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Corporate culture: Relevant to investors?

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■ Evidence suggests company culture is an overlooked input for analysis

We believe company culture, although difficult to quantify, matters for value creation. A 2011 article in the *Journal of Financial Economics* by Alex Edmans suggests that the '100 best companies to work for' in the US tend to outperform, yet human capital is a relatively under-analyzed topic. In this report we ask why should and how could investors deal with corporate culture as a driver of business?

■ We leverage online employee surveys and UBS sector analysts' expertise

We have created an employee satisfaction indicator for 200 companies in 20 sectors, using online employee survey data from three career websites: CareerBliss, Glassdoor and Indeed. We reviewed employee feedback, to understand what drives employee sentiment, and, with the help of UBS analysts, we have drawn investment conclusions. Our methodology is detailed on page 26.

■ Corporate culture in five investment themes

Employee satisfaction seems to often matter to value creation. But understanding what drives employee satisfaction matters even more, in our view. We identify five investment themes on p.22: (1) companies for which a high level of employee satisfaction is an asset; (2) meritocratic cultures focused on results; (3) companies potentially under-investing in labour, endangering long-term profits; (4) cultures potentially at risk of complacency; and (5) organizational change.

■ Companies

Based on this analysis our focus companies include: ABI, Danaher and RB for their result- and efficiency-focus; 3M, Apple, Intuit, Monsanto, Novo Nordisk, Novozymes and SAP for a culture of innovation; Costco & Whole Foods for their customer & employee focus; Goldman Sachs for its risk management culture.

Table 1: Stocks in focus – We classify stocks according to five groupings, based on the analysis within. The groupings should be read as "tags", helping to identify a distinctive feature in the organisations analysed, but not implying absence of features relevant to the other four categories. The list of stocks identified is not exhaustive therefore this should not be interpreted as a ranking of companies.

Investment themes	Meritocratic culture	High employee satisfaction as an asset	Organizational change	Potential under-investment in labour?
Companies in focus	Anheuser-Busch InBev, Danaher, Reckitt Benckiser	3M, Apple, Costco, Goldman Sachs, Intuit, Monsanto, Novo Nordisk, Novozymes, SAP, Whole Foods	AIG, Hewlett Packard, Royal Bank of Scotland	Safeway, Woolworths Ltd

Source: UBS. Company ratings and price targets appear on p.7

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Prices and data as at close 16th August, 2013

Executive summary

Corporate culture is an important, difficult, and likely under-analyzed topic

As we noted in previous reports[1], human capital comes up repeatedly as a key driver of value creation in many sectors covered by UBS research, but can present analytical challenges – not least because of the lack of available data. Reviewing the state of academic research in the field of ESG, UBS analyst Julie Hudson identifies human capital as an important research gap in a note published today (*Seeking Sustainability Ideas…*Not *under the lamp post*). To explore this important, yet under-analyzed topic, we have built an employee satisfaction indicator, covering more than 200 companies across 20 sectors, by leveraging employee data from three online workplace communities: Glassdoor, Indeed and CareerBliss (see Box 1 on p.28). Combining the results derived from these online employee surveys with the insight of UBS sector analysts, we try to understand:

- **Why should investors pay attention to human capital and company culture?**
- **How can investors grapple with human capital as a driver of business?**

UBS methodology

In this report, we try to understand how employees view their employers by using the results of three online employee surveys available on job and career community websites Glassdoor, Indeed and CareerBliss. Clearly, there are biases in these surveys: dissatisfied workers are more likely to voice their opinions, samples are sometimes limited and may not be representative of the whole workforce, and ex-employees can comment on their former employers, and therefore the survey results may not accurately reflect current employee sentiment. However, we found employee comments to be generally constructive and consistent, and view this data set as a potential source of insight, provided it is examined critically and in conjunction with other evidence. Bearing in mind the potential biases in the data, we performed our analysis in four steps:

- Guided by our recent *Global ESG Analyser* survey (October 2012), we concentrated on 20 global sectors where human capital issues are deemed to be most material by UBS analysts, and on the companies covered in last year's analyser.
- For 200 companies in those 20 sectors, we built an employee satisfaction indicator by combining employee satisfaction data from CareerBliss, Glassdoor, and Indeed. To do this, we normalized the satisfaction scores provided by each website, and calculated a weighted average of the scores to reflect the underlying number of employee reviews (more details on our methodology can be found on p. 26).
- For key companies in each sector, we analysed employee comments to gain an insight into the companies' culture, as we believe what drives employee sentiment is more important than the headline employee satisfaction level.
- Finally, we leveraged UBS sector analysts' expertise to assess the results and draw investment conclusions.

We explore employees' views on their employers through online community websites

Employee comments and company scores should be viewed with scepticism

Bearing in mind the potential biases in the data, we believe it is a source of potential insight

[1] See, for example, Hudson, *Employee satisfaction and equity prices*, Revisited, January 2011

Key findings

A company's culture is difficult to define, let alone measure. But that does not mean that culture does not matter for company performance. Alex Edmans' study of the outperformance of *Fortune*'s '100 best companies to work for' in the US suggests employee satisfaction is an important and overlooked factor in value creation[2]:

- A key reason behind the outperformance of the best places to work seems to lie in the short-/long-term conundrum created by human capital investments – often essential to long-term profit generation, but likely to hurt performance in the short term.
- We find that staff morale has a very direct and identifiable impact for R&D-driven and sales/customer-focused organizations.

The drivers of business and employee sentiment are not always aligned

Employee satisfaction matters to performance, but understanding what drives employee satisfaction matters even more, in our view, because the drivers of business and staff morale are not always aligned. Indeed, using high employee satisfaction as a proxy for a culture fostering long-term value creation can be misleading in some cases, and is likely to generate a number of type 1 and type 2 statistical errors, such as: (1) favouring successful, employee-focused companies that have in fact become complacent; and (2) not favouring companies with a strong meritocratic culture that drives value creation, but can be a drag on average employee satisfaction.

We refine our approach by identifying five investment themes

We refine our approach by identifying five investment themes linked to human capital, by leveraging the expertise of UBS sector analysts**:** (1) high employee satisfaction as an asset; (2) meritocracies; (3) companies potentially under-investing in labour; (4) organizations striving to implement structural changes; and (5) cultures potentially at risk of complacency. Please see page 22 for further details.

Table 2: Corporate culture in five investment themes

Investment theme	Meritocracies	High employee satisfaction as an asset	Organizational change	Potential under-investment in labour	Potential risk of complacency
Why it matters	Result- and efficiency-focussed corporate cultures likely to drive value creation	High employee satisfaction as a driver of innovation, customer satisfaction and/or sales	For organizations undergoing important structural changes, employee satisfaction is a key indicator to watch	Has cost-cutting become over-zealous, i.e. does it come at the expense of long-term profit generation?	Has the culture become too conservative?

Source: UBS

[2] See Alex Edmans: *Does the stock market fully value intangibles? Journal of Financial Economics*, September 2011, which we discussed in previous notes, including Julie. Hudson's January 2011 note, *Employee satisfaction and equity prices*.

Investment themes

We have sought to use online employee data and UBS sector analysts' expertise to categorise corporate cultures. This is inevitably a simplification of a complex topic and is designed to aid understanding. For example, we tag some result-focussed companies "meritocracies"; these are subjective tags and are not designed to indicate that other categories do not have meritocratic aspects as workplace motivation is inevitably a subjective issue. However, we do believe the categorisation helps investors explore the factors driving employee satisfaction and its contribution to investment performance.

1. High employee satisfaction as an asset

Employee satisfaction seems to most directly impact value creation for innovative and customer-focused companies. We identify 3M, Apple, Intuit, Monsanto, Novo Nordisk, Novozymes and SAP as having a culture of innovation that underpins their long-term prospects. For Costco and Whole Foods, we believe high employee satisfaction drives customer satisfaction, loyalty and, ultimately, sales growth. In the financial sector, we like Goldman Sachs for its culture of risk management that permeates the organization.

Stocks: 3M, Apple, Costco, Goldman Sachs, Intuit, Monsanto, Novo Nordisk, Novozymes, SAP, Whole Foods

2. Meritocracies

Meritocratic and efficiency-driven corporate cultures are likely to be positive for value creation, in our view. We like ABI's meritocratic and cost-focused culture, Danaher's philosophy of continuous improvement, and Reckitt Benckiser's result-focused, entrepreneurial, and highly innovative culture. Some employees will be attracted by and thrive in a very meritocratic work environment, and this is likely to drive business results. At the same time, idiosyncratic, result-focused corporate cultures are likely to be less consensual, resulting in a higher dispersion of employee opinion – something not captured by measures of average employee satisfaction. ABI stated that its own internal survey showed a high level of employee engagement, contradicting the findings of online surveys, which can be biased towards the opinions of disgruntled employees, as well as the US-bias of the data (InBev acquired Anheuser-Busch in 2008 and the US represents c37% of EBITDA).

Stocks: ABI, Danaher, Reckitt Benckiser

3. Organizational change

For companies facing structural challenges or undergoing important organizational changes, relatively low employee morale is to be expected, and is, in our view, a trailing rather than a predictive indicator of financial performance. However, looking at how employee satisfaction evolves can help assess the resilience of those organizations (indeed, low staff morale may be an additional hurdle to implementing successful changes). We see employee morale as a key indicator to watch for AIG, HP and RBS. In the case of RBS, although it would need to be confirmed by further data, we view the relatively positive tone of employee comments as an encouraging sign of the company's resilience, in the context of RBS being further down the road of transformation by late 2014.

