

# Stewardship Annual Report 2021

UBS Asset Management





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**FOREWORD**

# Amplifying our purpose





**Suni Harford**  
President  
UBS Asset Management

The transition to net zero is taking on even greater urgency. Critical action is required by all economic participants to move the needle on the challenges ahead.

During 2021, against a backdrop and persistence of the pandemic, we continued to see a rise in activities aimed at sustainability around the world – whether in the form of new regulatory and policy expectations, further corporate commitments, or a further increase in investor and societal expectations.

It was also an important year for sustainability at UBS. We set our firm's new purpose statement, "Reimagining the power of investing. Connecting people for a better world." I was extremely proud to be asked to spearhead Sustainability and Impact at the UBS Group Executive Board, to help bring together our firm's ESG efforts and support our teams in delivering the best of UBS to our clients.

With sustainability at its core, our purpose is our north star, driving us to help build an investing ecosystem that creates better outcomes for today and for future generations.

We are pleased with the progress and evolution of our stewardship activities in 2021 but recognize there is still work to do. We set a high bar for what we regard to be a successful outcome, and change through engagement can take time to achieve.

We have expanded our engagement strategy consistent with our commitment to net zero emissions, including escalation

strategies for companies failing to make progress against objectives. We have also enhanced our approach to thematic-based engagements, further expanding the topics on which we engage, such as inclusive growth, human rights, and health. By doing so we believe we can enhance financial returns for investors, reduce systemic risks and further shape sustainable outcomes.

As we enter 2022, the terrible humanitarian impact of Russia's unprovoked invasion of Ukraine, as well as the growing geopolitical uncertainty, is further intensifying the world's focus on the role of ESG investing.

At the same time, the transition to net zero is taking on an even greater urgency. Critical action is required by all economic participants to address the challenges ahead.

As this report demonstrates, we strongly believe that active ownership has an important role in helping to drive change, and we will continue to proactively engage with companies and standard setters, while using voting rights to reinforce our expectations.

Throughout 2022 and beyond, our continued collaboration with like-minded investors, as well as our ongoing partnership with clients, will remain key in achieving impact on a global scale.

## SECTION 1

# Who we are

For over two decades we have been at the forefront of sustainable finance

## UBS Group AG

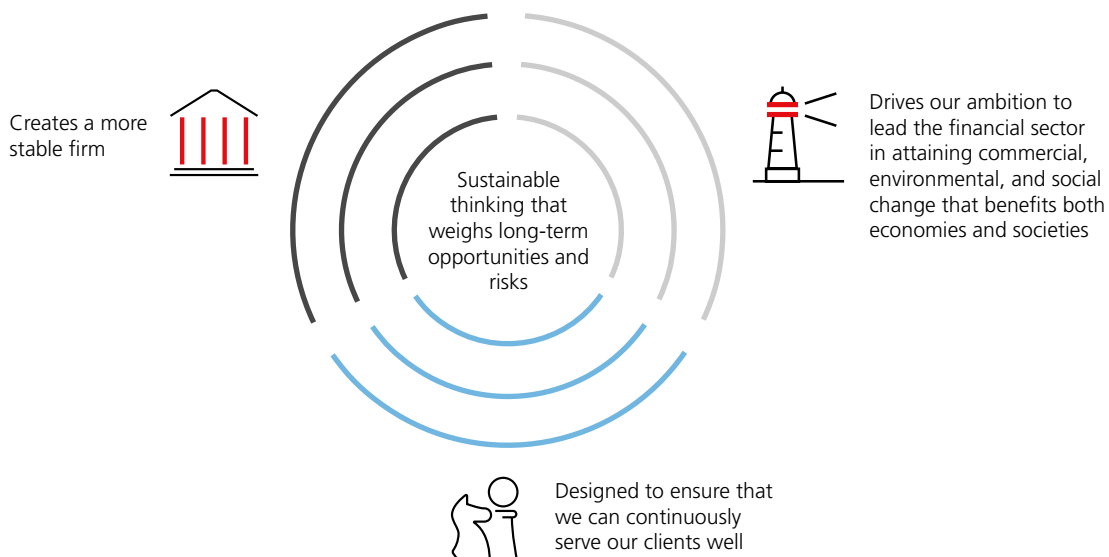
At UBS, we are reimagining the power of investing and connecting people for a better world. This is our purpose, and it guides us in everything we do. We call this our global ecosystem for investing – where people and ideas are connected, opportunities are brought to life and where our thought leadership can be impactful.

We know finance has a powerful influence on the world. That is why we partner with our clients to help them mobilize their capital toward a more sustainable world. It is why we have put sustainability at the heart of our own business, too. To help us maximize our impact and direct capital to where it is needed most, we are focusing on three key areas to drive the sustainability transition: planet, people, and partnerships.

At UBS, sustainability means thinking and acting with the long term in mind. We have an obligation to our clients, shareholders and employees to apply a long-term lens, and we also have a responsibility to society at large.

For over two decades we have been at the forefront of sustainable finance. We led the way as one of the first financial services firms to sign the United Nations Environment Programme's Statement by Financial Institutions on the Environment and Sustainable Development.

In 2015 we became a founding member of the Taskforce on Climate-related Financial Disclosures, a founding member of the Net Zero Asset Managers Initiative in 2020 and of the Net Zero Banking Alliance in 2021. Sustainability is high on our clients' agendas, and we want to help them on this journey.



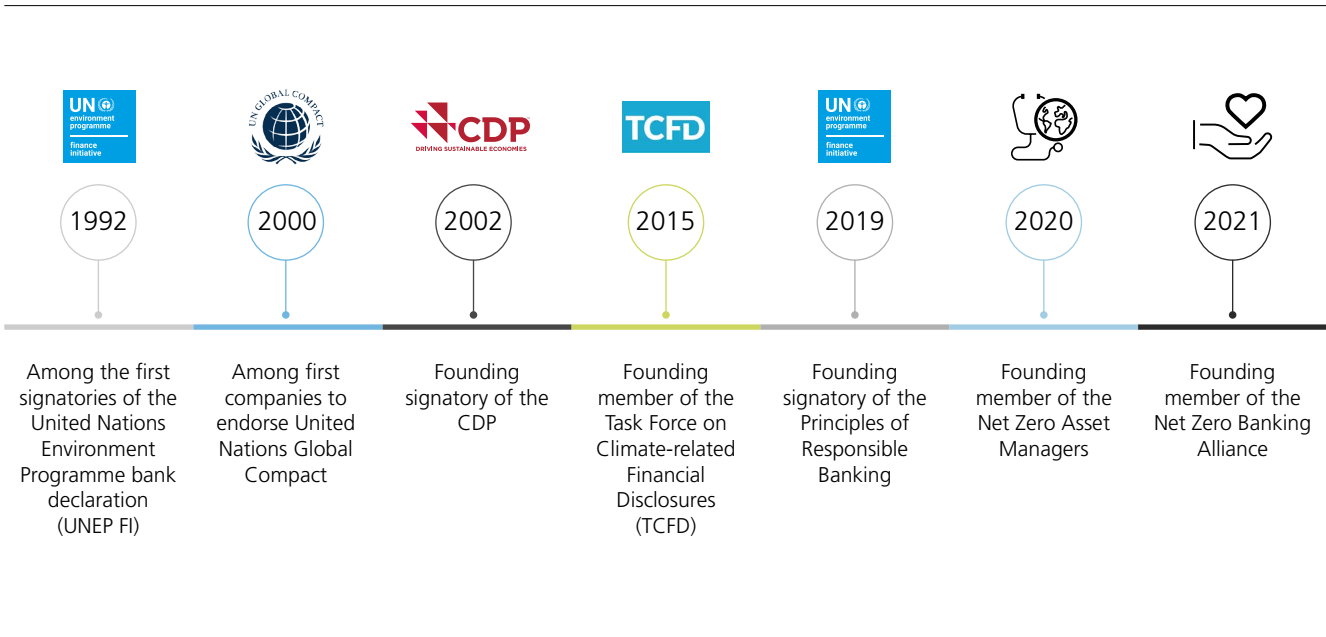
UBS's goal is to be the financial provider of choice for clients wishing to mobilize capital towards the achievement of the United Nation's Sustainable Development Goals (SDGs) and the orderly transition to a low-carbon economy (the Paris Agreement).

We are working towards this goal by integrating sustainability into our mainstream offerings and through new and innovative financial products that aim to have a positive effect on the environment and society.

And it is through the management of sustainability and climate risks, the management of our environmental footprint and our sustainability disclosures that we seek to set standards in the industry.

To guide our ambitions, UBS established the Chief Sustainability Office in 2021. This function is led by Michael Baldinger, formerly the Head of Sustainable and Impact Investing within UBS Asset Management. Michael brings extensive experience to this newly-created role, with over 30 years working in the financial services industry and over a decade as an investor in sustainability.

The Chief Sustainability Office is responsible for driving the implementation of the Group-wide sustainability and impact strategy, including reporting on our progress toward net zero, and the execution thereof by the business divisions and Group Functions. With over 25 sustainability professionals, the Chief Sustainability Office has expertise in ESG data, sustainability frameworks, product development, and thought leadership, enabling us to continue the successful execution of our growth plans.





# UBS Asset Management

UBS Asset Management (UBS-AM) is a business division of UBS. We have independence in investment decision making and operate as a focused asset manager with our clients' interests at the core of all we do.

As a large-scale asset manager we provide traditional, alternative, real estate, infrastructure and private equity investment solutions to private clients, financial intermediaries and institutional investors worldwide.

We believe that the consideration of material sustainability factors can result in better overall risk-adjusted outcomes for clients, primarily by protecting against downside risks and through the identification of related business opportunities.

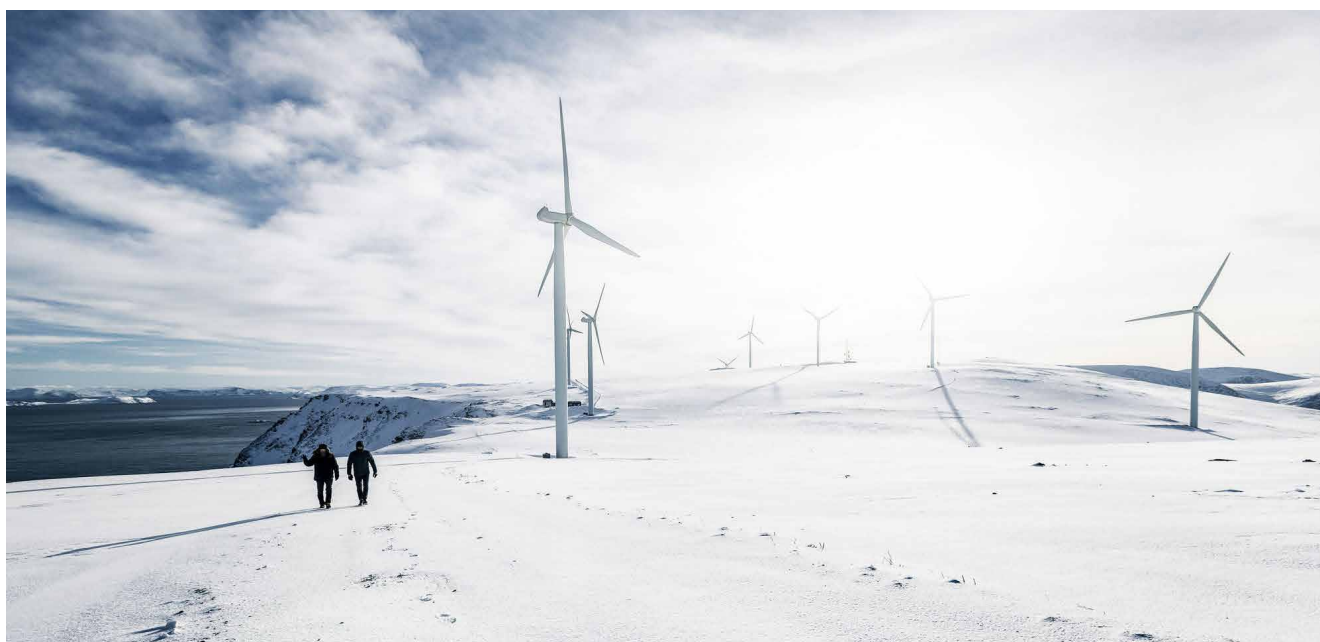
Suni Harford, the President of UBS-AM, has overarching responsibility for our activities. Suni reports to the Group Chief Executive Officer and is a member of the UBS Group Executive Board.

## **Our Principles**

Sustainable outcomes, without compromise. Whether through directing financing for social progress, promoting philanthropy, or contributing to our communities, we are constantly stretching ourselves and challenging our peers to lead by example.

## **Our Culture**

We are committed to maintaining a culture based on high ethical standards and accountability. We strive to attract and retain people from different backgrounds, regardless of status, ethnicity, gender, gender identity, gender expression, nationality, age, ability, sexual orientation or religion. Our culture is based on welcoming, respecting and valuing all team members and creating an environment where everyone has the opportunity to succeed.





## Sustainable outcomes, without compromise

UBS-AM's approach to diversity has evolved into a deliberate strategy to deliver a number of targeted initiatives designed to make progress towards the firm's aspirational goals.

In addition to fully participating in all of UBS Group's Diversity, Equity and Inclusion initiatives, we have developed some objectives offerings specifically for UBS-AM employees. Each component of our strategy corresponds to the UBS Group three focus areas of Hire more, Promote more, Lose less.

Our priority is to continue to build a more diverse and inclusive organization, specifically increasing female representation and ethnic diversity. Robust recruitment practices remain a cornerstone of how we seek to achieve this, defined by the three pillars of our hiring strategy: Diverse slate, Proactive recruitment and Rigorous tracking.

We also have robust processes to ensure fair treatment of all promotion candidates. Training is provided to all line managers on an annual basis, including in regard to unconscious bias.

Management proactively reviews Human Resource statistics with respect to key Diversity, Equity and Inclusion demographics and all decisions are discussed in management committee meetings and reviewed thoroughly to ensure fair and consistent evaluation.

The retention of diverse talent is also a critical priority. UBS-AM Initiatives for this focus area are designed to provide access for diverse talent to expert advice and exposure to leadership. Utilizing external and internal specialists, employees are able to gain tailored, development focused and expert advice to build and develop their careers. We offer a bespoke Line Manager learning curriculum focusing on creating an inclusive environment.

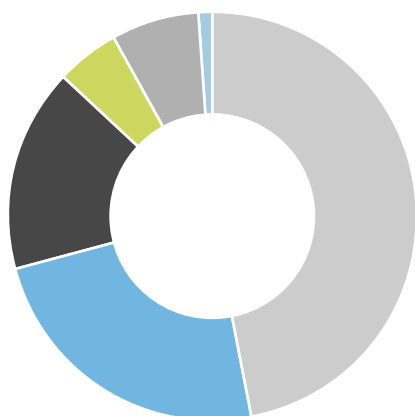


A diversified approach across  
business lines, regions, and  
distribution channels



## Invested assets USD 1.2 trillion as of December 31, 2021<sup>1</sup>

### Business lines<sup>2</sup>



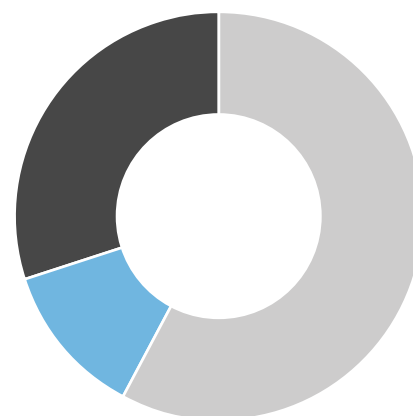
Equities	47%
Fixed Income (incl MM)	24%
Multi Asset	16%
Hedge Fund Businesses	5%
Infrastructure	7%
Real Estate	1%

### Regions



Americas	23%
Asia Pacific	16%
Europe, Middle East & Africa	28%
Switzerland	33%

### Distribution channels



Third Party Institutional <sup>3</sup>	58%
Third Party Wholesale	12%
Global Wealth Management	30%

<sup>1</sup> Source: UBS Asset Management

As of 31 December 2021. Data represents the internal distribution view externally disclosed on regions and distribution channels and asset classes for business lines. Data excludes any assets from non-consolidated associates. Total invested assets USD 1.2tn of which index strategies USD 540bn.

<sup>2</sup> Equities, Fixed Income and Money Market reflect asset classes. The Hedge Fund Businesses consist of the O'Connor (single manager) business and Hedge Fund Solutions (HFS, multi-manager business). Real Estate & Private Markets (REPM) is a separate business line. Multi-asset includes asset allocation as well as some alternative investments not managed by O'Connor and HFS and Real Estate assets managed outside REPM. Total Multi Asset USD 193bn.

<sup>3</sup> Includes UBS Investment Bank channel

Note: The UBS-AM Stewardship Policy does not apply to the O'Connor (single manager) business.

## SECTION 2

# Our commitment, leadership, and governance

We are proud to be an approved signatory of the UK Stewardship Code and are supporters of various global stewardship codes.

### UBS-AM is currently rated:

- A+ or A across all modules of the PRI (including A+ in Stewardship, A+ for Strategy and Governance, A in both Listed Equity and Fixed Income, and A+ for both Property and Infrastructure)<sup>1</sup>
- Market-leading performance in 2021 GRESB Real Estate and Infrastructure Assessments with over 90% of our submitted strategies receiving 4-stars or 5-stars and 95% outperforming the GRESB average<sup>2</sup>

### Our leadership and governance

Responsibility for sustainability at UBS begins with the Board of Directors. The Corporate Culture and Responsibility Committee, chaired by the Board Chairman of UBS AG, has responsibility for approving the Group Sustainable Investing strategy.

Within UBS-AM we have established a clear structure for planning and execution of our sustainability approach and stewardship responsibilities.

The Stewardship Committee oversees and coordinates our stewardship responsibilities and supports our Executive Team on all topics related to stewardship matters.

It also oversees the engagement progress for issuers with severe ESG risk and has the ultimate decision authority regarding whether an issuer's engagement progress is sufficient to justify maintaining a holding in any issuer flagged for severe ESG risks.

### Stewardship codes of best practice

We are signatories to several codes of stewardship best practice. These include:

- The International Corporate Governance Network (ICGN) Global Stewardship Principles
- The UK and Japanese Stewardship codes
- We also support the Securities and Futures Commission of Hong Kong Principles of Responsible Ownership, the investor-led ISG Stewardship Framework in the USA and meet the requirements of the Australian Financial Services Council Standard 23 on Principles of Internal Governance and Asset Stewardship.
- Details on the principles of the codes above are provided in Appendixes 3 and 4.

<sup>1</sup> Source: [2020 UN PRI Assessment Report](#)

<sup>2</sup> Source: [2021 GRESB Real Estate and Infrastructure Assessment](#)

The Committee is chaired by the Head of Investments who is accountable to the President of UBS-AM. Members of the Stewardship Committee include Head of Active Equities, Head of Fixed Income, Head of Trading and Execution, Head of Institutional Client Coverage and Head of Sustainable Investing.

The Committee's Terms of Reference govern the scope, roles, responsibilities and delegations of the Committee, as well as reporting and escalation of the Stewardship Committee's operations to the President of UBS-AM and UBS Group.

Where a fund specific board has underlying responsibility for voting rights, the Stewardship Committee informs the relevant fund board of the decisions and actions taken, upon request.

The Committee is the executive forum for all relevant legal entities of the traditional business of UBS-AM globally. The Committee meets quarterly with ad-hoc meetings at the discretion of the Chair should matters arise that warrant Committee review.

The core committee responsibilities and duties are outlined in the table below.

## Stewardship Committee

Chair:	Head of Investments
Frequency:	Quarterly + ad-hoc (discretion of the Chair)
Attendees:	Head of Active Equities, Head of Fixed Income, Head of Sustainable Investing, Head of Trading and Execution and Head of Institutional Client Coverage
<b>Responsibility</b>	
<i>Category</i>	
ESG Integration/ Stewardship	<ul style="list-style-type: none"> <li>– Oversees engagement progress for issuers with severe ESG risk and approves related exclusion where necessary</li> <li>– Approves investments in companies identified as breaching global norms, where credible corrective actions have been evidenced</li> <li>– Reviews and approves membership of any organization or collaborative efforts with other investors in relation to ESG / Stewardship</li> </ul>
Engagement	<ul style="list-style-type: none"> <li>– Ensures alignment of our engagement activities with our Stewardship Policy across strategies</li> <li>– Reviews and approves request to escalate our engagement activities through letters to the Board, AGM statements and/or public communications</li> </ul>
Proxy Voting	<ul style="list-style-type: none"> <li>– Reviews and approves our Proxy Voting policy, including updates as required and/or scope changes of country coverage</li> <li>– Approves all proposed proxy voting decisions which deviate from UBS Proxy Voting Policy guidelines, including where we vote upon shares held in UBS Group on behalf of client portfolios</li> <li>– Reviews and determines voting decisions where a consensus has not been reached among our sustainable investing team and portfolio management teams</li> </ul>
Others	<ul style="list-style-type: none"> <li>– Supports our efforts to send a clear message to companies based on all our holdings across index and active strategies</li> <li>– Reviews and approves requests to participate in the filing of a shareholder resolution</li> </ul>

## Sustainable Investment Research and Stewardship

On a day-to-day basis, our stewardship activities are managed and coordinated by the UBS-AM Sustainable Investing and Impact team (SI team).

The SI team is an integrated function within our Investments area and is led by Lucy Thomas, who reports directly to the Head of Investments, Barry Gill, who is a member of UBS-AM's Executive Committee, reporting to Suni Harford, President of UBS-AM.

The goal of this governance structure is to provide clear oversight from the Head of UBS-AM through to our specialist SI team, with a dedicated committee in place to oversee our activities in this area. It also supports alignment across

all related topics, including investment decisions, advocacy, regulation, engagement and voting and underscores our efforts to send a clear message to companies based on all our holdings across both passive and actively managed strategies.

We continued to build out our dedicated SI team during 2021. The team's background is very diverse and includes professionals who have worked in the asset management, finance, services industries and for asset owners. The SI team comprises 18 professionals with an average of 10 years industry experience. Drawn from nine nationalities, team members are located in Zurich, London, Amsterdam, Hong Kong and San Francisco.<sup>1</sup>

### The SI team comprises 18 professionals with an average of 10 years industry experience

#### Head of SI

**Lucy Thomas**  
Head of Sustainable Investing and Impact  
SI experience: 15 yrs

#### SI Research and Stewardship

**Henrike Kulmann**  
Head of ESG Research & Integration  
SI experience: 14 yrs

**Francis Condon**  
Head of Thematic Engagement & Collaboration  
SI experience: 18 yrs

**Paul Clark**  
Head of Stewardship  
SI experience: 22 yrs

**Jason Rambaran**  
Stewardship Analyst  
SI experience: 8 yrs

**Derek Ip**  
SI Research Analyst  
SI experience: 11 yrs

**Karianne Lancee**  
Social Thematic Lead  
SI experience: 9 yrs

**Rachael Atkinson**  
Stewardship Analyst  
SI experience: 11 yrs

**Matteo Passero**  
Stewardship Analyst  
SI experience: 5 yrs

**Emiliano Torracca**  
Stewardship Analyst  
SI experience: 14 yrs

**Henry Russell**  
SI Research Analyst  
SI experience: <1 yr

**Christiana Tsiligianni**  
Thematic SI Analyst  
SI experience: <1 yr

#### SI Specialists

**Karsten Guettler**  
Head of SI Investment Specialists  
SI experience: 12 yrs

**Amy Farrell**  
SI Investment Specialist  
SI experience: 12 yrs

**Eveline Maechler**  
SI Investment Specialist  
SI experience: 2 yrs

**Juliette Vartikar**  
SI Investment Specialist  
SI experience: 8 yrs

**Yuan Jiang**  
SI Investment Specialist  
SI experience: 14 yrs

**Sabine Bierich**  
Content Specialist  
SI experience: 1 yrs

<sup>1</sup> As of Q1 2022





**Supports**

With ESG knowledge and understanding across investment teams in UBS-AM providing company-specific and thematic research and material ESG issues and engagement insights



**Collaborates**

With UBS-AM Quantitative Evidence and Data Science team (QED) to:

- Manage ESG data feeds
- Develop scoring and reporting tools
- Provide quantitative insights on material impacts of the ESG data



The QED team is responsible for:

- Managing sustainability data sets
- Building sustainability statistical models
- Innovating our SI reporting
- Helping fundamental equity and credit analysts access and integrate ESG data and information



**Identifies**

Via the SI Specialist team, new SI investment trends and opportunities that lead to the creation of customized investment strategies for key clients and the design of SI characteristics of SI products and solutions. Working closely with our client-facing teams, the SI Specialist team supports client needs and market developments



Our SI research and stewardship analysts collaborate with our investment teams to provide consistent integration of material ESG factors into investment decisions and provide research on best practices around the use of sustainability data in forward-looking investment analysis.

The SI team is also responsible for overseeing and leading our stewardship activities, including our corporate engagement program and proxy voting decisions.

Our SI research analysts are organized on a sector basis in alignment with our fundamental investment analysts while our stewardship analysts are organized by region. This dual coverage enables us to identify a broad range of sustainability and governance factors at investee companies from both a relative sector level and absolute country-specific level which supports the ESG knowledge and understanding across the different investment teams.

The SI team also includes SI Specialists who are responsible for identifying investment trends and opportunities and creating customized SI strategies for key clients by partnering across teams.

Throughout 2021, the SI team expanded its collaboration with the UBS-AM Quantitative Evidence and Data Science team (QED). The QED team supports the SI team in managing ESG data feeds, developing scoring and reporting tools, and providing quantitative insights on the material impacts of ESG data. In addition, the work of the QED team helps the fundamental equity and credit analysts access ESG data and information.

The SI team is further supported by the UBS-AM Regulatory Management function which is focused on SI regulatory oversight and implementation. The Regulatory Management team stays abreast of regulatory developments, identifies regulatory requirements, conducts impact assessments to identify required business and system changes, and facilitates regulatory implementations with impacted business areas.





### Real Estate & Private Markets (REPM)

Our REPM business has a robust ESG governance and organizational structure with well-defined responsibilities and incentives which are designed to integrate sustainability criteria into our clients' investments. We have a clear focus on continuously refining and implementing our sustainable investing strategies and enhancing ESG integration across our real estate, infrastructure, private equity, and food & agriculture business areas.

