Partnerships for the goals

Achieving the United Nations' Sustainable Development Goals

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UBS White Paper for the

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Foreword

The United Nations' Sustainable Development Goals (SDGs) provide a roadmap to solve our common sustainability challenges and the seventeenth SDG is Partnerships for the Goals. In this white paper, UBS explores how specific types of partnerships can achieve the SDGs. We also invite others to join us in creating a more sustainable world together.

It is not our intent to promote products or services in the white paper. Rather we refer to them to highlight the lessons we have learned as UBS has attempted to live up to its sustainability principles, including the various commitments we made at last year's World Economic Forum.

Our key findings are that fulfilment of the SDGs demands new approaches to philanthropy and sustainable investing; and that partnerships for the Goals are critical to building these approaches.

UBS has joined with other financial firms and multilateral development banks to find sustainability solutions. Through cooperation we have built the first 100% sustainable investment offering for private clients. We have teamed with research scientists and our institutional clients to match investments with specific SDGs. We collaborated to develop a sustainable equity index that supports the UN Global Compact and funds positive societal change. And we have worked with others to help create an independent, digital impact platform.

UBS has also learned that partnerships between social entrepreneurs and our clients can help the best local ideas to achieve international success. For example, the UBS Optimus Foundation has collaborated with development agencies, social entrepreneurs, and clients to spread universal healthcare initiatives throughout Africa. We have made connections between UBS Global Visionaries, enabling this network of social entrepreneurs to extend their local SDG solutions around the world. And our Community Affairs program has demonstrated how workplace-skills programs can be successfully rolled out across more than 270 schools.

We invite you to read this white paper and ask you to consider our offers of partnerships for the Goals. Together, we can achieve a sustainable future.

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- Private clients demand a variety of sustainable investment approaches linked to the specific SDGs and causes they care most about.
- Philanthropic clients are increasingly moving away from solely giving money toward collaboration and adopting more impactful philanthropy models.
- Client attitudes about sustainability in their own businesses are evolving from risk management toward achieving the SDGs through a "business with impact" approach.
- UBS believes it is beneficial to other financial services firms to abandon "one-size-fits-all" exclusion approaches. Instead they could offer clients targeted thematic investment opportunities (such as green bonds or thematic ESG equities), new differentiated sustainable investing strategies like ESG momentum, ESG engagement, pooled MDB debt instruments, new private market impact solutions, and customized advisory programs that tailor investment recommendations to clients' particular sustainability affinities.

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- Firms can create incremental benefits by introducing social entrepreneurs to their stakeholders.
- Financial services firms can devise more effective philanthropic funding models for social entrepreneurs.
- Social entrepreneurs can amplify their impact with help from the technology sector.
- We believe that even more of our clients could support UBS Global Visionaries in their efforts to deliver positive social and environmental outcomes. These partnerships are vital to scaling up social entrepreneurs' activities and contributing more significantly to satisfying the SDGs.

1. Introduction

Collectively, the world is falling well short of raising the USD 5–7trn of annual investment needed to satisfy the United Nations' Sustainable Development Goals (SDGs).

Meeting the SDGs demands multi-stakeholder connections, capital, and cooperation. The theme of the 48th Annual Meeting of the World Economic Forum (WEF) is *Creating a Shared Future in a Fractured World*, and UBS is uniquely placed as the world's largest wealth manager[1] to help achieve the SDGs by combining forces with clients, corporations, and the public sector to mobilize the private capital funding such an ambitious plan necessitates.

In our 2017 WEF whitepaper, UBS made a number of commitments in this area. As this paper details, we have: launched a major thematic, private market impact investment in collaboration with TPG Growth linked to SDG-related impact priorities that stressed the "dual bottom line"; worked with our Global Philanthropists Community to share best practice and encourage collaboration to drive outcomes-driven impact philanthropy approaches; worked with UBS Global Visionaries to highlight, promote, and aid their efforts to achieve the SDGs by, among other things, refocusing our Social Innovators program to assist them and hosting them at our major client events; and supported the development of an independent, impact investment platform Align17*.

In the process of doing this we have learned a lot of lessons. This, our 2018 WEF whitepaper, outlines these lessons and includes a number of conclusions, new commitments and partnership requests.

1 Scorpio Partnership Global Private Banking Benchmark 2017, 9 August 2017.

* UBS will not have any involvement in the selection of private investments made available on the Align17 platform. Nor will UBS perform due diligence or suitability reviews with regard to such investments. References to Align17 in this publication therefore should not be considered as an endorsement, solicitation or referral to any investment made available on Align17.

1. Private wealth managers need to work more closely with multilateral development banks (MDB).

Historically MDB debt has offered superior risk-adjusted returns through the business cycle, yet it rarely appears in private client portfolios. UBS has partnered with the World Bank to develop pooled World Bank (International Bank for Reconstruction and Development or IBRD) instruments[2]. They serve as the basis of our new 100% sustainable investing (SI) cross-asset Strategic Asset Allocation (SAA), which is filled exclusively with SI instruments. We are also devising transparent, publicly available benchmark indices for World Bank, MDB, and green bonds that, for the first time, define target asset allocations along three dimensions – financial return, financial risk, and sustainability.

MDB debt can form a core holding, we believe, even in asset allocations built only to maximize risk-adjusted financial returns. We consider that active allocation of MDB debt in core cross-asset portfolios would be of benefit to clients and financial firms. The investment management industry could adopt new-generation fixed income benchmarks that substitute MDB bonds for conventional government debt. And other corporate treasury departments, we expect, will consider greater use of World Bank and other MDB debt for cash management purposes. UBS's treasury currently has CHF 7.1bn of holdings.

2. Financial firms need to work together to standardize sustainable and impact investing conventions, including targeting market levels of financial return.

There are no universal definitions for the various financial instruments, including impact investments and green bonds that are used to pursue the SDGs. For sustainable and impact investments to become mainstream parts of a private client's asset allocation, they need to be clearly defined, understood, and capable of delivering positive societal impact outcomes alongside (and not in place of) market rates of financial return.

Private clients, for too long, have confused sustainable and impact investing with philanthropy (giving or investing that is expected to deliver sub-market rates of return) or with conventional investing (where financial returns are prioritized over social and environmental ones). This confusion has hindered private investors from funding the SDGs to their fullest potential. UBS Wealth Management has attempted to bring greater clarity to this area by teaming with industry collectives such as the Impact Management Project to find consensus on how to define and measure societal impact. In this paper we propose a consistent way of classifying sustainable giving and investing opportunities. In our view other mainstream financial firms could adopt these standard definitions for impact investing and our classification framework for sustainable giving and investing opportunities.

[2] Not available for public distribution in Switzerland.

3. **Financial firms must work together to fashion innovative new solutions that fill the gaps in the SDG-funding instrument landscape.**

We have designed what we believe are the world's first-ever 100% sustainable, cross-asset strategic asset allocations for private clients that contribute to achieving the UN SDGs while targeting the same market rates of financial risk-adjusted returns as our conventional asset allocations. During this process, the gaps in the current sustainable investing strategy universe became very clear. The lack of available instruments for generating positive societal impact in publicly listed equities and the heavy skew toward exclusion-based equity instruments at the expense of fixed income and private market solutions are particularly apparent.

To address these gaps, we are partnering with Hermes Investment Management to define and develop a best-in-class shareholder engagement strategy. In addition to teaming with the World Bank on a pooled highly-rated debt allocation[3], we are working with organizations that include PwC, Linklaters, the International Finance Corporation (IFC), and Hamilton Lane to support Align17*, an independent, open-architecture, impactful direct investment platform initiated by the WEF's Young Global Leaders.

We believe that other financial firms could help us fill the remaining sustainable investment instruments gaps with new investment solutions, in particular sustainable fixed income solutions in US corporate debt, high yield bonds, and senior loans, as well as in emerging market debt, thematic impact, and real estate impact strategies.

Private clients have different passions and affinities for solving particular SDGs with their capital. They also have varying appetites for different types of investment vehicles, be they traditional or sustainable. To enable private wealth to optimally fund sustainable development, UBS believes that it is beneficial to other financial services firms to abandon the widespread use of "one-size-fits-all" ESG screening or exclusion approaches. Achieving maximum impact requires offering a full suite of next-generation sustainable and impact investment solutions.

[3] Not available for public distribution in Switzerland.

* UBS will not have any involvement in the selection of private investments made available on the Align17 platform. Nor will UBS perform due diligence or suitability reviews with regard to such investments. References to Align17 in this publication therefore should not be considered as an endorsement, solicitation or referral to any investment made available on Align17.

4. Philanthropic clients are increasingly moving away from solely giving money toward collaboration and adopting more impactful philanthropy models.

