

# Our climate strategy

Taking action to support a low-carbon economy



## Key messages

- Our climate strategy focuses on risk management, investments, financing, research and our own operations
- We protect our own, and our clients' assets from climate-related risks and we mobilize private and institutional capital for a low-carbon economy
- We plan to further align our disclosure with the FSB Task Force on Climate-related Financial Disclosure's recommendations over a five-year pathway and collaborate within the industry to close gaps

We are supporting the shift to a climate-smart world. Our climate strategy underlines our commitment to the United Nations' Sustainable Development Goals (SDGs) on affordable and clean energy and on climate action. We regularly report on the implementation of our climate strategy and follow the recommendations provided by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) in June 2017. The recommendations call on companies to disclose the impacts of climate change on their businesses. This will allow investors and financial institutions to make better investment decisions with a common set of data to assess the climate-related risks and opportunities of specific companies. We plan to further align our disclosure within the five-year pathway outlined by the TCFD and collaborate within the industry to close gaps.

UBS's management publicly supports international, collaborative action against climate change. Our Chairman is a signatory to the European Financial Services Round Table's statement in support of a strong, ambitious response to climate change. Our Group CEO is a member of the Alliance of CEO Climate Leaders, an informal network of CEOs convened by the World Economic Forum and committed to climate action. Our Head Sustainable Equity Team at Asset Management (AM) is a member of the TCFD.

In December 2018, AM joined other institutional investors to support a Statement on Climate Change, which was officially presented to governments at the Conference of the Parties to the United Nations Framework Convention on Climate Change COP 24 meeting in Poland. The statement is asking public leaders to a) achieve the Paris Agreement goals, b) accelerate private sector investments into the low carbon transition and c) commit to improve climate-related financial reporting as suggested by TCFD.

For the third year in a row, CDP, which runs a global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts, has awarded UBS with the Climate A List, its highest ranking.

■ More details can be found in our [CDP disclosure](#)



### Governance

Our climate strategy is overseen by the Corporate Culture and Responsibility, Committee of the Board of Directors (BoD) of UBS Group AG as part of the **UBS in society** governance. This oversight role of the CCRC is embedded in the Organization Regulations of UBS Group AG. Within the parameters set by the CCRC, climate-related opportunities are overseen by the **UBS in society** Operating Committee, and climate-related risks by the Global Environmental and Social Risk (ESR) Committee. In 2018, climate-related risks were also for the first time discussed by a joint meeting of the BoD's CCRC and Risk Committee. The CCRC regularly and critically reviews the assessments and steps taken by these management bodies towards executing the climate strategy. It approves UBS's annual climate-related objectives and plans and decides on the progressive alignment of our climate action disclosure pathway with TCFD's recommendations. These annual objectives and plans are managed as part of our ISO 14001-certified environmental management system (EMS) with defined management accountabilities across the firm.



### Strategy

We believe the transition to a low carbon economy is vital and we are focused on supporting our clients in preparing for success in an increasingly carbon-constrained world. As a leading global financial services provider, we do this in four different ways:

**Protecting our own assets:** We seek to protect our assets from climate-related risks by limiting our risk appetite for carbon-related assets and by estimating our firm's vulnerability to climate-related risks using scenario-based stress testing approaches and other forward-looking portfolio analyses. We have so far not found any significant climate-related financial risk on our balance sheet.

**Protecting our clients' assets:** We support our clients' efforts to assess, manage and protect them from climate-related risks by offering innovative products and services in investment, financing and research. Our Asset Management division has developed a string of products allowing its clients to identify the carbon intensity of their investments and or to align them with the Paris Agreement.

**Mobilizing private and institutional capital:** We mobilize private and institutional capital towards investments facilitating climate change mitigation and adaptation and in supporting the transition to a low-carbon economy as corporate advisor, and/or with our lending capacity.

**Reducing our direct climate impact:** We continue to reduce our greenhouse gas (GHG) emissions and increase the firm's share in renewable energy.



### Risk Management

We manage climate-related risks and opportunities via our certified EMS and we monitor implementation on an ongoing basis. The EMS helps us to systematically reduce environmental risks, seize climate/environment-related market opportunities and to continuously improve UBS's climate/environmental performance and resource efficiency.

**Protecting our own assets:** Our standard risk, compliance and operations processes involve procedures and tools for identifying, assessing and monitoring environmental and social risks. These include client onboarding, transaction due diligence, product development and investment decision processes, own operations, supply chain management and portfolio reviews. These processes are geared toward identifying clients, transactions or suppliers potentially in breach of our standards or otherwise subject to significant environmental and human rights controversies, including climate change.

We are committed to:

- not providing project-level finance to new coal-fired power plants globally;
- only supporting financing transactions of existing coal-fired operators (>30% coal reliance) who have a transition strategy in place that aligns with a pathway under the Paris Agreement, or the transaction is related to renewable energy;
- severely restricting lending and capital raising to the coal mining sector and not supporting coal mining companies engaged in mountain-top removal (MTR) operations.