The REPM ESG Management Forum, which is comprised of experts from multiple countries and disciplines, facilitates discussion on structured engagement on ESG initiatives and oversees implementation of decisions and recommendations in collaboration with REPM's various specialist ESG Working Groups.

The ESG Working Groups include representatives from both our direct and indirect investment teams, regulation and data. The ESG Working Groups work closely with and report up to the ESG Management Forum to provide implementation and reporting regularly. This integrated approach represents our firm-wide commitment to integrate ESG information into our investment processes and reflects the diversity of clients we serve and the breadth of our offerings and investment strategies.

### REPM ESG Management Forum

Chair:	Head of ESG Investment Strategies and Head of Food & Agriculture
Frequency:	Monthly
Attendees:	Lead Representatives – oversee implementation of its decisions and recommendations via ESG Working Groups
<b>Function</b>	
<ul style="list-style-type: none"> <li>– Provides a forum for structured engagement on ESG initiatives</li> <li>– Defines and implements REPM's sustainability strategy to grow the business's assets under management</li> <li>– Enhances ESG integration across both new and existing products</li> </ul>	

### ESG Working Groups

<b>Function</b>
<ul style="list-style-type: none"> <li>– Implements ESG Management Forum mandated decisions and recommendations</li> <li>– Responsible for generating diverse and innovative ideas</li> <li>– Coordinates their respective areas and regions on new and ongoing initiatives, including product innovations, regulatory requirements, and further integration of ESG in investment processes</li> <li>– Our sustainability objectives incorporates into all of our funds' investment processes and strategies, and property operations</li> <li>– Focuses on maximizing ESG performance at the property and fund levels in accordance with our wider strategic objectives while maintaining a strong awareness and knowledge on ESG topics relevant in their business areas</li> <li>– Measures the progress of the various business areas and reports regularly to the ESG Management Forum</li> </ul>

## **Training and education**

We actively engage in education and awareness raising for employees on corporate responsibility and sustainability topics and issues. Through employee onboarding, education, and broader awareness-raising activities, we ensure that our employees understand their responsibilities in complying with our policies and the importance of our commitments. Better understanding of our firm's sustainability goals and actions is promoted through a wide range of training and awareness-raising activities, as well as in our performance management process.

For example, across UBS Group in 2021 a specialist training program on environmental and human rights topics (including sustainable finance) was provided to over 39,000 employees in front-office and support functions who deal directly with related aspects in every-day business processes.

Sustainability and impact management indicators track sustainability training sessions, sustainability audits and the sustainability workforce across UBS. We distinguish between specialized and awareness training. Specialized training covering environmental, social and human rights topics, sustainable investing, philanthropy services, for example, is provided to employees who need it in daily business processes. It can include product and offering training or sustainability and climate risk training. Awareness-raising training is designed to provide a general understanding of Group Sustainability and Impact key principles and policies.

Within UBS-AM in 2021 we made the Certificate in ESG Investing training from the CFA Institute available to all investment and specialist staff. In addition, the CFA UK Certificate in Climate and Investing is being undertaken by specialists in our SI team.

## SECTION 3

# Our sustainable investing journey

## Integrating sustainable practices in our everyday investment process

### Integrating sustainability factors

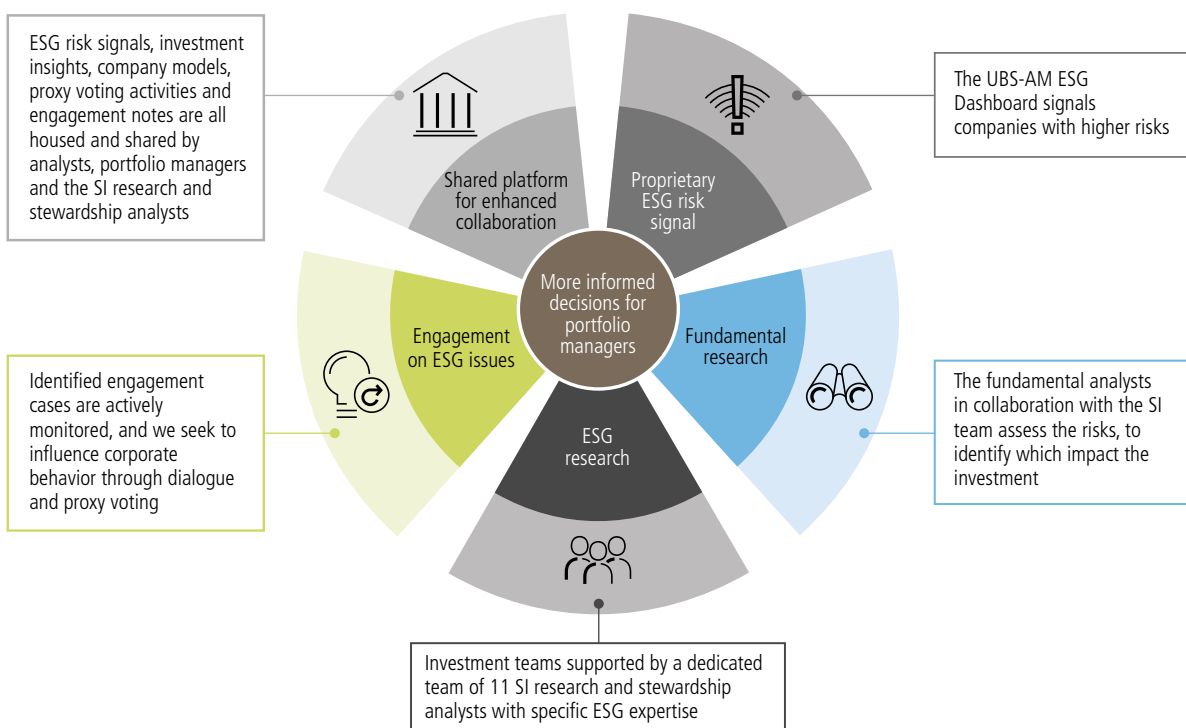
We believe that the consideration and incorporation of sustainability factors into the investment process through the analysis of material ESG data can result in better overall risk-adjusted outcomes for clients, by protecting against downside risks and through the identification of related opportunities.

We are committed to embedding sustainable investing as the everyday standard across our business. At December 31, 2021, our assets under management (AUM) in Sustainability Focus and Impact strategies were USD 172 billion while our ESG-integrated AUM reached USD 446 billion.

Across our traditional actively managed strategies ESG research is integrated across a wide range of different strategies with specific targets to further increase our coverage in 2022.

We have implemented a clear approach that we believe will lead to more successful outcomes for clients and will positively impact society and the environment through:

- Identifying long-term investment opportunities
- Anticipating and managing financially material risks
- Engaging with relevant third parties
- Creating products and services that consider ESG factors



With a number of investment areas and a range of strategies within each area, the approach to ESG issues will vary accordingly by product type and, to some extent, across countries/regions according to local regulations, market customs and client needs.



### Listed equities and fixed income

The assessment of ESG issues is oriented around our ESG Material Issues framework. The framework identifies the three to five most financially relevant factors per sector that can impact the investment thesis and credit recommendation across all Global Industry Classification Standards (GICS) sectors. It is geared towards the relevant material ESG issues for the sector which are identified with a connection to key value drivers.

Fundamental investment research at UBS-AM is driven by a team of ~50 equity analysts and ~30 fixed income analysts who provide a forward-looking ESG assessment based on a holistic review of the financially material ESG issues. They are supported by our SI team. These views support decision-making as portfolio managers weigh ESG risks against other financial considerations. Our process is described in more detail below.

### Identify

To facilitate the integration of sustainability factors, UBS-AM developed a proprietary ESG Dashboard for corporate listed equity and fixed income instruments, including sovereign debt issuers.

The ESG Dashboard is an ESG monitoring tool and serves as the starting point for ESG integration. It provides investment teams with a structured, holistic view of ESG risks across four

different dimensions, allowing for industry relative comparisons (expressed via the UBS ESG Consensus Score) as well as the identification of outliers (absolute risk, governance, and controversies).

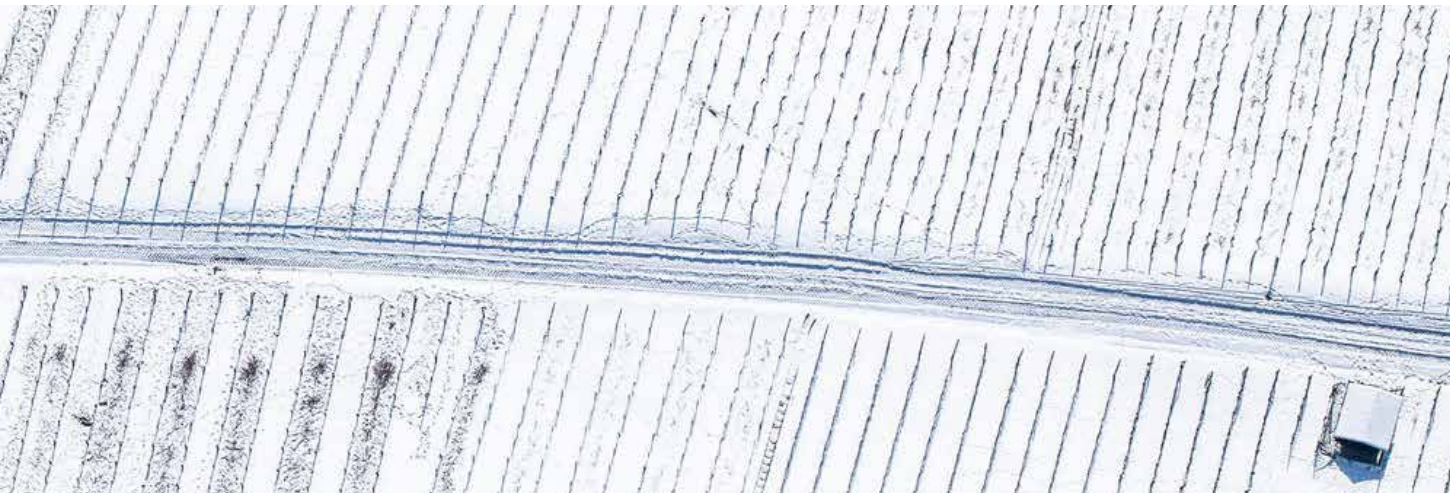
If one or more pillars do not meet our thresholds, the issuer is flagged for potentially high / severe risks, through an ESG Risk Signal. This clear, actionable signal triggers more in-depth analysis of the underlying sources of these risks and the links to their investment cases. The ESG Risk Signal combines data points from a number of reputable external research sources, including MSCI, Sustainalytics, and ISS and uses a proprietary methodology.

The scope of the ESG Risk Signal covers approximately 20,000 corporate issuers, including listed equity and fixed income and 130 sovereign issuers.

### Review and Decision

The ESG Risk Signal is incorporated into the company research note templates used by the equity and fixed income analysts. Their qualitative ESG risk assessment is part of investment cases and provides a qualitative overlay to the quantitative driven scores of the ESG Dashboard. The resulting ESG risk recommendation provides a forward-looking view, informing portfolio manager investment decisions. The analysts also express a view on the company's receptiveness to engagement and the expected direction of ESG performance.





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

Through ESG integration, fixed income and equity analysts, SI analysts and portfolio managers discuss the implications for investment research and outcomes at the portfolio level, in order to enable portfolio managers to be fully aware of the material sustainability risks that could have a negative impact on portfolio performance. This allows portfolio managers to make informed decisions where their investment convictions are expressed through instrument selection and weightings and are embedded in the construction of the portfolio. A portfolio manager may choose to invest in an issuer with severe ESG risks if this is seen to be adequately compensated by the expected investment return.

Alternatively, the portfolio manager may reduce their exposure to the risks or underweight the position vs. the benchmark. In the case of corporate issuers, the portfolio manager may also choose to own the name if engagement is viewed as a way to address and mitigate the ESG risks with the aim of improving the overall investment outcome.

### **Mitigate (through Active Stewardship)**

If, having assessed the ESG risks, engagement is identified as a next step, dialogue with the investee company is initiated. Such dialogue is driven by investments across all functions, including analysts, portfolio managers and the SI team and often in collaboration. ESG information and investment research are shared in a centralized manner via our internal platforms. Engagement insights are used to inform our voting decision-making and help reiterate feedback we provide to investee companies, as well as acknowledge improvements. Additionally, the engagement progress (or lack thereof) feeds back into our in-house ESG risk assessments and enables us to form a forward-looking view on ESG risks.

In addition to our individual investment teams across UBS-AM, we have dedicated investment professionals managing our Sustainability focused and Impact investing strategies.

Our index equities and fixed income capabilities include a range of index funds and rules-based strategies that incorporate sustainability factors using three focus areas:

- Replication of third-party indexes
- Construction of custom indexes in collaboration with clients, consultants, and index providers
- Constructing proprietary rules-based strategies

## Real Estate & Private Markets

Our Real Estate & Private Markets (REPM) business incorporates ESG factors in their investment processes starting with due diligence. Within our multi-asset business, different methodologies of ESG assessment are combined into one portfolio, making it challenging to create one overarching profile of the ESG characteristics. Our approach is to integrate sustainability where possible, leveraging best practices. Our multi-manager funds, traditional and alternative, have included aspects of ESG into the manager due diligence and ongoing engagement processes and are using ESG topics for new product development.

REPM's sustainability mission consists of delivering strong risk-adjusted investment performance by integrating sustainability considerations into our investment processes; implementing sustainable practices through innovation and the sharing of best practices; and addressing environmental impacts while enhancing property operations and values.

The sustainable investment strategy is implemented by operational functions during the entire ownership cycle of an underlying project. Objectives are set in order to make achievements transparent and measurable. Performance is measured against objectives and results are reported to investors, clients and consultants. For individual properties, sustainability performance is measured against recognized external benchmarks, such as the GRESB key performance indicators and third-party certifications (LEED, ENERGY STAR, BREEAM, MINERGIE®, Leading Harvest). Infrastructure also utilizes the GRESB Infrastructure key performance indicators and benchmark reports for individual investee companies. This helps define specific measures to enhance the performance of each property or infrastructure asset and guide dialogue with management.

## Multi-Asset and Multi-Managers business

Within our multi-asset business, the UBS-AM portfolio managers take ESG integration into account when allocating to underlying strategies, including target funds.

## Integrated throughout the entire ownership cycle

Environmental data management systems monitoring consumption of energy and water, greenhouse gas emissions and waste management

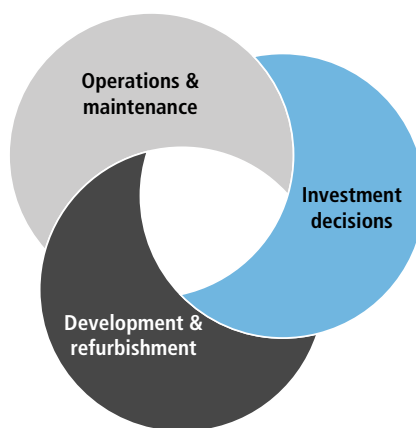
Quarterly asset risk assessments covering: community, safety & security, occupier wellness, procurement

Tenant engagement, e.g., green leases, satisfaction surveys, guidance for sustainable fitouts

Program of ongoing improvements, e.g., efficient lighting, voltage optimisation

Local engagement programs to connect properties with communities, e.g., hosting charitable events, community activities and sponsorships

Participating in external sustainability assessments, e.g., GRESB & UN PRI



Obtaining building certifications covering energy and health & wellbeing, e.g., BREEAM, LEED, BOMA

Energy labelling, e.g., EPC, Energy Star

Design and construct efficiency measures, e.g., solar panels, thermal energy heating, rainwater harvesting, electric vehicle charging

Bespoke health & wellbeing measures, e.g., cycle facilities, light and air sensors, communal space

Supplier procurement and sustainable materials, e.g., Considerate Constructors Scheme

Organisational commitment to leadership and industry standards, e.g. UN Global Compact, TCFD, RE 100, Net Zero Asset Managers Initiative

Investment Committee decisions to consider ESG factors

Asset level energy reduction programs setting five-year plan on acquisition

Environmental risk assessments as part of due diligence, e.g. construction, site contamination, natural hazards, resilience

Sustainability checklist on acquisitions covering: ecology, resilience, social, accessibility, consumption, health, comfort and safety

The extent of use of external managers in multi-asset portfolios varies depending on the products' design, ranging from multi-asset portfolios that use primarily internal capabilities, to a mix of internal and external capabilities, and portfolios using exclusively external capabilities.

Evaluation of external strategies is subject to the same rigor to ensure that external managers deliver to their respective stated sustainability objectives. However, UBS-AM portfolio managers cannot specify the methodology, data providers and sources or the exact application of the criteria in their investment process. Instead, through in-depth, comprehensive research conducted by our portfolio managers and researchers, UBS-AM evaluates external strategies to assess whether they meet UBS's sustainability standards as well as their overall suitability for use within UBS-AM multi-asset, multi-manager portfolios. UBS-AM portfolio managers pay particular attention to the existing ESG resources of the external asset managers, such as:

- Quality of the team of research
- Investment staff dedicated to ESG issues
- Experience of the individual staff members in the sustainability area
- The analytical and research tools used to assess the ESG risks of companies
- The investment process with regard to the consideration of ESG risks in portfolio construction

Where appropriate, the UBS-AM portfolio managers compare underlying strategies' ESG approaches with UBS-AM's process to gain an additional perspective on the external asset managers' ability to achieve their stated sustainability objectives.

Our initial research process is both quantitative and qualitative.

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**Qualitative**

- Firm's history and culture
- Commitment to various sustainable initiatives such as: UN PRI, UK Stewardship Code, Paris Aligned initiative
- Resources such as ESG data analytics, people, experience and tools

**Quantitative**

- Further diagnosis both on security and portfolio level, using UBS-AM proprietary tools where possible
  - Compare and contrast ESG diagnostics provided by external managers
- 

We regularly monitor externally managed strategies to ensure that they continue to meet their sustainability and investment objectives as expected. This monitoring process involves the compilation and assessment of quarterly ESG data provided by the external managers in addition to the key elements underlying the original investment thesis. This includes the collection of standardized quarterly due diligence questionnaires focused on capturing any changes to the elements underlying the team's investment thesis as well as progress on sustainability objectives with custom questions directed to ESG-integrated, sustainable and impact-type investments.

The assessment of the third party manager ESG data seeks to identify change (either positive or negative) in various aspects, such as the quality of the team of research and investment staff dedicated to ESG issues, the experience of the individual staff members in the sustainability area, the analytical and research tools used to assess the ESG risks of companies, and the investment process with regard to the consideration of ESG risks in portfolio construction.

After assessing the ESG data, follow up calls or meetings with managers are performed to discuss any material changes in the above to reconfirm our conviction that external managers will likely continue to meet their stated sustainability objectives

During the ongoing due diligence process, an evaluation of ESG scores from the underlying manager strategies typically takes place which often creates points of discussion to better understand the managers' thesis as to why they believe an investment meets their ESG criteria. Additionally, for impact investing, the ongoing monitoring process tracks the progress of managers with their engagements and holds them to account in their ability to complete their stated objectives with each engagement. Managers typically discuss what their milestones are for each engagement and our due diligence process determines if they are falling behind, on target, or ahead of the curve in terms of meeting their stated objectives.

All materials collected and produced during the initial and ongoing due diligence phases are stored for reference and governance purposes. This enables the team to track changes, as well as investment and ESG objective successes and failures, for each strategy.

## SECTION 4

# Our global approach to stewardship

## We put stewardship of client assets in the center of our fiduciary responsibilities.

Stewardship plays a central role, both in terms of meeting client and regulatory expectations and within our investment approach.

We strongly believe that active ownership by investors can contribute to the long-term sustainability and success of companies and the markets in which they operate. Effective stewardship provides an opportunity for asset managers to identify and influence some of the most pressing environmental, social and governance issues facing investors and companies. Stewardship responsibilities essentially go beyond the traditional financial analysis performed by some investors and are centered on assessing whether companies are sustainable and run for the long-term benefit of all stakeholders. In turn this seeks to support more sustainable economies.

This review focuses on the outcomes that we believe our stewardship approach has had on our clients and on the society we serve and provides details on our activities over the past 12 months.

### **Our approach**

We take an active approach to stewardship across asset classes, through a clear and structured program, encompassing integration of sustainability related factors into investment decision making, engagement, proxy voting, advocacy with standard setters, and collaboration with market peers and our clients. However this is simply a baseline.

As a manager of both active and index strategies, we believe there are synergies that managing different strategies bring to our stewardship approach. On the one hand active strategies benefit from the scale and breadth of exposure UBS-AM has

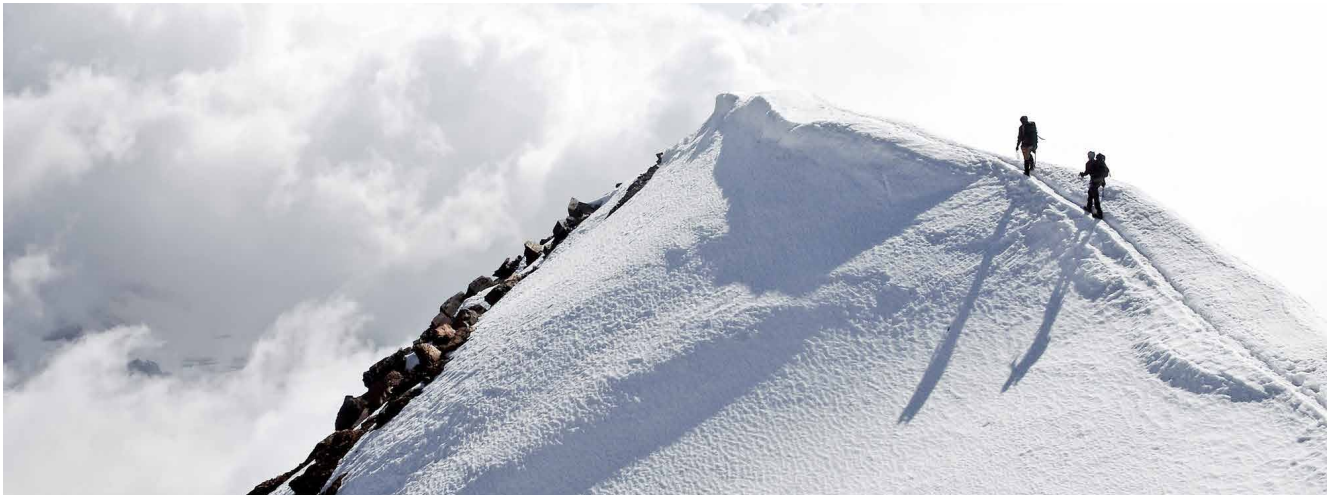
to companies across our index strategies potentially enabling better corporate access and a greater ability to influence management. On the other hand, the in-depth knowledge of expert financial analysts with sector expertise, and their relationships with corporate management, can benefit index strategies through our combined stewardship program and or insights to support customized index solutions.

For index strategies, stewardship activities often represent one of the most significant ways in which institutional investors can express their views on and influence company performance.

We believe Stewardship is one lever to address broader negative externalities across the economy which represent market deficiencies that could cause instability and inefficiencies within the financial markets and global portfolios.

As analysts or portfolio managers might not follow or research all companies held in index strategies, we believe the importance of proxy voting and engagement is greater, as our ability to relay our views on a company's conduct may be limited otherwise.

In the case of those index strategies that track sustainability indexes or apply a rules-based approach, stewardship activities can also have further impacts. Dialogue can sometimes incentivize companies to improve in order to be included in selected ESG indexes. It can also provide meaningful insights to enhance the methodologies applied in tilted approaches that consider ESG factors to inform active weights.



## Stewardship

An intrinsic part of the investment process

Research	Decision	Engagement	Proxy Voting	Collaboration	Reporting
<ul style="list-style-type: none"> <li>– ESG Risk is monitored via a proprietary dashboard that provides actionable signals to the fundamental analysts to initiate assessment on the material impact</li> <li>– Investment teams are supported by the SI Research and Stewardship analysts</li> </ul>	<ul style="list-style-type: none"> <li>– Interactions between portfolio managers, fundamental and SI analysts provide better awareness of any material sustainability risks</li> <li>– Pre-trade restriction controls enforce exclusions (Exclusion Policy), risk screening and positive ESG promotion characteristics</li> <li>– ESG scores measure sustainability profiles to inform security selection/portfolio construction</li> </ul>	<ul style="list-style-type: none"> <li>– Commitment to constructive dialogue including feedback on company actions and plans to solve existing concerns</li> <li>– Thematic People and Planet engagements, resulting in divestment/exclusion where progress against goals were not achieved</li> </ul>	<ul style="list-style-type: none"> <li>– Aggregated global voting record disclosed (including rationales), as well as fund level reporting of votes for institutional funds in Australia, Switzerland, and Luxembourg, and for our regulated funds in the USA and Canada</li> <li>– Voting policy provides framework for voting in the best financial interest of our clients investments</li> </ul>	<ul style="list-style-type: none"> <li>– Helping to further ESG best practices across the investment industry</li> <li>– Advocacy with policy makers and standard setters</li> </ul>	<ul style="list-style-type: none"> <li>– Reporting transparency of ESG profile</li> <li>– ESG regulatory disclosures in prospectuses and websites</li> </ul>

## Time horizons

Successful stewardship outcomes are usually reached over several years. To achieve success, we focus on building relationships with those companies we engage with. We ask companies to be responsive to our invitations for dialogue and provide material and forward-looking information to us.

## Planning, prioritization and tracking

Our discussions with corporate management are conducted around specific issues related to the business strategy, capital allocation, operational management and/or ESG risks and opportunities that could significantly impact valuations. The goal of these engagements is to collect more information and influence corporate practices in order to support better financial performance or creditworthiness in the long term.

A number of factors determine which companies in our invested universe are prioritized for research and engagement. These include:

- High financial exposure
- Presence of high ESG risks and opportunities
- History of votes against management
- Performance on topics selected for thematic programs
- Presence of significant controversies

Before entering into dialogue with a company, we review and analyze the most up-to-date and relevant information on financial and ESG performance provided by the company.

In addition, we access third-party research on issues considered material for the specific company and sector and also take into account internal expertise and views on relevant local markets and sectors across teams.