Stocks: AIG, HP, RBS

4. Potential under-investment in the workforce

Amongst other things, lower employee satisfaction may be a sign that a company is under-investing in its workforce, sometimes as a consequence of over-zealous cost cutting. While such a strategy may enhance profitability in the short run, it potentially hurts long-term profit generation. Among US food retailers, UBS analyst Jason DeRise believes that **Safeway** is at a tipping point in its attempt to turn round its sales and profit trends. One option for Safeway could be to attempt to differentiate by increasing its service levels (please see DeRise's August 2012 note, *Differentiation wins*). Safeway, however, state that their customer satisfaction scores are strong, which the company believes shows its employees are engaged and providing excellent service to its customers. We also highlight the work of our Australian retail analyst, Ben Gilbert, who contends that the reduction in labour investment at **Woolworths Ltd** has helped enhance margins in the short term, but will likely lead to a decline in customer perception and an erosion of market share (Ben Gilbert, Woolworths Ltd, *Are you being served?* 3 April 2013).

Stocks: Safeway, Woolworths Ltd

5. Cultures potentially at risk of complacency

We believe that an important risk for successful, employee-focused companies is complacency, which can happen when an organization stops questioning 'the way things are done around here'. We do not highlight any company in this section.

Historical performance

Table 3: Investment themes, historical performance vs. benchmark

Performance	YTD	Since 2012	Since 2010	Since 2008
High employee satisfaction as an asset	11.3%	40.2%	107.9%	104.7%
Meritocracies	14.6%	48.1%	65.1%	54.1%
Pot. Under-investment in labour	47.4%	26.7%	25.2%	-22.1%
Organizational change	40.2%	59.0%	7.3%	-78.8%
MSCI World	12.7%	27.2%	29.1%	-4.4%
S&P500	13.2%	29.7%	46.1%	14.4%

Source: UBS estimates, Prices as of 16th August 2013

Companies in focus

Table 4: Companies in focus

Company	Market cap (lc, m)	Currency	Price	PT	"+/-"PT	Rating	Rationale	Analyst
High employee satisfaction as an asset								
3M Company	81,373	US$	115.9	128	10.44%	Buy	Culture of innovation	Jason Feldman
Apple Inc	461,450	US$	502.3	500	-0.46%	Buy	Culture of innovation	Steven Milunovich, CFA
Costco Wholesale Corp	48,748	US$	111.9	124	10.81%	Buy	Driving customer satisfaction and loyalty	Jason DeRise, CFA
Intuit	19,079	US$	64.2	69	7.41%	Buy	Culture of innovation	Brent Thill
Goldman Sachs	75,269	US$	160.7	165	2.70%	Neutral	Risk management culture	Brennan Hawken, CPA
Monsanto Co.	51,333	US$	95.0	110	15.80%	Neutral	Culture of innovation and focus on R&D	Bill Carroll
Novo Nordisk	553,472	DKr	985.0	1040	5.58%	Buy	Employee-focused, innovation-based culture	Andrew Whitney, PhD, CA
Novozymes A/S	66,346	DKr	209.2	161	-23.04%	Sell	Leadership in enzyme technology	Joe Dewhurst
SAP AG	70,148	€	57.1	62	8.58%	Neutral	Human capital is crucial for SAP's ability to innovate and compete	Michael Briest
Whole Foods Market	19,616	US$	53.0	60	13.29%	Buy	Driving customer satisfaction and loyalty	Jason DeRise, CFA
Meritocracies								
Anheuser-Busch InBev	118,310	€	74.0	80	8.12%	Buy	Lean and meritocratic culture	Melissa Earlam
Danaher Corporation	47,272	US$	66.7	77	15.39%	Buy	Danaher Business System driving efficiency	Jason Feldman
Reckitt Benckiser	31,800	£	4460.0	5210	16.82%	Buy	Result-focused, entrepreneurial culture	Eva Quiroga
Organizational change								
AIG	69,534	US$	47.1	48	1.91%	Neutral	Employee morale as a potential risk to the turnaround story	Brian Meredith
Hewlett-Packard	51,123	US$	26.4	28	5.98%	Neutral	Multi-year turnaround story	Steven Milunovich, CFA
RBS Group	38,073	€	343.0	365	6.41%	Buy	Further down the road of transformation by late 2014	John-Paul Crutchley
Under-investment in labour								
Safeway	6,326	US$	26.7	20	-24.98%	Sell	At a tipping point, increasing service levels could help Safeway differentiate	Jason DeRise, CFA
Woolworths Ltd	40,825	A$	33.2	32.5	-2.17%	Neutral (CBE)	Decreasing level of customer service may jeopardize market share	Ben Gilbert

Source: UBS. Prices as of 16th August 2013

Human capital – what matters to which sectors?

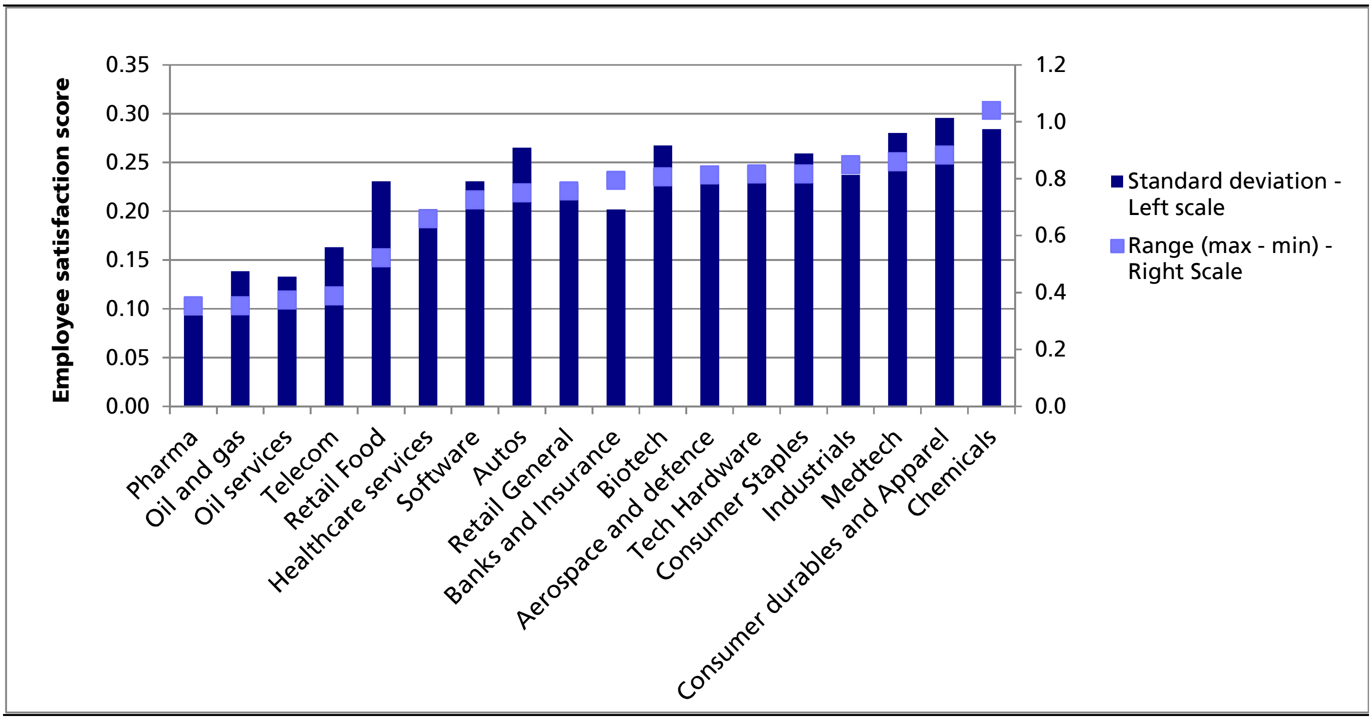
Table 5: Critical human capital issues for global sectors

SECTORS	Comments	Importance of innovation	Focus on services and sales	Labour relations, working conditions, restructuring	Availability of skilled labour
Aerospace and defence	Government budget limitations may lead to restructuring. Product lifecycles may be coming down, keeping R&D costs high	•		•	
Autos	Difficulty to restructure; 10-15% of the total workforce in European countries is involved in the auto industry. Innovation in alternative power train technologies	•		•	
Banks & insurance	Need to lower headcount in some areas; efforts to restore staff morale post-crisis could influence competitive strength		•	•	
Biotech	Human capital (scientists) as a core driver	•			
Chemicals	Potential restructuring needs; human capital as a core driver (innovation)	•		•	
Consumer durables and apparel	Ability to manage cyclicality without affecting workforce performance			•	
Consumer staples	Ability to reduce workforce with speed; innovation as a core driver	•		•	
Healthcare services	Access to professional talent the most important cost issue, but has been stable for an extended period		•		•
Industrials	Managing labour relations; increased competition from emerging markets could trigger higher R&D for Western OEMs	•		•	
Medtech	Human capital a key part of R&D success; supply limited. Offshore manufacturing for cost control	•		•	•
Mining	Labour conflicts and potential skill shortages			•	•
Oil and gas	Rapid cost inflation in low-cost countries				•
Oil services	Availability and price of skilled labour				•
Pharma	Human capital driving innovation; working conditions for staff	•		•	
Retail – food	Labour the highest cost, but point-of-sales staff also represent the face of the company		•		
Retail – general	Customer perception a core driver		•		
Software	Intellectual capital the most important resource; labour relations are key			•	•
Tech hardware	Intellectual property rights and technological strength are core drivers	•			
Telecom	Working conditions for staff and staff cuts are material social issues		•	•	
POTENTIAL IMPACTS		R&D productivity, ability to differentiate	Customer satisfaction and retention	Labour disruption, productivity, cost inflation	Competition for labour, cost inflation