**An FAQ on the above commitments can be found [here](#)**

We have also established standards in the forestry sector to support our clients' efforts to achieve "zero deforestation" in their supply chains.

In order to manage our own, and our clients', risk derived from both the physical and transition risks associated with climate change, we have performed both top-down balance sheet stress testing, as well as targeted, bottom-up analysis of specific sector exposures. In doing so, we identified challenges ranging from the suitability of climate scenarios for banking risk modelling to data availability. To address these challenges, we have committed to work towards alignment and knowledge-sharing within the industry. Sixteen banks, including UBS, and the UN Environment Programme Finance Initiative (UNEP FI) have partnered to collaboratively develop analytical tools that help banks disclose their exposures to climate-related risks and opportunities as envisioned by the TCFD. This included further refining scenario-based stress-testing methodologies.

We tested the methodologies developed in this working group for both transition risk and physical risk. The transition risk tool that uses a combined top-down and bottom-up approach has mainly highlighted challenges of translating climate transition scenarios into banking risk models based on macroeconomic factors. Bottom-up analysis is time consuming and not suited for international, multi-sector analysis. The physical climate risk methodology has highlighted additional challenges, mainly relating to lack of data related to climate risk and its impact on production processes, and asset-level information of individual companies.

Overall, findings of this pilot confirmed what we had found in previous pilot stress tests that we have been performing on climate since 2014: We have so far not identified significant climate-related financial risk on our balance sheet. We explain this by UBS's relatively small lending book in exposed sectors and availability of insurance where we have relevant exposures to such sectors (e.g., Swiss mortgage lending book).

We should however continue to work on improving data availability, scenario applicability and methodology development. As long as they are not reliably available, we cannot consider respective financial risk analysis to be robust.

The project was helpful to further raise awareness within the financial sector for climate-related risk and to promote collaboration within and across the industry as well as with scenario and model developers in science and research. Addressing the mentioned challenges is a journey however and requires additional effort over the coming years. We continue to support international collaboration to address these challenges.

UBS is also involved in other activities to reduce gaps in climate-related financial data. We support the CDP, as an investor member as well as a questionnaire respondent, in their aim to improve company disclosure of risks and opportunities related to natural resources. We were also on the advisory panel of the Natural Capital Finance Alliance's advancing environmental management project. The project tool ENCORE, which maps how industry sectors depend on nature, was launched in November 2018.

**Protecting our clients' assets:** We offer innovative products and services in investment, financing and research. Examples include:

- Our Asset Management (AM) business has developed the capability for equity portfolio managers to examine the carbon footprint of their portfolios and comparing the relative carbon footprints of their company holdings to that of the benchmark. Carbon emissions data is also made available to all equity portfolio managers through the Portfolio Optimization Platform, which allows portfolio managers and analysts to download carbon and carbon intensity data on over 6,000 companies.
- In 2018, AM followed its successful UK Climate Aware

- rules-based fund with an Irish based fund that is available for international investors outside of the UK. The portfolio is oriented towards companies that are better prepared for a low carbon future while reducing exposure to, rather than excluding, companies with higher carbon risk, in order to pursue strategic engagement with these companies. The strategy involves not only a reduction of the CO<sub>2</sub> footprint of the portfolio but also an innovative approach to aligning the portfolio with the two degree carbon reduction scenario in the future.
- AM engages with companies in which it invests on behalf of clients to discuss approaches to mitigating climate-related risk, as well as actively voting on shareholder resolutions to improve transparency and disclosure around climate-related reporting. Specifically in the context of the Climate Aware fund, UBS Asset Management has implemented an engagement program with 50 oil & gas and utilities companies underweighted in the fund. Dialogue with companies aims at improving companies' disclosure and performance alignment with the TCFD recommendations. Engagement makes it possible to share the results of the quantitative and qualitative assessments included in the fund methodology with investee companies too. This allows for the verification of company performance with additional information collected before and after meetings. It also means AM can collect feedback, explicitly communicate objectives for change in corporate practices and further enhance the model used to inform the under/overweights in the strategy.

**Mobilizing private and institutional capital:** We mobilize capital to support environmental and social issues, including the transition to a low carbon economy. For example:

- We offer 100% sustainable discretionary mandates and asset allocation funds based on our new dedicated SI Strategic Asset Allocation for private clients in Global Wealth Management (GWM).
- Our GWM in collaboration with AM is developing a range of new thematic and pooled impact investments.
- Our GWM has committed to integrating ESG assessments, including a dedicated climate dimension, into all fund and ETF onboardings.
- We have set a target of directing USD 5 billion of client assets into new impact investments for the SDGs by end of 2021. These investments include a significant climate component.
- We participated in launching Align17 – a WEF Young Global Leaders initiative – an independent, third-party digital marketplace, which stands out in connecting a wider range of public, institutional, and private wealth investors with SDG-related investment opportunities.
- Our AM and GWM businesses have in place a comprehensive approach to environmental and social factors and to corporate governance across investment disciplines. The 2018 GRESB (Global Real Estate Sustainability Benchmark) awarded ten of AM's real estate and infrastructure funds 5-star ratings, and seven funds ranked first in their respective peer groups.

