

Collaborating for a low-carbon world

UBS Asset Management's climate engagement progress
one year in

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In September 2017 we wrote a short paper, "Our approach to company engagement", describing how we intended to engage on climate for the oil & gas and utility sector holdings. Eighteen months in, and we have made significant progress.

In this paper, we provide an overview of our engagement approach; expanding on the rationale of our climate engagement program – the reasons why we engage on climate and how we select those companies we are engaging with; the role our engagements play as part of our overall integration of ESG or sustainability issues within the investment process and lastly, provide insights into the learnings and best practice which our engagements have revealed during the period.

Engagement: the rationale and the approach

Why engage?

We see corporate engagement as an intrinsic part of the investment process. It can deepen our knowledge of, and confidence in those companies we invest in, as well as offering a way of building relationships and collaborating with company management. This in turn allows us to monitor, and where necessary, drive corporate conduct on issues that affect the companies' long-term value. Such issues typically include strategy, capital structure, corporate governance, climate change and human capital.

Why does UBS Asset Management engage on climate transition?

Most people are in agreement that climate change and the speed of global warming are two of the greatest systemic risks facing our planet today. Risks which governments, policy-makers and society at large need to address as a matter of urgency. This need for action was crystallized in the 2015 UN Paris Agreement which set a clear target: to hold the rise in global average temperatures to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit the temperature increase to 1.5 degree Celsius above pre-industrial levels. Already we are at 1 degree of global warming and according to the recent IPCC report¹, if the current pace of change continues, that 1.5 degree increase will be reached by 2035.

Any gaps, weaknesses or delays in climate change policies and responses will likely increase the risk that it becomes impossible to limit the rise in the average global temperature in accordance with the Paris Agreement.

If climate change is to be limited to 1.5 degrees of warming by the end of this century, then emissions need to fall 45% by 2030 (compared to 2010), reaching net zero by 2050. To hit that target, renewable energy supplies would need to rise to 70% – 85% of the overall energy mix by 2050. Over the same period, use of coal in electricity generation would have to decline to near zero, and we would have to see deep emission cuts in transportation and buildings. Why is this so?

Put simply, with the exception of agriculture and land use, power generation accounts for 42% of total global GHG emissions. And the major single source of CO₂ emissions is the combustion of fossil fuels – coal, oil & gas, a finding which the International Energy Agency highlighted in 2014.

As a large scale asset manager, UBS Asset Management (UBS-AM) has a variety of interests in the fossil fuel industry, arising from our institutional and wholesale investment activities across equities and fixed income.

Engagement is well suited to active equity and fixed income investments alike. It fits with our approach to stewardship and provides different perspectives that can inform our forward-looking fundamental analysis. We also engage for our passive investments, such as our Climate Aware strategy. In that context, we see engagement as a means of addressing large negative externalities which impact portfolios, as well as a way to test and evolve our strategies.

Engagement and the Climate Aware methodology

At UBS-AM, engagement on climate change complements (and is informed by) our Climate Aware passive equity strategy, which aims to deliver returns broadly in line with indexes of traditional developed markets while increasing or decreasing exposure to the index constituents based on their expected contribution to climate change. A 'positive' tilt is used to increase exposure to companies providing renewable energy or supporting related technology. A 'negative' tilt is used to reduce the size of the investment in companies with worse than average GHG emissions, using energy derived from coal and large reserves of fossil fuels.

The Climate Aware strategy uses this quantitative information together with qualitative information, in a systematic rules-based approach. Engaging directly with companies allows us to test the data sources we use and think about enhancements to those sources where these would improve the strategy.

¹ Special Report on Global Warming of 1.5°C" IPCC, Oct 2018

In terms of selecting those companies which form the cohort for our engagement program, quantitatively, we have looked at the first 50 underweights in the Climate Aware strategy in the oil & gas and utilities sectors, based on the overall climate change performance of the companies. The criteria which inform the underweights refer to average GHG emissions, energy derived from coal and large reserves of fossil fuels. Importantly, the optimization process incorporates the Glide Path Probability score, a score developed by UBS-AM to account for the trajectory of CO₂ reductions, and therefore the likelihood that each company is reducing emissions in line with the 2 degree CO₂ reduction scenario.