## Engagement: Encouraging dialogue

In our experience there are different definitions and interpretations of what constitutes “engagement”.

We regard engagement to be a two-way mutually beneficial dialogue with a company, with the objective to enhance information and understanding and improve business performance.

These discussions with company boards and corporate management enable us to share our expectations and encourage business practices which we believe enhance long-term value.

Companies, meanwhile, can explain the relationship between sustainability, their business model and financial performance. In our view, it is this two-way dialogue which defines engagement. We believe simply asking companies questions without providing feedback and encouraging improvements would not be classified as an engagement.

We focus on the quality of our engagement, not the quantity of discussions we have.

Aligning all of these aspects provides for clearer messaging to companies on what is expected of them and promotes consistency between engagement dialogue, voting outcomes and investment goals and returns.



Prior to each engagement, we define our priorities and objectives for the discussions with the company.

During our meetings with corporate management, we explain how the information collected is considered in our investment decisions, and we share with management our engagement objectives. During and after meetings, we provide feedback on current company actions and seek information that seeks to solve any existing concerns. Companies can also ask our opinions on areas of interest for them.

Whenever relevant, we share best practice examples from sector peers that have shown leadership and good performance on material ESG matters. Equally, we recognize the companies we engage with for any innovative practice and solution in relation to ESG challenges and opportunities.

The information collected during engagement meetings is shared internally through our research database with progress against our objectives tracked and made available to all investment teams.

### **Our escalation approach**

We have a well-defined process in place for situations where an engagement fails to deliver our desired outcomes. This escalation process is implemented if our concerns have not been sufficiently addressed and shareholder value is at risk.

In the first instance, this is likely to be through further discussions with the chairman or other senior non-executives.

In making decisions as to whether to escalate our engagement we will consider the following:

- The circumstances which have led to our concern;
- The materiality of the potential negative impact;
- Best practice standards, including national guidelines;
- Any explanation provided by the company;
- The significance of the issue for our clients;
- Any pattern of concerns over a period of time; and
- The likelihood of success.

We generally expect companies to demonstrate at least some tangible progress toward meeting our engagement objectives after a period of two years. If a company consistently fails to meet our expectations or if a company's ESG disclosures are insufficient to allow for investors to gain an appropriate understanding of a company's sustainability-related risks, we may decide to vote against management proposals at the shareholder meeting, including the election of board candidates.

In case of lack of progress over a period of time, our escalation strategies may include:

- Writing to the board of the company to formalize our concerns
- Presenting a statement at the AGM
- Supporting and/or filing shareholder resolutions
- Eventually, decreasing or exiting a position

Companies with high or severe ESG risks are brought to the attention of our Stewardship Committee which oversees engagement-making progress. The Stewardship Committee is the final decision-making body to determine whether companies with severe ESG risks should continue to be held in active portfolios, depending on the rationale and the progress that the company has demonstrated as a result of engagement.

# Thematic engagements

Through our thematic engagements we focus on specific People (Social) and Planet (Environmental) themes where we believe we can have an influence as investors through our equity and fixed income exposures and across our active and index strategies

The goal of our thematic engagements is to contribute towards reducing systemic risk, enhancing financial returns and generating positive sustainable outcomes. Where possible we align our approach with the overall sustainability strategy of UBS Group.

We engage with companies from the point of view of our interest in their equity and credit instruments. As a significant investor we are generally able to secure access to company management and dialogue with corporations of all sizes. On specific themes collaborative engagement may enhance our effectiveness and the chance of success may be increased, so we will engage with other investors and stakeholders where appropriate.

Generally our themed engagements will take place over a number of years.

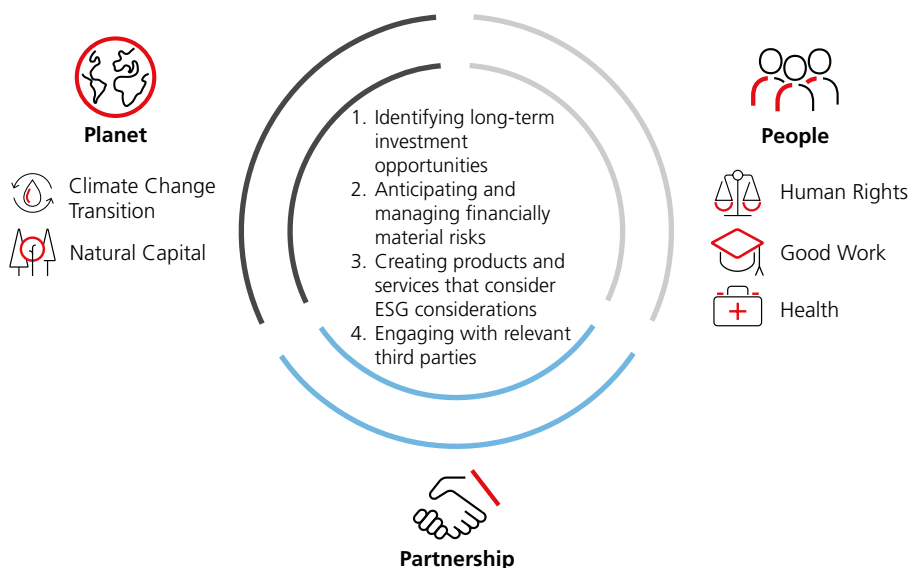
## Selection of thematic engagements in 2021

We have established an approach in which we identify what we see as the greatest systemic risks and identify those where we believe we can have the greatest influence. This combined with input from our stakeholders allows us to focus on the key themes for our thematic engagement activities.

As in earlier years, we continue to focus on climate change transition from the perspective of thematic engagement. During 2021 we expanded the range of topics that we address and are introducing further thematic engagement programs, especially in regard to social topics.

The way that companies address human rights is one of these areas. In addition, we have created an engagement program covering the relationship between companies and their employees and suppliers which we call "Good Work". This encompasses and builds on our earlier engagements in Diversity, Equity and Inclusion. A third engagement program focuses on the role of companies in access to health and nutrition.

During 2021 we laid the groundwork for a planned engagement program focusing on nature-related risks which covers natural capital, ecosystems and biodiversity.



# Planet



In March 2018, we launched a thematic engagement program on climate change. Our engagement target list began with 49 companies from the Oil and Gas and Utilities sectors which were lagging on climate change performance as determined by our proprietary Climate Aware methodology. This methodology tilts towards companies that are better placed for the climate change transition and tilts away from the companies which are lagging behind. We chose to focus on the Oil and Gas and Utilities sectors initially as they impact mostly on climate change but can equally provide capital and technologies to solve it.

In launching this program we established specific climate-related engagement objectives aligned with the Task Force on Climate-related Financial Disclosure (TCFD). We expected the companies in the target list to make progress within three years on the objectives where were oriented toward the following outcomes:

- boards are equipped to oversee management in setting and executing a climate change strategy;
- remuneration is linked to climate change targets;
- climate risks are fully integrated in risk management processes;
- business strategies are reflective of robust scenario analysis;
- emissions reduction targets are set for the short, mid and long term and cover all the most material sources of emissions;
- performance against targets is measured and reported; and,
- advocacy activities with policy makers is conducted in consistency with the achievement of the Paris Agreement.

Over the three year period, we had more than 200 meetings with management and representatives of the boards of companies in the engagement target list. In addition to one-to-one meetings with the companies, we also collaborated with other investors through Climate Action 100+ (CA100+), the largest collaborative effort from institutional investors to address climate change through corporate engagement. We participated in 29 coalitions through CA100+. UBS-AM took a co-lead investor role for 8. Overall CA100+ represented 60% of our initial engagement target list. The engagement program covered our financial exposure to issuers across index and active strategies in both listed equity and fixed income.

In the first quarter of 2021, at the three-year anniversary of the launch of the program, we assessed the outcomes from our engagement meetings for 45 companies. The difference in the number of companies engaged with reflects consolidation in the oil & gas sector as well as other modifications to the original list.

We aimed for our assessment to be systematic in order to provide consistency in how we viewed engagement progress. In conducting our assessment we developed a scoring methodology based on weighted engagement objectives and segmented company results into different categories.

The categories comprised : (1) excellent, (2) good, (3) some and (4) limited based on the ability to meet the engagement objectives set at the start of the program.

The final analysis showed that nearly 60% of companies in our focus list had made good or excellent progress against our objectives. We view these positive outcomes as being achieved through our engagement efforts, our collaboration with other investors especially through CA100+, the emergence of peer pressure in the oil & gas and electric utilities industries, and positive regulatory trends in some parts of the world.

The outcomes of our engagements have provided a clear way to differentiate the progress made by companies on climate change transition. We have identified companies that we can use as best practice in our engagements as well as the specific areas where we consider them to be leading.



Some companies that we have engaged with and which represent leading practice on climate change transition within their sectors are:

- BP (UK)
- Enel (Italy)
- ENI (Italy)
- Repsol (Spain)
- RWE (Germany)
- Shell Plc (UK)
- WEC Energy (US)
- Xcel Energy (US)

We have also been able to identify where further engagement may have a beneficial impact owing to the progress already made.

The thematic engagement program on climate change, and our assessment of progress, further highlighted five companies where we considered progress to be unsatisfactory. We decided that it was appropriate to exclude these companies from our Sustainability-focused and enhanced-indexing (rules-based) Climate Aware investment funds. The five companies were:

- Exxon Mobil Corporation (US)
- Imperial Oil (Canada)
- Korea Electric Power (South Korea)
- Marathon Oil (US)
- Power Assets Holding (Hong Kong)

We additionally voted against the election of the Board Chair of these companies, to further highlight our concerns. We have committed to monitor the progress of these companies and to continue to engage with them in order to encourage improved performance.

To continue with our progress, we expanded the target list of companies to other sectors where climate impact is material.

As a result we are now engaging with companies in the below sectors:

- Oil & gas
- Electric utilities
- Materials
- Chemicals
- Automotive

The overall scale of our program is similar, at 46 companies, of which 22 are continuing from the initial phase of the engagement program.

We continue to be a strong supporter of the CA100+ initiative as a member of 26 coalitions and a co-lead investor in 6 of those coalitions.

Our assessment is that the companies in focus now represent a higher number of total absolute emissions and are linked to a greater level of financial exposure which helps with our use of voting as an engagement tool.

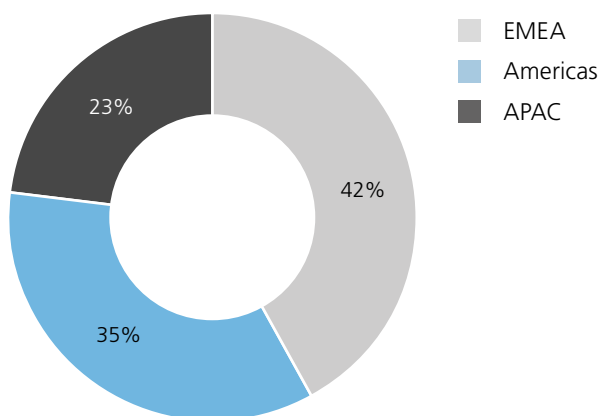
Another enhancement to our program has been the production of fundamental research that provides evidence-based analysis to support engagements with corporates. [‘The Value of a Green Transition’](#) paper introduces a framework for embedding the cost of emissions in valuations using a carbon cost abatement curve. Models of the curve have been developed for those industries that are carbon intensive and for which we do not have alternative technology.



We have also created sector-specific climate engagement checklists across eight industries. These have been developed for our investment professionals and tailored to reflect each sector's climate-related challenges and characteristics and provide a menu of topics for corporate engagement. The questions are mapped against specific TCFD pillars and company value drivers which can affect the investment case.

As a result of this expansion, we conducted a total of 197 meetings to discuss climate-related topics with 140 companies in 2021. These companies represent several geographies, with 42% from EMEA, 35% from North America, and 23% from APAC. Eighteen of those meetings were via CA 100+ and three were collaborations with the UK Investor Forum.

#### Climate-related engagements in 2021



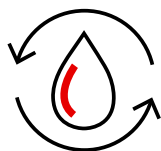
Source: UBS Asset Management 2021

We find that our voting actions are particularly effective when linked directly to our engagement with investee companies. As we consider the board chair to have ultimate responsibility for the definition of company strategy, we have chosen to express our dissent on climate change commitments through a vote against the chair, where we deem the case to be serious and relevant. When the chair was not under election, we voted against a relevant board director.

In line with this, we are supportive of voting proposals that request:

- Greater disclosure and transparency in corporate environmental policies in line with the recommendations of the TCFD framework
- Reporting on the financial and physical risks of climate change on the company's operations, and/or its response to rising regulatory, competitive, and public pressure to significantly reduce greenhouse gas emissions
- Good governance and risk management of climate change
- Short-, medium- and long-term targets to guide ambition on decarbonization actions
- An effective strategy for addressing key climate change issues and appropriate metrics for links between climate change targets and executive remuneration.

## Climate Change Transition

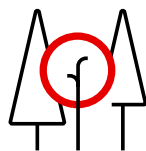


Our thematic engagement program on climate supports UBS-AM's commitment to the Net Zero Asset Manager's Initiative (NZAMI).

As founding members of NZAMI, we are assessing each of our investment products by carbon weighted intensity with a goal to bring 20% of our AUM (equivalent to USD 235 billion in AUM at September 30, 2021) to net zero by 2030.

Our overall approach is guided by the methodology of the Paris Aligned Investing Initiative's Net Zero Investment Framework, as well as considering the key principles of other guidance on net zero. These include the Net Zero Asset Owners Alliance and the Science Based Targets Initiative draft recommendations for financial sector companies. Engagement with companies on climate change to encourage their alignment with net zero is a common and key part of these methodologies. Hence, we continue engaging companies on aligning their own strategies with the Paris Agreement, including working with companies in more carbon intensive sectors to set concrete targets and track progress. The Initiative offers us an opportunity to share best practice with other asset managers and to work collaboratively on providing compelling product offerings for institutional asset owners to meet their low carbon commitments.

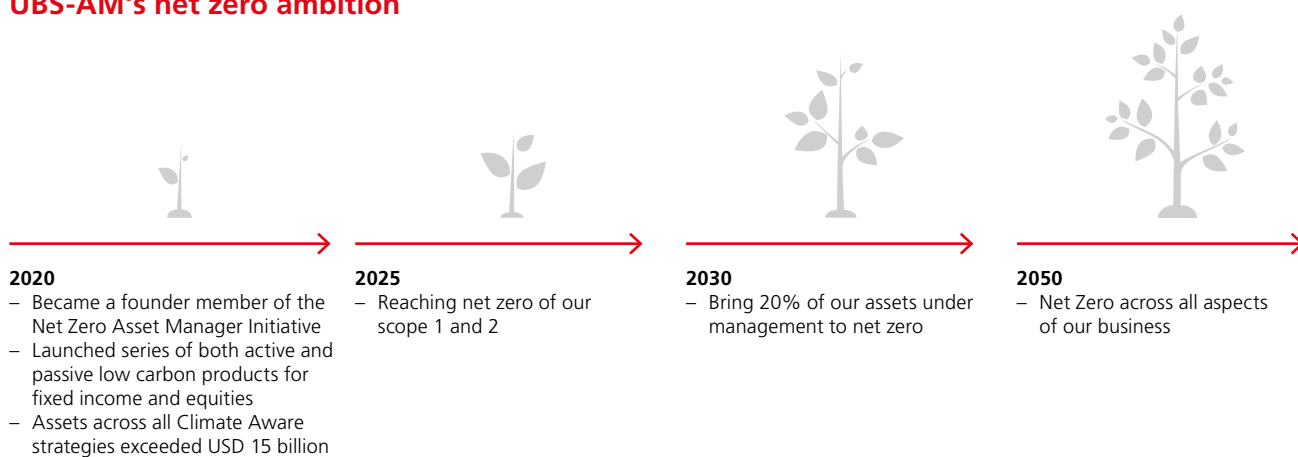
## Natural Capital



Climate change and natural capital are inextricably linked given that climate change accelerates natural capital loss which in turn reduces the planet's ability to naturally remove carbon from the atmosphere. We expect reinforcing insights by including both topics within our engagement program. Therefore, in 2021, we did the groundwork to expand our environmental thematic engagement approach into the area of natural capital. Through these efforts we are beginning to address questions around ecosystems and biodiversity and the role investment plays in protecting and enhancing natural capital.

Our commitment is underscored by UBS Group's membership (as of 2021) of the Task Force on Nature Related Financial Disclosure (TNFD). One of the main priorities of this group is to develop a risk management and financial disclosure framework to support a shift in global financial flows away from nature-negative outcomes and towards nature-positive outcomes. This effort will help remediate the lack of available data and metrics in relation to biodiversity which has been the biggest barrier to investments supporting biodiversity. We see nature loss as a growing risk to the global economy, and to manage the risk, we must measure our exposure. Biodiversity is a material ESG issue in various sectors, including chemicals, capital goods, energy, food & beverage and tobacco.

## UBS-AM's net zero ambition



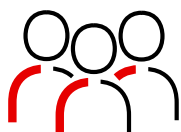


When we identify biodiversity risks and/or opportunities, we engage with our holdings to encourage change to reduce risks or enhance opportunities in relation to biodiversity.

We have also been contributing towards the potential launch of a collaborative engagement initiative focused on biodiversity, expected to be launched in Q2 2022. We execute our shareholder rights by supporting shareholder proposals that directly or indirectly address biodiversity.

We are considering the role of the nascent Nature 100 collaborative investor initiative as a means to further our ambitions in this area. Over the course of 2022, we will continue to define the scope of this new thematic engagement program.

## People



We have enhanced and expanded our engagement program connected to People to now include best practices in the workplace. At the end of 2021, we reorganized our thematic approach connected to People, retaining our focus on Human Rights but further developing a structured program entitled Good Work which includes four sub-themes: (1) diversity, equity and inclusion, (2) education, (3) fair pay, and (4) health and safety. It focuses on companies identified as laggards in terms of providing and promoting “good work” to their employees. We have also added an engagement program focusing on aspects of health. As a result, going forward, our engagement programs connected to People cover:

- Human Rights
- Good Work
- Health

We see these themes as key enablers for the social transformation towards inclusive growth and important contributors to the United Nations Sustainable Development Goals (SDGs).

## Human Rights

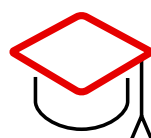


UBS-AM’s thematic engagement program on Human Rights focuses on a list of companies in five sectors identified as presenting a high risk of negative human rights impacts:

- The apparel sector
- The automotive manufacturing sector
- The extractives sector
- The food and agricultural products sector
- The ICT manufacturing sector

The companies have been selected using the 2020 Corporate Human Rights Benchmark where those with a zero rating are targeted. We collaboratively engage with these companies as part of our recent membership of the Investor Alliance for Human Rights. As part of our membership, we have signed the Investor Statement Calling on Companies to Improve Performance on the Corporate Human Rights Benchmark.

## Good Work



The Good Work thematic engagement program identifies companies in sectors where the sub-themes are financially material and where we believe engagement has the ability to contribute towards creating sustainable outcomes. We use data from a variety of sources to create a Good Work score which we use to prioritize companies for engagement. The score pulls various data points to establish how a company is currently positioned on the four sub-themes (1) diversity, equity and inclusion, (2) education, (3) fair pay, and (4) health and safety. Our engagement is focused on encouraging companies to enhance policies, practices and disclosure to evidence provision and promotion of good work. We believe these engagements can enhance employee satisfaction, enhance financial performance, enhance the reputation of a company, reduce the risk of poor conduct, and reduce the risk of legal fees while delivering enhanced economic long-term growth and social prosperity.

The engagement case studies in section 7 below reflect our dialogue with companies during 2021 on diversity, equity and inclusion where we expect all boards globally to have at least one female director. In developing markets that means engaging with laggards who do not have any female representation on the board, while in developed markets we hold companies to a higher standard and expect companies to meet regional requirements. During the year we have increased our focus on ethnic diversity.

As we build out the Good Work engagement program in 2022, we will have engagements focused on the other sub-themes of education, fair pay and health and safety.

## Health



As the COVID-19 pandemic has shown, we all share the cost burden of poor health – one that is becoming increasingly unsustainable. Good health is fundamental to economic prosperity. It is important to individuals, to communities, and to the economy. Good health is an asset; it is what enables us to thrive and live independent and fulfilling lives, as well as contribute productively as workers and be active participants in the economy. Health themes are integrated in our sector specific materiality frameworks, and where material risks or opportunities are identified, these are considered in our engagement activity.

Our thematic engagements programs on Health focus on two sub-themes:

### Nutrition

The engagement program focuses on a list of companies in the food manufacturing and retailing sectors that were

selected due to their influence on how people eat. We engage with these companies as part of our collaboration with the Access to Nutrition Foundation, the Healthy Markets Coalition and Farm Animal Investment Risk & Return (FAIRR) initiative. Our engagements are focused on encouraging companies to drive change by tracking and driving the food industry's attempts to tackle undernutrition, obesity and diet-related chronic diseases at the local and global levels.

### Access to medicines

The engagement program focuses on a list of companies in the pharmaceutical sector selected due to their size and hence potential influence on access to medicine. We collaboratively engage with these companies as part of our collaboration with the Access to Medicine Foundation. Our engagements are focused on encouraging companies to enhance access to medicine practices through governance, R&D and product delivery strategies.

In relation to our focus on nutrition, we also signed an investor letter to the UK government to encourage them to adopt the National Food Strategy's recommendation to introduce mandatory reporting of nutrition and sustainability metrics for food sector companies above a certain size. The specific ask is for companies to annually report on the following set of metrics:

- Sales of food and drink high in fat, sugar or salt (HFSS) excluding alcohol
- Sales of protein by type (of meat, dairy, fish, plant, or alternative protein) and origin
- Sales of vegetables
- Sales of fruit
- Sales of major nutrients: fibre, saturated fat, sugar and salt
- Food waste
- Total food and drink sales

# Key policies

Our Stewardship and Proxy Voting policies provide a reference framework for our stewardship activities. We review both policies annually and update as necessary in relation to market regulations or sustainability and stewardship developments and practices. We also consider any regular voting actions we have taken during the year which indicate that a strengthening of our policy would be necessary, as well as lessons learned from positive outcomes and those voting actions which did not lead to a positive outcome.

We strive to capture client feedback received during the period, through formal and informal consultations with our clients and their consultants. This helps us identify the topics that are most important to our clients and also helps us improve the information we provide. For example we sought and received feedback from our clients in expanding our thematic engagement approach on social topics.

## Stewardship policy

UBS-AM's Stewardship Policy sets the definition of engagement and outlines its inter-relationship with our integration and proxy voting processes. It outlines:

- The integral role of engagement in our fiduciary duty towards our clients
- The importance of engagement as a key constituent in the investment process across both index and active strategies

The policy provides an overview of the way in which we prioritize engagement cases. It also describes our research process, the sources we use, the topics we address and the company representatives we normally interact with. Our policy is available on our dedicated [webpage](#).

The policy details the system we use for defining engagement objectives and tracking progress against those objectives. It also sets out the escalation process we will follow when our dialogue with companies has not produced the required level of success.



## Proxy Voting policy

The UBS-AM Proxy Voting policy applies on a global basis across all funds and strategies, and guides how we exercise voting rights. We do not set policies at the fund level, as we seek to maximize the outcome of our voting activities by leveraging the weight of our aggregated holdings. For this reason the policy outlines how we view the value of voting as a core element of our stewardship approach and the link to the investment and engagement processes.

It explains in detail those principles and topics we believe to be important to deliver on good governance across all investments, as well as information on when we might choose to abstain or not vote on an item. The document also provides specific expectations on ESG factors, including disclosure and reporting expectations.

Guidelines are provided on board of directors, shareholders' rights, capital allocation and management, audit and risk oversight, remuneration, environmental and social issues and more general corporate governance matters. Finally, the documents outline the proxy voting process, the use of a third-party service provider, and how we identify and manage conflict of interests.

Proposed changes to our voting principles are drafted by our dedicated SI Research and Stewardship team and shared with our investment teams for comment and feedback. All final proposed updates are then reviewed by our Stewardship Committee, who must approve all amendments. The changes are also provided to the appropriate boards of our internally managed mutual funds, so that they can confirm that the board accepts the changes made.

### **In 2021 key changes to our Proxy Voting policy were:**

- We will vote against any non-independent board candidate where we have not seen any progress to address the aggregate board independence in the last 2 years
- We will vote against the election of board members where it is identified that the board is responsible for a material failure in ESG standards, or the company has failed to address a governance failing over time.
- We will closely review the introduction of restricted stock units (RSU) compensation plans, and outlined specific expectations regarding the terms of such schemes, including reduction in potential award.
- Companies should take particular care when implementing a new remuneration scheme during a period of material short term market price fluctuations, and where COVID-19-related financial support was received.
- We clarified our expectations regarding gender diversity at Board level.

Our policy is available on our dedicated [webpage](#).

## Managing potential conflict of interests

We recognize that in the course of carrying out our day-to-day activities, situations may occur where UBS-AM and our employees encounter a perceived or actual conflict of interest. There are various circumstances under which this may arise, as explained in more detail below.

UBS and UBS-AM have outlined clear policies for identifying and managing such conflicts. Regular training is provided to all employees in regard to these policies. Our compliance teams manage oversight of our policies.

Within UBS-AM, our principal objective when considering how to vote, or whether to engage with a company, is to ensure that we fulfil our fiduciary duty by acting in the interests of our clients at all times.

Situations where actual and potential conflicts of interest may arise in connection with our stewardship activities include where:

- The interests of one client conflict with those of another client of UBS-AM;
- UBS-AM invests on behalf of our clients in publicly listed shares of UBS Group AG;
- The listed company whose shareholder meeting is being voted upon is a client of UBS-AM;
- Affiliates within the wider UBS Group act as advisor to the company engaged or we vote on;
- Board members or employees of UBS Group AG serve on the board of an external company, where UBS-AM will be voting upon their election to the board;
- The interests of an employee of UBS-AM directly conflict with the interests of a client of UBS-AM.

We have implemented the following guidelines to address these potential conflicts of interest:

- We exercise voting rights in line with UBS-AM guidance and principles and retain a record of any deviation from UBS-AM policies.
- Where UBS-AM is aware of a conflict of interest in voting a particular proxy, a vote will be cast in line with UBS-AM policy guidelines, unless it is identified that such a vote would not be in the best interests of our clients. In that event the Stewardship Committee will review the case.

