons (Ethix)</th>
<th>Depleted Uranium</th>
<th>Thermal coal mining / extraction, oil sands-based extraction</th>
<th>Controversial behavior (UN Global Compact fails w/o credible corrective action)</th>
<th>Thermal coal-based power generation</th>
<th>Controversial business activities (production): tobacco, adult entertainment, gambling, conventional military weapons</th>
<th>UBS-AM engagement-based exclusions</th>
</tr>
</thead>
</table>

### ESG Risk integration
- ESG risk integration incorporated into research process
- ESG risk screening incorporated into portfolio construction

### Stewardship
- Engagement, Voting

### Promotion & Disclosures
- Do no harm and good governance principle: yes
- Promote environmental/social goals: yes (*aim to...*)
- Promote sustainable investment: > X% (as at December 2021)
- Objectives linked to UN Sustainable Development Goals or other impact framework: yes
- Specific impact universe creation in portfolio construction: yes

<table>
<thead>
<tr>
<th>UBS Asset Management Fund Shelf</th>
<th>Active Equity Funds</th>
<th>Active Equity ESG Integration Family Funds</th>
<th>Active Equity SI Funds</th>
<th>Active Fixed Income Funds</th>
<th>Active Fixed Income ESG Integration Family Funds</th>
<th>Active Fixed Income SI Funds</th>
<th>Active Multi-Asset Funds</th>
<th>Active Multi-Asset ESG Integration Family Funds</th>
<th>Active Multi-Asset SI Funds</th>
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<tbody>
<tr>
<td>Passive Funds/ETFs</td>
<td>Passive ESG Integration Family Funds</td>
<td>Passive SI Funds/ETFs</td>
<td>Passive SI Funds/ETFs</td>
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<tr>
<td>Alternative Funds</td>
<td>Alternative ESG Integration Family Funds</td>
<td>Alternative SI Funds</td>
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<tr>
<td>Private Markets Funds</td>
<td>Private Markets ESG Integration Family Funds</td>
<td>Private Markets SI Funds</td>
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1. UB-S-AM nomenclature, not necessarily aligned to any specific regulatory nomenclature; see UBS Sustainability report for more details.
2. In general, the naming of our ETF / Passive strategies is based on the naming of the underlying index / BM they replicate.
3. Please note this exclusion framework applies to active UBS funds only. Sustainable Passive funds/ETFs will apply the exclusions of the sustainable indices that they are tracking. Refer to our Exclusions policy for more information of any out of scope asset classes e.g. passive funds/ETFs which track a benchmark.
4. Applies to our actively-managed strategies only.
5. This framework generally applies to UBS managed strategies. Compared to the UBS AM ESG standards defined for actively managed equity and fixed income strategies, similar sustainability criteria are applied to investments in strategies of external asset managers, but without specifying the data providers and sources or the exact operationalization of the criteria (“equivalency principle”).
6. Planned.
7. We consider the ESG classification framework, sustainable data and criteria, provided by the index provider when classifying our Products.
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