Qualitatively, the final engagement list has also been defined by incorporating an assessment from our listed equity financial analysts which enables us to focus on those companies which could be more receptive to a dialogue based on past conversations and relationships.

The Climate Aware stewardship strategy includes both engagement and proxy voting activities. Engagement makes it possible to share the results of the quantitative and qualitative assessments included in the fund methodology with investee companies. In addition, dialogue with companies allows for the verification of company performance with additional information collected before and after the dialogue. It also means UBS-AM can collect feedback, explicitly communicate objectives for change in corporate practices and further enhance the model. Finally, our voting activities allow us to reinforce the messages communicated to management during our various dialogues and, ultimately, express our dissent if the objectives set out at the start of our engagement with a given company are not met.

What about divestment?

If clients have a preference for divestment, we have the ability to implement divestment approaches. According to the Global Fossil Fuel Divestment and Clean Energy Investment Report 2018 (Arabella Advisors), nearly 1,000 institutional investors with USD 6.24 trillion in assets have committed to divest from fossil fuels.

However, we believe that several considerations need to be borne in mind when considering divestment.

First, divestment generally entails selling shares to investors who might place less emphasis on sustainable investing and stewardship, thereby reducing the ability to influence change. Second, and most importantly, divestment overlooks the opportunity investors have to influence fossil fuel companies towards transforming their business over the longer-term and increasing their investment in the transition to more renewable energy sources.

That is why, when it comes to those companies, we would argue additional risks exist. Their business models will be subject to pressure as the world pursues ever-greater decarbonization. But, many will have access to important technology and business activities that can help them to adapt to a lower carbon world. This means those who make significant investments in new technologies and renewable energy can then move from being part of the problem towards becoming part of the solution.

This potential for significant transformation is starkly apparent. Just look at how acutely aware the oil majors have become of the threat posed by the electrification of transportation. Royal Dutch Shell, for example, recently announced that it could become the “biggest power company in the world” by 2035 as it invests more into renewables and electricity generation.² It is opportunities such as these which divestment overlooks, opportunities for influencing the transformation of the energy sector which will be imperative if the goals of the Paris Agreement are to be met.

Engagement is well suited to active equity and fixed income investments alike.

² See “Shell’s power game,” Financial Times, April 22, 2019.

The role of collaborative engagements

Where we believe the effectiveness of engagement and the chance of success can be increased, then we are willing to work both formally and informally with collective bodies, or to collaborate with other shareholders. This particularly applies where we feel that individual engagement may not be as successful.

We have a set of guiding principles which we apply to any involvement in collaborative engagements, namely:

- Any collaboration or action with other investors is permitted by law and/or regulation
- There is general agreement amongst investors on issues of concern and potential solutions
- Management or the board are unwilling to respond to direct individual engagement
- Engagement will be private, and any public statements have our prior explicit authorization

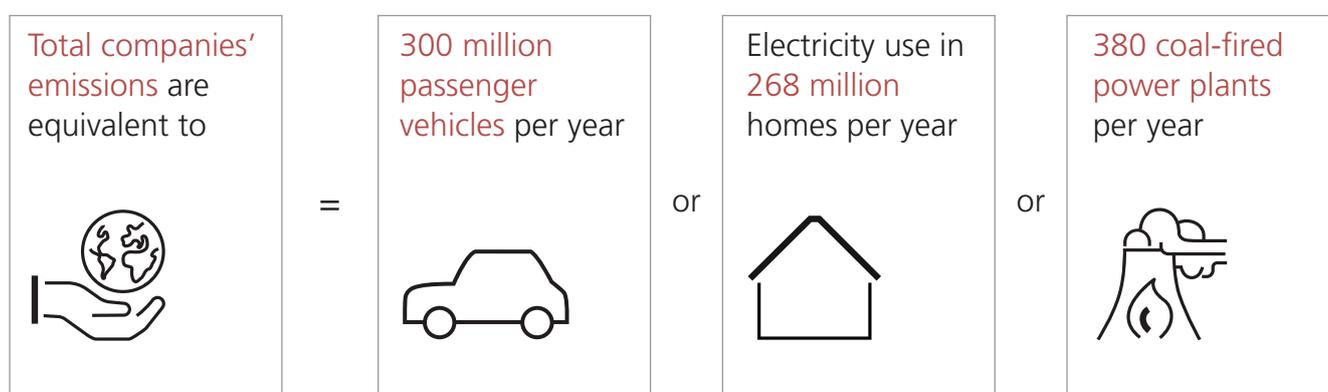
One initiative with which we are closely involved is Climate Action 100+. This group was launched as a collaborative engagement initiative at about the same time that we expanded our own climate engagement program. We noticed a significant overlap between our selected focus list and the companies targeted by Climate Action 100+. This offered an opportunity for us to pool and share resources with other institutional investors and thereby concentrate the power of climate engagements, while also helping companies to engage efficiently with investors.