Private wealth clients are exploring new, more effective forms of philanthropic capital deployment. They are focusing on collaboration and more impactful philanthropic approaches that target measurable societal outcomes. Examples of collaboration highlighted in this whitepaper include: the establishment of *The Collaborative hosted by UBS*, a partnership that brings together our largest clients to support large-scale social change; and Co-Impact, a global collaborative launched by Rockefeller Foundation Managing Director Olivia Leland, that draws together philanthropists, governments, non-profits, and the private sector to drive social change.

Examples of the impact philanthropy approach include: UBS Optimus Foundation's alliance with Yunus Social Business, the Rockefeller Foundation, and Impact Water to develop the first social success note to support clean water and sanitation in Africa; and UBS Optimus Foundation, United States Agency for International Development (USAID), and MSD for Mothers' development impact bond to improve the quality of private sector health care facilities in Rajasthan, India.

These types of partnerships illustrate the importance of partnerships and a focus on outcomes. They animate different organizations to direct their investment to the areas where they have the most expertise, and they inspire social entrepreneurs to deliver measurable societal impact in a more commercial, scalable way. Other partners could benefit from deploying similar models and advocate for greater use of philanthropic capital as catalytic capital that helps to draw in more private capital into sustainable development.

5. **Firms can create incremental benefits by introducing social entrepreneurs to their stakeholders.**

   Mainstream firms and foundations can help social entrepreneurs marry their business acumen with their social mission. They can provide mentoring, promotion, financial sponsorship, technological solutions, and investment-gathering abilities to social entrepreneurs to enable them to scale up their impact and address the UN SDGs more effectively. UBS has learned about the needs and requirements of social enterprises through its Global Visionaries network, and has responded by sponsoring and producing the Social Investment Toolkit in partnership with Ashoka.

   Social entrepreneurs and clients also benefit when corporations make the effort to raise entrepreneurs' profiles. UBS has supported a number of Global Visionaries in broadcasting their mission via traditional and social media channels, as well as by giving them speaker slots at our highest-profile client events, which has led to a variety of subsequent collaborations.

Finally, firms themselves benefit from joining forces with social entrepreneurs. Connecting Global Visionaries with clients that share their passions can deepen client relationships. UBS believes that other businesses could assist our Global Visionaries and other social entrepreneurs by means of mentoring, networking, and honing ways of attracting capital. We consider that private clients could assist our Global Visionaries in their efforts to deliver positive social and environmental outcomes.

Sustainability is a cornerstone of our business and of our shared prosperity. We invite you to read this white paper, consider our views, and work with us to build a more sustainable future.

2. Partnerships with multilateral development banks (MDBs)

MDBs play an important role in identifying development needs. But they need assistance from the private sector, including private wealth capital, to fill the SDG investment gap. Collectively, the world is falling well short of raising the estimated USD 5 – 7trn annual investment needed to satisfy the UN SDGs.

What we have learned and concluded

1. Private wealth managers need to help MDBs better understand private wealth capital's requirements.

MDBs have historically structured their fixed income issuance to suit large institutional investors such as pension funds and sovereign wealth managers. They often directly place large notional values of their bonds with the agents of these institutions, who build and manage their own portfolios as full-time professionals. Private wealth investors, however, are principals who rarely invest full-time and typically prefer to do so in specialized fixed income assets through pooled investment vehicles. They often favor lower minimum asset commitments and are best served by diversification across tenors and active third-party management of interest rate risk.

UBS is teaming with the World Bank on two pooled, duration-targeted implementations to address this situation[4]. The goal is to enable private capital to switch more funds from conventional government bonds to highly rated sustainable development debt. MDBs, in our experience, are eager to listen and learn about private wealth investors' financial return, liquidity, credit, and duration expectations. The World Bank is also receptive to doing what it can to respond to them, for instance by issuing debt directly to the pooled vehicle at tenors needed to match its benchmark, as well as by providing liquidity when needed for redemptions.

UBS Views:

Other financial firms could partner with MDBs to explain private clients' requirements to them in more detail, through cooperation and continued dialog. We are also of the opinion that other MDBs would benefit from collaboration with us, as the World Bank has, in an effort to tailor their offering to the particular expectations of private capital investors. This could increase the amount of money that flows into sustainable highly-rated debt and, by extension, raise private wealth funding for the SDGs. The potential is huge. Global household wealth is currently USD 280trn, according to Credit Suisse[5]. Just a 1% additional allocation to the top 10 emerging market development-focused MDBs has the potential to increase the amount of their outstanding nominal bonds from USD 1.1trn to USD 3.9trn (+254%).

[4] Not available for public distribution in Switzerland.

[5] *Credit Suisse Global Wealth Report 2017*, publicly available at credit-suisse.com/corporate/en/research/research-institute/global-wealth-report.html

2. **Wealth managers need to educate their private wealth clients about the potential advantages of holding MDB debt.**

   Private clients, too, need to better understand multilateral development bank bonds. That these bonds are insufficiently understood is borne out by UBS data on the size of our clients' MDB bond positions, which totaled USD 432m as of October 2017, relative to global assets under management of USD 2trn.

   We think that private clients would hold more MDB debt if they knew how it is highly likely to match US Treasuries' expected financial returns over a long-term investment horizon, while also generating societal returns (based on UBS analysis). In fact, a significant win/win is possible. MDB debt currently has the best risk/reward profile of AAA debt, but clients lack sufficient knowledge of and access to it.

   Debt issued by the World Bank Group's International Bank from Reconstruction and Development (IBRD) has the highest possible credit risk rating (AAA according to S&P ratings), a status it has enjoyed since 1959. It also offers more appealing yields than many government debt instruments. IBRD bonds traded with a risk premium to US Treasuries of between 10 and 20 basis points across the maturity curve, as of October 2017. UBS analysis concludes that they are highly likely to match US government bonds' expected financial return, risk, and liquidity characteristics over a long-term investment horizon.

   MDBs commonly seek to generate positive social and environmental returns that conventional government debt does not. For example, money raised by the World Bank is used to fund projects that seek to end extreme poverty or promote sustainable, shared economic prosperity. The World Bank offers comprehensive reporting on the societal impact it generates. By contrast, investors have no transparency on how capital invested in conventional government debt aids in achieving the SDGs, or whether it does at all.

UBS Views:

UBS sees strong benefits in investing in MDB debt instead of conventional bonds. It can form a core holding, we believe, even in asset allocations built only to maximize risk-adjusted financial returns. This applies also to other financial firms that actively allocate to MDB debt in their core cross-asset portfolios.

3. Financial firms need to establish new fixed income benchmarks to encourage higher institutional investment in MDB bonds.

Professional money managers and corporate treasurers typically manage their portfolios relative to benchmarks, and traditional high-grade bond indices, the typical building blocks of institutional investors' fixed income benchmarks, contain only minor amounts of MDB debt (around 2.1% in USD[6]). The scope for money managers to deviate from this benchmark is constrained by tracking-error limits, and their ability to substitute conventional government debt for MDB bonds is therefore restricted.

UBS is partnering with Solactive to address this situation by developing new-generation fixed income benchmarks for institutional and corporate investors. For the first time there will be dedicated MDB and World Bank bond benchmark indices, with target levels of expected financial risk and return similar to those of current conventional benchmarks. By adopting these new standards, institutional investors and corporate treasurers will be able to contribute to advancing the SDGs without compromising their fiduciary responsibilities.

Widening the following of new-generation benchmarks would also help deepen sustainable highly-rated bond markets. MDB issuance is small relative to that for standard government bonds. In the fiscal year to June 2017, the IBRD issued USD 56bn of debt, taking total borrowing to USD 207bn[7]. That compares to net issuance of USD 270bn of US Treasuries over the same period, which raised total US government borrowing via Treasury bond issuance to USD 14.2trn[8]. There is scope for MDBs like the World Bank to issue more sustainable highly-rated debt, and for institutional and corporate investors to allocate significantly more capital to SDG-funding projects via existing and freshly issued debt.

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[6] UBS Wealth Management Chief Investment Office analysis, based on "Barclays US Aggregate Aa3 or better" bond index.

[7] *World Bank Annual Report 2017*, publicly available at worldbank.org/en/about/annual-report#anchor-annual

[8] *Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year Through June 30, 2017, and Other Periods,* publicly available at fiscal.treasury.gov/fsreports/rpt/mthTreasStmt/backissues.htm

New industry-leading benchmarks should help assure investors that their investments match their sustainable investing goals more closely, which in turn should avoid the problem of "green washing." For example, setting sustainable investment standards should prevent companies from raising funds for renewable energy while using them to fund fossil-fuel power stations (as a Chinese power producer did with USD 150m of "green bonds" in August 2017[9]). It should also prompt issuers to report more consistently on environmental impact – in a September 2017 study, Moody's Investor Services found that 10 of the 17 green bonds it surveyed had insufficient reporting and disclosure about their green commitments.

This is why the transparent, publicly available benchmark indices we are working on with Solactive will, for the first time, define target asset allocations along three dimensions – financial return, financial risk, and sustainability. Fund managers can then be tracked on positive and negative deviations from the benchmark's return, volatility, and targeted sustainability outcomes.