Source: UBS Global ESG Analyser survey

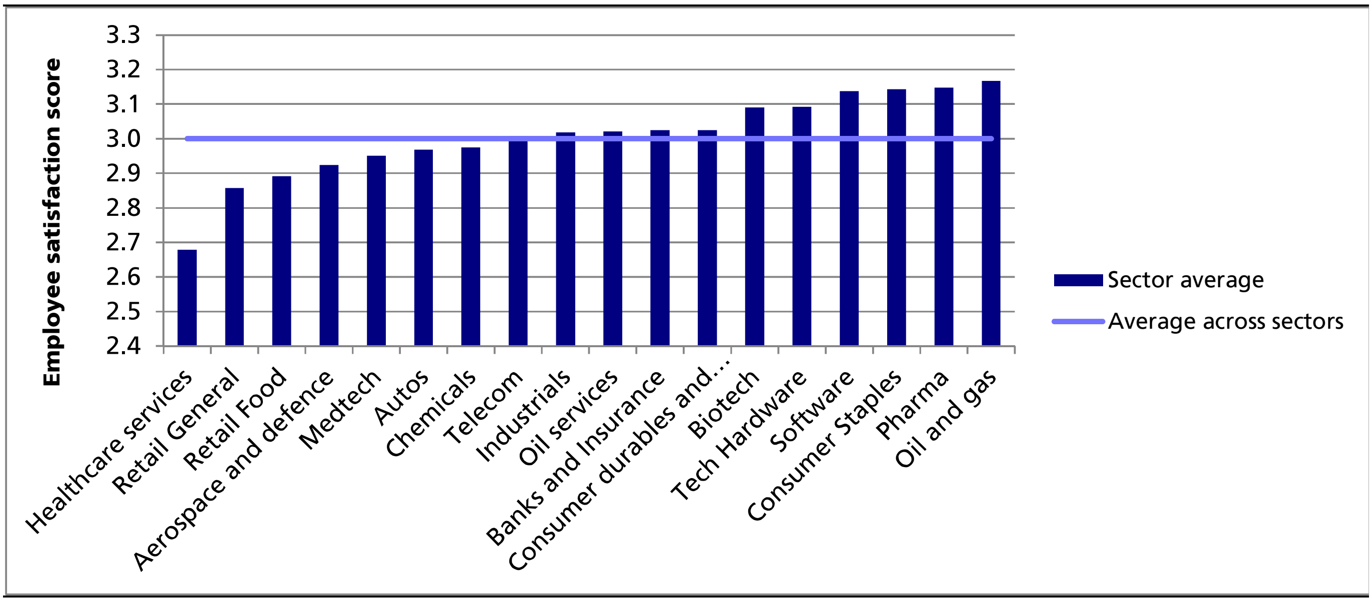
Sector results overview

Chart 1: Sectors with meaningful differences in employee morale – standard deviation and range by sector



Source: CareerBliss, Glassdoor, Indeed, UBS. Please see our methodology on page 26

Chart 2: Average employee satisfaction levels by sector – data based on UBS sample of companies



Source: CareerBliss, Glassdoor, Indeed, UBS. Please see our methodology on page 26

Does employee satisfaction impact value creation?

Markets may be overlooking the value of a loyal, engaged workforce

In his seminal book *Common stock and uncommon profits* (1958), Philip Fisher, a pioneer of growth investing, argues that labour relations, and the quality of a company's R&D and sales force, are key factors in identifying outstanding long-term growth stories. The market, he contends, is good at identifying the risk of bad labour relations but tends to overlook the long-term advantage of a loyal workforce. In our view, Fisher's comments summarize well why shareholders should care about staff morale, and reflect our findings that this matters maybe even more in the context of innovation- or sales-driven organizations. We do not want to stretch the argument too far, however: the interests of employees and investors are not always aligned, hence the need to understand the drivers of employee sentiment to reach meaningful investment conclusions.

Connecting human capital to the financials

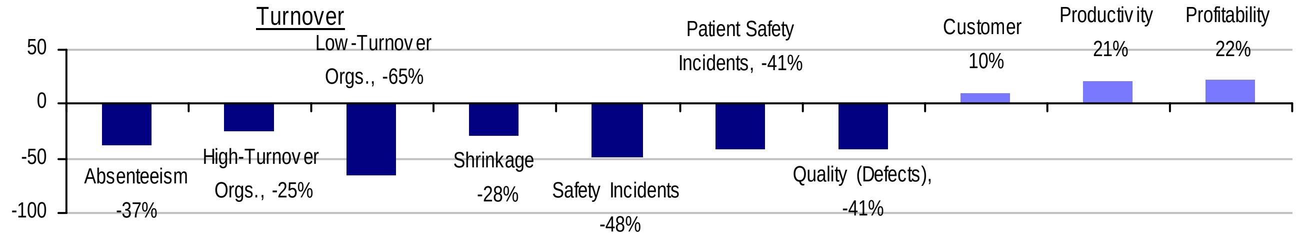
Gallup's meta-analysis finds employee engagement is linked to key operational metrics

Is there a business case for employee satisfaction, and is it pertinent across sectors? Many studies have been undertaken on the topic, and we turn to Gallup's latest meta-analysis[3] for an overall assessment of the link between employee engagement and business outcomes. Gallup's analysis aggregates the results of 263 research studies in 49 industries and 34 countries, and finds that:

- Top-quartile organizations in terms of employee engagement outperform the bottom quartile on a range of operational metrics, including absenteeism, staff turnover, safety, customer satisfaction, productivity and profitability.
- According to Gallup, this relationship is robust to industry and country effects. However, how (and by how much) employee engagement impacts a business is likely to vary according to industry contexts, in our view.
- One pitfall would be to conclude from Gallup's results that a company should maximize employee engagement. Laurie Bassi, economist and consultant in the field of human capital, argues that the drivers of business and employee engagement are not always the same. A human resource strategy should therefore seek to align those drivers rather than maximize engagement[4].

Better to align employee and business interests, rather than maximize employee engagement?

Chart 3: Gallup engagement survey vs. business outcomes, comparing the top and bottom quartiles (2012)



Source: Gallup, 2012

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[3] Gallup: engagement at work: its effect on performance continues in tough economic times, 2012.

[4] http://mcbassi.com/wp/resources/pdfs/BassiMcMurrer-TalentManagement-Mar2010.pdf

The findings of our Global ESG Analyser survey are, in a way, quite consistent with those of Gallup: UBS analysts deemed human capital to be a material issue in more than two-thirds of global sectors, but we also find that the way in which human capital impacts companies' bottom lines varies greatly between sectors (the full results are shown on p.8). Broadly speaking, we can separate human capital issues into four types:

We leverage the UBS ESG Analyser to understand how human capital can affect companies across sectors

- Good labour relations, as labour unrest can affect production and/or make restructuring difficult – e.g. in the auto industry, mining
- Competition for scarce skilled labour can drive cost inflation – e.g. in mining, oil
- Innovation as a key factor of differentiation/disruption – e.g. in chemicals, software
- Employee satisfaction seems to directly impact sales efforts and customer relationships – e.g. in food retail

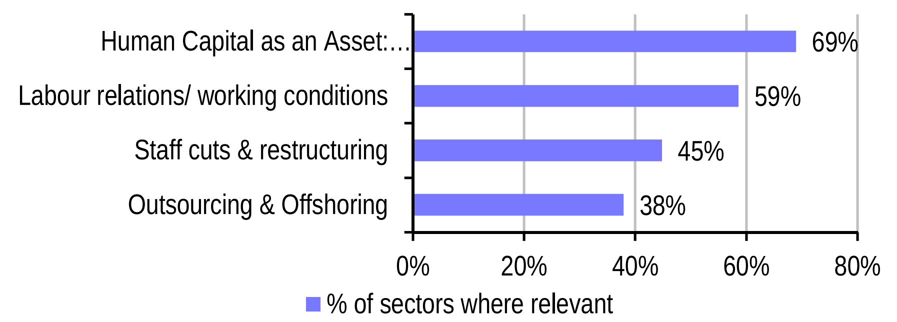
All these four issues can be important, but feedback from UBS analysts globally suggests that the most direct impact of employee satisfaction seems to be felt in services/sales-focused companies and innovation-driven sectors.

Table 5 Understanding how human capital matters – UBS ESG Analyser survey results

Human capital issues	Customer and sales focus	Innovation	Working conditions, labour relations	Availability of skilled labour
Potential impacts	Positive impact on customer satisfaction, motivated sales force driving top line growth	R&D productivity, ability to differentiate	Labour disruption, lower productivity, cost inflation	Competition for talent generating cost inflation
Examples of sectors where it most matters	Restaurants, food retail	Biotech, chemicals, pharma	Mining, autos	Oil, oil services, mining

Source: UBS, UBS ESG Analyser survey, published October 2012

Chart 4: Human capital a material factor in most sectors



Source: UBS Global ESG Analyser (October 2012)

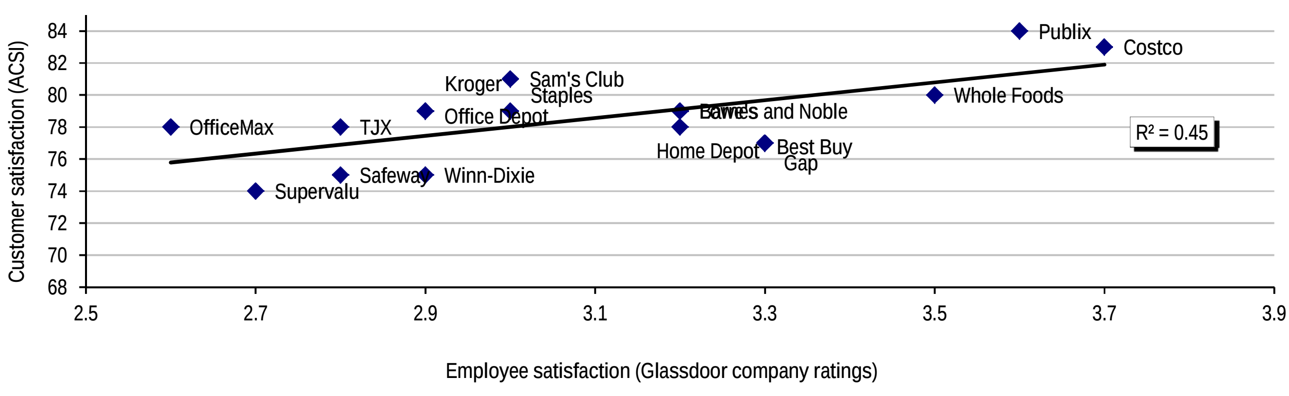
In the retail and service sectors, employee and customer satisfaction are linked

In the US retail industry, a simple correlation analysis shows a link between customer satisfaction (as measured by the American Customer Satisfaction Index[5]) and staff morale (see Chart 5 below[6]). In our view, this correlation is what makes employee sentiment so important in retail and, beyond, in the service sector more generally. This idea is at the heart of Harvard's service-profit concept, which links employee satisfaction to customer satisfaction, loyalty and, down the line, to revenue growth and profitability.