- As it relates to the voting of UBS shares, we will vote in accordance with our internal conflict process, as with all other companies we invest in for clients. We will document the rationale for our vote. Exceptions to this policy may be appropriate or necessary where the Stewardship Committee determines that it is prudent to engage an independent fiduciary to manage the voting decision and/or process.
- In the event that UBS-AM is responsible for voting rights over a client portfolio that is invested into units of a publicly traded UBS-AM investment or mutual fund, any such voting rights will not be exercised if the fund announces a meeting of unitholders. In such cases, any voting rights must be exercised directly by the external client or end beneficiary.
- Under no circumstances will our proxy voting decisions be influenced by our general business, sales or marketing, with impacted functions remaining outside of our voting decision process.
- UBS-AM and its affiliates engaged in banking, broker-dealer and investment banking activities (“Affiliates”) have policies in place prohibiting the sharing of certain sensitive information. UBS officers are not permitted to discuss voting intentions with an Affiliate, and if they are contacted by an Affiliate, contrary to our policy, this will be referred to our Compliance and Operational Risk group. The chair of the Stewardship Committee will also be advised, who may advise the President of UBS-AM.
- Where UBS Group has provided seed capital to a fund of UBS-AM any voting rights arising from such capital will not be exercised.
- We provide specific and periodic training for employees outlining their responsibilities in relation to conflicts of interest.
- In seeking to undertake engagement with a listed company we will follow the factors outlined in our prioritization process. Information about the companies we have targeted within our engagement program and progress of dialogue will not be released to other UBS divisions, with the only exception of cases where a public statement is planned.

In such cases, we have established a process to share the nature of the statement to be released and the company of interest with an identified UBS AG department entitled to receive such information. However, final decisions to make public statements on investee companies remain at the discretion of UBS-AM.

We report on the number of conflicts identified in 2021 and how they were mitigated in Section 6 of this report.

## External service providers and vendors

### Use of ESG research service providers

In order to conduct our research and identify companies with high ESG risks, we use various third parties which specialize in overall ESG assessments and/or thematic research on specific topics and sectors. Many of these sources are formally included in our ESG Dashboard covering both our listed equity and fixed income holdings. Others are accessed by our SI and investment analysts to complement their own in-depth research on specific stocks.

When selecting ESG service providers to work with we take into consideration:

- Years of experience in the industry
- Universe of coverage both from a sector and geographic perspective
- Number and expertise of researchers
- Transparency and quality of the underlying methodology for ESG assessments
- Clarity on conclusions achieved and underlying data used
- Ability to provide information tailored for our (and our clients') needs
- Complementarity and added value in comparison with similar offerings by other peers.

Third-party research is available and used by our analysts. However, our final conclusions on a company ESG profile and areas for engagements might differ significantly with the opinions of individual service providers. During our meetings with management we often clarify how we evaluate and use external research.

### Use of proxy voting advisory services

Our proxy voting process is supported by a third-party proxy advisor, Institutional Shareholder Services (ISS). ISS is responsible for issuing voting recommendations to UBS-AM based on the principles and guidelines within the UBS-AM Proxy Voting policy.

We use the research and recommendations provided to supplement the assessments undertaken by our dedicated stewardship team; we do not delegate our voting responsibilities to ISS. We retain full discretion when determining how to vote for shares held for our clients and funds.

ISS deliver their services through their dedicated online research and voting execution tool, ProxyExchange. This enables us to view research alongside client voting positions, and our voting decisions are executed via the platform. This provides us with an efficient and consistent global process for our clients. The database is available to all of our investment teams and integrated within our workflow process.

We constantly review and monitor the quality of services provided to us by third parties, both through daily review of the research and services received and via the Vendor Management Assessment Program, which is a formal due diligence process focused on the compliance of policies, controls and procedures and quality of content. This includes a review of how vendors manage any conflicts of interest that may arise through certain affiliations or business practices.

We provide feedback to service providers on their methodology and any potential gaps we observe in their analysis, including public information that we identify through our engagements which has not been taken into account by the provider. When we understand that a company has had difficulties in interacting with a specific service provider we have relationships with, we might facilitate further dialogue between the parties. In many instances we engage third-party firms to survey our existing stakeholders and benchmark performance compared to their peers.

## External assurances

### UBS Group AG

#### *ISO 14001 Audit*

UBS Group AG's environmental management system covers the entire scope of UBS products, services and in-house operations that may give rise to an environmental impact. It is externally audited in accordance with environmental management system certification (ISO 14001).

The program is audited annually and is recertified every three years. The last recertification took place in 2020. Within the scope of this audit are also UBS-AM's engagement and proxy voting activities. The implementation of the environmental management system requires each division to set clear, actionable goals against which they must report and are subsequently audited. Our stewardship activities fall within the scope of that goal setting.

#### *GRI Audit*

As part of UBS Group AG's annual reporting, a sustainability report is published in accordance with GRI reporting standards. Within this report, UBS-AM discloses its engagement and proxy voting activities, with a specific focus on E and S topics. The sustainability report is audited externally to ensure that all data provided, including UBS-AM's stewardship data, is free from material misstatements.

Further information regarding the ISO 14001 audit and GRI audit can be found in the most recent [UBS sustainability report](#).

### UBS Asset Management

#### *Internal audit*

In addition to the Stewardship Committee's oversight, we review our stewardship approach annually, in order to take into account regulatory updates and changes to best practice.

An internal audit of our approach is scheduled for 2022.

As explained in our 2020 Stewardship report, we do not consider external validation of our activities to be required at this stage. However, we continue to monitor the opportunities available in this area and would welcome client feedback on this particular topic.

## Incentivising effective stewardship

Members of the SI Research and Stewardship team, have specific KPIs included in their performance assessment frameworks related to conducting ESG research and engagement dialogue with companies from their sector or regional coverage.

KPIs focused on sustainability integration are in place for investment analysts and portfolio managers throughout active equities and fixed income.

These incentives were established to ensure the successful implementation of the sustainable investment integration strategy both in relation to research and dialogue with investee companies.

## Meeting client and regulatory expectations

Our approach to stewardship has developed over the past 20 years through collaboration with and feedback from our clients. Sustainable Investing and the role of Stewardship within the investment oversight process has continued to become a core priority for our clients.

As part of this collaboration with clients, we share a quarterly commentary document where we summarize our stewardship, approach, engagements with examples and our voting activity along with some significant votes details.

Regulatory bodies are also increasing their focus in this area. One example of this can be seen in the UK, where the Department for Work and Pensions (DWP), Financial Reporting Council (FRC) and Financial Conduct Authority (FCA) all now have a specific focus on the responsibilities of investors, including detailed requirements for pension trustees.

We have seen a clear message coming from our clients and their consultants over the last year, which is that in order for asset owners to deliver on their commitments they need a deeper understanding of the activities undertaken on their behalf by their chosen investment managers. To this end we are working across our business to improve our reporting and transparency.

There is no one-size, fits-all solution, and some clients require an alternative approach or more direct involvement in stewardship of their assets. We are committed to working across our client base to further listen to and understand the needs and expectations of our clients. We will be seeking feedback on what works well and what does not, and this will help to inform our future activities.

Through the year we have undertaken client one-to-one trainings on Stewardship, enhanced our client reporting to meet new transparency requirements, including completion of PLSA voting templates, and increased training on Sustainable Investing and Stewardship for UBS Asset Management employees throughout the year.





## Exercising rights and responsibilities

### Proxy Voting: The power of the vote

Voting at shareholder meetings is a vital component of our overall approach and is a crucial part of our oversight role. It allows us to voice our opinion to a company on a broad range of topics and is a way of encouraging boards to listen to and address the concerns of all stakeholders, including shareholders.

It is important that proxy voting is intrinsically linked to our research and investment process, as this allows us to align our overall view of a company with our voting decisions, with the goal of driving positive outcomes. Where holdings are held across different portfolios and strategies then we aim, as far as possible, to vote consistently to send one strong, unified message to investee companies.

Our voting process is managed by our SI Research and Stewardship team. They work closely with our fundamental investment teams to decide how to exercise our voting rights, based on our voting principles, any engagement we may have undertaken, and our knowledge of the investee company. We do not outsource our voting decisions and retain full oversight and discretion when determining how to vote on behalf of our clients and funds.

The principles outlined in our Global Proxy Voting policy provide the foundation for our voting decisions. We will always seek to review and evaluate as much information as

possible, including insights gained through our research and engagement process and information obtained through third-party research. This ensures our decisions are in the best financial interests of our clients and that we avoid 'box-ticking' when it comes to voting.

In cases where we plan to deviate from our initial policy view, our Stewardship Committee will review the reason and consider the case for and against changing the initial recommendation. A majority of committee members must approve the intended vote and reasons for the final decisions are recorded, tracked and used to inform our future policy reviews. This additional oversight strengthens our decision-making process and ensures that votes remain aligned to our principles, with a consistency in our approach.

Voting positions for all strategies where we are entitled to vote are monitored daily by our Stewardship team via the ISS Proxy Exchange electronic voting platform. This provides us with a comprehensive overview of the total number of shares we are eligible to vote upon for all shareholder meetings.

Our voting instructions are submitted and processed via the ISS platform, allowing us to track the progress of the voting rights through to the relevant custodian bank or other intermediary who is responsible for the final submission of the vote to the issuing company.



We use voting to complement and support our engagement activities. In situations where our engagement dialogue is not bringing the results we'd expect, we'll escalate and use voting as an additional means of expressing our opinion and seeking to influence boards and management. In such circumstances it is essential to communicate effectively with management pre- and post-vote to explain the reasons for our dissent and open the doors for further dialogue.

#### **Our collaboration with clients to exercise voting activities**

In exercising voting rights, we recognize that some of our clients with directly managed portfolios may seek to vote uniformly across different investment managers. Instead of choosing to delegate their voting rights to us, they may use the services of an external provider or manage voting rights internally. In addition, in cases where a client does choose to appoint UBS-AM to manage their voting rights, there may be occasions when a particular vote is contentious. In such situations our clients can instruct us how to vote for their portfolio on a case-by-case basis. This includes clients that may choose to invest through our range of collective investment, or pooled, funds.

Some barriers remain in place which can restrict our ability to apply a client specific voting policy when investing via a pooled fund structure. To help drive improvements to proxy voting processes and increase transparency across the investment chain we are supportive of initiatives currently under way to review those barriers, including those led by the UK Department for Work and Pensions. We have provided our feedback to the Occupational Pensions Stewardship Council in

this regard, including information related to the potential use of 'expressions of wish' by pension trustees. We are keen to work with our clients to further understand their stewardship priorities in this respect, including in regard to pre-declaration, or notification, of intended votes for selected companies.

In our view, it is imperative that investors are fully aware of the voting approach adopted by their chosen managers. Our voting policy was first introduced in 2002 and has been reviewed annually since then. It is based on best practice requirements outlined in the OECD Principles of Corporate Governance, ICGN Corporate Governance Principles and requirements of various national and global governance codes. We welcome input and feedback from clients and other stakeholders as to how we can improve and strengthen our policy guidelines.

Ultimately, we want our clients to be comfortable with the voting approach taken on their behalf.

#### **Other asset classes**

Where an issuer seeks to amend the terms and conditions of debt instruments or bonds, we will review each consent request on a case-by-case basis, to ensure that the terms remain broadly consistent with the investment intention.

This includes where the request is to change payment frequency, maturity date or other obligations. These decisions will be taken by the portfolio manager responsible for the investment allocation.

# Stewardship in alternative assets

## Direct Real Estate investing

Our global sustainability mission consists of delivering strong risk-adjusted investment performance by integrating sustainability considerations into our investment processes; implementing sustainable practices through innovation and the sharing of best practices; and addressing environmental impacts while enhancing property operations and values.

Historically, the majority of ESG initiatives provided either accretive returns (energy and water conservation, solar energy, system enhancements, smart building technologies) or were cost neutral (green cleaning, recycling) and provided environmental benefits. Climate change is creating a new set of requirements that fall into more of a risk mitigation category, thus the common use of the terms physical risk and transition risk. REPM's strategy incorporates not only accretive ESG initiatives, but also risk mitigation measures into the investment process. Many of these risk mitigation measures are not expected to have an accretive return but aim to enhance long-term returns and preserve value compared to the alternative of ignoring. Of specific concern to REPM is transition risk and the potential impact of future carbon-related legislation on both the operating and capital costs for an investment as well as the potential decrease in investment demand and value for assets with less favorable carbon footprints.

Significant process enhancements were designed during 2021, largely driven by the desire to integrate the TCFD reporting framework into our investment process. We believe that it is very important to measure and mitigate both physical and transition risk for the long-term benefit of our clients and the planet.

Based on the TCFD framework, the following items were identified to be incorporated into the investment process for funds:

- Set carbon reduction / net zero mid-term and 2050 targets in a consistent manner so that the same data collection and reporting requirements could be used to satisfy all reduction requirements
- Update due diligence and investment process documents to incorporate climate risk
- Identify internal resources or external consultants to assist in tracking and setting strategies in response to all proposed new regulations that impact new and standing investments

The updated due diligence and investment committee brief content requirements set a consistent standard and require the investment committee to approve that risks have been properly identified and mitigated in the underwriting. A physical climate risk vendor was onboarded during 2021 and the implementation of an enhanced transition risk strategy was commenced in 2021 and will continue to be implemented over the next several quarters.

## The Multi-Manager Real Estate (MMRE) team conducts engagements directly with underlying fund managers on ESG issues.

### Multi-Managers

When our alternative assets teams invest in listed real estate companies, our Proxy Voting policy applies and we regularly exercise our shareholders' voting rights. If the financial or SI analyst led engagements focus on real estate companies, we may also share information and coordinate our efforts in the dialogue with corporate management.

The Multi-Managers Real Estate (MMRE) team conducts engagements directly with underlying fund managers on ESG issues. Engagements may be routine in nature or based around specific transactional or recurring events, such as the release of GRESB results. Effective monitoring and engagement are essential components of the fiduciary duty on behalf of clients, and for this reason the team does not outsource any of the engagement activity. These engagements can take various forms, including written communication, conference calls, face-to-face meetings, investor meetings, AGMs, etc.

GRESB is the best tool currently available for MMRE in assessing, monitoring and reporting our investments and portfolios on ESG matters as well as a framework for engagement. GRESB results are released on an annual basis, therefore a comprehensive review of all latest scores and portfolio-level risks takes place annually using the latest results.

For existing target funds that have not performed well in GRESB surveys, MMRE will liaise with our fund managers and encourage greater efforts in ESG matters and the GRESB survey going forward. We will seek to identify particular areas of weakness and underperformance and encourage our managers to focus their efforts on those topics. Outperformers will also be contacted, congratulated and encouraged to continue their efforts in order to benefit from the opportunities which we

believe will be open to 'more sustainable' funds (such as higher rents, lower voids, higher values and lower debt costs) while mitigating damage (and in some cases contributing positively) to the environment and society

Additional engagement takes place with managers around the annual UBS proprietary survey, that we run in parallel to the GRESB Survey. This enables non-GRESB participants to also be quantitatively measured, thus ranked and engaged with, alongside our GRESB participants. The UBS survey seeks to obtain information in areas where we feel the GRESB survey may be lacking, for example tenant activities.

ESG is also a factor in MMRE quarterly risk assessments, a qualitative and quantitative risk assessment which uses GRESB data together with other internal measurements to rank each underlying investment for its ESG risk. ESG is an important (and increasingly so) topic in our investment decisions and investments have been rejected in some cases on the grounds of ESG factors (e.g., misalignment with net zero pathways).

MMRE believes ESG engagement is crucial in order to limit the risk of regulatory non-compliance, maintain properties' competitive position in the market, increase the appeal of a property to tenants and purchasers, and in some cases, reduce expenses and improve returns. To date however, ESG risk alone has not caused an investment to be halted or a sell to take place within MMRE.

So far, we have seen that the results of this focus and engagement have been positive, with our flagship product, GREFS, consistently achieving higher GRESB scores than the benchmark since 2014.

## CASE STUDY

# REPM – continuing to beat the benchmark

### Strong results in the 2021 GRESB Real Estate and Infrastructure Assessments

In 2021, GRESB assessed 1,520 real estate strategies and property companies, 149 infrastructure strategies and 558 infrastructure assets. 22 of REPM's real estate equity and infrastructure strategies from across the globe – including all of our flagship products – participated in the 2021 GRESB Assessments. The strategies submitted this year accounted

for around 97% of REPM's total direct pooled real estate and infrastructure strategies globally. Over 90% of our submitted strategies received 4-stars or 5-stars, and 95% outperformed the GRESB average. This continues our consistently strong and improving results over the past eight years. The table below includes additional details.

Management component	Performance component	Development component	Infrastructure Assessment	Real Estate Assessment
91% of our submitted strategies received full marks (30/30) and the remaining scored 29/30 in the Management Component of the Assessment which measures an entity's strategy and leadership management, policies and processes, risk management and stakeholder engagement approach	REPM scored a total average of 53/70, which surpasses the 46/70 GRESB average in the Performance Component which measures indicators such as energy consumption, GHG emissions, water consumption and waste	6 of our submitted Swiss strategies achieved 5-stars in this Component of the Assessment dedicated to entities involved in new construction through measuring an entity's efforts to address ESG issues during the design, construction, and renovation of buildings.	100% of REPM's submitted infrastructure strategies received 4-star or 5-star status  The Saubermacher asset held by our first closed-end global infrastructure strategy retained its #1 ranking in its peer group in Environmental Services and retained its Overall Asset Sector Leader Status for the fourth consecutive year, demonstrating market leading performance	<b>Japan:</b> our open-end core Japanese industrial and infrastructure, and retail and office strategies maintained their 5-star and 4-star ratings, respectively  <b>Switzerland:</b> 7 out of 8 Swiss real estate strategies, and our closed-end core European diversified strategy received 4-stars. 3 strategies were awarded Sector Leader status in the Development Component of the Assessment  <b>Germany:</b> Our open-end core German logistics strategy received a 5-star rating for the second year running, and again ranked #1 in its peer group in the Germany Industrial Tenant Controlled category. Our open-end core European office strategy received 5-stars for the sixth year running and ranked second in its European Office peer group.  <b>US:</b> Our open-end core US equity diversified strategy increased from 4-stars to 5-stars, while our open-end value-add US tactical strategy maintained its 4-star status  <b>UK:</b> Our open-end core UK commercial property strategy retained its leadership position (#1 of 102 in peer group) in the UK Diversified category for the fifth year running and maintained its 4-star status from the previous year

**SECTION 5**

# Our engagement activities

Engaging with management teams is a way to drive change and move towards best practice

In 2021, we continued to engage with corporate management to build relationships, provide feedback and drive positive change. Given the circumstances of COVID-19 these again had to take place primarily through video or conference calls.

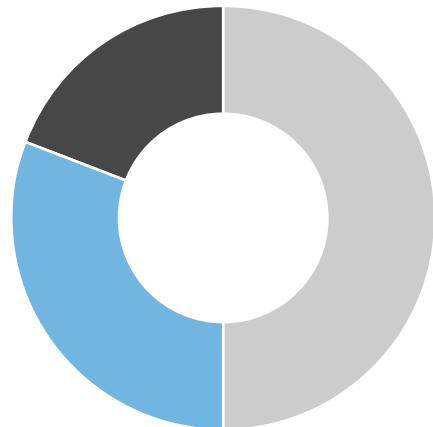
During the year we actively engaged with 295 companies across regions and sectors.

**Companies engaged by sector**



Communication Services	5%
Consumer Discretionary	12%
Consumer Staples	6%
Energy	7%
Financials	17%
Health Care	9%
Industrials	15%
Information Technology	13%
Materials	7%
Real Estate	2%
Utilities	7%

**Companies engaged by region**



Europe, Middle East and Africa	50%
Americas	31%
Asia-Pacific	19%



We conducted 430 engagement meetings. Approximately, 7% of these interactions were in collaboration with other investors through collaborative initiatives such as Climate Action 100+, the UK Investor Forum, the Access to Medicine Foundation and the Farm Animal Investment Risk & Return (FAIRR) initiative.

In 30% of the cases, the dialogue with companies gave us specific insights in relation to AGM items and proxy voting. 39% of our engagement meetings were held with the CEO/CFO or another C-suite representative. In 31% of cases we met with the Chair or an independent board member.

<b>Company Representative</b>	<b>Number of meetings</b>	<b>Percentage on the total of engagements</b>
CEO/CFO and Other C-Suite	167	39%
Chair and Non-Executive board members	135	31%
Corporate secretary or legal counsel	94	22%
Investor Relations (IR)	372	87%
ESG expert	121	28%
Other	40	9%
<b>Total Engagements</b>	<b>430</b>	

Note: In one engagement meeting we will likely meet more than one type of company representative. In total we held 430 engagements in 2021. The chart shows the frequency with which a given company representative was met.

We have engaged with companies on a wide range of topics, including corporate governance, climate change, board diversity, capital management, and social issues.

During 2021, 21 engagement meetings were focused on controversies or breaches of the principles of the United Nations Global Compact.

<b>Topic raised</b>	<b>Number of engagement meetings in which the topic was discussed</b>	<b>Number of meetings in which the topic was discussed, expressed as a percentage of total meetings held</b>
Environmental Management & Climate Change	197	46%
Human Capital Management & Labour Standards	96	22%
Community Impact & Human Rights	29	7%
Corporate Governance	211	49%
Remuneration	178	41%
Business Conduct & Culture	40	9%
Audit & Accounting	17	4%
Strategy & Business Model	106	25%
Capital Management	132	31%
Operational Management	43	10%
Transparency & Disclosure	128	30%
<b>Total Engagements</b>	<b>430</b>	

Note: In one engagement meeting we will likely meet more than one type of company representative. In total we held 430 engagements in 2021. The chart shows the frequency with which a given company representative was met.

## SECTION 6

# Proxy voting in review

## Exercising voting rights is an integral part of our investment approach

When exercising our shareholder rights through proxy voting, we act in accordance with our corporate governance principles which are underpinned by two fundamental objectives:

- To act in the best financial interests of our clients to enhance the long-term value of their investments
- To promote best practice in the boardroom. As an investment advisor, we have a strong commercial interest in ensuring that those companies which we invest in on behalf of our clients are successful. In our view, that starts with the Board of Directors

During 2021 we voted at 12,244 meetings in 60 countries, on 117,373 separate resolutions. We voted against management on 18,941 of those resolutions, being 16% of votes cast.

Additionally, we voted to support 67% of ESG proposals, including 80% of resolutions focused on environmental issues, and similarly 80% of shareholder proposals focused on social topics.

UBS-AM voted in favor of 100% of climate-related resolutions that were flagged as important by Climate Action 100+. We were one of just 15 firms with such a voting record amongst the 47 largest CA100+ members.

At 62% of the meetings voted globally at least one resolution was cast as a vote against management. In 38% of the meetings we voted with management on all proposals.

Overall, 83% of votes against management resulted from proposals which fell into three main categories.

### Director related

Globally this accounted for 41% of our votes against management. The main reasons for opposition were:

- Independence of the board, and/or its key oversight committees. Where either the composition of the board or a key committee does not meet our independence requirements we will not support the election of directors we do not consider to be independent
- Composition of the board. Where the board does not meet our expectations in regard to experience or diversity
- Combined Chair and CEO roles – we favor the separation of Chair and CEO roles. In cases where the role is combined, we require that the board appoint a Senior Independent Director

### Remuneration

Remuneration related resolutions accounted for 25% of the votes cast against management. The main reasons for opposition were:

- Severance/post-employment related/clawback/malus provision – on severance we typically like to see packages that are less than two years fixed salary plus annual bonus
- Pay for performance alignment – we expect that remuneration should be aligned with company performance taken into consideration. We will oppose any pay proposal when this is not the case
- Long-term alignment – we typically like remuneration packages that are evaluated and vest on a long-term time horizon
- Poor disclosure – we will oppose any package where market best practice disclosure standards are not being met

### Capital allocation and management

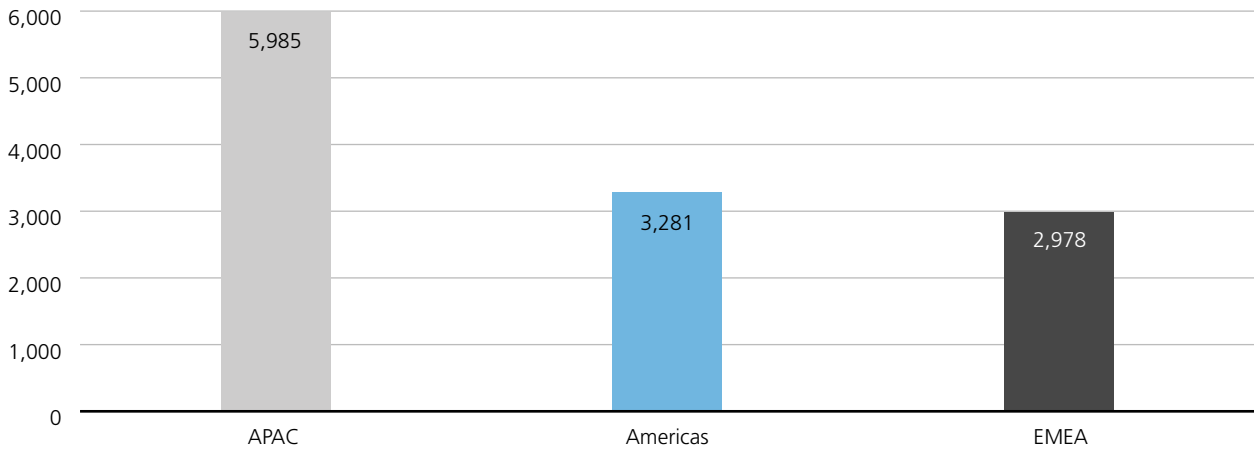
Proposals within this category accounted for 17% of the votes against management. We have set clear limits for share issuance within our policy. We will not support general share authorities of more than 20% of share capital, of which 10% can be without pre-emption rights.

This policy results in us voting against many of the issuance authorities requested, particularly in the APAC and EMEA regions, where limits are generally higher than these thresholds.