UBS Views:

The investment management industry could adopt new-generation fixed income benchmarks that substitute MDB bonds for conventional government debt. Corporate treasury departments could consider the use of World Bank and other MDB debt for cash-management purposes. UBS's treasury is already doing so, and has CHF 7.1bn of current holdings. We consider that investors could adopt three-dimension benchmarks within new fixed income sustainable investing asset classes.

9 Reuters "China coal-fired power plant issues green bonds", August 4, 2017, publicly available at reuters.com/article/china-power-financing/china-coal-fired-power-plant-issues-green-bonds-idUSL4N1KP3RQ

3. Partnerships with financial services firms

Collaboration with financial services firms is also essential if the funding of the UN Sustainable Development Goals (SDGs) is to become a more mainstream strategy for private capital investors.

What we have learned and concluded

1. **Sustainable and impact investments should not sacrifice competitive financial returns for positive societal impact.**

   For sustainable and impact investments to become mainstream parts of a private client's asset allocation, they need to deliver positive societal impact outcomes *alongside* (and not in place of) market rates of financial return. The confusion among private clients about the difference between sustainable and impact investing, on the one hand, and philanthropy (giving or investing that is expected to deliver sub-market rates of return) and conventional investing (where financial returns are prioritized over social and environmental ones), on the other, has hindered private investors from funding the SDGs to their fullest potential in our view.

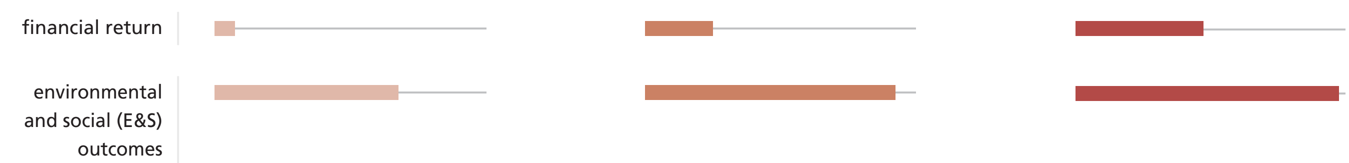
   A growing body of academic research provides ample evidence that it is possible to do well for society without relinquishing competitive rates of return in public markets. For example, a 2015 study by Friede, Busch, and Bassen (*ESG and Financial Performance: Aggregated Evidence from more than 2,000 Empirical Studies*, Journal of Sustainable Finance & Investment) found a non-negative relationship between investing along environmental, social, and governance (ESG) factors and corporate financial performance in around 90% of the more than 2,000 empirical studies conducted between 1970 and 2014.

   UBS believes that financial firms could adopt a consistent way for classifying sustainable giving and investing opportunities (see table overleaf).

Suggested definitions for sustainable giving and investment opportunities.

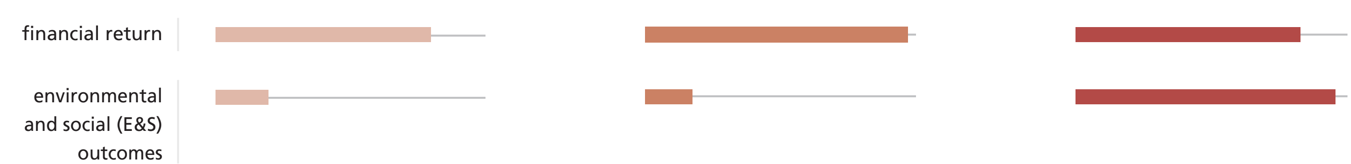
Philanthropy

	Charitable Giving	Strategic Philanthropy	Social Finance
description	Making donations to nonprofits to enable them to achieve their vision. Hands off, no / low strategy, low resource intensity	Strategic donations into a variety of solutions to help achieve their philanthropic vision. Hands on, robust strategy, high resource intensity	Investing with the explicit intention to generate a measurable environmental and social (E&S) impact, alongside a (typically below-market) financial return
desired primary outcome	Perceived positive environmental and social (E&S) impact	Demonstrable positive environmental and social (E&S) impact	Environmental and social (E&S) impact plus some financial return



Sustainable investing

	Exclusion	Integration	Impact Investing
description	Excluding companies or industries from portfolios where they are not aligned with an investor's values	Integrating environmental, social, and corporate gover--nance (ESG) factors into traditional investment processes to improve portfolio risk / return	Investing with the intention to generate measurable environmental and social (E&S) impact alongside a financial return
desired primary outcome	Market returns non-underperformance	Competitive risk-adjusted financial returns, outperformance	Environmental and social (E&S) impact plus competitive risk-adjusted returns



Source: UBS

Projects that offer to return less financially than the prevailing market rate should be labeled as philanthropy. They should be distinguished from impact investments, a subset of sustainable investing, which intentionally targets market rates of financial return and positive social/environmental impact. Our experience suggests that requiring impact investments to deliver positive societal impact outcomes *alongside* (and not in place of) market rates of financial return has a significant impact on private clients' willingness to fund sustainable development through private market impact investments.

UBS's first fundraising efforts for impact investing did not set out prospective financial returns in a clear enough way. Our initial impact fund-of-funds, launched in 2013 to target social and environmental improvement in emerging and frontier markets, raised a modest USD 51m.

More recent capital raises have emphasized the "dual bottom line" of financial and societal returns more explicitly. Consequently, these fundraises have mobilized much more private capital on behalf of the SDGs. For example, UBS raised a record USD 471m in 2016 for the final closing of an impact fund that invests in cancer research initiatives and converts them into commercially successful businesses. Clients were presented with targeted returns comparable to traditional private markets vehicles *and* measurable positive social outcomes.

Equally UBS's partnership with the Rise Fund, the largest private impact investment fund to date, generated USD 325m of private wealth participation for a fund that is pursuing a financial return comparable to traditional private market vehicles, while also seeking to produce positive, measurable societal impact.

UBS Views:

Other mainstream financial firms could adopt our definitions of philanthropy and sustainable investing as industry benchmarks. They could focus on developing sustainable investment solutions for private wealth capital that target market rates of financial return, and measurable positive impact for society.

2. Financial firms need to work together to standardize impact conventions.

Investors disagree on how to define "impact investing". In addition, there are no universal definitions for some common financial instruments used to pursue the SDGs, such as green bonds.

UBS Wealth Management has attempted to bring greater clarity to this area. It has created a standard definition of an impact investment, requiring that it satisfy the following three criteria (based on Wealth Management Chief Investment Office's 2016 report *Doing Well by Doing Good*) to qualify:

- there must be **intent** to generate positive financial and social/environmental returns (by both the investor and the provider of the investment solution);
- it must be possible to **measure** the financial and social/environmental returns of the investment according to clearly established metrics for expected performance and evaluation before investment;
- and it must be possible to **verify** the financial and social/environmental returns empirically, with proof provided that the invested capital has generated the intended positive social/environmental return.

We assess and compare impact investments based on these core criteria. We also consider three broader considerations of additionality, financial soundness, and manager experience.

These efforts are further underpinned by our backing of various cross-industry initiatives in the impact investing space.

We have teamed with an initiative called the Impact Management Project, a collaborative of over 700 organizations that includes other financial firms such as Blackrock, AXA Investment Managers, and Neuberger Berman and is facilitated by Bridges Impact+. It seeks to find consensus on how we describe and measure impact consistently along five dimensions, and included a report co-authored with UBS called "The Investor's Perspective: An illustration of how we can build portfolios that match impact and financial goals with intentions and constraints."

UBS Asset Management is using technology, big data, and partnerships with leading academic institutions to spread consistent impact measurement techniques to corporations and institutional investment managers. Impact measurement methodologies linked to such SDGs as climate action (SDG 13), good health and wellbeing (SDG 3), and clean water and sanitation (SDG 6) are being developed. We then engage with corporate managers to educate them on the progress made in measurement and also encourage businesses to test our metrics and suggest improvements based on the data they collect.

And in a related vein, the WEF's Shaping the Future of Sustainable and Impact Investing Initiatives seek to enhance industry coherence and collaboration to accelerate long-term investments and sustainable impact. For example, *Accelerating Impact Measurement and Management*, led by Katherine Brown, head of Sustainable and Impact Investment Initiatives at the Forum, is an embedded project with over 600 contributors and affiliates, including UBS. It leverages existing industry initiatives to focus on the meta-architecture of impact measurement and management.