- **Correlation is one thing, but is there causality?** Causality is hard to prove, as retailers tend to plan their labour expenses as a function of expected store sales. In an original study, academics Raman and Fisher (2011) addressed the question of causality through detailed observations at the store level, controlling for sales expectations. Their results suggest that increasing the number of employees on the sales floor (or indeed having more knowledgeable employees in a store) has a positive impact on store sales which more than offsets the higher labour cost incurred[7].

- **So, why would companies in the service or retail sector under-invest in labour?** Taking the example of retailers, the received wisdom is that labour costs are 'the enemy', partly because labour is often the main controllable expense. According to Zeynep Ton, researcher at the MIT, this assumption sometimes leads retailers to slim down their workforce in the wake of weaker sales figures, which can lead to a vicious circle of declining sales and customer service levels[8].

Chart 5: A back-of-the-envelope correlation between employee and customer satisfaction (US supermarkets and specialty retailers)



Source: American Customer Satisfaction Index (2012), Glassdoor

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[5] http://www.theacsi.org/about-acsi/about-acsi

[6] This was noted by UBS analyst Michael Lasser in his report, *What do employees say about the hardline retailers*, 27 Sept. 12

[7] Please see Raman and Fisher, *The New Science of Retailing*, 2011

[8] Please see Zeynep Ton, *Why Good Jobs are Good for Retailers*, Harvard Business Review, Jan – Feb 2012

Case studies: Home Depot and Tesco

The link between employee and customer satisfaction may be best understood through case studies. The experience of Home Depot in the early 2000s and Tesco more recently (discussed below) both point to how much labour is key to ensuring customer relevancy in retail. Going forward, we believe rising online competition may increase the importance of employees and customer service for bricks-and-mortar (as distinct from online) retailers.

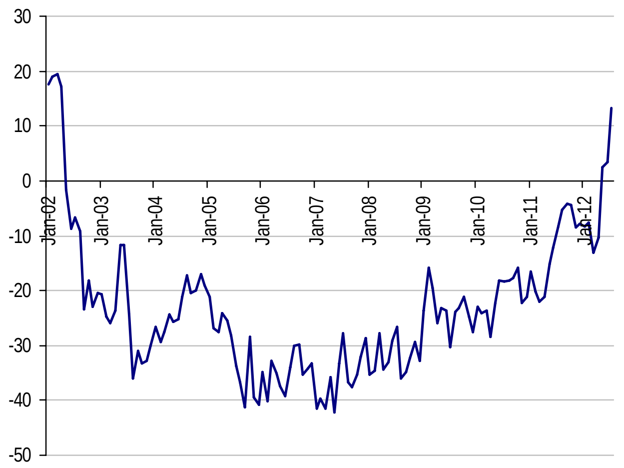
Looking back – Home Depot in the early 2000s

We consider Home Depot in the early 2000s to be a good example of the potential consequences of focusing on efficiency at the expense of customer service

Home Depot's experience in the early 2000s under then CEO Bob Nardelli is a good example of a retail company shifting focus from employee/customer satisfaction to efficiency. When Mr Nardelli took over management of Home Depot in 2000, the new culture seemingly departed significantly from the founders' motto ("Take care of your customers, take care of your associates, and everything else will take care of itself").

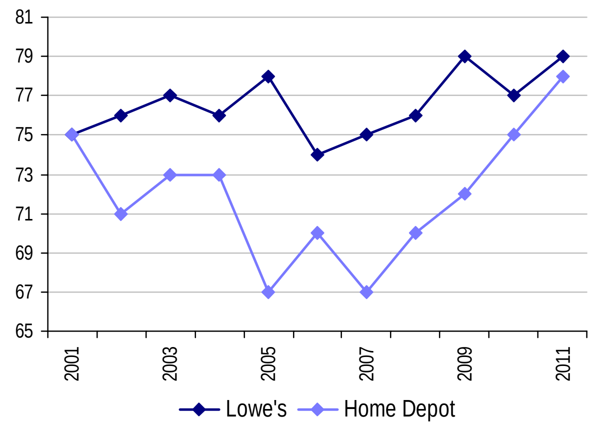
In an effort to rationalize the business, staff levels in stores were cut and the number of part-timers increased, reducing the availability of knowledgeable employees in stores. Customer satisfaction subsequently declined significantly (see Chart 7). Interestingly, the share price performance of Home Depot and its closest rival Lowe's followed a similar pattern to their relative customer satisfaction scores, although in-store labour density was of course not the only factor at play (please see on p.81 for a more detailed analysis).

Chart 6: Relative share price performance (%): Home Depot vs. Lowe's



Source: Bloomberg

Chart 7: Consumer satisfaction index: Lowe's vs. Home Depot



Source: American Consumer Satisfaction Index

More recently – Tesco UK following a period of overzealous cost-cutting

In our opinion, underinvestment in store labour has likely been a contributory factor in the trading weakness seen by Tesco's UK retail operations which culminated in a profit warning in early 2012. Tesco had a strong track record of driving productivity improvements through its P&L, but now believes this cost-cutting became overzealous. As UBS analyst Mike Tattersall points out, cost-cutting started as a response to flat sales densities but metamorphosed into a cause of falling sales densities (please see *Tesco: Make the cash register*, Mike Tattersall, April 2012) – see Chart 8.

The table on the right (which uses Tesco's own figures) gives some indication of what went wrong: areas affected by staffing levels seem to have deteriorated over the years, with queues, staff helpfulness and the general shopping experience all taking a turn for the worse.

Tesco's internal scorecard

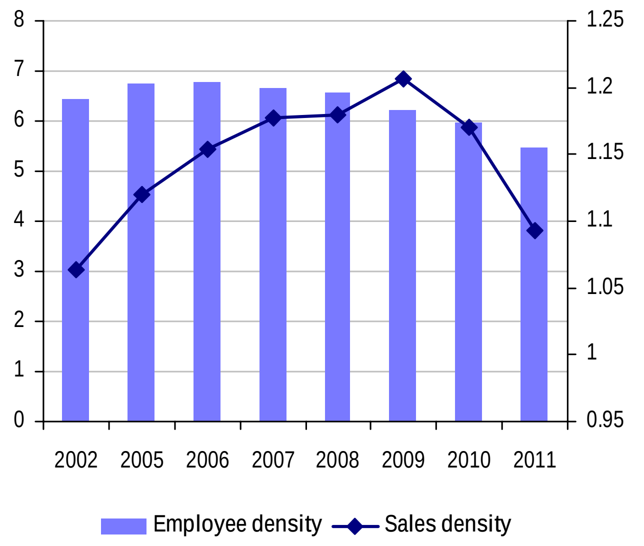
	2002	2011
Queues at cash register	1st	2nd
Enjoyable shopping	1st	2nd
Staff helpfulness	1st	3rd or below

Source: Company presentation

Tesco's response

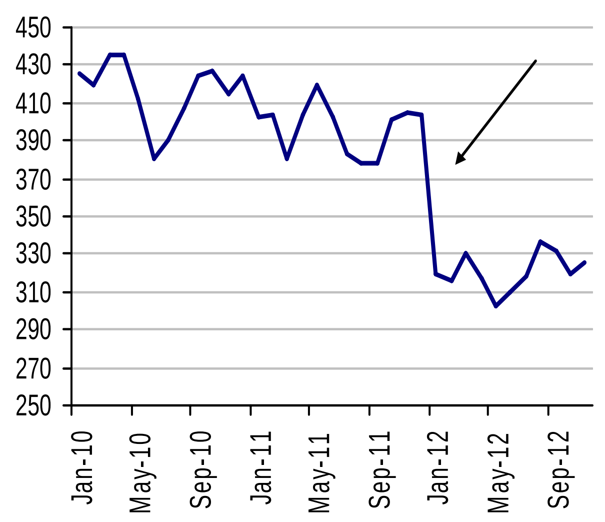
According to Mike Tattersall, Tesco has committed £200m on staff (c8,000 FTE equivalent, or 4-5% of the Tesco UK workforce) to address the labour issue in its UK business. The early signs are encouraging: over the past 12 months Tesco's performance in its core grocery market (non-food remains under pressure) has improved on a relative basis. The increase in staff hours is one of many initiatives Tesco has implemented to address its trading weakness (others include new advertising agency/campaigns, re-launched entry price point own-label range), hence it is not possible to disaggregate the precise effect of the headcount increase. However, we would judge that the diagnosis made in early 2012 is broadly correct.