Further details on our votes against management are included below:

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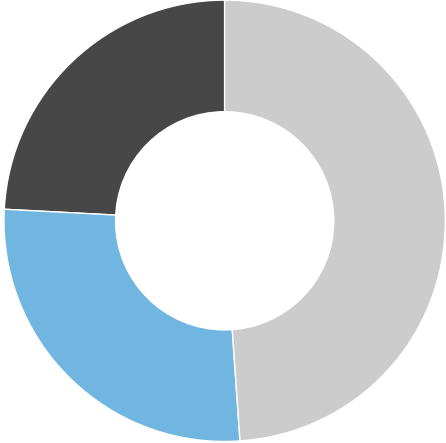
### Meetings voted



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Source: UBS Asset Management 2021

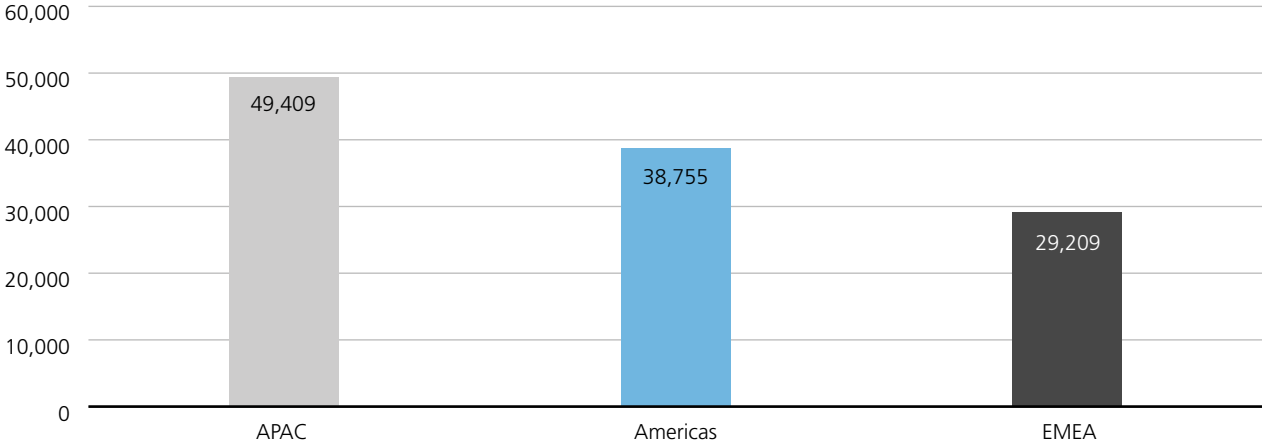
**Breakdown of meetings voted by region**



APAC	49%
Americas	27%
EMEA	24%

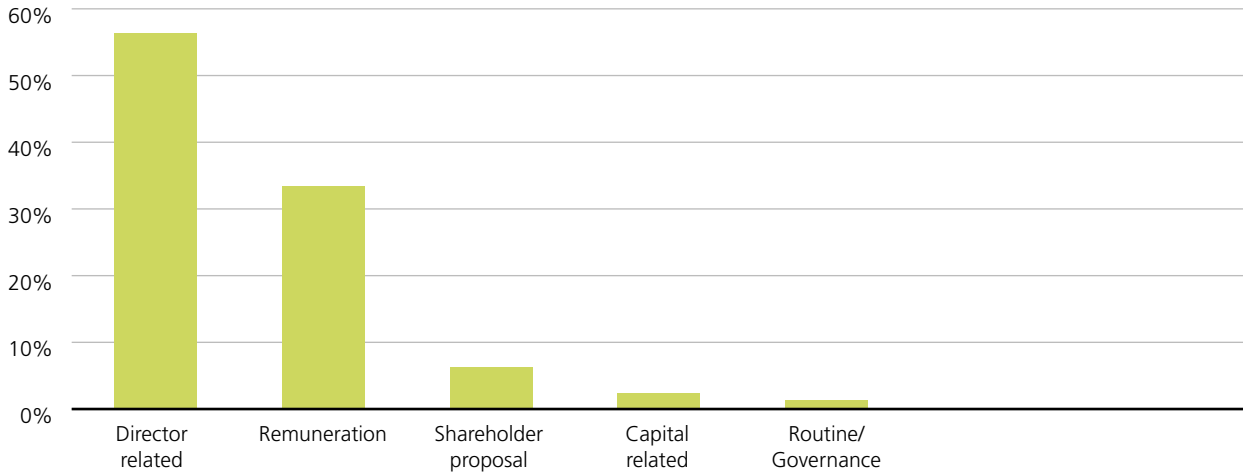
Source: UBS Asset Management 2021

**Resolutions voted by region**



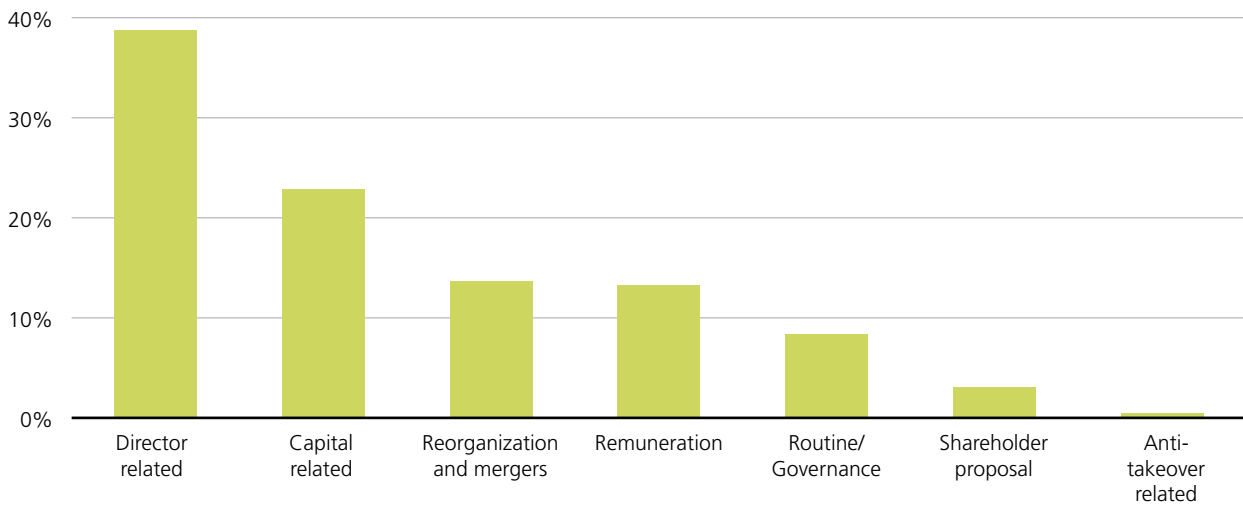
Source: UBS Asset Management 2021

**Breakdown of total votes against management by region and proposal type – Americas**



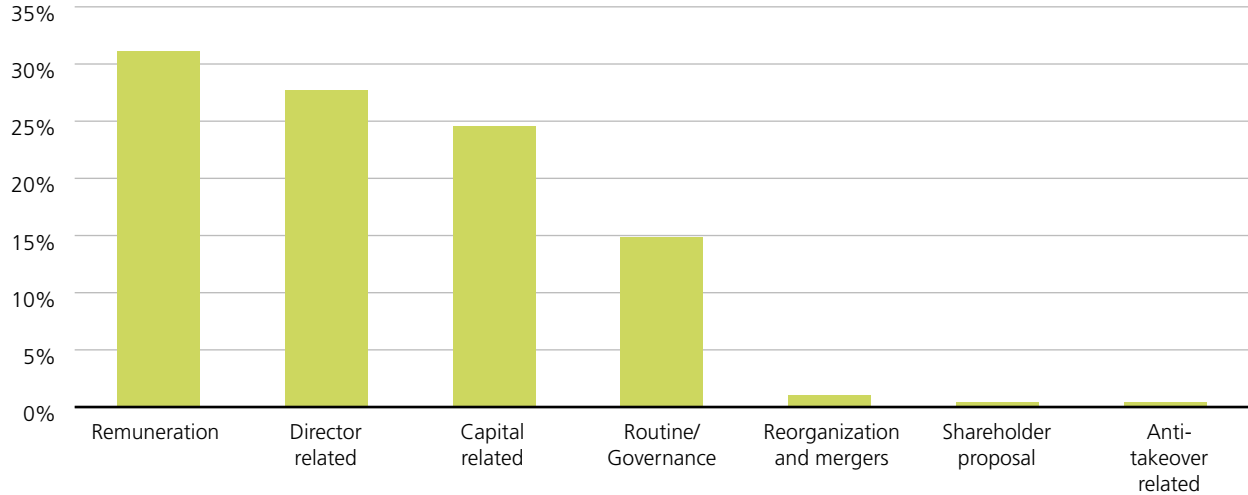
Source: UBS Asset Management 2021

**Breakdown of total votes against management by region and proposal type – APAC**



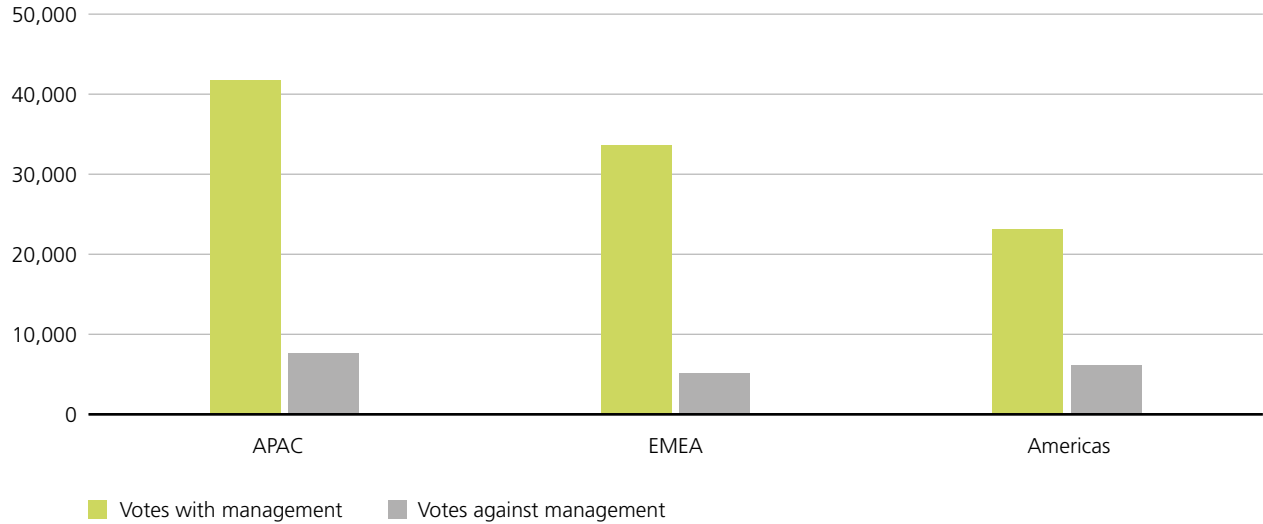
Source: UBS Asset Management 2021

**Breakdown of total votes against management by region and proposal type – EMEA**



Source: UBS Asset Management 2021

**Number of votes with and against management**



Source: UBS Asset Management 2021



**Shareholder resolutions relating to ESG issues**

In 2021 we voted on 844 shareholder resolutions which were focused on ESG issues, which represented a 26% increase from 2020. We saw a particular increase in climate related resolutions proposed by companies and not shareholders, and we expect the trend of so-called 'say-on-climate' proposals to continue in 2022.

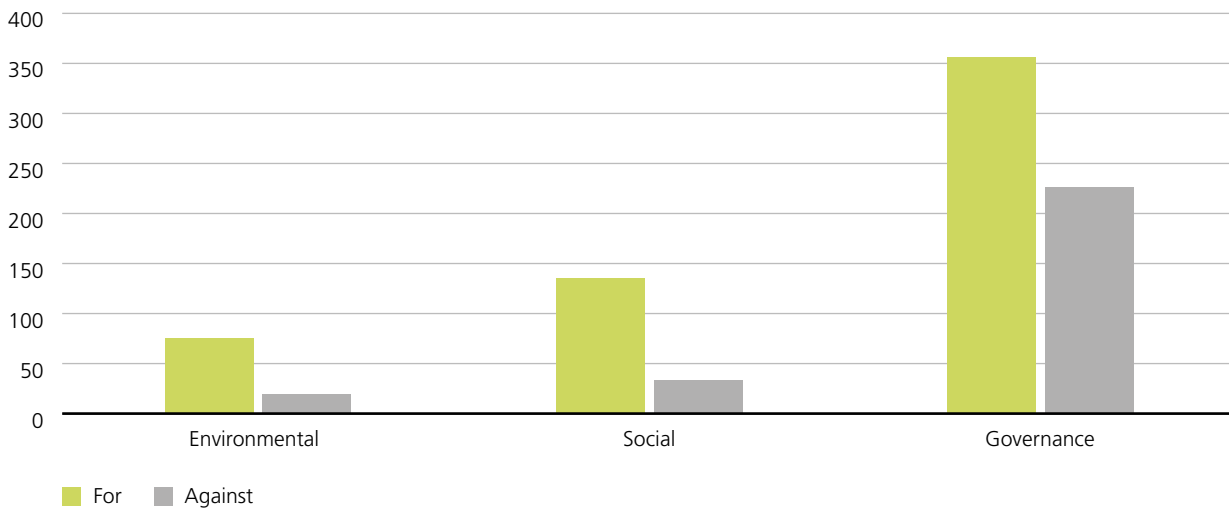
94 proposals voted related to environmental issues, 168 related to social issues and 582 related to governance issues. Overall, we supported 67% of the total resolutions.

In percentage terms, these figures translated to support for:

- 80% of shareholder resolutions focused on environmental issues
- 80% of shareholder resolutions focused on social issues
- 61% focused on governance issues

We review the merits and details of each resolution, and may choose not to support resolutions that are too vague or prescriptive in nature, does not address material issues, or which asked companies to introduce policies and practices that had already been adequately addressed.

**Votes on ESG resolutions**



These figures exclude proposals in the Japanese market requesting to change the articles of association to address environmental issues. Source: UBS Asset Management 2021

## Conflicts of interest

We identified a potential conflict of interest for 194 shareholder meetings over the course of 2021. Of these meetings, 75 related to meetings convened in respect of UBS mutual funds. In accordance with our procedures, no voting action was taken for such meetings by UBS-AM.

For listed equity securities where a conflict of interest was identified, votes were cast strictly in line with the recommendation received from our voting agent ISS, with one company exception. For this shareholder meeting, approval was sought from our Stewardship Committee to vote contrary to the recommendation of our voting policy. The committee reviewed and considered the rationale and circumstances for the change, including supporting research, and concluded that it was in client interests to deviate from the initial recommendation. Full details have been recorded of the reason for this course of action.

## Deviations from our policy recommendation

During 2021 our Stewardship Committee reviewed the decisions for 94 shareholder meetings where a vote was recommended contrary to our voting policy guidelines. This represented less than 1% of meetings voted. Of those proposals reviewed, the committee elected to support the change in voting recommendation for 91 impacted shareholder meetings and decided not to approve a change in our voting decision for 3 shareholder meetings.

## Stock lending

Stock lending can be beneficial to a fund or portfolio by providing an additional income stream. It can also benefit the market by providing liquidity. Many of our funds include the provision for stock lending, in some cases with a specific limit of the percentage of the fund which can be used for lending purposes at any one time. The income derived from this activity is invested back into the respective fund to support its growth and generate further investment opportunity.

However, we recognize that there can be a trade-off, particularly when it comes to exercising voting rights. Voting rights linked to equity positions are not retained by the lending party, and are transferred under the control of the borrower: therefore, when shares are on loan, we are contractually unable to exercise voting rights in regards to that lending position.

Through our voting process we monitor eligible share positions where a loan position impacts an upcoming shareholder meeting. Given our range of strategies we will always retain a position in a company that enables us to vote.

For funds that may have a lending position if we judge a vote to be particularly contentious, or where we believe it is in our client's best interests to do so, we will look to recall stock out on loan. This is generally in exceptional cases. We do not borrow shares for the purpose of gaining additional voting rights.

The decision to recall shares in order to vote for a higher percentage of shares under management is generally dependent upon the following criteria:

- The issuer represents a significant holding; and/or
- The issuer is subject to our focused proxy voting/ engagement program; and/or
- The agenda for the shareholder meeting contains a proposal regarded as controversial according to our Proxy Voting policy or other circumstances, particularly where allowing shares to remain on loan may cause a risk to the long-term value of the holding

In adopting this approach, we seek to maximize our voting positions alongside the additional income stream, balancing the benefits of lending alongside our stewardship commitments.

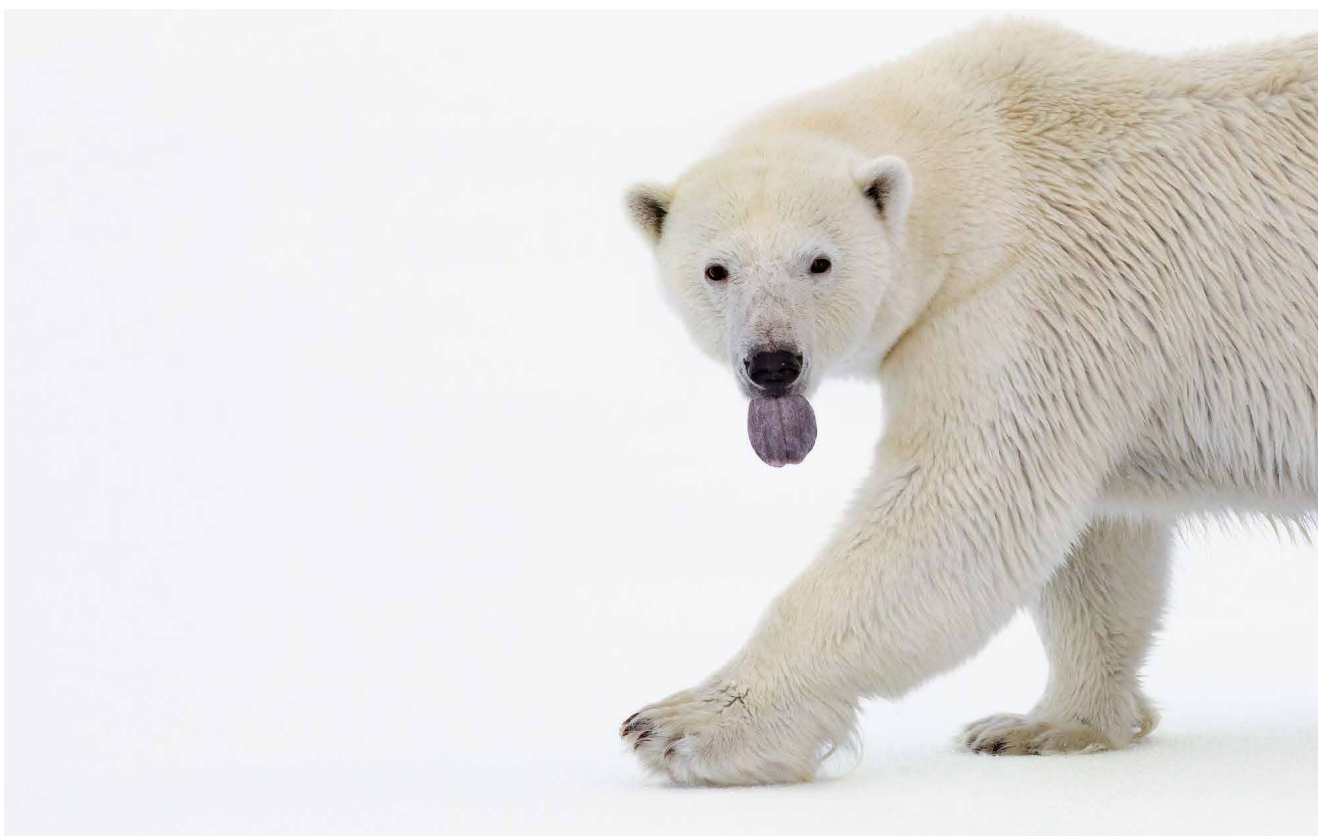
In 2021 we elected not to recall any shares for voting purposes.

We have initiated a review with the lending agents for our funds to determine if a systematic recall of shares for voting purposes for specific funds would be beneficial and appropriate.

## SECTION 7

# Stewardship in action

In this section we highlight and discuss not just our individual engagement activities but also the ways in which our **stewardship activities have informed and progressed action in areas** which we regard as being impacted by systemic risk, such as climate change.



The case studies featured in this section reflect specific ESG aspects which are materially relevant to the investment thesis. They do not necessarily reflect all ESG considerations pertinent to the company in question.

# Corporate purpose and governance



Promoting best practice in the boardroom and ensuring that investee companies are sustainable and successful is one of the fundamental objectives of our stewardship approach.

That is why we review a company's structure and governance. We do this by considering and assessing a number of factors:

- The board of directors, including composition and effectiveness
- Shareholder rights
- Capital management
- Audit and risk oversight
- Remuneration
- Ethics and culture, including management of environmental and social factors

## Corporate Purpose

We recognize that through the services they provide, the taxation revenues they generate and the employment opportunities they offer, successful companies support both economic growth and societal benefits. However they cannot operate in a vacuum; they constantly need to adapt and change as society and markets evolve.

To drive long-term sustainable success across a business it is vital that a company has a strong sense of purpose, reflected in the products and services they offer to customers.

Corporate purpose should be centered not just on financial outcomes or the maximization of returns for shareholders; it needs to consider all stakeholders, including shareholders, customers, employees, suppliers, and society more generally. A company's purpose can often be overlooked, or not even

considered. But the question of why a company exists, what its objectives are and where it wants to be, creates a path for setting and implementing a successful strategy, ensuring that strategic decisions are being made in the long-term pursuit of this goal.

UBS set its own purpose in 2021, and this drives our direction and strategy.

## Board of Directors

We believe good corporate governance should, in the long term, lead to better corporate performance and improved stakeholder value. Thus, we expect board members to view themselves as stewards of the company. They must be able to articulate the company's purpose and strategy clearly, with sufficient expertise, diversity and experience to be able to practice diligent oversight of management. They must be able to collectively exercise sound judgment and manage any effects the company may have on the environment and communities in which it operates.

Our goal when engaging with a company in this respect focuses on ensuring the board is structured in accordance with best practice, and that it operates effectively.

## Business Ethics and Culture

The culture of a company starts with the board, who should be setting the highest possible standards of ethical behavior and accountability. This should translate into policies across the business that enable management to promote a company culture that is aligned with the set purpose and values of that company. Training and evaluations should reflect this, and we consider that the board should have oversight of material

breaches of the company ethics. During our engagements we seek to examine how this is operates in practice, including:

- Whether the board is involved in meeting and gathering the views of stakeholders across the organization
- Whether the company has been fined for bribery and corruption matters
- Regulatory breaches
- High employee turnover
- The findings of employee surveys

We take a particularly strong stance against fraud or corruption and will vote against any director deemed to be related to such an incident. Furthermore, when it comes to culture, we aim not just to examine the positives, but also any potential gaps identified and how the board is addressing these.

### **Diversity**

We promote diversity throughout our dialogue with companies, across gender, ethnicity, background, skills and experience, with a minimum expectation that all boards globally to have at least one female director and higher targets in developed markets.

During the year we increased our focus on ethnic diversity, including promoting the collection and reporting of ethnicity data where legally applicable and supporting initiatives such as the Parker Review in the UK.

### **Remuneration**

Our fundamental principle is that compensation should be aligned with the company's strategy alongside outcomes for shareholders. Executive pay should not be a 'race to the top'. How the company sets its pay scheme provides a lens into the thinking and culture of the board. The company, through an independent board process, should seek to implement a remuneration policy that suits the needs of the company. It's critical that the board can explain the reasoning underlying the remuneration scheme. So, while we do not require companies to automatically adopt the same approach as peers, where there is a deviation from regular market practice

then the threshold is higher in regards to transparency and explanation. We will often seek to engage with companies to learn why the scheme is appropriate and how it aligns with strategy and long-term shareholder interests, particularly where the scheme appears overly complex.

In addition, we would expect executive board members to have a high level of personal shareholding in the company and performance targets that are aligned with strategy, with clear consideration given to the inclusion of material ESG topics such as climate change, health and safety and diversity.

### **COVID-19**

The COVID-19 pandemic continued into 2021, resulting in on-going challenges to business. Where a company's strategy has been impacted by lower growth or returns, this will inevitably affect the targets within executive remuneration schemes. In these circumstances it is appropriate that the impact on executive remuneration should be aligned with the experience of the wider workforce. In particular, where a company has made use of government aid, reduced headcount, frozen pay increases and waived employee incentives, we expect executive remuneration to mirror these circumstances.

Where we have had concerns, we engaged with the company and voted against remuneration proposals during the course of the year, as we did in 2020.

### **Strategy through products and services**

Consumer preferences and expectations continue to evolve, with an increasing focus on sustainability. During our company analysis we will often evaluate the positive and negative externalities of their products and services on the environment and society as a whole. When engaging we will aim to highlight and help steer the company in mitigating negative externalities. With the establishment of the United Nations Sustainable Development Goals (SDGs), we are also engaging with companies in regard to actions they are taking to meet the SDGs' objectives. We have created Impact investment products which evaluate a company's contribution to achieving those objectives through their product and services.

## CASE STUDY

# Palo Alto Networks Inc

### CASE STUDY RESULTS:

Continuing Improvement in remuneration structure

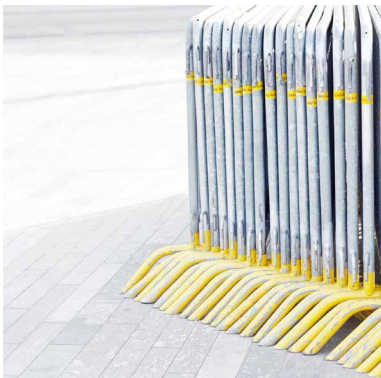
**Sector**  
Systems Software

**Region**  
Americas

**Country**  
United States

### ESG topics addressed

- ✓ Corporate Governance
- ✓ Remuneration



### Issue

The Company has a history of paying excessive remuneration which is misaligned to company performance. This has led to high shareholder dissent at the annual general meeting.

### Action taken

We have been engaging with the Company extensively since 2019 requesting that the Board keep pay quantum under control, increase the weighting of performance-based equity and refresh the Board. to ensure adequate responsiveness to shareholder concerns on remuneration and governance.