UBS Views:

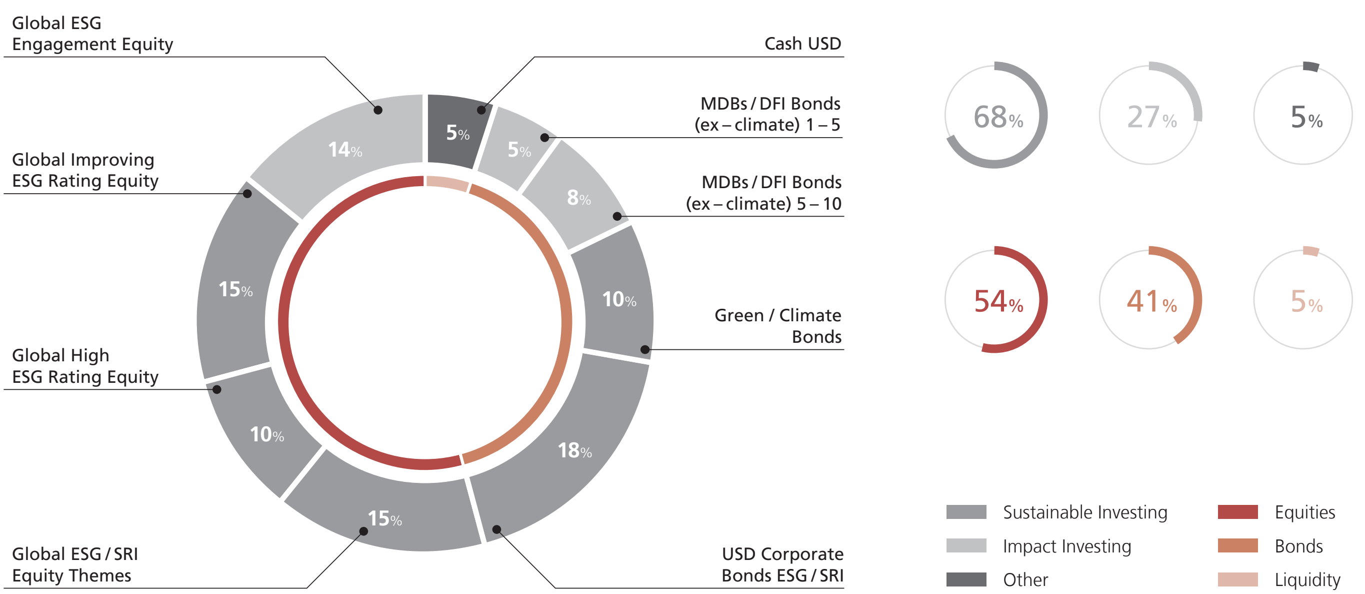
Other financial firms could adopt and consistently apply our definition of impact investing and partner with us on driving industry standardization as part of a common, industry-wide movement to make further progress toward the SDGs.

3. Financial services firms need to fashion innovative new solutions to fill gaps in the SDG-funding instruments landscape.

UBS Wealth Management Chief Investment Office (WM CIO) has applied its consistent sustainable and impact measurement framework to portfolio construction. We have built what we believe to be the first-ever 100% sustainable strategic asset allocations for private clients. They consist of several different asset allocation profiles to account for clients' different financial risk-return and social impact preferences. This new sustainable investment approach targets the same market rates of financial risk-adjusted returns as a conventional asset allocation, but also looks to generate supplementary positive social and environmental outcomes through each investment.

We present an example of this new sustainable asset allocation below.

UBS Wealth Management 100% **sustainable asset allocation+**



Source: UBS Wealth Management Chief Investment Office. Data as per October 2017. For illustrative purposes only. ESG= environmental, social, and corporate governance. SRI = socially responsible investment. MDB = multilateral development bank. DFI = development finance institution.

\+ The SI SAAs are not available in all jurisdictions/countries in which UBS does business. In particular, the SI SAAs have not been published for use by US investors. UBS reserves the right to make modifications to the SAAs for different jurisdictions based on various factors including availability of solutions to implement them.

Turning this asset allocation into an investable portfolio required mapping traditional asset classes and investment instrument to their sustainable equivalents. This exercise (illustrated below) confronted us with a number of major instrument gaps in the sustainable and impact investment landscape.

Table 1.1
Mapping investment products with impact goals to their relevant asset class

Asset class	Equivalent investment products with impact goals	Examples
High grade bonds Government bonds	**Thematic[*] bonds issued by Multilateral Development Banks / Development Finance Institutions / Governments**	DFI and Supranational bonds to finance economic development that benefits underserved people; Sovereign-backed social bonds (e.g. those enabling vaccine delivery to underserved people); Green bonds issued by Multilateral Development Banks
Corporate bonds	**Ethically and / or negatively screened corporate bonds**	Bonds issued by businesses avoiding products / practices that have a significant effect on important negative outcomes (e.g. gender inequality)
	Positively screened corporate bonds	Bonds issued by businesses that demonstrate positive effects on important outcomes for people and the planet
	Thematic corporate bonds	Corporate green bonds issued by businesses where proceeds are earmarked for projects that have a significant effect on specific important positive outcomes for the planet; Development Finance Institution-Syndicated loans providing participation in DFI-originated loans to private sector borrowers who have a significant effect on specific important positive outcomes for underserved people / the planet
Global equities	**Ethical and / or negative screening in public equities**	A public equities fund selecting businesses that screen out or try to avoid / reduce products and practices that have a significant effect on important negative outcomes for people and the planet
	Positively screened public equities	A public equities fund selecting businesses that have positive effects on important outcomes for people and the planet (without engagement)
	Active engagement in negatively and / or positively screened public equities	A public equities fund actively engaging to prevent businesses having significant effects on important negative outcomes for people and planet and / or engaging with businesses that already demonstrate positive effects to improve performance further
	Thematic public equities	A public equities fund screening for businesses that have a significant effect on specific important positive outcomes for underserved people / the planet (e.g. businesses making a material contribution to one or more SDGs)
	Active engagement thematic public equities	A public equities fund screening for businesses that have a significant effect on specific important positive outcomes for underserved people / the planet and engaging with them to improve performance further

[*] This category includes both general issuances by MDBs to finance a wide range of positive outcomes that these institutions consider important for achieving sustainable development that is inclusive of underserved people, as well as bonds that have a specific pre-determined use of proceeds (e.g. immunization for underserved children).

We particularly noted the lack of available instruments for generating positive societal impact in publicly listed equities and the heavy skew toward exclusion-based equity instruments at the expense of fixed income and private market solutions. To address these gaps, we partnered with the World Bank on the pooled highly-rated debt allocation outlined in Chapter 2[10]; and with Hermes Investment Management to define and develop a best-in-class shareholder engagement strategy.

Table 1.2
Mapping investment products with impact goals to their relevant asset class

Asset class	Equivalent investment products with impact goals	Examples
Other alternatives	**Thematic structured debt product with medium liquidity**	A structured debt fund for businesses that have a significant effect on specific important positive outcomes for underserved people / the planet (e.g. a microfinance fund)
Private market investments	**Ethically and / or negatively screened private debt**	A private debt fund that ethically and / or negatively screens businesses that have a significant effect on important negative outcomes (e.g. illness due to tobacco)
	Positively screened infrastructure	An infrastructure fund screening for investments with positive ESG performance
	Positively screened real estate	A real estate fund screening for investments with positive ESG performance
	Thematic private equity / venture capital investments	A private equity fund for businesses that have a significant effect on specific important positive outcomes for underserved people / the planet (e.g. a PE fund growing new models that improve educational outcomes for underserved people)
	Thematic real estate	A real estate fund for businesses that have a significant effect on specific important positive outcomes for underserved people / the planet (e.g. an affordable housing fund)
	Thematic private debt	A private debt fund for businesses that have a significant effect on specific important positive outcomes for underserved people / the planet (e.g. a debt fund focused on improving income for smallholder farmers)
	Thematic infrastructure	An infrastructure fund for investments that have a significant effect on specific important positive outcomes for underserved people / the planet (e.g. a social infrastructure fund)

10 Not available for public distribution in Switzerland.

Source: Impact Management Project The *Investor's Perspective: An illustration of how we can build portfolios that match impact and financial goals with intentions and constraints*, UBS. Data as of September 2017. For illustrative purposes only.

Historically, it has been difficult to meet the intent, measurability, and verifiability requirements of a true impact investment in public stock markets. To remedy this shortcoming, we teamed with Hermes Investment Management to define and develop a best-in-class shareholder engagement strategy that involves owners engaging to create improvements in environmental, social, and corporate governance (ESG) factors that would deliver clear SDG outcomes if achieved. This strategy will invest in small and mid-cap securities and engage directly with these firms' managers to enhance shareholders' financial returns and deliver solutions to society's unmet needs.

Empirical evidence suggests that shareholder engagement leads to positive social, environmental, and financial outcomes. Of the 779 climate-related shareholder proposals in the Ceres Resolution Database that were filed from 2013 to 2017, 36% were withdrawn following successful agreement between investors and the company. For those that went to shareholder vote, 25% of shareholders, on average, backed the engagement suggestions. And successful shareholder engagement on ESG factors has been shown to deliver positive cumulative excess returns of around 7.1% in the year subsequent to shareholders and management reaching agreement, according to a 2015 study by Dimson et al. (*Active Ownership*, The Review of Financial Studies).