Chart 8: Tesco UK – employee and sales densities



Source: Company reports

Chart 9: Tesco's share price – the arrow below points to the share price drop following the profit warning in early 2012



Source: Bloomberg

Going forward, online retail competition may increase the relevance of customer service

Online competition is likely to increase the need for bricks-and-mortar retailers to differentiate

Focusing on retailers, UBS analyst Jason DeRise believes that in the context of rising online competition, in-store service levels are likely to be an increasingly differentiating factor for bricks-and-mortar players. Rather than cutting labour costs in order to be able to match online retailers' prices, physical retailers should take a different tack and play to their strengths, i.e. exploit the way sales staff serve and interact with customers. Employees should continue to restock shelves and collect payment, of course, but should also be trained to 'close the sale'. By being more integrated in the way they operate between their online and bricks-and-mortar operations, retailers have an opportunity to create a seamless experience across the different sales channels, which Jason calls a "synergistic endless shelf" for customers (*Wal-Mart, Now, later and long term*, Jason DeRise, CFA, 15 April 2013).

Motivation, innovation and adaptability

Staff morale: a necessary but not sufficient condition to create a culture of innovation

Intuitively, one can surmise that motivated employees are more likely to create a dynamic environment where innovation is more likely to take place, and across our sample we find evidence that employee morale is indeed higher at companies that are seen as the most innovative (although, as stated above, *correlation* does not mean *causality*). Employee satisfaction is, however, only one part of the equation. An engaged workforce is likely to be a necessary but not a sufficient condition for driving innovation; indeed, academic research suggests investors should focus on the tangible signs that a company has a culture of adaptability.

Companies identified by leading surveys as most innovative score better than peers on employee satisfaction

- **Innovation:** We find some confirmation of the link between innovation and employee morale by looking at companies identified as most innovative by four different surveys – Forbes, Boston Consulting Group, MIT and Fast Company [9] (see Chart 10 overleaf). As selecting the most innovative companies can be a subjective process, we focus on the firms that appear in at least two of the four surveys cited above (17 of the 200 companies in our sample). These firms do indeed get above-average employee satisfaction scores (3.7 versus an average of three) and score significantly above their industry peers (+1 standard deviation). Only three companies deemed innovative by at least two surveys score below their peers on staff satisfaction: ABI, Coca Cola, and IBM.

A fall in employee morale could signal that a company is no longer viewed as a centre of excellence in its field

- **Motivation:** In the chemical sector, employee satisfaction appears to be linked to higher levels of research and development (see Chart 11 overleaf). According to UBS chemicals analyst Joe Dewhurst, working at a company seen as a leader or centre of excellence in a specific technology, such as Monsanto, Novozymes or Syngenta, is likely to be a significant driver of employee sentiment. If employee survey indicators take a turn for the worse, this might indicate that a company is losing some of its technological edge and industry leadership, or that an R&D-led company might be at risk of de-rating.

Beyond a motivated workforce, we look for behaviours and practices that signal a 'culture of adaptability'

- **Adaptability:** Although motivated employees likely help to drive innovation, using staff morale as an indicator is unlikely to fully capture what some academics have coined a 'culture of adaptability'. Adaptability appears to be a key factor of success in volatile environments, and not just in high-tech/R&D-intensive sectors[10]. Corporate mission statements are of little help when it comes to identifying adaptable companies: according to James Heskett, professor at Harvard Business School[11], investors should instead focus on actual practices and behaviours.

[9] http://www.forbes.com/innovative-companies/list/
http://www.bcg.com/media/PressReleaseDetails.aspx?id=tcm:12-125372
http://www2.technologyreview.com/tr50/2013/
http://www.fastcompany.com/most-innovative-companies/2012/full-list

[10] See for example *Organizational culture and performance in high technology firms: the effect of culture content and strength*, Chatman, Caldwell, O'Reilly, Doerr, University of California Berkeley 2012

[11] J. Heskett, *The culture cycle*, Financial Times press, 2011

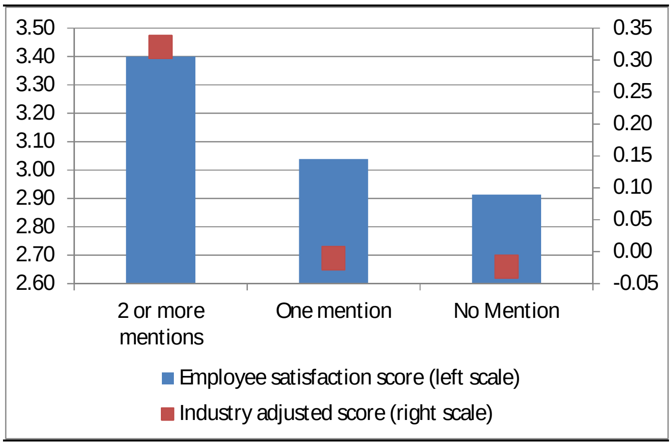
- **At 3M**, technical employees are allowed to spend some of their work-time developing their own ideas[12] (Google has adopted a similar rule of 20%). J. Heskett (cited above) links this rule to the invention of the "post-it note", with several 3M employees using their "15% time" to work on a "failed" adhesive which did not stick very well but could be stuck and unstuck without damaging the paper.

3M's '15% rule'

- Another example of adaptability is allowing a healthy culture of risk, where employees can try things out and potentially fail without negative consequences. In a research report on the IT sector, UBS analyst Steven Milunovich comments on Google and Amazon being "famous for trying new things on a small scale and seeing if they take. […] One idea that turns into AdSense makes up for a plethora of false starts", which Steven sees as a sign of "anti-fragility" (*Fragility and Technology*, Steven Milunovich, 19 February 2013).

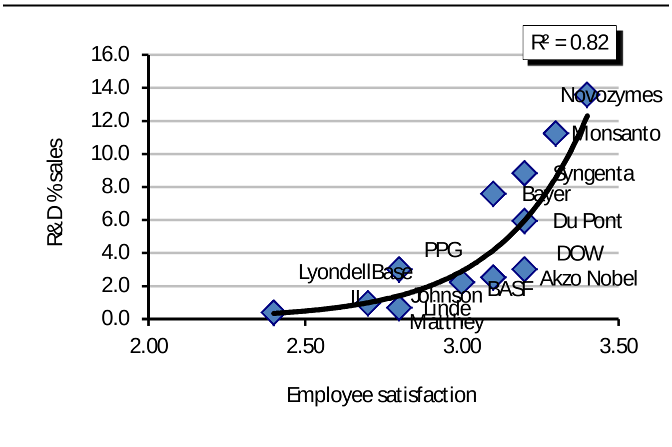
A healthy culture of risk

Chart 10: Companies mentioned by leading surveys as most innovative tend to score better on employee satisfaction



Source: BCG, Fortune's, MIT, Fast Company, UBS

Chart 11: In the Chemical sector, levels of R&D spending and staff morale seem to be linked



Source: UBS, Glassdoor, Indeed, CareerBliss

12 3M, *A century of innovation*, 2002

Beyond employee satisfaction – looking at corporate culture

High employee morale can also be driven by low performers; what we really want to understand is a company's culture

Just as high levels of R&D do not necessarily mean R&D money is spent wisely and productively, employee satisfaction can also be a misleading metric, in our opinion. A recent study by leadership IQ found that for 42% of organizations in its sample, low performers were more engaged and more likely to recommend their companies than high and average performers[13]. Our read-through is that high employee satisfaction can be symptomatic of a low level of accountability and lack of pressure to perform. This stresses the importance of looking beyond headline satisfaction levels in order to understand what really drives employee sentiment.

The flip sides of employee satisfaction: Complacency and meritocracy

A key risk for firms with a strong employee focus is that they may become complacent or overly risk-averse

A key risk for companies with a strong employee focus (and which are likely to score higher in employee surveys) is that they may become complacent and/or excessively risk-averse, especially in the case of established and successful firms. In *The culture cycle*, Professor Heskett argues that, paradoxically, success can create a sense of complacency within an organization, undermining a hitherto effective corporate culture.

Professor Heskett identifies tell-tale signs that a successful culture is drifting. One obvious signal is when an organization stops questioning its established practices. For example, a strategy of hiring mostly from within can backfire by creating a culture of consensus, limiting diversity of opinion and potentially dissenting views. Success can also lead to a primary emphasis being placed on financial results at the expense of customer focus, a strategy that is also likely to backfire in the long run.

Of course, many other factors can cause the cultural engine of a successful company to stall. But what these examples show us is the potential fallacy of equating a strong employee culture with competitive advantage. In our view, a key factor in a company's sustained success is its capacity to evolve, and this depends on challenging "the way things are done here".

A less consensual corporate culture is not always a bad thing either

The corollary of this argument is that a less consensual corporate culture is not always a bad thing either. Implicitly, by focusing on companies with the highest levels of employee satisfaction, one is looking for firms with a high degree of internal consensus. But for cultures that are highly meritocratic and particularly geared toward rewarding high performers, average employee satisfaction may be an irrelevant metric. In these work environments, some degree of dissatisfaction is to be expected.

Taking the example of US diversified industrials company Danaher, UBS analyst Jason Feldman writes that "simply, the Danaher culture isn't for everyone". High pressure and process orientation can be difficult for employees to accept, which may lead to some degree of dissatisfaction among some the workforce. Despite this, Jason believes that Danaher's culture is actually one of

[13] https://www.leadershipiq.com/

its main competitive advantages. In his view, Danaher's philosophy of continuous improvement, inspired by the Toyota Production System, is one of the primary reasons that the company has managed to successfully integrate a large number of acquisition over the last few decades.

Is employee satisfaction priced in by the market?