It should be stressed that we collaborate with other investors, not because we want to increase corporate access – in our experience companies are generally happy to engage. We engage collaboratively because we want to ensure companies receive a consistent message from the financial community while also having more time to focus and act on our common requests around the transition to a low carbon economy. Collaborations also allow us to share our own expertise and add value to dialogue with companies, while at the same time giving us access to additional insights, local perspectives and best practices from our peers.

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. It was launched in December 2017 and now has the support of 320 investors, representing over USD 33 trillion of assets under management. The initiative's aim is to engage with high greenhouse gas emitters, together with other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement on climate change. Of those chosen for engagement, there are 100 'systemically important emitters', which together account for two-thirds of annual global industrial emissions, plus more than 60 others which have significant opportunities to drive the clean energy transition.
- The goals of Climate Action 100+ can be summarized as "Governance-Action-Disclosure". They look to companies to "implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities; take action to reduce GHG emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees Celsius above pre-industrial levels; provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)".
- UBS-AM is currently directly involved in 30 coalitions of investors within Climate Action 100+ and leads five of the company dialogues across regions. Whether we are a lead or participating investor, we are active members of these coalitions, providing feedback on the climate change performance of companies, the discussion agenda, engagement goals and the progress of dialogues. UBS-AM is also a member of the IIGCC Climate Action 100+ European Advisory Group.

Engagement focus list: The companies in our list represent 27% of CO₂ emissions (scope 1 and 2) of the entire benchmark (FTSE All developed)



The CO₂ emissions of the target list of companies represent 27% of total scope 1 and 2 GHG emissions of the entire FTSE all Developed index. This figures is equivalent to the total CO₂ emissions:

- from more than 300 million passenger vehicles per year
- from electricity use in 268 million homes per year
- from 380 Coal-fired power plants per year

Source: Trucost and UBS Asset Management.

We engage collaboratively because we want to ensure companies receive a consistent message from the financial community while also having more time to focus and act on our common requests around the transition to a low carbon economy.

Our climate engagement activity over the past year

What we have seen

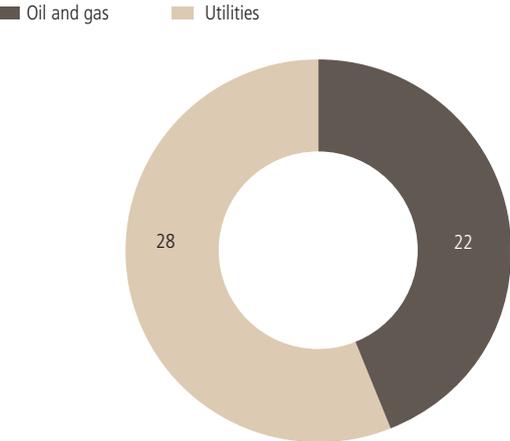
Based on the engagement criteria described above, we have engaged with **50 companies** comprising:

- 22 energy companies
- 28 utility companies

Regionally, the companies are split as follows:

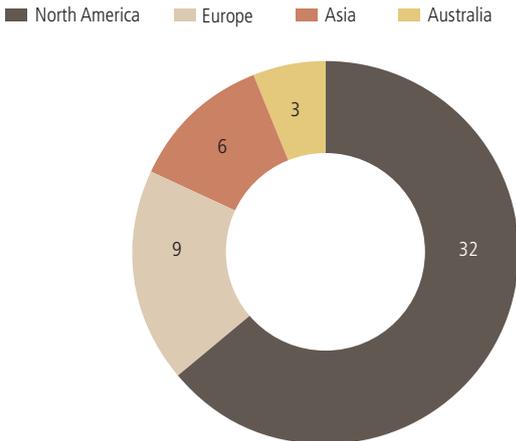
- North America: 32
- Europe: 9
- Asia: 6
- Australia: 3

Exhibit 1: Engagement by sector



Source: UBS Asset Management.