### Outcomes and next steps

We met with the Company's Board ahead of the 2021 AGM. While we still expect a longer vesting timeframe for equity-based awards, we considered that the Company had made good progress, including introducing an increased stockholding requirement, and strengthened the link to performance by making equity awards 100% performance-based in 2021 and 2022.

We also determined that the Company's Board had shown a genuine will to address investors' concerns. Given what we heard from the Board, we felt another vote against pay might not have led to further progress. As a result, we supported the say-on-pay vote, as well as the reelection of the Chair of the Remuneration Committee.





## CASE STUDY

# Pressing for higher governance standards

### CASE STUDY RESULTS:

Board independence enhanced and disclosure improvements

**Sector**  
Insurance

**Region**  
APAC

**Country**  
China

### ESG topics addressed

- ✓ Corporate Governance
- ✓ Strategy and Business Model
- ✓ Capital Management
- ✓ Transparency and Disclosure

### Issue

The Company did not flag in our ESG Dashboard, however we noted that the Company's governance was weak compared to the principles of the Hong Kong Corporate Governance Code. In terms of board composition, the Company did not have a Lead Independent Director, and the founder has held both Chair and CEO roles for over 30 years. The Company is a core holding across our China Equity strategies, and we believe it is well-positioned to ride the structural growth in investment and retirement needs of the ageing Chinese population. Premium penetration remains low at 2% of GDP compared to 8%–10% across other Asian economies. In addition, sales force productivity of the company is significantly higher than its peers.

### Action taken

We identifies an opportunity to engage the company to unlock value through better transparency, disclosure and governance. We began engaging the Company starting in late 2018, requesting management to improve board composition as well as disclosure on the compensation structure and risk management systems.

### Outcomes and next steps

Since our engagement began, committee level independence has improved significantly to 80% across the Audit, Nomination and Remuneration committees, and there has been meaningful non-executive director refreshment. In 2020, the Chair resigned from the CEO role, and the Company has strengthened its collective management decision making system with three Co-CEOs. The Company has responded to requests for greater transparency, publishing its first sustainability report and being selected to the Dow Jones Sustainability Emerging Markets Index. It is also supporting the decarbonization of the global economy in line with the Paris Agreement on climate change goals and China's carbon neutrality goal.



## CASE STUDY

# Engaging on remuneration

### CASE STUDY RESULTS:

Improvements to remuneration structure

**Sector**  
Materials

**Region**  
EMEA

**Country**  
United Kingdom

### ESG topics addressed

- ✓ Corporate Governance
- ✓ Remuneration

### Issue

The former CEO was a significant shareholder of the Company and did not receive any variable compensation or year-on-year salary increases. When he decided to step down from the CEO position the Company was faced with the issue of having a remuneration policy which was not competitive enough to attract a replacement.

### Action taken

We engaged with the Company on its remuneration package for their new CEO over a number of months. The Company wanted to make several changes to the existing policy which included a significant quantum increase, and switch from performance share awards to time-vesting restricted share awards.

At the start of the discussion, we had significant concerns over the increase in quantum which when benchmarked placed the incoming CEO's base salary as the highest amongst his peers, some of which were three-times the size of the Company. We also had concerns over the quantum of the restricted share award which went against the usual market practice of a 50% discount.

### Outcomes and next steps

During the consultation process the Company was receptive to our feedback. The Company revised the policy by cutting the proposed base salary which resulted in him falling to the lowest amongst peers. Furthermore, they cut the quantum of the restricted share award which resulted in an overall compensation package that was better aligned to peers and the size of the Company. Finally, the Company has introduced dividend clause underpin for the RSUs which provided greater alignment with shareholder outcomes.

## CASE STUDY

# Toshiba Corp



### CASE STUDY RESULTS:

Directors removed after vote against reappointment

**Sector**  
Industrials

**Region**  
APAC

**Country**  
Japan

### ESG topics addressed

- ✓ Controversy
- ✓ Community Impact and Human Rights
- ✓ Environmental Management and Climate Change



### Issue

The Company has gone through some extraordinary events over the past year. We have closely followed the situation since before the extraordinary meeting requested by two major shareholders in March 2021, when we decided to support the resolution to appoint independent investigators to review the conduct of the 2020 AGM. Our objective was address historical governance shortcomings and to improve oversight by the Board of Directors, in order to better safeguard shareholder rights following the allegations of irregularities at the 2020 AGM.

### Action taken

We closely followed developments in Board composition, and especially the resignation of the CEO. We discussed this topic with non-executive members of the Board ahead of the AGM in a one-to-one meeting, but we were not able to obtain significant insights into the circumstances leading to the CEO's departure. Following the publication of the independent investigators' report, which highlighted the shortcomings of the company's Audit Committee investigation into the 2020 AGM, we joined the group engagement meeting organised by the Company's management at short notice ahead of the AGM. During the meeting, the Board Chair and the new CEO explained the initiatives the Company implemented to strengthen compliance, but we felt that the rationale for the reappointment of a specific incumbent member of the Audit Committee, and more generally the reasons for opposing an independent investigation, were not sufficiently compelling.

### Outcomes and next steps

Following the publication of the independent investigators' report, and in response to shareholder pressure, the Company removed two incumbent members of the Audit Committee from the Board. As we felt that this was not a sufficient response, we decided to vote against the reappointment of Board Chair. In our opinion, the Board Chair failed to exercise effective stewardship, and obstructed shareholders' efforts to obtain full transparency on the 2020 AGM; we also thought that the specific incumbent Audit Committee member should be held accountable for the committee's failure to conduct a full and thorough investigation into an issue that affected fundamental shareholders rights. Both directors were not reappointed to the Board.

## CASE STUDY

# ABB Ltd

### CASE STUDY RESULTS:

ESG targets included in remuneration

**Sector**  
**Industrials**

**Region**  
**EMEA**

**Country**  
**Switzerland**

### ESG topics addressed

- ✓ Corporate Governance
- ✓ Remuneration
- ✓ Environmental Management and Climate Change



### Issue

We engaged with the Company on the topic of executive remuneration to address the lack of ambitious ESG targets in the compensation framework. Given the significant opportunities that the Company enjoys in the transition to a low-carbon economy, we saw ESG compensation targets as a potential key driver of company value.

### Action taken

We discussed the inclusion of ESG targets into the compensation framework with Investor Relations. We suggested the inclusion of such targets in the Long Term Incentive Plan (LTIP) - with a significant weight - reflecting the strategic priority of the Company to reduce emissions. We mentioned that targets should be based on the implementation pathway for greenhouse gas reduction, setting interim targets on the way to the long-term 2030 target. The Company was receptive to feedback, yet mentioned they received contrasting inputs on this point from a number of investors. The Company also mentioned that ESG performance is ultimately reflected into the Total Shareholder Return (TSR), which determines 50% of the LTIP, and that ESG targets were already included in the annual bonus.

### Outcomes and next steps

In response to our engagement efforts, as well as feedback received from other large shareholders, the Company decided to immediately include ESG targets in the LTIP, weighing 20% of the overall grant. The targets will initially be set for the 2022-24 performance period, and they will be based on reduction of Scope 1 & 2 emissions. We consider this outcome to be clearly positive, as investor dialogue was key in encouraging the Company to move quickly in the right direction: reduction of greenhouse gas emissions is a key opportunity for the Company, and a significant ESG target in the LTIP will push the Company to capitalise on it.

## CASE STUDY

# Intel Corporation



### CASE STUDY RESULTS:

Follow up engagements due to say-on-pay vote failure

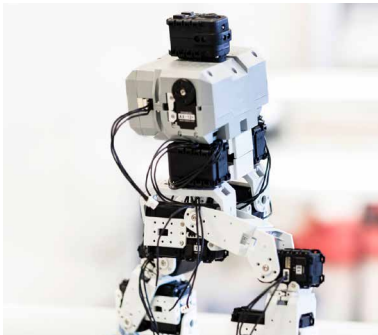
**Sector**  
Information Technology

**Region**  
Americas

**Country**  
United States

### ESG topics addressed

- ✓ Corporate Governance
- ✓ Remuneration,
- ✓ Environmental Management and Climate Change



### Issue

Ahead of the Company's 2021 AGM and during the CEO transition, we identified concerns over the pay package for new CEO, which included an equity grant of approximately USD 110 million, half of which was to compensate him for foregone awards at his previous employer

### Action taken

We engaged with the Company before the 2021 AGM, speaking with Investor Relations. While we did recognize the Company's effort to respond to investor concerns, ultimately, we considered that we would not support the Company's 2021 say-on-pay vote due to concerns on the overall quantum of remuneration, the lack of stretch of certain performance targets included in the CEO's joining incentives, and the fact that the large equity awards granted upon sign did not preclude additional annual awards from 'standard' equity-based incentive plans.

### Outcomes and next steps

As a result, the Company's say-on-pay vote failed at the 2021 AGM with almost 62% of shares voted against. This high dissent triggered successive rounds of engagement with the Board Chair on ESG topics, including executive pay, where we have communicated the need for restraint on sign-on payments for future appointments.

We will follow up in 2022 to address concerns and measure responsiveness to the say-on-pay defeat at the 2021 AGM.



## CASE STUDY

# Engaging on Board composition

### CASE STUDY RESULTS:

Lack of engagement led to divesting

**Sector**  
Consumer Durables

**Region**  
EMEA

**Country**  
Switzerland

**ESG topics addressed**  
✓ Corporate Governance

### Issue

The company was highlighted as a high ESG risk primarily due to lack of Board independence and refreshment in addition to concerns around compensation and dual class share structure

### Action taken

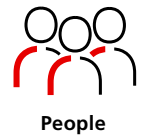
In the past, we had attempted to obtain a meeting with the Chair of the Board to discuss these topics. Our main objective was to encourage the Company to improve Board composition by appointing independent directors with relevant experience in the sector; however, we had not been able to obtain such meeting.

Therefore, we decided to write a formal letter to the Board, outlining our key concerns and expectations, and reiterating our request for a meeting or a call with the Chair to further state our case.

### Outcomes and next steps

Unfortunately, the company decided not to respond to our letter, and did not address our key concerns within a reasonable time frame. Having followed up with the Company for a reply, and receiving no response, we decided to confirm our ESG risk rating as high. This led to the Company being divested from our range of Sustainability-focused funds in which it had been previously included.

# People



People represent one of the largest assets for companies, both in their direct operations and their supply chain. We believe protecting, mentoring and nurturing employees has a material impact on the bottom line. Equally, we believe that developing, maintaining and enhancing a company's license to operate within its countries of operations is fundamental for ensuring business continuity and supporting economic, environmental, and social development of local communities.

The COVID-19 pandemic has increased the significance of the social dimension. It has tested the ability of companies to ensure employees' health. In 2021, we monitored companies' efforts to protect the mental and physical wellbeing of their workforce, facilitate remote working conditions, protect salaries and benefits, and ensure that employees are granted enough flexibility to accommodate work and family needs. This crisis is likely to result in a permanent shift in ways of working and companies have to be equipped to face this long-lasting trend.

## Human capital management

Corporate performance is assessed by evaluating the presence and quality of human capital management policies, unionization rates, employee turnover, health and safety metrics, staff training, mentoring and career opportunities, parental leave, employee surveys, and share award programs. Additionally, UBS-AM has access to information provided by third parties on gender performance across the workforce. We believe that gender diversity should not only happen at board level and companies should invest in their female employees

to ensure an equal gender representation at middle and top management levels. We see the gender pay gap measured through mean and average salaries across gender as a useful indicator to indicate companies' progress. We have also expanded our focus to broader diversity topics including sex, ethnicity, and disabilities as we believe that diversity of skillsets and perspectives is material across sectors and regions.

## Human rights

Corporate performance is assessed by evaluating the presence and quality of a human rights policy and implementation practices, including periodic due diligence and assessments. We consider the UN Guiding Principles on Business and Human Rights (UNGPs) as a useful tool to frame our discussions with companies around the three pillars of "protect, respect, and remedy." When researching and engaging with companies, we also consider the OECD Responsible Business Conduct Principles framework.

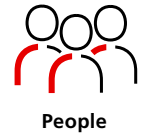
## Social issues in the supply chain

We expect companies to hold their suppliers accountable and request the same ESG standards they have committed to at a corporate level. Corporate performance is measured by the presence of supply chain management, internal and external audit, and participation in industry partnerships to tackle child labor, modern slavery, minimum and living wages, collective bargaining, and health and safety.





## CASE STUDY



# Ubisoft Entertainment SA

### CASE STUDY RESULTS:

Employees support and board diversity improvements

**Sector**  
Materials

**Region**  
EMEA

**Country**  
France

**ESG topics addressed**  
✓ Remuneration

### Issue

We initiated engagement on ESG topics with the Company in March 2021, in the wake of numerous misconduct and sexual harassment allegations that impacted senior managers of the Company in early 2021.

### Action taken

At that time, we had a discussion with the CFO to better understand the extent and nature of the allegations, the immediate actions taken by the company to address the issue in the short term (including the dismissal of some employees accused of misconduct), and the planned actions to improve conduct and culture over the long term. At the time we stressed the importance of maintaining a healthy corporate culture, and the paramount need to restore a workplace that would value and protect all employees

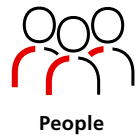
### Outcomes and next steps

In December 2021, we had a follow up call with the CFO and the Lead Independent Director to receive an update on the actions taken by the Company to improve its corporate culture and reputation. We were pleased to learn about the deep restructuring of the HR function, which is now led by a Chief People Officer recruited from outside the company, who is leading the effort to improve support for employees in these delicate circumstances.

In addition, the Company has improved employee engagement, diversity at the board and leadership level, and the quality of whistleblowing tools. As a result, the number and severity of misconduct claims declined materially, and are now comparable with average levels for international organizations. While we recognize that the company has already improved substantially on this topic, we will continue to monitor developments in the future, focusing particularly on expected positive impacts on talent management.

## CASE STUDY

# Environment services company



### CASE STUDY RESULTS:

Employees support improvements

**Sector**  
Industrials

**Region**  
Americas

**Country**  
United States

### ESG topics addressed

- ✓ Human Capital Management and Labour Standards
- ✓ Diversity
- ✓ Remuneration

### Issue

We identified some opportunities for improvement in the Company's approach to human capital, ranging from diversity and inclusion efforts to incentive systems for all employees.

### Action taken

Besides engagements relative to governance and executive pay, we engaged the company to encourage the adoption of an employee share plan to empower employees and reinforce loyalty and alignment of incentives of all employees at all levels. We leveraged the experience of another invested company to share best practices. We also suggested they track and report on employee turnover and other performance indicators of their human capital strategy, such as employee survey results.

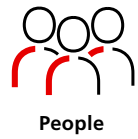
### Outcomes and next steps

The Company confirmed they launched programs to incorporate employee survey feedback and will be expanding the survey worldwide. The company also committed to focus on employee well-being during COVID-19 and to assess their flexible work offer. The employee share plan is still under review, and we continue to monitor this.



## CASE STUDY

# Cadence Design Systems, Inc.



### CASE STUDY RESULTS:

Commitment on reviewing ethnicity and equal pay

**Sector**  
Information Technology

**Region**  
Americas

**Country**  
United States

**ESG topics addressed**

- ✓ Human Capital Management and Labour Standards
- ✓ Diversity

⋮  
**Issue**

⋮  
The Company has indicated that human capital and diversity are at the top of their ESG agenda. A quarter of the Board comprises female directors, and the company provides some disclosure on gender diversity. However the Company does not provide any disclosure on their approach to ethnic diversity. This is increasingly at odds with moves towards such disclosure among US companies.

⋮  
**Action taken**

⋮  
We engaged with the company encouraging better ESG disclosure, including an ESG materiality assessment and diversity data in line with the Equal Employment Opportunity (EEO) survey

⋮  
**Outcomes and next steps**

⋮  
The Company confirmed that they will publish more granular data on workforce ethnicity in the coming year. They also added that the Board is focused on pay fairness, measuring its progress based on 'equal-pay for equal-role'



**CASE STUDY**

# China Mengniu Dairy Co., Ltd

**CASE STUDY RESULTS:**

Disclosure improvements and continue engagements regarding Access to Nutrition

**Sector**  
Consumer Staples

**Region**  
APAC

**Country**  
China

**ESG topics addressed**

- ✓ Strategy and Business Model
- ✓ Transparency & Disclosure
- ✓ Nutrition



**Issue**

We co-lead a collaborative engagement with China Mengniu, as part of our membership of the Access to Nutrition network. In 2021 the Access to Nutrition Index included Chinese companies for the first time, including China Mengniu Dairy. The Company scored poorly, which appeared to be due to the use of publicly disclosed information only. Other companies, which have been included in the Index for many years, have had the opportunity to engage with the Access to Medicine Foundation in the past, to share additional information directly with them but also to work towards enhanced practices and disclosures

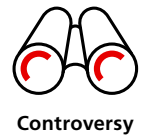
**Action taken**

We led this collaborative engagement with a total of 30 investors supporting the engagement and 10 participating in the engagement meeting itself. The objectives of the engagement were to 1) explain the importance/materiality of Access to Nutrition, from an investor perspective, to the Company and 2) to discuss best practices and encourage the company to enhance practices and disclosure in the areas of a) governance, b) strategy, c) lobbying, and d) transparency and safety in operations.

**Outcomes and next steps**

The company has proved to be very receptive to the engagement and has requested a follow-up meeting with us and the Access to Nutrition Foundation, to better understand best practices as well as the methodology of the Index. They have committed to enhance disclosure on existing practices and to enhance practices.

# Controversies



A subset of our engagement cases focuses on companies that are involved in serious breaches of international standards. We believe that these companies represent an investment risk. To inform our research and engagement, we identify investments which potentially violate the 10 principles of the United Nations Global Compact. We do this by using a selected service provider, being MSCI ESG Research, to screen for companies that are highlighted within their methodology as breaching one or more of the principles.

In line with our overall approach to stewardship we engage with these companies on their progress towards resolving the various ESG risks they present. In each case we review the cause of the breach, the responsibility of the corporate, the time elapsed, and the actions taken to date. We take into account public reporting on the case, communications by the company involved, reports by NGOs and other third parties, and the results of investigations by other investors, where these are available.

Where it is identified that the case is material, relevant, or represents a systematic management failure then these will be put forward for engagement. We seek to ensure that companies effectively close and remedy identified breaches and both communicate with stakeholders and ensure they have addressed any management failures.

Our main objectives for these engagements are to ensure the companies:

1. Remedied the breach
2. Defined plans to address and compensate any negative impacts
3. Identified processes to prevent repetitions
4. Communicated effectively with stakeholders

We monitor and track progress through public communications and making direct contact with the companies. We recognize that given the nature of the issues facing many companies any changes will not occur immediately. Therefore we expect the majority of our engagements to be ongoing. Companies which do not demonstrate credible corrective action are excluded from the investment universe of our actively managed Sustainability-Focused and Impact fixed income and equities funds under the direct management of UBS-AM.

Additional details can be found in the [UBS-AM Sustainability Exclusion Policy](#).

As outlined in Section 5, during 2021, 21 engagement meetings were focused on controversies. Given lack of progress or responsiveness by 20 issuers we excluded these companies from our investable universe for actively managed strategies.

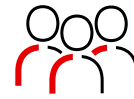


## CASE STUDY

# Freeport-McMoran Inc



Planet



People



Controversy

### CASE STUDY RESULTS:

Sustainability approach improved

**Sector**  
Mining

**Region**  
Americas

**Country**  
United States

### ESG topics addressed

- ✓ Controversy
- ✓ Corporate Governance
- ✓ Environmental Management and Climate Change
- ✓ Human Capital Management and Labour Standards
- ✓ Community Impact and Human Rights

### Issue

The company flags for elevated ESG risk in the UBS ESG Dashboard for a breach of UNGC principles. This is based on environmental, labor, and human rights controversies related to its operation of the Grasberg copper-gold mine in Indonesia. A major weakness in this case is the lack of disclosure on the specific environmental management and impacts.

### Action taken

We have engaged with the company to better understand the environmental and social issues it faces at the specific mining location. In these interactions we have encouraged the Company to bring its management of these controversial issues up to industry best practice, as well as to more systematically disclose its approach and performance.

### Outcomes and next steps

The Company has recently begun to focus on improving its group-wide approach to sustainability. Specifically regarding the Grasberg operation the company has indicated that it is working on improved disclosure around its water monitoring, biodiversity action plans and human health assessment. The company has also indicated that it is commencing work on a human rights impact assessment.

## CASE STUDY

# RWE AG



Planet



People



Controversy

### CASE STUDY RESULTS:

Progress on climate transition plans

#### Sector

Electric Utilities

#### Region

EMEA

#### Country

Germany

#### ESG topics addressed

- ✓ Controversy
- ✓ Environmental Management and Climate Change

#### Issue

The Company was originally identified as a high carbon intensity electric utility and included in our thematic climate engagement program three years ago. While the Company has a climate transition plan, the pace at which this can be implemented is dependent on agreements with government and other stakeholders on the closure of its extensive hard coal and lignite power generation.

#### Action taken

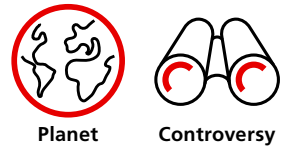
The inclusion of the company on the Climate Action 100+ engagement list, provided management with a clear mandate to push for change on carbon emissions. We have been in contact with Company representatives including Board members over the last three years.

#### Outcomes and next steps

Over the course of the engagement the company has announced closure of all of its hard coal power generation by 2030 and agreed a phaseout plan for its lignite power stations by 2038. This underpins its commitment to be carbon neutral across the Company by 2040. During the course of our engagement the Company has also completed significant mergers raising its exposure to renewable energy and in October 2021 it announced a strategy of substantially increased capital allocation to this part of its business.

## CASE STUDY

# Rio Tinto Group



### CASE STUDY RESULTS:

Disclosure improvements on the corrective actions and vote against remuneration

**Sector**  
Materials,  
Precious Metals  
and Minerals

**Region**  
APAC

**Country**  
Australia

### ESG topics addressed

- ✓ Community Impact and Human Rights
- ✓ Environmental Management and Climate Change



### Issue

Following the controversy in May 2020 when the Company's Australian iron ore mining activities resulted in the destruction of cultural heritage at Juukan Gorge, we have continued to engage with the company throughout 2021 to ensure further action is taken to avoid future similar negative impacts.

### Action taken

We have held meetings with the Chair and other representatives to discuss progress on rebuilding trust in the company's stakeholder relations. We have encouraged the company to be more transparent around the establishment and function of its Trusted Partnership Plan, which is the central piece of the response to Juukan Gorge.

We note that as part of this controversy there were several senior executive resignations, (including the CEO) and the Board Chair announced his intention to retire in 2022. We welcomed these commitments from the Company but did take issue with the severance arrangements for these directors who still retained a significant portion of their Long Term Incentive Plan award. This resulted in UBS voting against the Remuneration Report at the AGM.

### Outcomes and next steps

During 2021, the Company announced the creation of an Indigenous Advisory Group and stated its intention to begin reporting on its progress on commitments, internal work and external dialogue supporting its cultural heritage management and its Trusted Partnership Plan. The company published its first Communities and Social Performance report in September.

In regard to remuneration we note that over 60% of shareholders voted against the remuneration report, which resulted in the proposal failing to pass.

## CASE STUDY

# MMC Norilsk Nickel PJSC



Planet



Partnership



Controversy

### CASE STUDY RESULTS:

Initial progress on remediation and prevention steps

**Sector**  
Materials

**Region**  
EMEA

**Country**  
Russian Federation

### ESG topics addressed

- ✓ Controversy
- ✓ Environmental and Climate Change

### Issue

The Company is flagged by MSCI as breaching the United Nations Global Compact principles for two reasons. The first is the Company's longstanding problem with sulphur emissions. While the Company has committed to a substantial investment to reduce sulphur emissions 90% by 2025, we have been concerned about rate of progress. The second is our concern over structural issues which appear to have led to a substantial spill of diesel fuel in 2020. The Company's approach to its controversies did not appear to achieve the level of credible corrective action that we look for in response to severe controversies.

### Action taken

We had a one-to-one meeting with the Company to learn more about their corrective actions. We also sought clarification on the construction of a new, more efficient smelter designed to achieve greater sulphur capture. We encouraged the Company to take further action to eliminate the structural causes of the diesel spill incident, to instigate the remediation and capital investment required, and develop an appropriate Health Safety & Environment (HSE) system.

### Outcomes and next steps

The company has achieved early milestones in its capital spending to reduce its sulphur dioxide emissions but the largest part of the program still needs to be implemented in order to reduce emissions by 40-45% by 2023 and 90% by 2025. The Company has also completed the first stage of remediation of the diesel oil spill but is still in the process of enhancing its risk management system and assessing and upgrading its energy facilities.

# Stewardship beyond listed equity

Stewardship extends well beyond the remit of listed equity. As a large-scale asset manager whose business spans the investment spectrum, stewardship has relevance across all asset classes in which we operate. In this chapter we explore stewardship in the context of fixed income strategies, as well as real assets.

## **Fixed income**

The purpose of our stewardship activities in fixed income is to address sustainability issues with a material impact on both companies and external stakeholders. This allows us to address specific issues negatively impacting the financial case and credit profile, broad issues such as climate change with implications across sectors, and questions arising from United Nations Global Compact-related controversies.

We foster discussion between credit and equity analysts because we believe this leads to more effective engagement on sustainability issues. Often, what is material to a fixed income investor from an ESG perspective is also material to an equity investor. We understand there may be differences in perspective, because fixed income investors focus much more on potential downside risks, and corporate governance and time frames play a different role. In this regard, fixed income and equity investors may disagree on capital allocation (especially between share buybacks and debt reduction) as well as in takeovers and, after a credit event, in bankruptcy settlement. We recognize the need for company management to hear both perspectives, while ensuring that agendas are shared and agreed prior to engagement meetings to ensure alignment on key engagement questions.

## FIXED INCOME CASE STUDY

# Transurban



### CASE STUDY RESULTS:

Successful ESG trajectory and strengthened dialogue

**Sector**  
Industrials

**Region**  
APAC

**Country**  
Australia

### ESG topics addressed

- ✓ Corporate Governance
- ✓ Remuneration
- ✓ Operations
- ✓ Business Conduct and Culture
- ✓ Environmental Management and Climate Change
- ✓ Human Capital Management and Labor Standards
- ✓ Community Impact and Human Rights
- ✓ Disclosure
- ✓ Controversy
- ✓ Impact Revenues
- ✓ Diversity



### Issue

The Company was flagged by our internal credit research team and proprietary ESG metrics scorecards, exhibiting high Scope 2 and Scope 3 emissions and increased controversy potential with waste disposal for the West Gate Tunnel.