Employee satisfaction appears to be one investment indicator, but we see even more value in understanding the ***drivers*** of staff morale

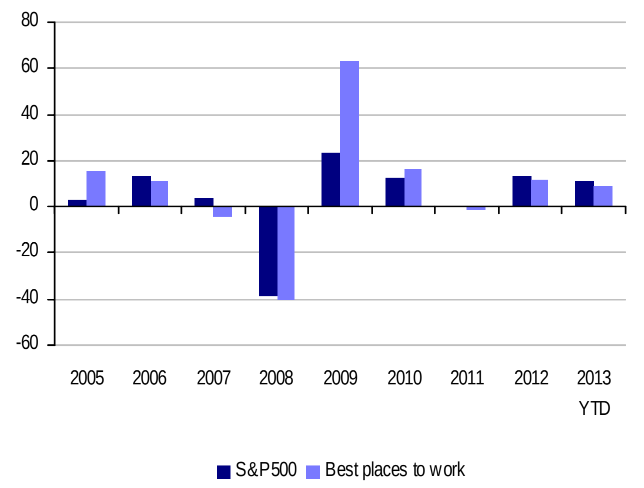
Empirical evidence (based on the best firms to work at in the US) suggests that employee satisfaction is a long-term driver of value that tends to be overlooked by the market (Edmans, 2011). We believe the main underlying reason for this oversight is that investing in the workforce is often perceived as a cost rather than as an asset (though we are not suggesting that labour costs should be capitalized). While as a general rule employee satisfaction appears to be positive for value creation, we believe the analysis can be refined by understanding the *drivers* of employee satisfaction.

We have written on several occasions about Alex Edmans' article in the Journal of Financial Economics on the outperformance of the best companies to work for, which we consider a landmark study in the field of human capital[14].

The (lumpy) outperformance of the 100 best US firms to work for has been driven by earning surprises

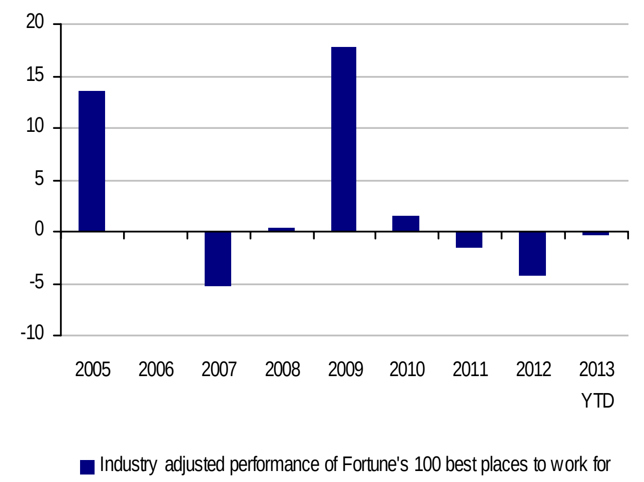
- Edmans showed that a value-weighted portfolio of the 100 best companies to work for in the US earned an annual four-factor alpha of 3.5% from 1984 to 2009, and 2.1% above industry benchmarks. Investing since 2005 in the 100 best places to work would have earned an investor over 35% more than the benchmark, although, as could be expected, excess returns are not generated smoothly.
- Interestingly, this outperformance was driven by earning surprises, according to Edmans. This supports the idea that intangible assets such as human capital may not be priced in by the market until they translate into tangible results.

Chart 12: Performance of Fortune's best companies to work for vs. S&P500



Source: Great places to work institute, Bloomberg

Chart 13: Industry-adjusted performance of Fortune's best companies to work for



Source: Great places to work institute, Bloomberg

[14] See for example Hudson, *Human capital and Equity Prices, Revisited*, January 2011

Why is corporate culture overlooked?

As investments in the workforce are expensed, their importance for long-term profits may, in some cases, be under-valued

In our view, a key reason for this potential anomaly is that human capital raises a short/long-term performance conundrum: deciding to invest in its workforce may be essential for a company's long-term profit generation, but will likely hurt the margin (and share price) in the short run. In our view, an interesting parallel can be drawn with the superior reported long-term returns of firms with high R&D and advertising spend[15], which are the source of intangible assets that are in most cases expensed, but whose importance for long-term profits may be understated.

Deciding whether or not to invest in the workforce may be especially difficult for companies operating in mature markets, as they might be tempted to harvest cash at the expense of reinvesting in the business. This conundrum was very well described by UBS analyst Michael Binetti in a research report on US department stores:

"In our view, the only companies in the mature department store sector that can create sustainable profit growth are companies that make hard decisions about long term investments in their assets and people – even at the risk of disappointing shareholders in the short term."[16]

The corollary is that markets may fail to recognize under-investment in the workforce

The corollary of this is that markets may fail to recognize under-investment in the workforce as a negative signal. As we mentioned above, in the short term, reduced spend on the workforce and R&D will likely result in higher margins.

- Drawing from his experience as CEO of 3M, Sir George Buckley recalls the lack of market interest in declining employee satisfaction and sales from new products, at a time when margins were at record (and, according to him, unsustainable) levels[17].
- Looking at a more recent example, our Australian retail analyst Ben Gilbert argues that the reduction in labour investments at Woolworths Ltd has helped enhance margins, but sees this as unsustainable. In his view, the reduction in the level of service will likely lead to a decline in customer perception and an erosion of market share (*Woolworths Ltd, Are you being served?* Gilbert, 3 April 2013).

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[15] Please see Alex Edmans, 2011, *Does the market fully value intangibles?*, citing Chan, Lakonishok and Sougiannis, 2001

[16] *Initiating US Department Store Coverage*, Binetti, 10 April 2012

[17] Financial Times, 20 January 2013, *Retired 3M chief finds new life in sustainability*

Refining the approach by looking at the drivers of employee sentiment

Type 1 and type 2 errors

Employee satisfaction will likely generate a number of type 1 and type 2 errors: investors should look beyond this to understand corporate cultures

Since 1984, investing in the best places to work would have earned over 2% above industry benchmarks, which suggests that, more often than not, employee satisfaction works as an identifier of long-term industry winners. But case studies also suggest that employee morale is far from being a perfect indicator, and indeed can send investors the wrong signals. To use a statistical analogy, choosing companies with the highest employee satisfaction will generate a number of type 1 and type 2 errors.

- **Type 1 error:** Selecting companies with high employee morale that have, however, become complacent.

- **Type 2 error:** Not favouring companies with low employee satisfaction when:

  - A company has a non-consensual, meritocratic culture which, we believe, drives value-creation.

  - A company has experienced significant difficulties that are already reflected in the share price. In an instance such as this, we view employee morale as a trailing rather than a predictive indicator of financial performance, but acknowledge that the *evolution* of employee morale can help investors assess the resilience of an organization (please see our 'Organizational change' theme below).

Why five investment themes?

Understanding the drivers of employee morale is more useful than looking at headline employee satisfaction levels

In surveying our analysts across sectors, it emerged that understanding the drivers of employee morale was more pertinent than looking at headline employee satisfaction levels. As discussed above, employee satisfaction can be a misleading indicator of long-term value creation. In summarizing our findings, we identified five investment themes. While this framework inevitably simplifies complex situations, we believe it can nonetheless improve the relevance of using employee satisfaction as an indicator in an investment context.

Table 7: Corporate culture in five investment themes

Investment theme	High employee satisfaction as an asset	Meritocracies	Organizational change	Potential under-investment in labour	Potential Risk of complacency
Why it matters	High employee satisfaction as a driver of innovation, customer satisfaction and/or sales	Result- and efficiency-focused corporate cultures likely to drive value creation	For organizations undergoing important structural change, employee satisfaction is a key indicator to watch	Has cost-cutting become over-zealous, i.e. does it come at the expense of long-term profit generation?	Has the culture become too conservative?

Source: UBS

The groupings should be read as "tags", helping to identify a distinctive feature in the organisations analysed, but for any company referred to it does not imply an absence of features relevant to the other four categories.

Is employee morale a leading or a trailing indicator?

It depends...

For investors, a crucial question is whether employee satisfaction can be a useful and predictive indicator of investment returns, or whether it is just backward-looking. In our view, employee sentiment clearly varies with a company's fortunes, but staff morale also plays a role in shaping financial outcomes. In essence, the answer to this question is: it depends.

...to some extent, employee satisfaction is a trailing indicator of success...

To some extent, employee satisfaction is a trailing indicator of success. It is far more common to be happy and motivated working for a successful company which has the means to reward performance, rather than for a business facing financial difficulties. Comparing the top and bottom quintile firms featured in this report in terms of employee satisfaction[18], it comes as no surprise to us to find higher satisfaction associated with higher capex levels, margins and returns on capital (all metrics being sector-adjusted – please see Chart 14 to Chart 16 overleaf).

...but there is often a positive feedback loop between employee satisfaction and financial performance

However, there is in many cases a virtuous circle between employee satisfaction and performance, as motivated employees tend to be more productive. We believe the market might not be fully assessing this positive feedback loop between employee satisfaction and value creation. Coming back to the results of Alex Edmans' study, the best places to work outperformed their benchmark four years *after* they joined Fortune's list. The market does not seem to react to a company joining the best places to work, but apparently responds to positive earning surprises and eventually adjusts its expectations.

A key risk for successful companies is becoming complacent

But a virtuous circle can easily reverse. We look for the signs of an inflection point to identify when a company's culture might become complacent, and when high employee satisfaction starts reflecting past successes rather than adding value.