Exhibit 2: Engagement by region



Source: UBS Asset Management.

One year in, and we have started to see some interesting progress by companies across our initial engagement objectives.

Key trends

Each of our engagements are built on a baseline assessment of companies and their positioning with respect to climate change transition, using the TCFD as a key framework of reference to develop a scorecard and measure performance. Research forms a key element in creating the baseline at the start of an engagement and in defining engagement objectives.

A combined analysis of the baseline results included in the scorecards shows interesting insights on the current practice and performance on climate change by the companies in our target list. The analysis has been completed by using company disclosure, third party information and initial insights from the first meeting with management. Further quantitative insights as to specific performance are contained within the appendix (see exhibits 1, 2 and 3 for more details).

Companies were scored on eight factors:

- Responsiveness to our engagement
- Governance of climate change
- Risk management
- Strategy and policy
- Metrics and performance
- Targets
- Lobbying activities
- Overall level of disclosure

Generally, the level of responsiveness has been high, indicating that companies have been willing to engage with UBS-AM. Equally, we have noticed that there is an overall integration of climate change issues in the risk management frameworks of the companies on our list. Because most energy companies already have a systematic approach towards risk management they will have an existing framework which they can use for assessing climate risks. Generally, they are assessing regulatory risks in the form of current carbon pricing or the potential for new pricing schemes.

The overall disclosure on the topic of climate change, as measured by the presence of information through different channels, has been broadly positive. We do see opportunities though for further improvements. These relate to the governance systems in place to oversee climate change risks and opportunities, the articulation of a business strategy resilient to climate change, the availability of data on direct and indirect GHG emissions and relevant progress over time, and the presence of targets to reduce emissions and increase exposure to renewable energy.

If we look at specific items included in the macro-categories of our scorecards, it is possible to see some interesting trends emerge from our baseline analysis:

- **Governance:** 88% of the companies in our target list, do not incorporate climate change skillsets into board selection or succession plans. However, on a positive note, 72% of them have a board director or a board committee with assigned climate change responsibilities. 62% of the companies have also incorporated environmental issues into executive remuneration to different degrees. Only two companies have incorporated remuneration metrics explicitly aligned with a 2 degree scenario.
- **Strategy and policy:** Over half of the companies do not detail the resilience of their current strategy with respect to climate change. More than 30% only do it in a partial way, without including detailed information on a 2 degree scenario stress test, while 62% of the companies do not disclose a 2 degree scenario analysis at all. More positively, 72% of companies apply an internal carbon price.
- **Metrics and performance:** 86% of companies disclose their scope 1 and 2 GHG emissions, with 72% of companies disclosing scope 3 emissions also. However, only 52% externally verify this information. Just 48% show reduced scope 1 and 2 emissions in the last 5 years and 56% have still not increased their exposure to renewable energy over that same timeframe.
- **Targets:** 68% of the companies in the list have set quantitative absolute or intensity targets for reducing their operational GHG emissions, but just 12 companies have set what they believe are science-based targets. Only 30% have set targets to increase their exposure/investments to/in renewable energy.

- **Lobbying:** 72% of companies in the list disclose their position on climate policy generally, but 52% do not assess the positions that third party organizations adopt on climate change and nor do they identify any variance relative to their own policy.
- **Disclosure:** 90% of the focus companies disclose climate change information through a sustainability report, with 74% responding to the CDP questionnaire on an annual basis. However, 46% still either do not disclose, or only partially disclose, this information in financial filings. Only six of the companies in the list have officially committed to align their disclosure to the TCFD recommendations.
- A strengthening of the link between updated climate related targets and remuneration for executives and employees
- Reporting in line with financial recommendations of the TCFD
- Reporting of the overall estimated carbon intensity of energy products and services provided
- A comprehensive review of industry association memberships that hold active positions on climate change and energy policy.