### Action taken

During 2021, we engaged with the Company through proactive calls to senior management, sustainability teams and subsidiary management teams as well as calls with key senior management. ESG engagements specifically pertained to embodied energy concerns surrounding sourced materials and environmental-social risks with waste disposal including but not limited to:

- Requesting completion of “UBS 10Q”, a detailed ten sustainability questions for infrastructure assets
- Gaining further underlying details on ESG progress with up and down-stream suppliers to confirm alignment across the broader group
- Details on the EV strategy and how revenue and decarbonisation strategies will be managed
- Details on specific renewable energy sourcing to confirm coverage and validity
- Requesting ongoing discussions on carbon capturing innovation across the short, medium and long term; linked with discussing opportunities for sustainability / green bond investment opportunities for UBS to contribute towards

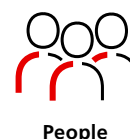
### Outcomes and next steps

We successfully developed a strong open dialogue between UBS and the Company and subsidiaries, emphasizing our focus and requirement for proactive ESG management to both (i) reduce risk and ESG impacts on communalities (ii) increase the sustainability and operational success of projects. Full completion of UBS 10Q with detailed responses further allowed for a thorough verification of sustainability initiatives. We are overall pleased with the ESG focus, pipeline and ambitions at the Company.

We will continue engagement for further collaboration on global sustainability initiatives and ESG risk mitigation while monitoring targets to increase investment in EV integration, investment in emissions capture technologies, to reduce embodied energy along Scope 3, and to expand issuance opportunities for green financing.

## FIXED INCOME CASE STUDY

# Roper Technologies



### CASE STUDY RESULTS:

Progress on initial steps to improve good work

**Sector**  
Industrials

**Region**  
Americas

**Country**  
United States

### ESG topics addressed

- ✓ Environmental Management and Climate Change
- ✓ Transparency and Disclosure

### Issue

The Company is an industrial technology company which operates a portfolio of 45 businesses, each involved in niche markets where they enjoy a leadership position, providing tailored applications for their customers. ESG has become a recurring topic in conversations with investors and the Company is in the process of developing a group approach.

### Action taken

We had a first engagement call with Roper Technology to understand the governance of their sustainability strategy, discuss Board refreshment and employee retention and incentive systems. One of the Board committees is now responsible for overseeing ESG initiatives and the General Counsel assistant took on the additional responsibility of Chief ESG Officer, reporting regularly to the Board.

Finally, we discussed the Company's strategies to ensure employee retention in each business, particularly a few years after acquisition. They focus on a year-on-year growth target rather than a budget/ top-down approach. They estimate less than 2% of the workforce participate in the share scheme. We believe there is a potential to enhance access to and participation of all employees in the incentive system.

### Outcomes and next steps

With the support of a consultant, they are now collecting and assessing data availability. A stakeholder consultation last year helped define their priorities - diversity, climate change, and cyber security/ data.

Regarding the retirement rule, the Board adopted a new rule (the earlier of 15 years tenure or reaching 80 years old), however investor relations decided against this, largely due to the slow replacement of long-tenured directors. We expect at least two new directors to join the Board – with an eye to diversity and one likely to come from the finance/ investment side.

We continue to engage with the Company while discussing share base compensation schemes and offering suggestions on expanding their tracker and disclosure of KPIs.










# Real Estate & Private Markets

Our role as stewards of assets covers both traditional and alternative assets. When we are investing directly, we have the opportunity and responsibility to influence and monitor ESG performance of underlying investments. In order to guide our efforts, we have established specific ESG targets for our direct real estate investments to achieve going forward.

When we invest indirectly through funds or fund of funds, our investment teams engage with fund managers based on the results of a UBS ESG survey, GRESB ratings, UN PRI Assessment, or other environmental accreditations. While our exposure to the underlying assets is indirect, we can still exercise influence and pressure on the funds' managers to improve their ESG policies and performance.

## Tackling targets

A clear goal towards delivering sustainable and ultimately, better-performing assets for our investors

	Real estate targets (rolling 5 years) <sup>1</sup>	Progress against our targets (5-year period) <sup>2</sup>	Current achievement (5-year period)
	Reduce by 12.5% energy consumption	Electricity to power 17,000+ houses	9.6% reduced
	Reduce by 10% water consumption	Water to fill 900 olympic swimming pools	21.7% reduced
	Reduce by 10% operating costs	USD 37.9m electricity and water cost savings <sup>3</sup>	17.3% reduced
	Reduce by 2030 50% greenhouse gas emission	30,000+ cars taken off the road	21.7% reduced
	Achieve portfolio-wide 50% recycling rate	70,000+ tons of waste diverted <sup>4</sup>	53.0% diverted <sup>4</sup>

Source: UBS Asset Management, Real Estate & Private Markets (REPM), February 2022

1 GHG reduction targets determined utilizing the science-based 1.5 degree scenario, in line with the Paris Agreement; All targets above are measured over five-year timeframes except for the recycling rate, which is an annual target.

2 Based on the UBS-AM GRESB Portfolio Analysis Report 2021 (for Amalgamated RE); reflects like-for-like change data for the five-year period ended 31 December 2020.

3 Based on an estimated average electricity cost of USD 148.7 (cost as at 2020) per megawatt hour and average water cost (supply and sewerage) of USD 6.5 (cost as at 2020) per cubic meter.

4 Recycling rate metric based on measurable data for the one-year period ended 31 December 2020.

## CASE STUDY

# Engagement to increase commitment to ESG

**Type of investment**  
Multi-managers Real Estate

**Sector**  
Real Estate

**Region**  
Multiple

**Country**  
Multiple

**ESG topics addressed**  
✔ Transparency and Disclosure

### Summary of engagement

The third-party fund manager first participated in the GRESB survey in 2014. For the next three submissions it significantly underperformed GRESB and peer group averages. We have been lobbying and encouraging the fund manager to enhance and improve their ESG efforts, particularly since 2016, as our stake in the fund has grown materially over time. As our holding has grown, we have become an increasingly important investor, both to the manager and as a representative of other investors in the investor representative group. Since 2018, UBS Multi-Manager Real Estate has chaired the fund's investor representative group, further amplifying our voice and increasing pressure on the fund manager to act. We have used this position of influence to drive the ESG message and focus the fund manager on ESG as an issue (along with various other matters).

### Outcomes and next steps

The fund has recently improved its GRESB score significantly, to 91 points (versus average 73) and now ranks within top three of the 210 diversified European funds. We believe that indirect pressure has encouraged the fund manager to respond to engagement on the topic of ESG, giving rise to the substantial GRESB score improvement in recent years. We have also encouraged the fund to consider the issue beyond GRESB results; expanding their ESG resources inhouse, creating a comprehensive strategy to identify ESG-related risks and pursuing science based environmental targets with ambitious net zero targets.

## CASE STUDY



# Integrating sustainable farming standards

### Sector

Consumer Staples, Food,  
Beverage and Tobacco,  
Agricultural Products

### Region

Americas

### Country

United States

### ESG topics addressed

- ✓ Environmental Management and Climate Change



### Summary of engagement

The firm is a well-known fifth generation family grower, packer, and shipper of tree fruit, based in the US Pacific Northwest, farming 3,600 acres of various tree fruits. They employ both conventional and organic farming practices. They lease orchards from our portfolios which we have enrolled in the Leading Harvest ESG Management Program. This is a comprehensive set of ESG standards for farm management with 13 Principals and Objectives, 33 Performance Measures and 77 Indicators. Compliance is evaluated by independent auditors. One of the 33 Performance Measures is to implement an Integrated Pest Management (IPM) system that uses regional best practices to achieve the crop protection objective while also protecting people and the environment.<sup>1</sup>

IPM is an ecosystem-based strategy that focuses on long-term prevention of pests or their damage through a combination of techniques such as biological control, habitat manipulation, modification of cultural practices and use of resistant varieties. Pesticides are only used after all of the above methods have been utilized and monitoring indicates they are needed to remove the specific target organism according to established guidelines and treatments. Pest control materials are selected and applied in a manner that minimizes risks to human health, beneficial and non-target organisms, and the environment.

### Outcomes and next steps

The firm employs IPM on all 3,600 acres of tree fruit that they farm, including the orchards they lease from our portfolios. The result is a reduced use of pesticides, and when pesticides are used, they are selected and applied in such a way that minimizes their possible harm to people, non-target organisms, and the environment.

<sup>1</sup> Source: Leading Harvest Farmland Management Program 2021

# Climate change



Engagement and voting on climate issues represent one of the most important ways in which we address climate change risks across portfolios. For active strategies, engagement can inform our forward-looking fundamental understanding of the steps companies' management teams are taking to address climate change in their business models and risk management systems. For passive investments, corporate dialogue can address large negative externalities that impact the environment, the wider economy, and thereby index returns in the long term. We believe that to be successful and

realize positive change a climate engagement strategy must be focused, oriented around a material framework relevant for both companies and investors, and collaborative in nature.

Raising climate risk issues in dialogue with senior management represents one of the most important mechanisms for translating the integration of climate risks into action with companies. Additional information on our thematic engagement program on climate change can be found above in Section 4.

## CASE STUDY

# Barclays Plc



### CASE STUDY RESULTS:

Commitments and interim climate change targets set

#### Sector

Financial, Banks,  
Diversified Banks

#### Region

EMEA

#### Country

United Kingdom

#### ESG topics addressed

- ✓ Strategy and Business Model
- ✓ Transparency and Disclosure
- ✓ Environmental Management and Climate Change

#### Issue

The Company faced a shareholder proposal from a UK based NGO on the topic of Climate at its 2021 AGM. The proposal requested the Company set improved short-, medium-, and long-term targets to phase out its financial services to fossil fuel. This proposal followed a prior shareholder and management proposal at the 2020 AGM on the topic.

#### Action taken

In 2020 we engaged with both the Company and the NGO. In November 2020, the Company published the commitments of its Climate Strategy, which largely addressed some of the requests.

In 2021 the Company then faced a fresh shareholder proposal on climate change. We took part in several engagements in the lead up to the AGM to better understand the Company's climate strategy, including meeting with the Chair, ESG experts, speaking with the NGO who put forward the proposal, and taking part in collaborative engagements arranged by the UK Investor Forum. We also took the opportunity to engage with the Chair on business priorities, capex, and governance topics ahead of the AGM.

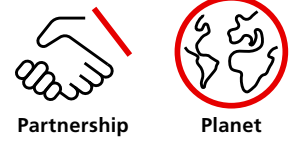
One of the main asks of the shareholder proposal was the need for a mid-term 2030 target.

#### Outcomes and next steps

Ultimately while the shareholder proposal had strong merit, given the prior commitments the Company made in November 2020 and the subsequent short period of time that had passed since the roll-out of these actions we decided to vote against the shareholder proposal. During our engagement with the Company they were receptive to setting a mid-term target and committing to having a regular "say on climate" vote to hold the Company accountable periodically on their path to Net Zero (beginning with a vote in 2022).



## CASE STUDY



# Encouraging Oil & Gas company to develop climate change objectives

### CASE STUDY RESULTS:

Commitments and interim climate change targets set

**Sector**  
Oil & Gas

### ESG topics addressed

✓ Environmental Management and Climate Change



### Issue

The Company was initially identified for engagement due to its lack of commitment to transition away from fossil fuels towards a low-carbon business strategy. We saw an opportunity to set engagement objectives aimed at encouraging the Company to develop a stronger sense of direction in terms of GHG reduction ambitions, the strategic impacts of climate change, and to develop an action plan for transition.

### Action taken

We have engaged with the Company over three years as a member of the Climate Action 100+ investor coalition as well as bilaterally. Over the course of the engagement, we have noted that the company has persistently lagged its peers in terms of decarbonization targets and strategy. We voted against the election of the Chair/CEO at both the 2020 and 2021 AGMs reflecting this lack of sufficient progress on climate change management. As allowed by our voting policy, we were also able to take into account the need for more progress on climate change transition in the election of other directors.

### Outcomes and next steps

At the end of 2020, the Company announced GHG reduction targets to aim at decreasing carbon intensity of its upstream business. However, these targets were limited in scope and continued to be weaker than most of its industry peers. In mid-2021 we decided to exclude this company from certain UBS-AM Sustainable Investing strategies (including our Climate Aware and active Sustainability-focused investment strategies). We continue to engage with the Company and have noted recent announcements which are more encouraging of progress.

## CASE STUDY



# Alibaba Group Holding Limited

### CASE STUDY RESULTS:

Increased disclosure and setting of carbon targets

#### Sector

Consumer Discretionary

#### Region

APAC

#### Country

China

#### ESG topics addressed

✓ Environmental Management and Climate Change

#### Issue

In June 2021, we took part in a collaborative engagement effort with the Asian Corporate Governance Association (ACGA) asking the Company to commit to publish an annual sustainability report and work towards setting and disclosing carbon emission reduction targets. While ESG reporting is mandatory under the HKEX listing rules, as a secondary listing the Company was exempt from complying based on the provisions of HKEX Appendix 27. However, we believed that this opt-out was not appropriate given the size and scale of the Company in the APAC market.

#### Action taken

In June 2021, we committed to taking part in the collaborative engagement, this resulted in a letter being sent to the Company asking for annual disclosure on material ESG issues, improvements on climate change management and more investor engagement on these topics. In August 2021, members of the collaborative group then met with the Company's Head of IR to discuss these topics. It was outlined that the CEO had received and read the letter sent by members of the group and was in agreement that ESG was a very important topic for the Company. The Company outlined some of their thoughts in regards to ESG and committed to providing feedback later in the year with some more tangible goals.

#### Outcomes and next steps

In December 2021, the Company committed to producing a sustainability report annually. Furthermore, the Company announced that the Group was targeting Scope 1 and 2 carbon neutrality and a 50% carbon intensity reduction for Scope 3 emissions by 2030. For the Company's Cloud business, it targets carbon neutrality for Scope 1, 2, and 3 by 2030 and aims to remove 1.5 gigatons of carbon from its wider ecosystem by 2035. We welcome these commitments and will receive further updates from the Company on these issues going forward.



## CASE STUDY

# Bayer AG



### CASE STUDY RESULTS:

Strengthened governance and board capability in environmental product governance

**Sector**  
Healthcare

**Region**  
EMEA

**Country**  
Germany

### ESG topics addressed

- ✓ Community Impact and Human Rights
- ✓ Environmental Management and Climate Change



### Issue

In June 2018, the Company completed the acquisition of a new subsidiary, which had been heavily criticized over its development of genetically modified crops. Claims regarding the potential damage to biodiversity have been prevalent with opposition from communities and NGOs in more than 50 countries contributing to financial and reputational risk.

### Action taken

We engaged with the Company to discuss the integration of the subsidiary and related litigation issues and environmental risk management processes given our uncertainties around appropriate implementation. We encouraged the Company to add a supervisory Board member with agriculture and food skills. We also suggested they enhance strategy-level focus on product governance and environmental management systems.

### Outcomes and next steps

The Company has committed to product stewardship, including crop science and genetic modifications and confirmed their approach implements the highest quality standards, focusing on safety for people, animals and the environment when properly used. Moreover, the Company indicated that its subsidiary strengthened its global oversight and environmental management system with updated environmental, health, and safety policies. Additionally, the subsidiary developed control mechanisms to limit contamination of non-GM fields with GM crops and continues to support transparency through labelling. It has also undertaken scientific studies on the safety of genetically modified crops, the low probability of cross-contamination, and the decline of insect populations.

From a governance point of view, other positive developments are:

- The establishment of an ESG Committee at the Supervisory Board level
- The new appointment for the Supervisory Board, which is the former CEO of Bunge with significant experience in the agri-food sector

## CASE STUDY

# Bunge Ltd



### CASE STUDY RESULTS:

Improved supply chain monitoring for biodiversity and human rights

#### Sector

Consumer Staples

#### Region

Americas

#### Country

United States

#### ESG topics addressed

- ✓ Biodiversity
- ✓ Corporate Governance
- ✓ Remuneration
- ✓ Business Conduct and Culture
- ✓ Environmental Management and Climate Change
- ✓ Community Impact and Human Rights

#### Issue

We have been engaging with the Company since 2019 on its approach to biodiversity, human rights, and governance. We have seen progress made on these topics since the start of our engagement.

#### Action taken

In our most recent engagement, we encouraged the Company to enhance monitoring of their indirect suppliers to ensure that these also implement their policies and practices in relation to biodiversity and human rights. We have also sought for the Company to be more transparent concerning its collaboration with industry peers on biodiversity, as well as how it links executive compensation to relevant ESG goals.

#### Outcomes and next steps

We have been encouraged to learn that indirect supplier traceability has already improved to 50% against the Company's goal of 100% traceability by 2025. We continue to encourage the Company to share more information on non-compliance and remediation processes. The Company has also joined the Taskforce on Nature-related Financial Disclosure (TNFD), an organisation aiming to deliver a risk management and disclosure framework for issuers to report and act on nature-related risks. Bunge has also committed to conduct a new human rights assessment.

## CASE STUDY

# ENI S.p.A.



### CASE STUDY RESULTS:

Improved transparency on climate change plans and objectives

**Sector**  
Energy,  
Integrated Oil & Gas

**Region**  
EMEA

**Country**  
Italy

### ESG topics addressed

- ✓ Strategy and Business Model  
Capital Management
- ✓ Transparency and Disclosure
- ✓ Environmental Management  
and Climate Change

### Issue

We have been engaging with the Company through the Climate Action 100+ collaborative investor group. The dialogue with management has focused on the Company's decarbonization strategy, its capital expenditure plans, and greenhouse gas emissions reduction targets.

### Action taken

We have met with the Company to discuss its stance on an advisory Say-on-Climate allowing shareholders to indicate support for the company's transition plans, as well as to discuss how the Company aligns its accounting assumptions and conclusions with a net zero pathway. At the AGM in May 2021, we presented a statement and questions to the Board requesting a clearer alignment of plans, capital allocation, and accounting with the goals of the Paris Agreement.

### Outcomes and next steps

The Company is one of the more advanced in its sector on climate transition and this is confirmed by our own assessment as well as the work of the Transition Pathway Initiative. In recent engagement meetings the Company has provided additional background on how it connects its strategic objectives with capital allocation. We continue to engage to encourage further demonstration this in public disclosures.

## CASE STUDY

# Fortum Oyi



### CASE STUDY RESULTS:

Net zero 2050 commitment and interim targets set

#### Sector

Utilities,  
Electric Utilities

#### Region

EMEA

#### Country

Finland

#### ESG topics addressed

- ✓ Strategy and Business Model
- ✓ Capital Management
- ✓ Transparency and Disclosure
- ✓ Environmental Management and Climate Change
- ✓ Remuneration

#### Issue

The Company was originally identified for engagement due to its lack of commitment to transition to a net zero business strategy and had been included in the engagement focus list of Climate Action 100+. We act as co-lead of the CA100+ coalition.

#### Action taken

During 2021, we met with Company representatives several times to continue the discussion on climate strategy and disclosure. After the Company's acquisition of a majority interest in Uniper, both companies increasingly speak to investors together but the relationship remains complicated by Uniper's remaining minority shareholders. The two companies have different definitions and ways of reporting which have yet to be aligned and this requires patience. However, both companies are making good progress to commit to more targets.

#### Outcomes and next steps

Both the Company and Uniper have committed to net zero by 2050 across assets and types of emissions and carbon neutrality on the European generation asset by 2035 (scope 1 and 2). There are still challenges in decarbonizing their coal and natural gas generation assets in Russia and this will be a focus area for ongoing engagement.

## CASE STUDY

# Chubu Electric Power



### CASE STUDY RESULTS:

Interim emissions targets set and start reviewing further climate transition plans

**Sector**  
Utilities,  
Electric Utilities

**Region**  
EMEA

**Country**  
Italy

### ESG topics addressed

- ✓ Strategy and Business Model
- ✓ Capital Management
- ✓ Transparency and Disclosure
- ✓ Environmental Management and Climate Change

### Issue

We have been engaging with the Company on its climate transition plans for three years. Since then, the Company has made progress on developing targets related to climate change including a commitment to net zero emissions by 2050.

### Action taken

In June 2021 we wrote to the Board acknowledging the company's progress in setting long term emissions reduction targets, increasing its exposure to renewable energy, and aligning corporate disclosure with the TCFD recommendations. We also strongly encouraged the Company to further consider expanding the scope and time horizons of its emissions reduction targets, and accelerating the phase out of its coal power generation.

### Outcomes and next steps

The Company has announced a target to reduce emissions from power sold to customers by 50% between 2013-30 in addition to its net zero commitment for 2050. Despite plans to significantly expand renewable energy there are uncertainties related to the slow rate at which the Company aims to phase out its coal-fired power plants and the dependence on reactivating its nuclear capacity. In response to our letter the Company has acknowledged our concerns and indicated its desire to continue to engage with us.

## SECTION 8

# Promoting well-functioning markets

We recognize that we have a role in shaping market improvements and developments, through collaboration with peers and discussions with policy makers and standard setters.

It is our ambition to support the development of regulatory standards globally. We achieve this through interaction with our trade associations, regulators, and other policymakers. The UBS-AM Regulatory Management function is focused on SI regulatory oversight and implementation. The Regulatory Management team stays abreast of regulatory developments, identifies regulatory requirements, conducts impact assessments to identify required business and system changes, and facilitates regulatory implementations with impacted business areas.

The SI team additionally participates in working groups and initiatives aimed at enhancing standard setting, related to sustainability, ESG and stewardship topics.

This governance structure provides practical insights into the fast-moving regulatory landscape and helps to identify and respond to market-wide consultations, as well as identify systemic risks posed to the financial system. In this section we expand on some of the key initiatives in which we participated through 2021.

### Regional initiatives

While our engagement in the EU has continued during 2021 given its leadership in developing a comprehensive SI framework, developments have continued to grow globally.

The initiatives that we have worked on are outlined the table below.

### Regional initiatives

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European Union

- Legislative initiatives under the EU’s Action Plan on Sustainable Finance and Strategy for Financing the Transition to a Sustainable Economy including the taxonomy, disclosures, SI product distribution, corporate reporting and data.
- 

United Kingdom

- Financial Conduct Authority’s (FCA) Consultation on Climate Disclosures by Asset Managers, Life Insurers and FCA-regulated Pension Providers.
  - FCA’s Discussion Paper on Sustainability Disclosure Requirements and Investment Labels.
-

## Regional initiatives

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United States	<ul style="list-style-type: none"><li>– Revised Proposals by the US Department of Labor (DOL) for US Pension Plans on SI and Proxy Voting.</li></ul>
Switzerland	<ul style="list-style-type: none"><li>– Principles-based Guidelines for the Swiss asset management industry on SI developed by Swiss Sustainable Finance and Asset Management Association Switzerland.</li><li>– UBS provided input to the Swiss State Secretariat for International Finance (SIF) on the future Swiss sustainable finance framework, with a focus on climate reporting and metrics.</li></ul>
APAC	<ul style="list-style-type: none"><li>– Singapore Green Finance Industry Taskforce Consultation Paper on Green Taxonomy.</li><li>– Singapore Stock Exchange Consultation Papers on Climate and Diversity &amp; Common Set of Core ESG Metrics.</li><li>– Monetary Authority of Singapore (MAS) Industry Consultation on Proposed Disclosures Requirements for Retail ESG Funds.</li><li>– Hong Kong Securities Futures Commission (SFC) Consultation on Management and Disclosure of Climate related Risks by Fund Managers.</li><li>– Hong Kong SFC's Enhanced Disclosure Requirements for ESG Funds.</li><li>– Taiwan Financial Supervisory Commission's ESG Fund Disclosure Rules</li></ul>

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# Collaboration



As part of our commitment to support investor networks and drive the ESG agenda in financial markets, we see a clear benefit in working with other investors and stakeholders, including collaborative engagement with investee companies.

Where we believe the effectiveness of engagement and the chance of success can be increased, we are keen to work both formally and informally with collective bodies, or to collaborate with other shareholders. By speaking to companies with a unified voice, investors can communicate their views more effectively while allowing the companies to focus on a smaller and more coordinated number of requests from the financial community.

Collaboration with peers and our clients can bring clear benefits, such as building knowledge and skills, sharing resources and increasing attention from corporate management. However, there is a chance that negotiation and coordination costs might hamper the advantages of collaboration.

Therefore, at the outset, we always confirm that:

- Working with other investors is permitted by law and/or regulation
- A general alignment of views and agreement on issues of concern and potential solutions exists
- Dialogue will be undertaken privately
- We have the resources to effectively contribute to the research of, and dialogue with, selected companies.

We assess the outcomes of the collaborative engagements we participate in by using the same criteria we apply to our individual engagements. These assessments focus on progress against agreed engagement objectives. Examples of the outcomes are available in the section "Stewardship in action" where the case studies are flagged with our Partnership flag.

Collaborative engagements are not the only channel for us to work with other stakeholders. We are active members of industry working groups and advisory committees to advance standard setting on key ESG strategic issues. We assess the effectiveness of these initiatives through the quality of final deliverables and alignment with our internal positions.

In 2021, we shared worked within the following groups and collaborations:

## Industry collaborations

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### Climate Action 100+

Climate Action 100+ is a collaborative engagement initiative coordinated by five partner organizations: Asia Investor Group on Climate Change (AIGCC); Ceres; Investor Group on Climate Change (IGCC); Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI).

We are currently directly involved in 26 coalitions of investors within Climate Action 100+ and leading 6 company engagements.

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## Industry collaborations

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### UK Investor Forum

We are a founding member of the UK Investor Forum, a not-for-profit organization founded in 2014 following the findings from the Kay Review. We strongly support the ethos and objectives of the Forum. The Forum supports investors to work collectively to escalate material issues with the Board of UK-listed companies, with the aim to help build and restore trust between companies and their shareholders, which leads to better informed boards and a stronger level of trust and understanding – ultimately resulting in sustainable long-term return for savers.

In 2021, we were involved in feedback discussions for engagement with: Barclays plc, BHP Group plc, Boohoo Group, GlaxoSmithKline plc, Kingspan Group, and Unilever plc.