Not surprisingly, we find that morale in changing or struggling organizations will tend to be lower. As UBS analyst Michael Lasser noted in a note on hardline retailers[19], low staff morale may add to the challenges faced by a company, and may be an obstacle for a turnaround story to actually turn around. In many cases, this issue will be well identified by the market (see, for example, the cases of RBS and AIG), but we would advocate keeping a close eye on how employee sentiment evolves, as it can indicate the resilience of an organization and the degree to which employees buy into a change of strategy coming from the top.

Rising margins combined with declining staff morale raises a potential red flag

Finally, we also look closely at companies where margins and profitability are rising, but employee satisfaction is declining. In our view, this potentially raises a red flag that the company might be under-investing in its workforce, thereby jeopardizing long-term profit generation.

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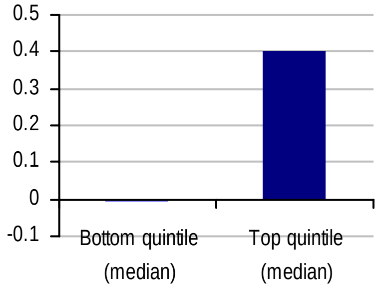
[18] We use industry-adjusted scores to reduce industry biases

[19] Michael Lasser, *What do employees say about the hardline retailers*, 27 September 12

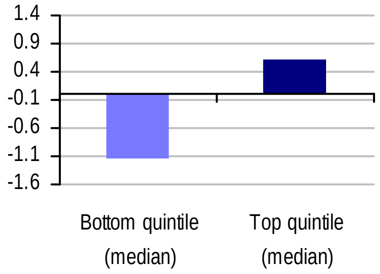
The charts below depict capex levels, operating margins and return on invested capital for the top and bottom quintile companies, as measured by our employee satisfaction score (all measures, satisfaction and financial metrics are sector-adjusted).

Chart 14: Capex % sales, 2012



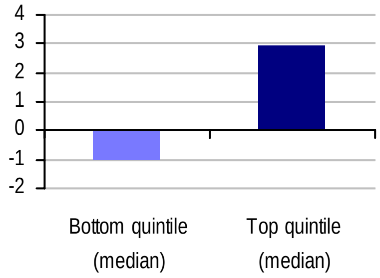
Source: UBS

Chart 15: EBIT margin, 2012



Source: UBS

Chart 16: ROIC, 2012



Source: UBS

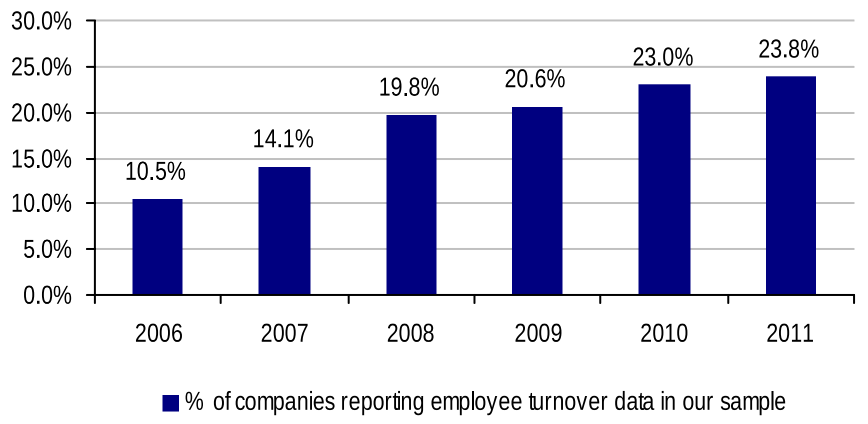
The state of reporting on human capital

The level of corporate disclosure on human capital is generally low, but improving

In this report, we use community websites as a primary source of information because of the unique point of view they provide, offering an inside look into what employees think of their companies (although clearly employee comments can be biased and should be taken with a healthy dose of scepticism). Ideally, we would be able to combine and contrast this information with employee data and comments provided by companies (this is actually how this report originally started, i.e. by trying to leverage employee data disclosed by companies). Companies often perform employee surveys internally, but they rarely disclose the results or comment on the outcomes (making the results of those surveys public was one of the motivations of Glassdoor's founders). As a result, the overall level of disclosure on human capital metrics is relatively low, as indicated by the percentage of companies in our sample disclosing their employee turnover rate (one of the key human capital metrics, in our view).

Reporting practices are changing, however, and some companies are leading the way in terms of transparency and raising the debate on how employee metrics matter for investors. This improved disclosure may be partly driven by the integrated reporting initiative, which we discussed at length in our *Q-Series®: What is integrated reporting?* (J. Hudson, H. Jeaneau, E. Zlotnicka, June 2012). Examples of innovation in corporate reporting include SAP's effort to link a change in employee turnover to changes in its operating profit in its latest annual report.

Chart 17: An increasing number of companies disclose employee turnover rates



Source: Bloomberg, UBS

Our methodology

An important barrier to analysing employee data is the lack of available public information, as only a limited number of companies disclose comprehensive information on their employees, and analysts have limited access to companies. Online jobs and community websites (such as CareerBliss, Glassdoor and Indeed) provide an interesting alternative. They offer users an inside look at company culture by allowing employees to rate and comment on their employers online.

Building an employee satisfaction score

We leverage three leading jobs and community websites (CareerBliss, Glassdoor, and Indeed) to gain an understanding of employee sentiment across companies. All three websites, through user generated content, make available the results of online employee surveys; we have based this report on the data they carried during the first quarter of this year. Although their methodologies differ, each website provides a rating reflecting the average employee satisfaction of employees/ex-employees.

Combining the data from the three websites, we build an employee satisfaction indicator. We applied this methodology to the companies featured in our Global ESG Analyser (October 2012), in sectors where human capital issues were considered to be most material by UBS analysts. We excluded companies from this analysis when there was not sufficient data available on the career websites we used. Our scale uses an average of three across sectors and 0.3 as a standard deviation. Company scores range from 1 to 5, with 5 representing the highest level of employee satisfaction. The scores should be interpreted according to this scale and not be misconstrued as absolute levels of satisfaction. To compute the scores:

- Prior to calculating the average, we normalize each of the scores from the three websites. Each website uses a slightly different methodology, which results in differences in averages and standard deviation.
- We calculate the weighted average of the three normalized ratings, according to the number of employee reviews underpinning each rating.
- For non US companies, we double the weight of Glassdoor's ratings, as Glassdoor is (out of the three websites) the one with the highest global user base.
- Finally, we convert the results to a scale centred on three with a standard deviation of 0.3 across the sectors.
- The company scores are multi-year averages (most reviews date from 2009 to 2012), so the scores do not necessarily capture the latest trends.

Employee comments help understand company culture

In addition to the ratings, users' contributions include a qualitative assessment of their current (or former) employer. For those companies that stood out with either high or low employee satisfaction relative to their sectors, we analyzed more than 100 reviews (where possible) to understand what aspects of the corporate culture set them apart and have attempted to summarise them in our sector tables.

Beyond employee satisfaction...

Diving into qualitative employee reviews helps put in perspective the companies' ratings (i.e. the level of employee satisfaction). We think this is particularly important for investors, as:

- Employees and shareholders' interests are not always aligned. Hence, it is crucial to understand the reasons behind high or low levels of satisfaction. For example, is job satisfaction driven mostly by compensation and work/life balance? Are there incentives to perform?

...reviews help understand the strengths and weaknesses of companies

- This online feedback from employees/ex-employees potentially gives investors another perspective on the strengths and weaknesses of a company. For example, is the company perceived by its employees as a technology leader? Are employees taking the safety culture seriously?

What are the limitations of online employee surveys?

Although community websites provide a very interesting (and growing) pool of information on companies, they have several important limitations. The pitfalls of using this data include:

Beware of potential biases and statistical significance

- **Not all companies have a statistically significant number of reviews:** When the number of reviews exceeds 300, we view the rating as fairly reliable. In this note, we included the ratings for companies with as few as 50 reviews, which can provide investors with an interesting data point, but can be misleading, and should be used in conjunction with other pieces of evidence.

- **There are potential structural biases in the ratings:** One key potential bias we highlight is that ex-employees or dissatisfied employees are more likely to voice their opinion online, although generally we find employee comments to be constructive. Another clear bias is towards English speaking, computer savvy employees. Finally, there is a significant US bias to the data, which we tried to mitigate by giving greater weight to Glassdoor reviews (which are more international) of non-US companies.

Available ratings are historical averages

- **The companies' ratings available on career websites are average historical ratings:** Most of those reviews start in 2009. For some companies, the most recent changes in employee satisfaction may not be reflected in those averages.

Despite the limitations, we view this data set as a potential source of insight, provided it is examined critically and used in conjunction with other evidence.

BOX 1: About the job community websites

Glassdoor

Glassdoor was launched in 2008 by Bob Hohman (former president of Hotwire and part of the original team at Expedia), Rich Barton and Tim Besse. Glassdoor describes itself as a free jobs and career community that offers an inside look at jobs and companies. According to Glassdoor, what sets the website apart is the employee generated content, which includes company reviews posted by employees. Among other things, employees rate their employers from 5 (very satisfied) to 1 (very dissatisfied), and describe the pros and cons of working there.

As part of its services, Glassdoor offers companies recruiting and employer branding solutions that includes JobAds and enhanced employer profiles. The profiles allow companies to tell their story in a dedicated section of the website, and the JobAds product allows companies to recruit talent that may not be aware of their company or their jobs. We were assured by Glassdoor that companies could not delete or modify employees' comments and ratings through an enhanced profile or its other recruiting solutions.