The UBS gender equality index is a UBS collaboration with Equileap, an organization whose mission is to accelerate progress towards gender equality in the workplace through investments, philanthropy, and knowledge. This ESG Equity Themes solution targets market rates of return, while promoting gender diversity among corporations as index inclusion is driven by policy, practice, transparency, and performance. This project was driven by UBS Unique, whose own mission is to establish a contemporary wealth and financial services industry that is more open, inclusive and straightforward for all. This solution supports UBS Wealth Management's new 100% cross-asset sustainable and impact investing solution.

However, despite the new fixed income, equity, and private markets strategies we have developed over the last year, there are still significant limitations in the broader sustainable investing instrument universe available today. Overcoming these limitations could open the way for sustainable and impact asset allocations that include more impactful private market assets (see an example overleaf).

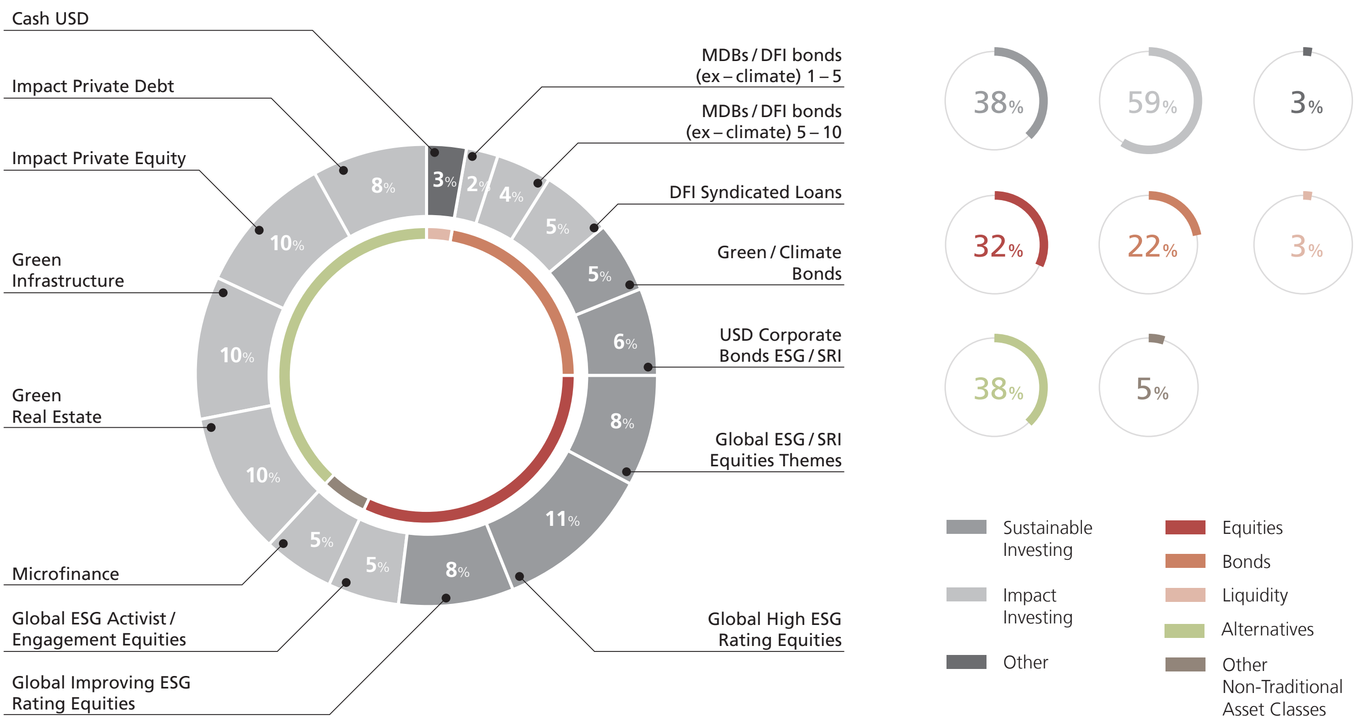
Building sustainable and impact investments across all asset classes also requires multi-stakeholder partnerships across the public, not-for-profit, and for-profit private sectors alike. Digital sustainable development platforms already exist for this purpose, but few directly engage private wealth capital. UBS therefore supports the development of a single, scalable digital platform. Groups that include PwC, Linklaters, the IFC, and Hamilton Lane are working with us to support Align17*, an independent, open-architecture, impactful direct investment platform initiated by the WEF's Young Global Leaders.

UBS Views:

In our view, financial firms could fill sustainable investment instruments gaps with new investment solutions. Greater product development is needed for sustainable fixed income solutions in US corporate debt, high yield bonds, emerging market debt, syndicated loans, thematic impact, renewable infrastructure, and sustainable real asset strategies. Other financial services firms could expand private market impact investments that deliver market rates of financial return and measurable societal impact. The independent, multi-stakeholder impact platform Align17* is key to this effort, in our view, and we call on others to join us in backing it.

* UBS will not have any involvement in the selection of private investments made available on the Align17 platform. Nor will UBS perform due diligence or suitability reviews with regard to such investments. References to Align17 in this publication therefore should not be considered as an endorsement, solicitation or referral to any investment made available on Align17.

An example of a 100%
sustainable and impact investment strategic asset allocation (SAA)+



Source: UBS Wealth Management Chief Investment Office. For illustrative purposes only. ESG= environmental, social, and corporate governance. SRI = socially responsible investment. MDB = multilateral development bank. DFI = development finance institution.

+ The SI SAAs are not available in all jurisdictions/countries in which UBS does business. In particular, the SI SAAs have not been published for use by US investors. UBS reserves the right to make modifications to the SAAs for different jurisdictions based on various factors including availability of solutions to implement them.

External Interview with General (Ret) David H. Petraeus

Member, KKR; Chairman of the KKR Global Institute

How much emphasis does KKR place on sustainability?

We put considerable emphasis on sustainability because we truly believe that doing good for society is not only the right thing for investors to do, but the smart thing to do, as well. Companies in which we invest inevitably struggle if they damage the environment, run afoul of social norms, or skirt legal requirements. And our success depends on making successful commercial investments. Otherwise, our clients understandably will not give us their money. In short, we believe in doing well while also doing good.

What's the link between sustainability and financial success?

In our business, we've learned that successful commercial investment results depend heavily on a variety of environmental, social, and governance (ESG) factors. If you don't manage ESG risks or seize opportunities to improve ESG fundamentals, you inevitably lose out financially. Climate issues, social unrest, governance challenges, geopolitical risks – these can all have negative effects on long-term performance if you're not aware of them and actively mitigate the risks posed by them.

So, again, every business that wants to do well for its clients also needs to do good in ESG terms. And keen awareness of the UN Sustainable Development Goals can help businesses achieve aims in the ESG arena. These Goals provide a superb framework for firms to align their interests with society's needs.

Do you think partnering with others is a good way to promote doing well and doing good?

It's really the only way. Let me illustrate with an example from a recent visit to Ethiopia, where KKR owns the world's largest rose grower. That firm is one of the country's largest employers, giving good jobs to 12,000 people (whose family members get health care and schooling, as well as salaries). And we've helped create durable employment and skills transfer opportunities by creating some 3,000 jobs since our first investment. Generating direct social benefits has improved the value of our investment. To grow this investment sustainably, we have needed to manage a number of ESG issues that have affected not just our business, but the country as a whole. These issues are too big to solve alone; partnership is the only solution.

Can you give some examples of these issues, and how partnership can help solve them?

We've partnered and engaged with a number of Ethiopian stakeholders, from local communities to the regional and central governments, on a variety of topics. They range from communicating the importance of responsible and sustainable land and water usage to the investments we have made in infrastructure, health care and education. These factors are all critical to the long-term success of our investment. And at the national level, Ethiopia's overall prosperity and that of its people also rests on finding solutions to these challenges. Private businesses like ours may have technical and management skills to help address these issues, but not necessarily the scale to do so. Local stakeholders often have that scale, but may lack the expertise or structures to affect change. Bring the two together in partnership, and we can match development needs with investment opportunities. This approach does well financially, does good socially… and benefits everyone.

4. Partnerships with our clients

Private clients increasingly demand opportunities to support the UN SDGs through investment and philanthropic giving. But more can be done to increase flows of not-for-profit and for-profit capital into sustainable development projects.

What we have learned and concluded

1. Private clients demand a variety of sustainable investment approaches linked to the specific SDGs and causes they care most about.

Private clients display a growing appetite to do well and do good, with surveys showing that sustainable and impact investment appeals to millennial, female, and family office investors in particular.

