

Liquidity Perspectives

Sustainability in Liquidity & Cash Management | April 2022

More than a fad, here to stay: Incorporating sustainable investing into liquidity strategies

Sustainability has become an increasingly important requirement for companies, investors, and society. UBS Asset Management's liquidity and cash management strategies are no exception. Many UBS AM money market funds, low duration and ultra-low duration solutions are ESG (environmental, social, governance) integrated — meaning incorporating ESG considerations are part of a holistic approach to issuer research, analysis and portfolio construction. UBS AM also offers liquidity and cash management strategies that are 'Sustainability Focused,' that have specific sustainable goals incorporated into the investment strategy.

The concept of Sustainable Investing has been around for decades, and has evolved significantly over the past few years

Nonetheless, there is often confusion regarding what Sustainable Investing entails. The terminology can be confusing to many, as terms such as Green, ESG and SRI (socially responsible investing) are often used interchangeably.

For example, some investors view Sustainable Investing as a process of excluding certain industries viewed as harmful to individuals' health, the environment or to society as a whole from one's portfolio (e.g., coal producers, tobacco, etc.). On the other end of the spectrum, some investors expect only "green" companies in sustainable portfolios, such as companies involved in wind and solar energy adoption, energy efficiency, pollution controls or sustainable farming.

While these approaches of exclusion or impact investing are indeed common, we incorporate ESG analysis as part of our credit research and assessment process which provides portfolio managers with hard data and greater insights on ESG factors to make informed portfolio management decisions and therefore provides us the opportunity to invest in a way that is expected to have a positive and measurable impact on society and/or the environment.

Evidence suggests that a significant driver of outperformance in sustainable portfolios is avoiding negative event risk, or so-called "blow-ups." Over the past several years, the oil spill in the Gulf of Mexico and the automotive emissions scandals are two well-publicized events where companies with poor sustainability profiles experienced significant 'tail risk' events that resulted in rating downgrades.

A clear and robust framework defines the way we implement sustainability across our investment strategies

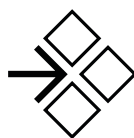
ESG integration strategies



Standard
exclusions



Screening and
SI assessment
(ESG profile)



ESG integration
strategies



Sustainable and
impact strategies



Impact (thematic)
strategies

Integration in research

Liquidity and cash management solutions with ESG integration or those seeking sustainable objectives are becoming more widely available. With a variety of implementation styles, it is important to consider the type of solution best suited to your goals.

ESG analysis across most of UBS-AM's Fixed Income and Liquidity capabilities has been integrated in the investment process for a number of years, with issuer-level ESG analysis as guided by UBS-AM's approach to ESG research and evaluation methodology. This has involved developing a proprietary ESG risk dashboard that combines scores and data points from several external research providers together with our internal ESG score.

Our credit research teams monitor individual issuers to assure high credit quality, and partner closely with our dedicated Sustainable and Impact Investing Research team to maintain focused ESG integration in the research process. The 'integration' process also screens for specific ESG factors either promoting or removing issuers albeit within the available investment universe.

UBS Asset Management is dedicated to delivering Sustainable Investment solutions for client portfolios, and currently manages over USD 136bn in Sustainability Focused and USD 454bn in ESG integrated strategies globally (as of September 30, 2021).

20+ years

History of managing SI funds

A+

UN PRI² score 2018-2021

USD 136bn

SI assets under management¹

Liquidity & Cash Management:

USD 129bn assets under management³

USD 17bn in ESG and SI focused liquidity & cash management strategies³

USD 454bn

ESG integrated assets under management¹

Standardized

ESG integration across all active investment strategies

Selecting the appropriate Liquidity and Cash Management solution

As a global standard emerges, investment managers are incorporating ESG objectives in different forms. Our ESG assessment across asset classes is built around a common framework and adapted for Fixed Income; the ESG approach in a strategy is dependant on the investment guideline of the portfolio.

Treasury and government money market funds generally aren't offered as Sustainability Focused products as a market standard given their restricted issuer universe (e.g., US Treasuries and US agency securities).

For prime style money market funds, issuers are assessed on environmental, social and governance factors, however since the majority of eligible short-term investments are financial issuers, governance factors may have a greater relevance.

Ultra-short or low duration bond funds can have greater flexibility to incorporate environmental factors over and above an ESG score, including targeting a Sustainable Focus (or goal or objective) due to a broader available investment universe, while potentially generating returns in excess of pure money market funds.

What makes a liquidity strategy ESG integrated?

ESG integration broadens risk assessment elements. ESG integrated strategies include standard UBS-AM exclusions of securities that are deemed to be undesirable by UBS-AM or our clients (addressing reputational risk). They also include using screening and SI assessments take in external sources combined with fundamental quantitative and qualitative analysis. ESG integrated strategies do not have a specific sustainable goal as part of the strategy's investment objective.

¹ UBS Asset Management, as of September 30, 2021

² Principles for Responsible Investment is a United Nations-supported international network of investors working together to implement its six aspirational principles

³ UBS Asset Management, as of December 31, 2021

What makes a liquidity investment strategies Sustainability Focused?

Building on ESG Integrated, UBS-AM's Sustainability Focused strategies seek to promote (beyond risk mitigation) ESG factors as part of the fund's investment guidelines, and, by adding additional layers of ESG criteria including activity-based exclusions, add higher weight to issuers with superior ESG profiles while pursuing an active dialogue with issuers to improve their sustainability profiles and therefore favoring the best-in-class ESG issuers.

Regulation & Industry Overview

The EU has taken the lead in setting clear regulatory guidelines with the Sustainable Finance Disclosure Regulation (SFDR), which has been put in place to provide investors with transparency in comparing ESG characteristics across funds. Many

money market and short/low duration funds are registered as Article 8 which is defined as: a fund which promotes environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

In the US, ESG money market funds are gaining traction with industry assets of USD 77 Billion at 30 November 2021 (according to Crane Data). Unlike the EU, there are currently no ESG-specific regulations or rules in the United States, however the US securities regulators continue to focus on this issue.

Asset managers are also offering share classes sharing a proportion of revenue to non-profit or other charitable organizations focusing on ESG and diversity goals.

Sustainable / ESG liquidity & cash management solutions

UBS Asset Management offers a broad range of Liquidity and Cash Management Sustainability Focused and ESG solutions to partner with investors to meet their goals.

As organizations look to direct resources to Sustainable Investments, allocating cash to Sustainable or ESG money market or short-term bond funds can be an efficient way of meeting these objectives within your investment guidelines while implementing your cash management strategy.

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Americas

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