We also provided our thoughts and insights toward the Investor Forum and London Business School report on stakeholder capitalism, which is available at [www.investorforum.org.uk/latest-publications/white-papers](http://www.investorforum.org.uk/latest-publications/white-papers).

The Forum additionally organised various market related discussions on systemic issues, and we participated in the following:

- The responsibilities of banking sector
- Carbon capture and storage
- Effective reporting with EY
- Audit reform with FRC
- Dual class shares

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### FAIRR

Farm Animal Investment Risk & Return (FAIRR) initiative is a collaborative investor network that raises awareness of the material ESG risks and opportunities caused by intensive livestock production. We are members of the initiative and are actively involved in the collaborative sustainable protein supply chain engagement.

Currently we participate in phase five, leading and supporting on various dialogues with companies. This phase is focused on time-bound commitments that enable consumers to transition to healthy and sustainable diets. We also use the Initiative's research in our own integration and engagement activities.

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### Access to Medicines Foundation

We are signatory of the Access to Medicine Investor Statement, where we contribute to, and use the analysis generated from the Index in our research processes. As well, we continue to collaborate with other investors in engaging on access to medicine, leading and supporting on various dialogues with companies.

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## Industry collaborations

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### **SFAMA**

We are members of the Asset Management Association Switzerland/Swiss Sustainable Finance (SSF) Working Group on Sustainable Asset Management

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### **UK Investment Association (IA) working groups on climate change**

We participate in the UK Investment Association (IA) Working Group on climate change, which has the following objectives:

- Evolving the IA policy position on climate change, with particular regard to the transition to net zero, the UK's 2050 target and industry position in the lead-up to the UK hosting of the UN Climate Change Conference, COP 26
  - To support the development of climate-related disclosures
  - Develop industry positions on climate change risk management and reporting, including support for initiatives such as the joint FCA-PRA Climate Financial Risk Forum
  - Define implications of climate change for firms in their role as businesses and the investors' role as stewards
- 

### **Advancing impact measurement standards**

We have been working with PGGM, the Dutch not-for-profit cooperative pension fund service provider, to develop metrics which measure the external impact of companies on the environment, public health, water and food security. This work is focused on moving beyond the standard ESG KPIs measuring the company's own operational performance, to developing metrics that measure the tangible impact of companies' products and services. As part of this project, we have been engaging companies to communicate our expectations of impact reporting to drive better disclosure. We are also a member of the Impact Management Project's advisory group which is working to develop a consensus on impact measurement for investors.

We have also been working together with S&P Dow Jones with the goal of establishing questions to help companies disclose impact metrics. We believe that adequate impact reporting will only be possible through collaboration within the investment management industry to develop clearer guidance clarifying the expectations of investors on impact investing.

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### **The Biopharma Sustainability Roundtable**

We are an active investor member of this sector-specific collaboration network, contributing towards the Biopharma ESG Communication Guidance, which aims to improve communications on material ESG topics between investors and companies.

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## Industry collaborations

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### **Paris Aligned Investment Initiative (PAII)**

We have been participating in the PAII, and provided a co-chair for the initiative's working group on listed equity and corporate fixed income. We committed to this initiative because we recognize the importance of establishing an agreed definition of what alignment to below two degrees or net-zero by 2050 means for asset owners and asset managers. The PAII was launched in May 2019 by a group of European asset owners, led and coordinated by the Institutional Investors Group on Climate Change (IIGCC). It's aim is to understand the concepts and issues related to aligning portfolios to the Paris Agreement goals, assess methodologies, and analyse the implications of alignment on the characteristics of portfolios. Four different asset classes – sovereign bonds, listed equities, corporate fixed income, and real estate – have been covered by the framework with more than 70 investors representing over USD 16 trillion assets under management participating. A draft version of a Net Zero Investment Framework was published in August 2020 for the purposes of consultation.

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### **Access to Nutrition (ATNI)**

We signed the Investor Expectations on Diets, Nutrition and Health and engages collaboratively with companies in the Access to Nutrition Index since Q2 2021. The Access to Nutrition Foundation is an independent not-for-profit organization based in the Netherlands. They focus on developing tools and initiatives that track and drive the contribution made by the food and beverage sector to addressing the world's global nutrition challenges.

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### **Investor Alliance for Human Rights**

We joined the Alliance in Q4 2021. The Investor Alliance provides institutional investors with a platform to engage companies on human rights risks and responsible management of those risks. We have joined the collaborative engagement that calls on Companies to Improve Performance on the Corporate Human Rights Benchmark

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### **Share Action's Healthy Markets coalition**

We joined the coalition in Q4 2021. This coalition engages collaboratively with food manufacturers and retailers to achieve healthier product portfolios and achieve healthier sales. The target companies have been chosen for their outsized potential impact public health. Whilst the retailer list is UK focused, the manufacturers are geographically diverse, but all have exposure to the UK market.

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Collaborative engagements are not the only channel for us to work with our peers and raise awareness on sustainable investing.

We are also active members of industry working groups and advisory committees to advance standard setting on key ESG strategic issues for UBS-AM. We assess the effectiveness of these initiatives through the quality of final deliverables and alignment with our internal positions.

## Trade Associations (SI Specific)

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### Global

ICI Global  
International Capital Markets Association (ICMA)  
International Swaps and Derivatives Association (ISDA)  
Impact Management Project

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### Europe

European Fund and Asset Management Association (EFAMA)  
The Investment Association (IA)  
De Nederlandsche Bank Sustainable Development Goals

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### United States

The Investment Company Institute (ICI)

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### APAC

Asia Securities Industry and Financial Markets

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### Working Group

Association of the Luxembourg Fund Industry (ALFI)  
Bundesverband Investment und Asset Management (BVI)  
Asset Management Association Switzerland (AMAS)  
Swiss Bankers Association (SBA)  
Swiss Sustainable Finance (SSF)

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### Association (ASIFMA)

Hong Kong Investment Funds Association (HKIFA)  
Investment Management Association of Singapore (IMAS)

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## SECTION 9

# Looking ahead

## Proxy voting policy updates coming in 2022

At the beginning of every year, we focus on identifying improvements to our Proxy Voting policy, informed by our actions in the previous 12 months, market developments and feedback from our clients.

Looking into 2022, we will be updating a number of topics in our policy, some of which are highlighted below. Our policy can be found in our [website link](#).

### 2022 Key Change

#### Gender diversity

For developed markets (as defined by the MSCI), we now expect companies with at least 10 board seats, or market cap equivalent of  $\geq$  USD 10bn, to have at least 30% female representation. We will vote against the board director responsible for the nomination process where this is not the case.

### 2022 New Policies

#### Ethnic diversity

For companies where data is collected and disclosed, we will now require the Board to include at least one director from an ethnically diverse background. For 2022 this will apply to companies in the FTSE 100 Index in the UK, and S&P500 index in the USA.

#### Climate change – management “say on climate”

We expect proposals to meet the following criteria:

- Define a clear strategy to address climate change, including targets and timelines
- Ensure that the strategy is aligned with objectives of the Paris Agreement
- Provide a clear explanation on how targets are going to be met, with the use of offsets strictly limited
- Commit to future votes on climate, preferably annually

We may vote against the proposal if this is not the case.

### **Significant Votes 2021**

Shareholders continue to use their voting rights as a way to indicate concerns to companies on a wide range of topics.

While we currently publish our full voting record on our website link, we will be publishing details of significant votes for 2021 separately to this report.

### **Client Feedback Program**

We have always sought to maintain close relationships with our clients, responding to their reporting requirements and providing education on stewardship.

We have seen an increase in stewardship reporting requests, particularly from our UK asset owners and their consultants, in order to meet their own reporting requirements. We will be seeking to implement a Client Feedback Program in 2022, to formalize feedback collection.

### **Taskforce on Nature-related Financial Disclosure (TNFD)**

As outlined above, our environmental thematic engagement programs are in the process of being expanded in 2021 into the area of natural capital. UBS-AM is part of an internal working group at UBS Group that aims to co-ordinate work across the group on natural capital. We also provide support to UBS Group's membership of the Task Force on Nature Related Financial Disclosure (TNFD) which is in the process of developing a risk management and financial disclosure framework with the goal to support shifting global financial flows away from nature-negative outcomes and towards nature-positive outcomes.

In 2022, we will participate in the development of Nature Action 100's collaborative engagement initiative focused on biodiversity.

### **Nature Action 100**

We have joined in discussions on the development of a 'Nature Action 100' collaborative engagement platform which was conceived by the World Bank and others. We understand the benefits of broad investor collaboration and continue to monitor developments with a view to participating in this initiative.



## SECTION 10

# Further information

We aim to ensure our stewardship activities are transparent and reported in a fair and balanced way through regular disclosures to our clients and the public.

### **UBS Group AG**

At a Group level, our policies and reports pertaining to sustainability standards and commitments are publicly accessible at [www.ubs.com/gri](http://www.ubs.com/gri).

### **UBS Asset Management**

The following documents are available on the global website of UBS-AM at <https://www.ubs.com/global/en/assetmanagement/capabilities/sustainable-investing.html>

- Our Sustainable Investment Policy
- Sustainability Exclusion Policy
- Global Stewardship Policy
- Stewardship Annual Report
- Proxy Voting Policy
- Global voting information
- US mutual funds voting information
- Canadian mutual funds voting information
- Australian mutual funds voting information
- PRI assessment report
- PRI transparency report

Our voting record is disclosed publicly online on a quarterly basis. For our regulated funds in the USA, Canada and Australia we disclose our annual voting record on a fund-by-fund basis.

We publicly disclose the main reason for any voting action which is against the recommendation of the company. This enables the company in question to understand the rationale for our voting action, improves transparency for our clients, and ensures that we meet the requirements of the Shareholder Rights Directive II.

## Client communication

Client reporting is generally provided quarterly. Quarterly investment reports include quantitative and qualitative information related to the portfolio, including trading and holding information.

Stewardship activity, being engagement and voting information, is reported quarterly, but is also available for different reporting periods and formats to meet individual client requirements.

In our stewardship reports we provide case studies across regions and sectors, with information related to those companies we decided to engage with, the issues addressed and progress made. All case studies include company names. Portfolio specific voting information includes all voting activity

during the reporting period, including explanations for reasons where we did not support company management, as well as statistical analysis.

Many of our clients across different regions have expanded reporting obligations to their beneficiaries, including implantation statements which are now a requirement for UK pension funds.

We are now able to report in accordance with the format introduced by the PLSA (Pensions and Lifetime Savings Association), including details of significant votes, as well as engagement reporting following the guidance of the Investment Consultant Sustainability Working Group (ICSWG).

# Appendix 1

## Schedule of companies we engaged with in 2021 (A–Z)

3i Group plc  
Aalberts N.V.  
ABB Ltd.  
AbbVie, Inc.  
Acadia Realty Trust  
Adecco Group AG  
AGCO Corporation  
AGL Energy Limited  
AIA Group Limited  
AIB Group PLC  
Alcon AG  
Alibaba Group Holding Ltd.  
ALSO Holding AG  
Amazon.com, Inc.  
American Electric Power Company, Inc.  
American Well Corporation  
Ameriprise Financial, Inc.  
Amsted Industries Incorporated  
Anglo American plc  
APA Corp.  
Applied Materials, Inc.  
Aptiv PLC  
ArcelorMittal SA  
Aristocrat Leisure Limited  
Ashtead Group plc  
AstraZeneca PLC  
At Home Group Inc  
AT&T Inc.  
Aurubis AG  
Aviva plc  
AXA SA  
Babcock International Group PLC  
BAE Systems plc  
Balfour Beatty plc  
Baloise-Holding AG  
Banco Bilbao Vizcaya Argentaria, S.A.  
Banco de Sabadell SA  
Banco Santander, S.A.  
Bank of China Limited  
Barclays PLC  
Barry Callebaut AG  
Bayer AG  
Baytex Energy Corp.  
BHP Group Plc  
Bloom Energy Corporation  
BOC Hong Kong Holdings Ltd  
BP p.l.c.  
British American Tobacco p.l.c.  
Bunge Limited  
Burkhalter Holding AG  
Cable One, Inc.  
Cadence Design Systems, Inc.  
Canadian Natural Resources Limited  
Carnival Corporation  
Centene Corporation  
CF Industries Holdings, Inc.  
Chevron Corporation  
China Lesso Group Holdings Limited  
China Mengniu Dairy Co., Ltd.  
China Resources Beer (Holdings) Co. Ltd.  
China Resources Land Limited  
Chubu Electric Power Company, Incorporated  
Cisco Systems, Inc.  
Citrix Systems, Inc.  
Clariant AG  
Clarios International, Inc.  
CLP Holdings Limited  
Comcast Corporation  
Compagnie Financiere Richemont SA  
Continental AG  
Cornerstone Ondemand, Inc.  
Coursera Inc  
Credit Suisse Group AG  
CTS Eventim AG & Co. KGaA  
Dah Sing Banking Group Limited  
Danone SA

Dell Technologies Inc  
 Delta Air Lines, Inc.  
 Deutsche Telekom AG  
 D'Ieteren Group  
 Digital Realty Trust, Inc.  
 Dollar General Corporation  
 Dominion Energy Inc  
 dormakaba Holding AG  
 Drax Group plc  
 Duke Energy Corporation  
 Eicher Motors Limited  
 Electronic Arts Inc.  
 EMS-CHEMIE HOLDING AG  
 Enel SpA  
 Eni S.p.A.  
 Entegris, Inc.  
 Equinor ASA  
 Erste Group Bank AG  
 Euronav NV  
 Evoqua Water Technologies Corp  
 Exxon Mobil Corporation  
 F5, Inc.  
 Faurecia SE  
 FDM Group (Holdings) plc  
 FMC Corporation  
 Fortegra Financial Corporation  
 Fortum Oyj  
 Freeport-McMoRan, Inc.  
 Frontier Communications Parent, Inc.  
 Gates Industrial Corporation plc  
 Genmab A/S  
 Georg Fischer AG  
 Gilead Sciences, Inc.  
 GlaxoSmithKline plc  
 Glencore plc  
 Godrej Consumer Products Limited  
 Grafton Group Plc  
 Gree Electric Appliances, Inc. of Zhuhai  
 HAESUNG DS Co., Ltd.  
 Halma plc  
 Hansol Chemical Co., Ltd  
 Hargreaves Lansdown plc  
 Hera S.p.A.  
 Holcim Ltd  
 Hong Kong Exchanges & Clearing Ltd.  
 HSBC Holdings Plc  
 HUGO BOSS AG  
 Hunting PLC  
 Hyundai Motor Company  
 Iberdrola SA  
 ICICI Prudential Life Insurance Co. Ltd.  
 Idorsia Ltd.  
 Imperial Brands PLC  
 Imperial Oil Limited  
 Inchcape plc  
 Incyte Corporation  
 Infineon Technologies AG  
 Informa Plc  
 Ingersoll Rand Inc.  
 Intel Corporation  
 Interroll Holding AG  
 Intertek Group plc  
 Intesa Sanpaolo S.p.A.  
 Intuit Inc  
 ITV plc.  
 Jiangsu Hengrui Pharmaceuticals Co., Ltd  
 JOEONE Co., Ltd  
 Jollibee Foods Corp.  
 JPMorgan Chase & Co.  
 JTOWER, Inc.  
 Kakao Corp.  
 Kansai Electric Power Company, Incorporated  
 Kasikornbank Public Co. Ltd.  
 Kingspan Group Plc  
 Kissei Pharmaceutical Co., Ltd.  
 Knorr-Bremse AG  
 Koninklijke Philips N.V.  
 Landis+Gyr Group AG  
 LANXESS AG  
 Leeno Industrial Inc.  
 Lemonade Inc  
 LivaNova Plc  
 LKQ Corporation  
 Lloyds Banking Group plc  
 Lyft, Inc. Class A  
 Makalot Industrial Co., Ltd.  
 Man Group PLC  
 Marathon Oil Corporation

Marsh & McLennan Companies, Inc.  
 Mediobanca S.p.A.  
 medmix AG  
 Mega First Corp. Bhd.  
 Melrose Industries PLC  
 Mercedes-Benz Group AG  
 Micron Technology, Inc.  
 Mitsubishi Corporation  
 Mitsubishi UFJ Financial Group, Inc.  
 MMC Norilsk Nickel PJSC  
 Molecular Partners AG  
 Mondelez International Inc.  
 Mowi ASA  
 MS&AD Insurance Group Holdings, Inc.  
 Munchener Hypothekenbank eG  
 Munich Reinsurance Company  
 NanoString Technologies, Inc.  
 Naspers Limited  
 National Australia Bank Limited  
 National Express Group PLC  
 NatWest Group Plc  
 Nestle S.A.  
 Nexity SA  
 NextEra Energy, Inc.  
 NIKE, Inc  
 Nomura Holdings, Inc.  
 NVIDIA Corporation  
 OC Oerlikon Corporation AG  
 OMV AG  
 ORIOR AG  
 Orpea SA  
 Osisko Gold Royalties Ltd  
 Ozon Holdings Plc  
 Pacific Textiles Holdings Limited  
 Palo Alto Networks, Inc.  
 Philip Morris International Inc.  
 Phillips 66  
 Phoenix Mecano AG  
 Ping An Insurance (Group) Company of China, Ltd.  
 Power Assets Holdings Limited  
 Primo Water Corporation  
 Prosus N.V.  
 Prysmian S.p.A.  
 PT Astra International Tbk  
 PT Bank Mandiri (Persero) Tbk  
 PTC Inc.  
 Publicis Groupe SA  
 Qantas Airways Limited  
 Reliance Industries Limited  
 Repsol SA  
 Rio Tinto plc  
 Roche Holding Ltd  
 Roper Technologies, Inc.  
 Royal Mail plc  
 RWE AG  
 Sampo Oyj Class A  
 Samsung Electronics Co., Ltd.  
 Sanofi  
 Sanoma Oyj  
 Schneider Electric SE  
 Scotts Miracle-Gro Company  
 Sea Ltd. (Singapore)  
 SEOJIN SYSTEM CO.,LTD  
 ServiceNow, Inc.  
 Shell PLC  
 Shinhan Financial Group Co., Ltd.  
 Shoals Technologies Group, Inc  
 Siemens AG  
 SIG Combibloc Group Ltd  
 SIG plc  
 SK hynix Inc  
 SK Innovation Co., Ltd  
 Skyworks Solutions, Inc.  
 SLM Corp  
 Snowflake, Inc. Class A  
 SoftBank Group Corp.  
 Soulbrain Co., Ltd.  
 Southern Company  
 Spectris plc  
 Splunk Inc.  
 Sprouts Farmers Markets, Inc.  
 Starbucks Corporation  
 Stericycle, Inc.  
 Sumitomo Corporation  
 Sun Pharmaceutical Industries Limited  
 Suncor Energy Inc.  
 Suzano S.A.  
 Svenska Handelsbanken AB

Swatch Group Ltd.  
Sweetgreen, Inc.  
Swire Properties Limited  
Swiss Re AG  
Take-Two Interactive Software, Inc.  
Tech Mahindra Limited  
Teleperformance SA  
Terna S.p.A.  
Tesco PLC  
Tokyo Century Corporation  
Top Glove Corporation Bhd.  
Toshiba Corporation  
Towngas Smart Energy Company Limited  
TP ICAP Group plc  
Transurban Group Ltd.  
Ubisoft Entertainment SA  
UBS Group AG  
Unilever PLC  
Uniper SE  
UnitedHealth Group Incorporated  
Universal Display Corporation  
Universal Vision Biotechnology Co., Ltd.  
Vimian Group AB  
VK Company Limited  
VMware, Inc.  
Volkswagen AG Pref  
Walgreens Boots Alliance Inc  
Walt Disney Company  
WEC Energy Group Inc  
Wells Fargo & Company  
Western Digital Corporation  
Westpac Banking Corporation  
Whitbread PLC  
Williams Companies, Inc.  
Wizz Air Holdings Plc  
Wolters Kluwer NV  
Woodside Petroleum Ltd  
Yandex NV  
Yelp Inc  
Zebra Technologies Corporation Class A  
Zijin Mining Group Co., Ltd.  
Zur Rose Group AG  
Zurich Insurance Group Ltd

# Appendix 2

## Schedule of collaborative initiatives

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

- Asian Corporate Governance Association (ACGA) DNB SDG Impact Assessment Working Group
- EFAMA Stewardship, Market Integrity and ESG Investment Standing Committee
- Farm Animal Investment Risk and Return (FAIRR) initiative
- GRESB
- IFC Operating Principles for Impact Management Impact Management Project (IMP)
- Institutional Investors Group on Climate Change (IIGCC)
- International Corporate Governance Network (ICGN)
- Investor Statement of the Access to Medicine Index
- Leading Harvest Farmland Management Standard
- National Association of Real Estate Investment Managers
- Principles for Responsible Investment (PRI)
- Sustainability Accounting Standards Board (SASB)
- Swiss Sustainable Finance (SSF)
- Taskforce on Climate Related Financial Disclosure (TCFD)
- The Biopharma Sustainability Roundtable
- Transition Pathway Initiative (TPI)
- UK Governance Forum
- UK Investor Forum
- US Green Building Council

For a full list of initiatives supported by UBS AG, please refer to the “Driving Change In Business” section of [UBS's sustainability report](#).

# Appendix 3

UK Stewardship Code Principle	Addressed in:
Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	Section 1: Who we are Section 2 : Our commitment, leadership and governance
Principle 2: Signatories' governance, resources and incentives support stewardship.	Section 2 : Our commitment, leadership and governance Section 4: Our global approach to stewardship
Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	Section 4: Our global approach to stewardship Section 6: Proxy voting in review
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	Section 8: Promoting well-functioning markets
Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.	Section 4: Our global approach to stewardship
Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	Section 4: Our global approach to stewardship Section 10: Further information
Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	Section 3: Our sustainable investing journey Section 4: Our global approach to stewardship
Principle 8: Signatories monitor and hold to account managers and/or service providers.	Section 3: Our sustainable investing journey Section 4: Our global approach to stewardship
Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.	Section 7: Stewardship in practice
Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.	Section 4: Our global approach to stewardship Section 7: Stewardship in practice Section 8: Promoting well-functioning markets Appendix 2: Schedule of collaborative initiatives
Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.	Section 4: Our global approach to stewardship
Principle 12: Signatories actively exercise their rights and responsibilities.	Section 4: Our global approach to stewardship Section 5: Our engagement activities Section 6: Proxy voting in review



Japanese Stewardship Code Principles	Addressed in:
Principle 1: Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.	Section 4: Our global approach to stewardship Section 10: Further information
Principle 2: Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.	Section 4: Our global approach to stewardship Section 10: Further information
Principle 3: Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.	Section 3: Our sustainable investing journey Section 4: Our global approach to stewardship
Principle 4: Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.	Section 4: Our global approach to stewardship
Principle 5: Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.	Section 4: Our global approach to stewardship Section 6: Proxy voting in review
Principle 6: Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.	Section 4: Our global approach to stewardship Section 5: Our engagement activities Section 6: Proxy voting in review Section 10: Further information
Principle 7: To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.	Section 2 : Our commitment, leadership and governance

Hong Kong SFC Principles of Responsible Ownership	Addressed in:
Principle 1: Investors should establish and report to their stakeholders their policies for discharging their ownership responsibilities.	Section 4: Our global approach to stewardship Section 10: Further information
Principle 2: Investors should monitor and engage with their investee companies.	Section 3: Our sustainable investing journey Section 4: Our global approach to stewardship
Principle 3: Investors should consider and establish clear policies on when they will escalate their engagement activities.	Section 4: Our global approach to stewardship
Principle 4: Investors should have clear policies on voting guidance.	Section 4: Our global approach to stewardship
Principle 5: Investors should be willing to act collectively with other investors where appropriate.	Section 4: Our global approach to stewardship Section 7: Stewardship in practice Section 8: Promoting well-functioning markets Appendix 2: Schedule of collaborative initiatives
Principle 6: Investors should report to their stakeholders on how they have discharged their ownership responsibilities.	Section 4: Our global approach to stewardship Section 5: Our engagement activities Section 6: Proxy voting in review Section 10: Further information
Principle 7: When investing on behalf of clients, investors should have policies on managing conflicts of interests.	Section 4: Our global approach to stewardship

ISG Stewardship Principles	Addressed in:
Principle A: Institutional investors are accountable to those whose money they invest.	Section 4: Our global approach to stewardship
Principle B: Institutional investors should demonstrate how they evaluate corporate governance factors with respect to the companies in which they invest.	Section 7: Stewardship in practice
Principle C: Institutional investors should disclose, in general terms, how they manage potential conflicts of interest that may arise in their proxy voting and engagement activities.	Section 4: Our global approach to stewardship Section 6: Proxy voting in review
Principle D: Institutional investors are responsible for proxy voting decisions and should monitor the relevant activities and policies of third parties that advise them on those decisions.	Section 4: Our global approach to stewardship Section 6: Proxy voting in review
Principle E: Institutional investors should address and attempt to resolve differences with companies in a constructive and pragmatic manner.	Section 4: Our global approach to stewardship
Principle F: Institutional investors should work together, where appropriate, to encourage the adoption and implementation of the Corporate Governance and Stewardship principles.	Section 4: Our global approach to stewardship Section 7: Stewardship in action Section 8: Promoting well-functioning markets Appendix 2: Schedule of collaborative initiatives

**The Australian FSC Standard 23 on Principles of Internal Governance and Asset Stewardship**

**Addressed in:**

Organisational and Investment Approach:	Asset Managers should clearly state the purpose, values and underlying investment philosophy or approach of their organisation. Asset Managers should be transparent about their organisation’s ownership, structure, internal governance and experience and competencies of its key staff.	Section 1: Who we are Section 2 : Our commitment, leadership and governance
Internal governance:	Asset Managers should either publicly disclose their policies or provide a clear description of their approach to key aspects of internal governance and management of business activities which could impact client assets.	Section 4: Our global approach to stewardship Section 10: Further information
Asset Stewardship:	Asset Managers should encourage the companies in which they are invested to meet the highest standards of governance, as well as ethical and professional practices. They should provide a description of their approach to monitoring and engaging with investee companies and the connection between monitoring, engagement, proxy voting and investment decision-making.	Section 3: Our sustainable investing journey Section 4: Our global approach to stewardship
Asset Stewardship:	Asset Managers should endeavour to hold boards and management accountable where they fail to maintain acceptable standards.	Section 4: Our global approach to stewardship

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**Americas**

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