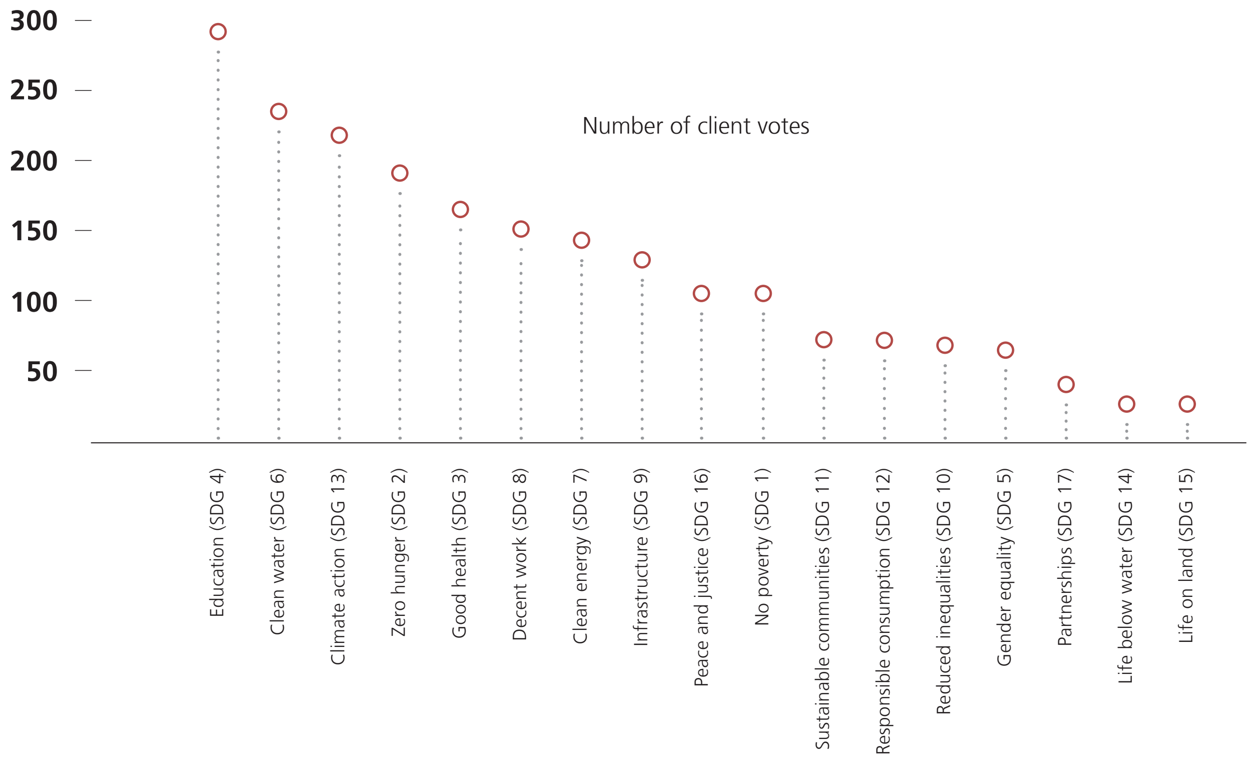
Under-35s are twice as likely as those in other age groups to sell an investment due to corporate behavior perceived to be unsustainable, as outlined in a 2015 report from Morgan Stanley's Institute of Sustainable Investing. Sixty-five percent of women (as opposed to 42% of men) judge an investment's success based on social, political, or environmental outcomes, according to the 2013 US Trust data cited in the WEF's 2014 report *Impact Investing: A Primer for Family Offices*. And UBS and Campden Wealth's *Global Family Office Report 2017* found that 40% expect to commit more capital to impact and ESG investments in the coming years.

However, a "one-size-fits-all approach" will not satisfy private client demand.

Private clients have different passions and affinities for solving particular SDGs with their capital. As an example, UBS Group asked around 1,600 clients, employees, and other stakeholders to specify which of the UN SDGs they would most like UBS to focus on. As shown overleaf, our findings showed a particular interest in UBS working for quality education (SDG 4), clean water and sanitation (SDG 6), and climate action (SDG 13).

Clients want UBS to focus on education, clean water, and climate action SDGs

Responses to question:
"To which SDGs (max.3) do you believe that UBS should contribute most?"



Source: UBS Stakeholder Survey 2017. Data as of 14 November 2017.

They also have varying appetites for different types of investment vehicles, be they traditional or sustainable. Some clients wish to have their money managed for them in cross-asset portfolios, while others prefer to be given advice but to have the final say over whether an investment is actually made. Some are comfortable with illiquid structures while others want fully liquid investment portfolios. Some favor pooled vehicles, while others prefer single instruments.

For instance, based on the last publicly reported figures for UBS Wealth Management, 29% of client assets were invested in mandates[11] with the remainder receiving advice on an ad hoc and/or self-directed basis. Further, 22% of client assets were invested in mutual funds while 44% rested in single bonds and equities[12].

These different client affinities illustrate why private wealth clients are less drawn to traditional, catch-all sustainable investment approaches that focus on equities and rely on aggregate ESG ratings or that impose values on clients by excluding companies that fail to meet certain social, environmental, or ethical criteria.

Today's private clients task wealth managers with providing a variety of approaches to achieving the SDGs. UBS is developing a full suite of sustainable and impact investment solutions, ranging from diversified, fully sustainable asset allocations through direct, portfolio, and thematic impact investments to next-generation advisory mandates that offer clients investment recommendations tailored to their particular SDG affinities.

This is also increasingly true for institutional investors. UBS Asset Management worked with a UK pension fund that sought to manage climate change risks in the passive portion of its equity portfolio. The pension fund's motivation was to fulfil its commitment as a signatory to the UN Paris Pledge for Action. UBS helped the fund to design a strategy to capitalize on the long-term transition to a low greenhouse gas (GHG) emission economy. This includes reducing investments in companies with high GHG emissions, or companies that are making insufficient changes to meet emission reduction targets; increasing exposures to companies that provide renewable energy or supporting technology, or are performing in line with the globally-agreed climate change goals (2˚C cap on temperature increase); and concentrating voting and engagement activities on improving companies that are furthest away from meeting climate goals.

In another example, UBS Asset Management partnered with a major European pension fund client that wanted to align its investments to specific UN SDGs linked to climate change and air pollution, access to clean water, food security, health, and poverty alleviation. The portfolio developed with this client comprises attractively-valued companies that demonstrate strong operational sustainability performance.

11 Data as of 30 September 2017.

12 Data as of 30 June 2016.

This also involved collaboration with research scientists from world-recognized research universities to develop a ground-breaking impact measurement framework to quantify the positive impacts of the portfolio companies on the targeted SDGs.

UBS Investment Bank has also partnered with a leading global, independent sustainability research firm to create a sustainable equity index for its clients. The Global Sustainability Leaders Index, created in collaboration with Sustainalytics and Solactive, consists of 100 Global Compact signatories selected on the basis of Sustainalytics' proprietary ESG Rating, which identifies the top sustainability performances within sectors and regions. To be eligible for the index, companies must have a consistent baseline profitability and meet a set of minimum sustainability criteria. For example, companies cannot be involved in tobacco or controversies that could significantly impact society or the environment. The companies also have to comply with the Global Compact's 10 Principles relating to human rights, labor, the environment, and anti-corruption. These companies' stocks comprise the index, allowing investors to support sustainable development while generating market rates of financial return. Additionally UBS is donating a fixed percentage of the product revenues to the UBS Optimus Foundation, deploying these funds into charitable projects.

UBS Views:

UBS believes it is beneficial to other financial services firms to abandon "one-size-fits-all" exclusion approaches. Instead they could offer clients targeted thematic investment opportunities (such as green bonds or thematic ESG equities), new differentiated sustainable investing strategies like ESG momentum, ESG engagement, pooled MDB debt instruments, new private market impact solutions, and customized advisory programs that tailor investment recommendations to clients' particular sustainability affinities.

2. Philanthropic clients are increasingly moving away from solely giving money toward collaboration and adopting more impactful philanthropy models.

Private wealth clients are increasingly turning to new, more effective forms of philanthropic capital deployment. They are focusing on collaboration and more impactful philanthropic approaches that target measurable societal outcomes. According to a 2017 report from UBS's Philanthropy Advisory team and the Swedish Entrepreneurship Forum (*Creating impact through philanthropy: A Nordic Perspective*), organizations in the Nordic countries are starting to transition from judging success based on activities and inputs to using capital to reward successful SDG-funded projects whose social and environmental targets are met.

An example of this focus on collaboration is *The Collaborative hosted by UBS*. An initiative of our Global UHNW Philanthropy Center and the UBS Optimus Foundation, this partnership aims to encourage collaboration by bringing our clients together to focus on bringing scale to philanthropy. One example of how *The Collaborative hosted by UBS* is working to address social challenges is in the field of universal access to healthcare. Last Mile Health, Living Goods, a group of six private philanthropists, and our philanthropic client base will support use of mobile technology to target SDG 3 (good health and well-being) to provide basic healthcare access to more than 34 million people across Africa.