What we have seen and some first examples of positive dialogue with companies

Over the past year, (March 2018 – May 2019) we engaged with 48 out of 50 companies in the list (98% of our focus list) and had 80 meetings, primarily with heads of sustainability and board members.

Both equity and fixed income financial analysts often joined engagement meetings with companies. At the same time, analysts from our Sustainable and Impact Investing team worked with the fundamental analysts in order to make individual engagement goals as consistent as possible with the financial case.

Equinor

UBS-AM has led dialogue with Equinor in collaboration with HSBC Asset Management and Storebrand Asset Management within the Climate Action 100+ umbrella. As a result of the initial positive engagement, the company has agreed to a joint statement to strengthen its commitments on climate change in pursuit of a business strategy consistent with the Paris Agreement. Future actions to which the company has committed include:

- An assessment of its portfolio, including new material capital expenditure investments towards a well below 2 degree scenario
- A review of existing climate-related targets up to 2030 and the setting of new ambitions beyond that date

Shell

UBS-AM has conducted individual and collaborative engagements with the company over the past 12 months. Thanks to the collective efforts within CA 100+, in December 2018 the company officially committed to anchor its Net Carbon Footprint (NCF) ambitions to short-term targets and executive pay. It also undertook to conduct a global review of lobbying activities on climate change. NCF is a carbon intensity metric which measures Scope 1 (direct), Scope 2 (purchased electricity) and Scope 3 (value chain including the use of products and energy marketing) emissions divided by the energy represented by the company's production and marketing activities.

In March 2019, the company announced its first three year target, starting in 2019. This represents a reduction of 2-3% from 2016. The company has also used existing flexibility within the powers of the remuneration committee to immediately link the pay of the top 150 executives to delivery of the target. Their intention, after consultation with the staff council, is to integrate the same target into the remuneration packages of the top 16,000 staff.

In April 2019, Shell released its first global overview on the company's alignment with 19 key industry associations on climate-related policy. The report also detailed new governance principles designed to improve Shell's management of its industry association memberships on climate-related topics. As a result of the exercise, the company decided to end its membership in one trade association.

BP

UBS-AM has co-filed a shareholder resolution supported by corporate management which received 99% of votes in favor in the 2019 AGM. The resolution requests the company to align its business strategy with the Paris goals with respect to new material capital expenditure and targets on climate change. It also asks the company to disclose anticipated levels of investment in oil & gas resources and reserves and other energy sources, the estimated carbon intensity of the company's energy products and any linkage between climate change targets and executive remuneration.

Fortum

UBS-AM is leading the dialogue with Fortum in collaboration with Folksam within Climate Action 100+. During the recent company AGM, we prepared a statement to present both the Climate Action 100+ initiative and objectives for future dialogue with the company, including upgrading the current climate goals beyond 2020 in alignment with the Paris Agreement. During the AGM, we were pleased to hear the company's commitment to align future disclosure to the TCFD recommendations, as UBS-AM had requested. Future discussions will focus on scenario analysis, plans for retirement of coal plants and developments on the relationship with Uniper (a German power company with coal and natural gas facilities in which Fortum now owns a 49.99% interest).

A utility company in Europe

We have met with both the company's chair of the Supervisory Board and the head of the sustainability department to discuss the implications of recent regulatory developments on retiring coal plants. Topics under discussion include:

- Imminent acquisitions in the space of renewable energy
- Science based targets
- Executive remuneration linked to climate change targets
- Oversight of lobbying activities on climate change

The company has shown interest in understanding the science based target initiative methodology in more detail. It is also planning on conducting a gap analysis against the TCFD disclosure recommendations.

A utility company in North America

We had two meetings with the head of sustainability to share our feedback on the company climate change performance and recent disclosure. We indicated our support for the management's recent development in issuing the company's first climate change resilience report. We also outlined possible areas for further improvement, including greater disclosure on the connection between climate change scenario analysis and the company's business strategy and target setting. We also requested clarifications on statements related to the implications on the cost of electricity for clients, and the extent to which the company's view of the future relies on the deployment of carbon capture and storage.

Analysts from our SI team worked with the fundamental analysts in order to make individual engagement goals as consistent as is possible with the financial case.

Best practice in the focused industries

Such positive practices could be both from companies within and outside the focus engagement list.

i. Energy

Governance

In terms of governance, we would highlight the positive examples seen from Repsol, Shell and Cenovus.