- Our Investment Bank provides capital-raising and strategic advisory services globally to companies offering products that make a positive contribution to climate change mitigation and adaptation, including those in the solar, wind, hydro, energy efficiency, waste and biofuels, and transport sectors.
- We strive to be the preferred strategic financial partner relating to Switzerland’s Energy Strategy 2050. In 2018, our Personal & Corporate business supported eight strategic transactions in support of the strategy. And the UBS Clean Energy Infrastructure Switzerland strategy offers institutional investors unprecedented access to a diversified portfolio of Swiss infrastructure facilities and renewable energy companies. Due to client’s demand, a successor strategy was launched in September 2017.

### Reducing our direct climate impact

We set quantitative targets and continue to reduce UBS’s Group-wide greenhouse gas (GHG) emissions and increase our share in renewable energy in line with our commitment to RE100, a global initiative that encourages multinational companies to make a commitment to using 100% renewable power by 2020. This will reduce the firm’s GHG footprint by 75% by 2020 compared with 2004 levels.

Refer to the “In-house environmental management” section in the [UBS GRI Document 2018](#) for more information

## Climate-related metrics 2018

	For the year ended	
	31.12.2018	31.12.2017
<b>Protecting our own assets</b>		
<b>Risks</b>		
Identified significant climate-related financial risk on balance sheet <sup>1</sup>	None	None
Carbon-related assets (USD bn) <sup>2</sup>	2.7	6.6
<i>Proportion of total net credit exposure (%)</i>	1.2	2.8
<b>Protecting our clients’ assets and mobilizing private and institutional capital</b>		
<b>Opportunities / products and services</b>		
Climate-related sustainable investments (USD bn) <sup>3</sup>	87.5	74
<i>Proportion of UBS clients’ total invested assets (%)</i>	2.8	2.3
Total deal value in equity or debt capital market services related to climate change mitigation and adaptation (CCMA) (USD bn)	31.6	44.3
Total deal value of financial advisory services related to CCMA (USD bn)	24.9	5.5
Number of strategic transactions in support of Switzerland’s Energy Strategy 2050	8	4
Number of climate-related shareholder resolutions voted upon	43	34
<i>Proportion of supported climate-related shareholder resolutions (%)<sup>4</sup></i>	88.0	82.0
<b>Reducing our own climate change impact</b>		
<b>Greenhouse gas emissions</b>		
GHG footprint (kilotons CO <sub>2</sub> e) <sup>5</sup>	132	148
<i>Percentage change from baseline 2004 (Target: –75% by 2020) (%)</i>	(63.4)	(59.0)
Weighted carbon intensity of the Climate Aware equities strategy (in tons CO <sub>2</sub> e per million of USD revenue) <sup>6</sup>	95.6	117.45
<i>Compared to benchmark (FTSE Developed World Index) (%)</i>	(55.7)	(44.0)

1 Methodologies for climate-related financial risk are emerging and may change over time. In 2018, a group of 16 banks, including UBS, and UNEP FI have partnered to refine methodologies for climate-related risks and opportunities. 2 Total net credit exposure across Personal & Corporate Banking and the Investment Bank, includes traded and banking products. Net of allowances, provisions, and hedges. As recommended by the TCFD, carbon-related assets are defined as assets tied to the energy and utilities sectors (Global Industry Classification Standard). Non-carbon-related assets, such as renewables, water utilities, and nuclear power excluded. For grid utilities, the national grid mix is applied. 2018 year-on-year drop attributed to planned reductions in Energy and Utilities lending exposure within the Investment Bank. 3 Invested assets of products such as sustainably managed properties and infrastructure, and renewable energy. 4 On all proposals that we supported, we voted against the recommendation provided by the issuer. 5 GHG footprint equals gross GHG emissions minus GHG reductions from renewable energy and GHG offsets (gross GHG emissions include: direct GHG emissions by UBS; indirect GHG emissions associated with the generation of imported/purchased electricity (grid average emission factor), heat or steam and other indirect GHG emissions associated with business travel, paper consumption and waste disposal). A breakdown of our GHG emissions (scope 1, 2, 3) is available in the UBS GRI Document 2018. 6 Year-on-year decrease of carbon intensity is mainly driven by higher carbon targets of the investment strategy. Carbon intensity is based on scope 1 and 2 CO<sub>2</sub> emissions of investee companies, which often rely on third-party estimates.