Other results-oriented donors are also teaming up to achieve the SDGs at scale. For example, Co-Impact is a global collaborative that draws together philanthropists, governments, non-profits, and the private sector to drive social change. This venture, launched by the Rockefeller Foundation Managing Director Olivia Leland and supported by a number of leading philanthropists, aims to use USD 500m of funding to drive systems change that delivers positive societal impact around education, health, and economic opportunity. The community will consist of partners that identify SDG-related opportunities, a network of philanthropists that can learn and engage on development projects, and a pipeline of proven, outcomes-based philanthropic opportunities.

UBS Views:

Foundations and philanthropists could work together and support greater capital mobilization into sustainable development projects via de-risking high-impact ventures, and steering catalytic capital toward incentivizing scale through investment in new pay-for-performance models (such as development impact bonds or program-related investments). Foundations can also continue to join collaborative multi-stakeholder networks to identify, fund, and scale up SDG-related projects.

3. Client attitudes about sustainability in their own businesses are evolving from risk management toward achieving the SDGs through a "business with impact" approach.

Historically, firms managed social and environmental factors as risks to commercial profitability. Making money was perceived to be corporate decision-makers' top priority. This matched shareholders' perceived objectives, described by Milton Friedman in a 1970 article for *The New York Times Magazine* as being "…to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom." Doing well for society was perceived to come at a cost to shareholder profits, as corporate social responsibility was seen to amount to a corporate executive "…spending someone else's money for a general social interest."

However, the client entrepreneurs that UBS serves increasingly view ESG factors not as risks to be managed butas opportunities to generate commercial and societal returns alike.

One example of how UBS is furthering this trend is by teaming with the World Bank's sister organization, the International Finance Corporation (IFC) to improve governance in our entrepreneurial clients' businesses. In one case, UBS assisted a client in building a family governance framework for her business, while the IFC offered advice on corporate governance. Ensuring more robust management enabled the client to secure IFC financing for her business' infrastructure investment program in Egypt. This investment can produce not only financial returns for the business but positive societal benefits for Egypt by spurring advances in industry, innovation, and infrastructure (SDG 9).

UBS has helped entrepreneurial clients by researching how firms can generate higher financial returns and positive societal outcomes. In a recent UBS WM Chief Investment Office white paper (*Business with Impact*), we outline how all corporations can create added value by embedding financial, social, and environmental return targets into all parts of their corporate mission.

For instance, companies can report more consistently on the social and environmental benefits they generate by supporting the SDGs. This transparency enables investors to identify those firms that tackle the particular SDGs they most care about, and signal which SDGs clients are interested in funding. If investment opportunities to fund a particular goal are scarce but investor demand is high, higher prices for available investment opportunities can drive up demand for firms that tackle these SDGs, boosting their financial returns in the process.

Partnerships between companies can also produce positive financial and societal outcomes. UBS has advocated for deeper cooperation between members of its Global Visionary community of social entrepreneurs.

For example, we connected Matthew Tilleard with Donald Sadoway. Tilleard's business, the solar panel-fitting company CrossBoundary Energy, uses solar technology to generate clean and cost-effective power in off-grid regions of Africa. Because it needs to store excess power in an efficient, environmentally friendly way, we put him in touch with Sadoway, whose company Ambri has developed a liquid battery solution that enabled CrossBoundary Energy to store its surplus electricity more reliably, at lower cost, and with zero emissions. Such teaming together can deliver commercial benefits to both companies, bring about societal benefits, and support goals like SDG 7 and SDG 13 (affordable and clean energy, and climate action respectively).

UBS Views:

Entrepreneurial clients could partner with one another and adopt a business-with-impact approach that incorporates the SDGs into their core business objectives. We also believe that deeper partnerships between entrepreneurs to share best practice, expertise, and technology could boost both financial and societal returns.

External Interview with Chuck Slaughter

founder of Living Goods

Why did Living Goods and Last Mile Health decide to partner?

Living Goods and Last Mile Health share a common vision to leverage mobile technology to transform community health on a game-changing scale. But we are also complementary leaders. I have experience in building successful businesses from scratch – Raj Panjabi, co-founder and CEO of Last Mile Health, is an MD and adept at partnering with governments. My business is strong in East Africa, while Raj has had success in West Africa. Both firms share the same core methods, but we employ multiple approaches to managing and scaling networks. Having more than one path to scale increases the odds of achieving national impact in diverse countries, since local policies and economics vary widely.

How can your partnership with *The Collaborative hosted by UBS* scale up digital community health programs?

We deliberately seek to partner with individuals and organizations that can bring expertise and networks. UBS and its clients can bring compelling private sector know-how and connections, to increase the odds that we deliver success at scale.

Our achievements to date have been driven by smart, flexible funding that came mostly from successful entrepreneurs and investors. This unrestricted financing allows Living Goods to test new ideas quickly, and walk away from experiments that are not working.

What types of partnerships are most likely to fill the funding gaps to achieve the SDGs and why?

We need partnerships that bring together the very best practices from both the private and public sectors. From the private sector we need speed, innovation, and accountable performance management. From the public sector we need the reach, policy power, and political will to move the SDG agenda forward. And importantly we need innovative financial partnerships that use financial resources most effectively while deftly minimizing risks. These funding innovations span the range: results-based-financing, impact bonds, insurance, and matching mechanisms.

What is the most important lesson you've learned from partnering with others?

- There is no limit to what you can accomplish when you give credit to others. (I find this wisdom applies equally well to marriage and parenting!)

- Seek partners who are strong where you are not, and build your collaboration to leverage your comparative strengths.

- Bring an open, inquiring mindset to every partnership. You always have something to learn from your partners.

5. Partnerships with social enterprises

Social enterprises focus on generating positive social and environmental outcomes through commercial means. Social entrepreneurs often have the most in-depth, on-the-ground experience of identifying SDG-related funding needs and finding solutions to fulfill the SDGs.

What we have learned and concluded

1. **Firms can create incremental benefits by introducing social entrepreneurs to their stakeholders.**

   We have learned that firms that partner with social entrepreneurs can generate significant value. This value accrues to the entrepreneurs themselves, to firms' stakeholders, and to the partner firms themselves, all while progress is being made toward the SDGs.

   Mainstream firms and foundations can help social entrepreneurs marry their business acumen with their social mission by mentoring, promoting, sponsoring, providing technological solutions to, and gathering more investment for them, enabling them to scale up their impact and address the UN SDGs more effectively.

For example, UBS learned about the needs and requirements of social enterprises in its Global Visionaries network, and responded by sponsoring and producing the Social Investment Toolkit in partnership with Ashoka. This comprehensive training program aims to professionalize social enterprises by making available a consistent end-to-end set of conventions on how social enterprises can expand their businesses. The curriculum ranges from defining and measuring social impact to operating models, optimal financial and legal structures, and best-practice pitching techniques to attract investors.

Social entrepreneurs and clients also benefit when corporations make the effort to raise entrepreneurs' profiles. For example, we are supporting UBS Global Visionary Tristram Stuart and his social enterprise Toast Ale with mentoring and by introducing him and his product at UBS stakeholder events. The beer that Toast Ale produces, brewed from surplus fresh bread, has saved over 9,000 kilograms of potential food waste in support of SDG 12 – responsible consumption and production. UBS has also assisted a number of Global Visionaries in broadcasting their mission via traditional and social media channels, as well as by giving them speaker slots at our highest-profile client events. For instance, a connection between Global Visionary Shaffi Mather and a client at our B:connected event has led to a possible multi-stakeholder partnership to roll out MUrgency – ONE GLOBAL EMERGENCY RESPONSE NETWORK (a mobile app that connects people in medical need with a network of nearby first-aid responders) in Nigeria and the rest of Africa.

Another example of how corporations can support social entrepreneurs is UBS Community Affairs' support of UK-based social enterprise, Enabling Enterprise. Founded in 2009 to provide disadvantaged students with vital skills for the world of work, Enabling Enterprise initially introduced 30 students to UBS employees. It has since benefited from UBS' financial and human resources to scale up its program. It now trains more than 3,500 teachers per year, operates in over 270 schools, and has reached 87,000 students. This social enterprise has benefited from UBS employee inputs, such as mentoring, networks, and employee volunteering, which helped Enabling Enterprise to raise their profile and scale their work and impact across England. This has delivered measurable social impact in support of SDG 4 (quality education). And UBS has benefited from this initiative, as we recognize that our long-term success depends on the health and prosperity of the communities in which we do business.

Social entrepreneurs can also benefit from connections with one another. UBS Global Visionary Mariéme Jamme (whose social enterprise iamtheCODE aims to train one million women and girl coders across Africa by 2030) contacted UBS Global Visionary David Hertz (founder of Brazil-based social gastronomy movement Gastromotiva), who supported the launch of iamtheCODE in Brazil, in the process advancing SDGs 4 (quality education), 5 (gender equality), 8 (decent work and economic growth), and 9 (industry, innovation, and infrastructure). Finally, firms themselves benefit from partnering with social entrepreneurs. Connecting Global Visionaries with clients who share their passions can deepen client relationships. UBS's support of its Global Visionaries program matches our business-wide commitment to build sustainability into everything we do.