- **Shell:** the company's board has a specific focus on climate, in its Corporate and Social Responsibility Committee. This committee assists and advises the board on safety, environmental, and ethical issues and includes climate change. Shell's CO2 management strategy is actively driven by Group CO2, a corporate function that monitors and examines the strategic implications of climate change to Shell's business and the impact of developments in governmental policy and regulation with a direct line of accountability to the CEO and oversight of the company's GHG management program. Shell also now has a clear link between its climate change targets and remuneration of its senior executives.
- **Repsol:** The company's Sustainability Committee's duties include corporate policies, objectives and guidelines on environmental, safety and social responsibility matters; analyzing and reporting to the Board of Directors on the expectations of stakeholders and supervising the relations with them; proposing to the Board of Directors the approval of a Sustainability Policy, and reviewing and evaluating the management and control systems for non-financial risks. A Corporate Executive Committee (CEC) also has direct responsibility in the management of matters related to climate change, including strategic decisions, multi-year objectives and annual targets.

- **Cenovus:** Because the company focuses on oil sands production it is involved in a segment of the industry that has higher Scope 1 carbon intensity. Its governance of the issue is among the leaders because (i) board members are informed and engaged on issues relating to climate change by the Safety, Environment and Responsibility (SER) Committee; (ii) the Board engages on the topic of climate change as part of its strategy development process, which includes an annual "blue-sky" strategy session and strategic planning session; and (iii) climate change is referenced in the corporate performance indicators for executive remuneration.

There are some relevant climate reports that outline individual companies' views of the future and their scenario analysis. Reports such as these mark a significant step forward. Three years ago it required shareholder resolutions under the 'Aiming for A' program to encourage similar disclosure

Strategy considerations

There are also some relevant climate reports that outline individual companies' views of the future and their scenario analysis.

In our view, the best examples are:

- **BP:** The company's annual Energy Outlook provides an overview of key energy market trends and importantly links these both to potential climate change pathways and specific technology options in key areas.
- **Chevron:** The company published its first Climate Change Resilience Report last year and has published an update in early 2019. The original report is noteworthy for providing insight into how Chevron considers commodity price and climate change uncertainties. The update provides additional details on governance, actions and the metrics times series.
- **Eni:** the company refers to the annual World Energy Outlook scenarios and the Sustainable Development Scenario (SDS) by the International Energy Agency (IEA) to identify and assess climate change risks and opportunities. Scenario analysis and carbon pricing are used to regularly review the resilience of the portfolio of assets, as well as new investments, and identify eventual stranded assets in the upstream business. The company also analyzes damage scenarios in case of extreme/chronic weather events based on data from the Intergovernmental Panel on Climate Change. Relevant mitigation actions are then integrated in ENI's decarbonization strategy.
- **Shell:** The company has created a scenario that seeks to meet the goals of the Paris Agreement, which it terms the Sky Scenario. This shows the variety of policy and technology pathways that would contribute to hold global warming at 2 degrees. Compared to other energy company scenarios, this is long term and goes out to 2070.
- **Total:** In the company publication Climate: our strategy, Total outlines the case for transition to a lower carbon economy, and details actions that it is taking including development of its carbon intensity indicator, emissions reduction activities, its focus on natural gas and the rationale for its interest in power generation including renewables.

Reports such as these mark a significant step forward. Three years ago it required shareholder resolutions under the 'Aiming for A' program to encourage similar disclosure. Helped by this, and subsequent shareholder resolutions, such disclosure is now more commonplace.

ii. Targets

Some companies have announced longer term ambitions for decarbonization:

- **Shell:** have a stated ambition to reduce Net Carbon Footprint by around 20% by 2035 as an interim measure, and by 50% by 2050. Their ambition is measured as carbon intensity (tCO₂e/MJ of energy produced)
- **Repsol:** short-term, the company has established a 3% carbon intensity reduction target by the year 2020. Repsol also intends to reduce its carbon intensity across the entire value chain (on a similar basis to Shell) in alignment with the International Energy Agency-IEA's Sustainable Development scenario (a 40% reduction by 2040)
- **Total:** their ambition is to reduce the carbon intensity of the energy products it makes available to customers by 15% between 2015 – the date of the Paris Agreement – and 2030

We see such ambitions as a measure of the extent to which the management of these energy companies are able to grasp the challenges of climate change, incorporate the conclusions of their scenario analysis, and develop strategic thinking that leads to decarbonization. Other company managements are not yet able to do this but may be able to in the future. By contrast, Exxon Mobil has successfully obtained SEC permission to block a 2019 shareholder resolution asking for it to set targets on a similarly long-term outlook.

iii. Utilities

Governance

Within this sector, examples of positive governance can be seen from both Xcel and CLP.

- **Xcel:** The company's Operations, Nuclear, Environmental and Safety (ONES) Committee oversees the overall environmental strategy and compliance, safety and operational performance and customer service level. Xcel has a full scale environmental management system which includes oversight from the Board and the Chairman, CEO and President. The Executive Committee, the Environmental Policy Department and the Environmental Services Department are also involved in the execution of the climate change strategy. Furthermore, executive pay is linked to climate change performance: the CEO's LTIP includes a 3-year carbon reduction metric.
- **CLP:** The Sustainability Committee is accountable to the Board. It is responsible for overseeing management and advising the Board on matters required to enable: a) the company to operate on a sustainable basis for the benefit of current and future generations; b) sustainable growth by maintaining and enhancing the company's economic, environmental, human, technological and social capital in the long-term; and c) the effective management of sustainability risks. The Committee is chaired by the CEO and includes Executive and Independent Non-executive Directors of the Board. Executive remuneration is linked to efficiency which incorporates environmental factors as well as CLP's 2050 climate vision targets. When calculating executive bonuses, CLP applies both a company and individual scorecard across the workforce.

Strategy

- **AES:** Climate Scenario Report. The report provides a stress test of the company's operating portfolio, looking at business as usual, a greener scenario, and a 2 degree scenario. Interestingly it combines transition risks (using IEA scenarios) with physical risks (using IPCC scenarios).
- **Dominion Energy:** Climate Report 2018. The report looks at the impact of different climate scenarios on the company's electric generation fleet. These cover three pathways: a 60% carbon reduction at national level from 2005-2050; an 80% carbon reduction at national level from 2005-2050; and an additional demand sensitivity that doubles the level of energy efficiency included in the 80% scenario. It goes on to provide additional insight in the effects of these on the coal, natural gas, renewables, and nuclear assets.
- **Origin Energy:** With the Generation Portfolio to a low carbon economy report, Origin has looked at commodity and carbon prices required to achieve a 2 degree scenario and has applied these to a Net Present Value (NPV) calculation of its electricity generating assets.

Targets

With regard to targets, GHG reduction targets are more widespread than in the energy sector, but timeframes and the scale of ambition vary. Generally we welcome targets beyond 2030 and which are informed by a 2 degree, or below 2 degree scenario analysis (see exhibit 4 in the appendix for more information).

iv. Lobbying

Finally, we have seen positive examples of lobbying from BHP Billiton and Shell.

- **BHP:** The company is a diversified mining company but has interests in both coal mining and petroleum. In December 2017, they published a first-of-its-kind review of industry associations. It outlines 21 industry associations that BHP is a member of, and reviews the climate change positions compared to BHP's own position, based on public domain information. It focuses on energy and climate policy as well as the materiality of these issues to its membership of the association. For associations where it identifies significant differences it also seeks to understand positioning on health & safety, environment, community, workforce and economics.
- **Shell:** Selected 19 industry associations because their climate-related policy positions have brought them to the attention of investors and NGOs; and because they operate in regions or countries with significant Shell business activities. In addition to identifying material misalignment with one industry association, Shell has used the study to improve internal governance, and develop a set of climate-related principles for participation in industry associations.

With regard to targets, GHG reduction targets are more widespread than in the energy sector, but timeframes and the scale of ambition vary. Generally we welcome targets beyond 2030 and which are informed by a 2 degree, or below 2 degree scenario analysis.

Next steps

In conclusion, having been engaging now for a full year, we are well placed to start reflecting on the trends and best practices which have emerged. In particular, as the work with Shell, BP and Equinor have all highlighted, collaboration with other investors, and leveraging the scale which that affords, is clearly advantageous. We are also benefiting from the insights and knowledge garnered through the engagement process, both as an additional input to feed into our investment

analysis and decisions, as well as a means by which the integration of sustainability can be introduced into the equity and fixed income investment process.