UBS Views:

Other businesses could assist our Global Visionaries and other social entrepreneurs through mentoring, networking, and honing ways of attracting capital. These partnerships are vital to scaling up social entrepreneurs' activities and contributing more significantly to satisfying the SDGs. We also believe that even more of our clients could support UBS Global Visionaries in their efforts to deliver positive social and environmental outcomes.

2. Financial services firms can devise more effective philanthropic funding models for social entrepreneurs.

UBS has identified a rising trend among philanthropy clients to switch from giving-based philanthropy models to outcomes-based philanthropic initiatives. These new initiatives offer great potential, in our view, for enabling social entrepreneurs to scale up successful local SDG solutions and deliver them to a wider audience.

Program-related investments (PRIs), for instance, could be employed to assist social entrepreneurs more effectively. PRIs use philanthropic capital to make loans rather than donations. UBS Wealth Management, Community Affairs, and the UBS Optimus Foundation have already made two pilot loans in the UK to develop and refine our operating model. The PRIs provide a consistent, legally robust framework for large-scale, long-term social investment and are effective vehicles for drawing for-profit assets into SDG-related philanthropic opportunities.

Clients tend to prefer the increased flexibility of a philanthropic loan to a grant. Once repaid, loans enable clients to recycle their capital into support for multiple social programs. This approach leverages donor capital more effectively and increases its social and environmental impact. However, one disadvantage of PRIs is that the funding entities that use them must frequently bear high administrative burdens and operating costs. We therefore identify a need for more efficient, packaged PRI structuring. Financial services firms are well placed to help lower the costs and complexity of structuring PRIs given their capabilities in corporate deal making.

The UBS Optimus Foundation is partnering with a social impact venture fund (Yunus Social Business), the Rockefeller Foundation, and social enterprise Impact Water to develop the first social success note to support clean water and sanitation (SDG 6) in Africa. Debt capital raised from UBS clients will fund Impact Water's activities to supply more than 1.5 million children with affordable, clean drinking water in more than 3,600 schools in Uganda. If the debt is repaid and Impact Water achieves pre-defined targets for social impact outcomes, the Rockefeller Foundation will pay a performance-related financial bonus to the debt provider and the social enterprise.

This type of teamwork encourages different organizations to focus their investment in areas where they have the most expertise. Such a pay-for-performance model also encourages social entrepreneurs to deliver measurable societal impact in a more commercial, scalable way.

The UBS Optimus Foundation is also teaming with the United States Agency for International Development (USAID), MSD for Mothers, and other partners on a development impact bond to improve the quality of private sector health care facilities in Rajasthan, India (supporting SDG 3 – good health and well-being). One potential investment approach would involve raising debt capital from private investors to fund the sustainable development activities. USAID and MSD for Mothers will provide an outcomes-based payment to investors only if pre-defined social impact targets are satisfied, subject to independent measurement and verification.

Such a partnership between social entrepreneurs and bilateral funding agencies can focus public resources on crowding in private capital investment rather than crowding it out.

UBS Views:

In our view, financial service firms could assist foundations to devise new outcomes-based financial models. We see numerous benefits for other partners in deploying these models in support of social entrepreneurs. Greater use of philanthropic capital as catalytic capital, and using pay-for-performance models could draw in more private capital investment in social enterprises.

3. Social entrepreneurs can amplify their impact with help from the technology sector.

Mainstream technology firms offer new operating models and solutions that help social enterprises scale up their impact. Technology entrepreneurs and leaders are playing larger roles on the boards of social enterprises and non-governmental organizations (NGOs). They bring a startup mindset of developing and deploying "never-thought-of-before" solutions to the historically risk-averse non-profit sector. For example, several traditional NGOs now include tech-incubator-like capabilities (such as Blue Ridge Labs becoming a part of the Robin Hood Foundation in 2015) that can fund new technological solutions to the SDGs.

The tech sector also brings fresh operating styles. Venture capital models, for example, help social enterprises find collaborative solutions through a rapid prototyping approach (test, fail, learn, and improve), supported by big data and analytics to assess results. This approach can be spread among social enterprises by leveraging open-source platforms. By connecting different organizations with similar goals, social enterprises can readily share best practices or new ideas on solving social and environmental challenges. For instance, the Power of Us Hub, from Salesforce.org, operates a peer-to-peer collaboration platform that connects over 30,000 NGOs.

Technology can also further reduce administrative or regulatory burdens for funders and grantees, connecting them more efficiently with non-governmental organizations. Example applications of these technologies include GuideStar, an organization that provides a single point of transparency to IRS 990 tax reports for close to two million tax-exempt organizations; and CharityNavigator, whose work consists of measuring more than 8,000 NGOs on several operating metrics, and using a consistent comparison framework to rank them against one another.

UBS Views:

Other mainstream firms could join us in partnering with social enterprises to help entrepreneurs fill skills and expertise gaps. Firms can make it easier for social entrepreneurs to achieve greater scale for their operations by providing mentoring, professional advice, and technological expertise. This should result in greater positive social and environmental impact, and increase social entrepreneurs' contributions to achieving the UN SDGs.

External Interview with David Hertz

social entrepreneur and founder of Gastromotiva

Can you briefly describe your social enterprise?

Gastromotiva is a not-for-profit organization whose purpose is to create opportunities and inclusion, and bring dignity and well-being to those most in need through food and gastronomy.

We believe a variety of social and environmental challenges can be solved through food. Our organization started in Brazil and now works in four countries. We train young people from disadvantaged backgrounds to become kitchen assistants and cooks, providing quality employment. We support food entrepreneurs to improve health and wellbeing in the favelas, educating some of the poorest communities on how to eat well on limited budgets. And at the Refettorio Gastromotiva in Rio de Janeiro, we work with the world's top chefs to produce meals for the homeless (alleviating poverty), using ingredients that would otherwise be wasted (promoting responsible consumption).

Our organization is one of the main drivers of the Social Gastronomy Movement, and our space in Rio has become a real "social gastronomy hub."

How important is partnership to expanding your social and environmental impact?

Gastromotiva needed to work with multi-stakeholder partners to spread the social gastronomy model across Brazil and the world. And we know we can deliver more positive social and environmental outcomes if we work together. Take our program to train bright young people from the most underserved communities.

We're proud of each chef we've taught, with many working in the world's best restaurants. But real social impact comes from training these people to train others, creating decent work and tackling poverty at scale. To move to the next level, we're partnering with corporate institutions and multilateral development agencies (like the Inter-American Development Bank) to turn our local solutions into global ones.

Do you think there are some partnerships to fund the SDGs that aren't working?

Our experience is that the toughest partnerships are those between smaller social enterprises like Gastromotiva and big institutions like governments. The SDGs are global problems without a doubt, so we need global awareness and international cooperation. Yet social entrepreneurs have the local people, the local experience, and the local solutions. If we really want to partner for the Goals, governments need to make more effort to use the SDGs as a framework for tackling the world's problems. And they need to connect with social entrepreneurs sooner so we can turn good policy ideas into great social and environmental outcomes on the ground.

What type of partnerships can help social entrepreneurs in achieving the SDGs?

I think there's a great opportunity for partners to bring digital innovations to the social enterprise world. Technology is so valuable in connecting entrepreneurs with capital, ideas, and expertise in a way that doesn't cost too much, and can cross cultural and geographic boundaries.

It is also important to partner with specialists that can measure social and environmental impact more efficiently, but without putting too many costs on social entrepreneurs with limited money. Gastromotiva can measure some of its direct impact well – we have saved over 40,000kgs of food from being wasted, for example. But it's much harder to measure indirect impact. If we can work together to present social and environmental data to potential investors, we can attract more interest and capital to deliver better outcomes for society and achieve the SDGs.

Partnerships between social entrepreneurs are also vital for achieving the SDGs. Programs like UBS Global Visionaries have a real value for businesses like Gastromotiva. It was through UBS that we connected with Mariéme Jamme and her enterprise iamtheCODE. Together we shared a common interest in creating new chances for the most disadvantaged. Mariéme uses the power of coding, we use social gastronomy.

We saw the potential that iamtheCODE had to help Gastromotiva's community. And through partnership Mariéme and I worked together to launch iamtheCODE in Brazil. Our businesses support the SDGs in different ways, but our partnership highlights that we need to work together if we want to make a real positive impact.

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'AAA'	– Extremely strong capacity to meet financial commitments. Highest Rating.
'AA'	– Very strong capacity to meet financial commitments.
'A'	– Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
'BBB'	– Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
'BBB-'	– Considered lowest investment grade by market participants.
'BB+'	– Considered highest speculative grade by market participants.
'BB'	– Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.
'B'	– More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.
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'CC'	– Currently highly vulnerable.
'C'	– Currently highly vulnerable obligations and other defined circumstances.
'D'	– Payment default on financial commitments.

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