Going forward, we will be assessing progress of our engagements and the implications thereof for our investment and proxy voting decisions on a regular basis. Statistics and examples of best practice will be updated and shared as part of that review.

We are benefiting from the insights and knowledge garnered through the engagement process, both as an additional input to feed into our investment analysis and decisions, as well as a means by which the integration of sustainability can be introduced into the equity and fixed income process.

Appendix: Scorecard analysis

The two sectors of focus show similar level of performance in our scorecard analysis: out of the total possible scores of 42 for an oil & gas company we noticed an average of 24. In the utility sectors, the maximum scoring is 46 and the average 24.

Exhibit 3: Average of scorecard performance by focus sector

Sector	Average	Max score	% of the list
Oil and gas	24.16	42	58%
Utilities	24.05	46	52

Source: UBS Asset Management.

Exhibit 4: Scorecard sections and average performance by companies in the engagement list

Topic	Average score	Max score	% of Average score / Max score
Responsiveness	1.87	2	93.3%
Governance	2.42	6	40.3
Risk management	2.47	3	81.8
Strategy and policy	4.56	9	50.7
Metrics and performance	4.87	10	48.7
Targets	2.08	6	34.6
Lobbying	3.02	5	60.4
Disclosure on climate change	3.40	5	68.0

Source: UBS Asset Management.

Exhibit 5: Key insights from specific scorecard items

Question	Number of companies		
	No	Partially	Yes
Is the company incorporating climate change skillsets into board selection or succession plans?	44	6	0
Are any climate related executive remuneration metrics that the company may have explicitly aligned with a 2 degree scenario?	48	1	1
Does the company have a board director or a board committee with assigned climate change responsibilities?	10	4	36
Has the company incorporated environmental issues into executive remuneration? Is this reflected in the remuneration policy through selection of targets?	19	14	17
Strategy and policy			
Does the company detail the resilience of its current strategy with respect to climate change? Does this include a 2 degree scenario stress test?	26	15	9
Does the company disclose its 2 degree scenario analysis?	31	4	15
Does the company apply an internal carbon price? Does it disclose it?	14	15	21
Metrics			
Does the company disclose its Scope 1 and 2 GHG emissions and intensity figures?	2	5	43
Has the company had its operational (Scope 1 and 2) GHG emissions data verified?	26	0	24
Does the company disclose its GHG Scope 3 emissions? If so, which categories is it disclosing?	14		36
Has the company increased its exposure to renewables in the past 5 years?	28	1	22
Targets			
Has the company set quantitative absolute or relative or intensity targets for reducing its operational (Scope 1 and 2) GHG emissions?	11	5	34
Is the company implementing science-based targets?	38	9	3
Has the company set targets to increase its exposure/investments to/in renewable energy?			
Lobbying			
Does the company disclose its position on climate policy generally, and specifically in regulatory environments in which it operates? Where relevant this may include positions on carbon pricing, renewable energy and energy efficiency targets and fossil fuel subsidies.	14	11	25
Does the company assess the positions that third party organisations adopt on climate change and identify any variance relative to its own policy?	15	11	24
Disclosure			
Through financial filings	13	10	27
Through sustainability reports	4	1	45
Through CDP	9	4	37
Has the company committed to implementing TCFD reporting guidelines?			6

Source: UBS Asset Management. (■ = negative trends; ■ = positive trends)

Exhibit 6: Examples of GHG emissions reductions targets by utility companies

Company	Base year	End year	Reduction (%)
AGL Energy	2015	2050	78%
Ameren	2005	2030 2040 2050	35 50 80
American Electric Power	2000	2030 2050	60 80
DTE Energy	2005	2030 2040 2050	45 75 80
FirstEnergy	2005	2045	90
Origin Energy*	2017	2032	50
PPL	2010	2050	70
RWE	2015	2030	40–45
Southern	2007	2030	50
WEC Energy	2005	2030 2050	40 80
Xcel Energy	2005	2022 2030 2050	50 60 100

Source: UBS Asset Management.

* Certified by the Science-Based Targets Initiative

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Americas

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