In September 2012, Glassdoor had 10 million users, and 3 million reviews and ratings. The company ratings available on the website reflect the average of all reviews, but Glassdoor provided us with 2011 and 2012 ratings for a sample of companies. The companies mentioned in our report had an average of 480 ratings from Glassdoor.

www.glassdoor.com/index.htm

Indeed

Indeed claims to have grown to become the #1 source of external hire for employers globally. More than 100 million people each month search for jobs, post resumes, and research companies on Indeed, according to the company. Job seekers can search millions of jobs on the web or mobile in over 50 countries. Indeed was founded by Paul Forster and Rony Kahan in 2004. Indeed has over 700 employees with offices in Austin, Dublin, London, Mountain View, New York and Stamford. For more information, visit indeed.com. The companies mentioned in our report had an average of 450 reviews from Indeed.

www.indeed.com/Best-Places-to-Work?from=overview

CareerBliss

CareerBliss describes itself as an online career community, designed to help users find happiness in the workplace and in their career. The company was founded in 2009 by Heidi Golledge, and is privately held by recruitment company Cybercoders. CareerBliss data evaluates company reviews for the key factors that affect work happiness, including: work-life balance, an employee's relationship with their boss and co-workers, the work environment, job resources, compensation, growth opportunities, the company culture, the company's reputation, and the employee's daily tasks and job control over their daily work. The data accounts for how an employee values each factor. Each review is given an average score, indicating where the company stands between one and five.

The companies mentioned in our report had an average of 335 reviews from CareerBliss.

www.careerbliss.com/

Sector overview

Snapshot of the tech hardware sector

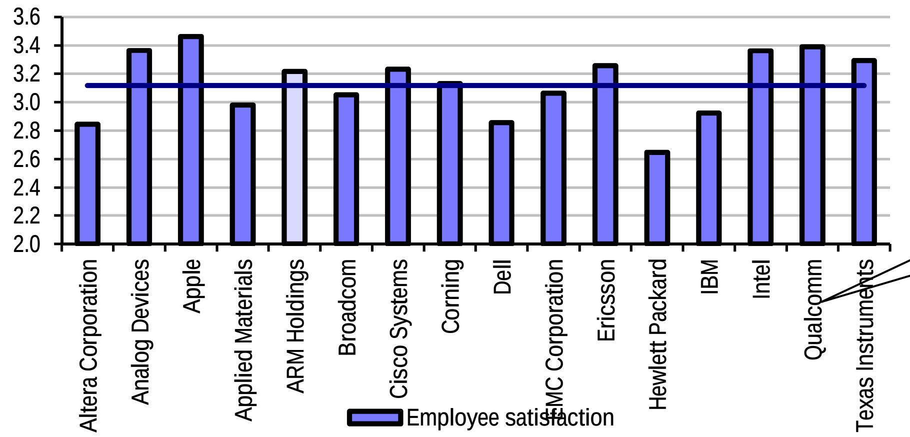
Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
		•	

UBS Global ESG Analyser input

Source: UBS Global ESG Analyser survey

Employee satisfaction score computed using CareerBliss, Glassdoor, and Indeed



Employee satisfaction level; our scale uses 3 as the mean and 0.3 as standard deviation; data from Careerbliss, Glassdoor and Indeed websites

Source: CareerBliss, Glassdoor, Indeed

Which companies stand out in terms of employee satisfaction?

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying: Pros	What employees are saying: Cons
Apple	3.5	Stable	2547	Brand name, great products and innovation, talented colleagues with high degree of knowledge, focus on end-user experience	Secretive even internally lack of career path, competitive work-life balance

UBS synthesis of employee reviews

Source: CareerBliss, Indeed, Glassdoor, UBS

Aerospace and defence

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•		•	

Source: UBS Global ESG Analyser survey

Companies to watch

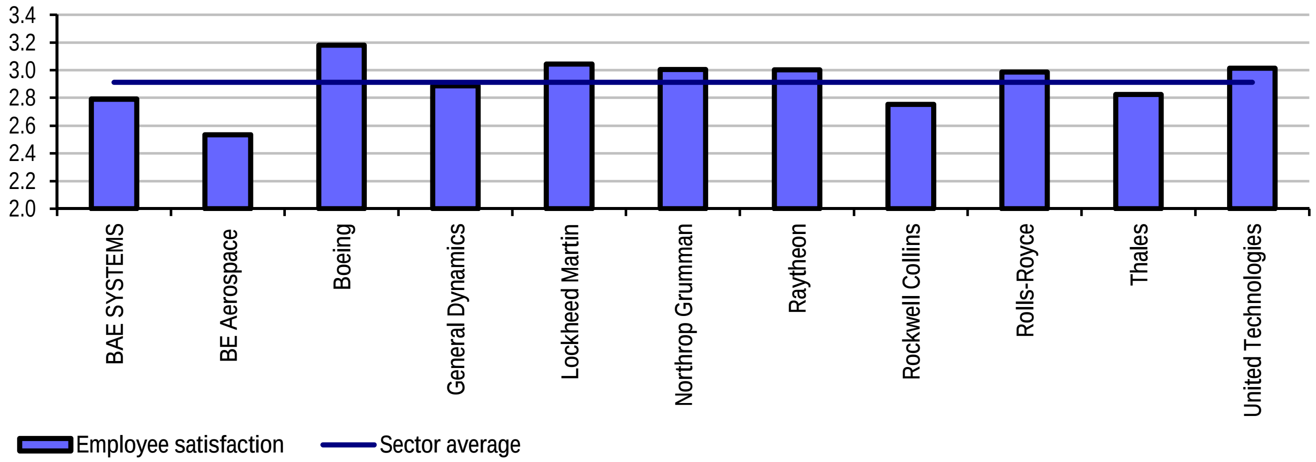
BE Aerospace states that the results from online employee surveys do not reflect a full and valid picture of employee satisfaction, partly because of the relatively small number of reviews for the company, as well as other potential biases of online surveys, as described in this document. It considers employee turnover to be a better indicator of employee engagement. According to the company, its voluntary staff turnover stood at 6.6% in 2011, 7.2% in 2012, and 7.2% in 2013 on an annualized basis.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Boeing	3.2	n/a	2580	Great products, highly technical, compensation and benefits, work-life balance, and stability	Bureaucratic and very slow moving company for some
Lockheed Martin	3.0	n/a	3658	Flexible work schedules, benefits, good leadership development programme, good diversity and focus on ethics	Bureaucratic and very slow moving company for some
BE Aerospace	2.5	n/a	106	Exposure to aerospace projects, growing company, benefits	Work/life balance, lack of employee recognition and autonomy for some
Rockwell Collins	2.8	n/a	750	Technically strong, interesting projects and products, good opportunities to learn, good working environment and flexibility	Decreasing benefits, staff cuts are affecting some employees' morale, some worry of an excessive focus on the short term

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the aerospace sector



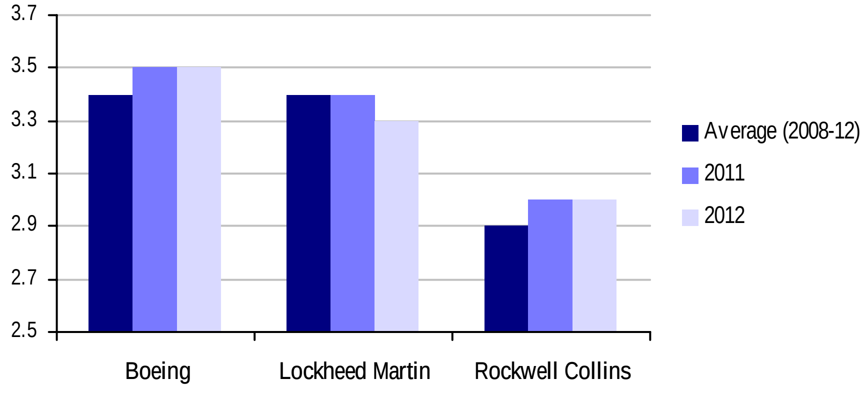
Source: Glassdoor.com, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
BAE SYSTEMS	2.8	1,443	3.1	56	4.0	517	3.5	870
BE Aerospace Inc	2.5	106	2.6	58	3.4	23	3.4	25
Boeing Co	3.2	2,580	3.5	1256	4.1	564	3.8	760
General Dynamics Corp	2.9	1214	3.2	73	4.0	404	3.6	737
Lockheed Martin Corp	3.0	3,658	3.4	1,484	4.0	864	3.7	1,310
Northrop Grumman Corp	3.0	2987	3.3	1,162	4.0	685	3.7	1,140
Raytheon	3.0	2,229	3.3	998	4.0	385	3.7	846
Rockwell Collins Inc	2.8	750	2.9	415	4.0	107	3.6	228
Rolls-Royce plc	3.0	250	3.2	165	4.1	61	3.8	24
Thales	2.8	134	3.0	65	4.4	18	3.7	51
United Technologies Corp	3.0	218	3.3	106	3.5	24	4	88
Sector average	2.9		3.2		3.9		3.7	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

Autos

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•		•	

Source: UBS Global ESG Analyser survey

Companies to watch

UBS analyst: Philippe Houchois, global sector strategist

It is difficult to draw firm conclusions from employee satisfaction scores, given variances in the statistical sample. For example, BMW survey results are particularly skewed towards US-based respondents, and this is not necessarily representative of its predominantly Germany-based workforce (more than 70% in 2012) and may be a drag on its score. According to BMW, in the latest group-wide employee survey performed in 2011 (85% participation rate), 82% of employees surveyed were satisfied on the whole with the BMW Group, with positive ratings given to its “attractiveness as an employer” (84%).

We also note that: (1) results are fairly homogeneous overall with only Daimler and Tata Motors deviating meaningfully from the mean; and (2) answers were collected over a period of four years (2009-2012). During that timeframe, these companies experienced dramatic changes in markets with periods of difficult restructuring followed by sharp improvements in operating performance, all of which can influence perception.

We can only suggest a few factors to explain the differences in employee perception of their firms, such as:

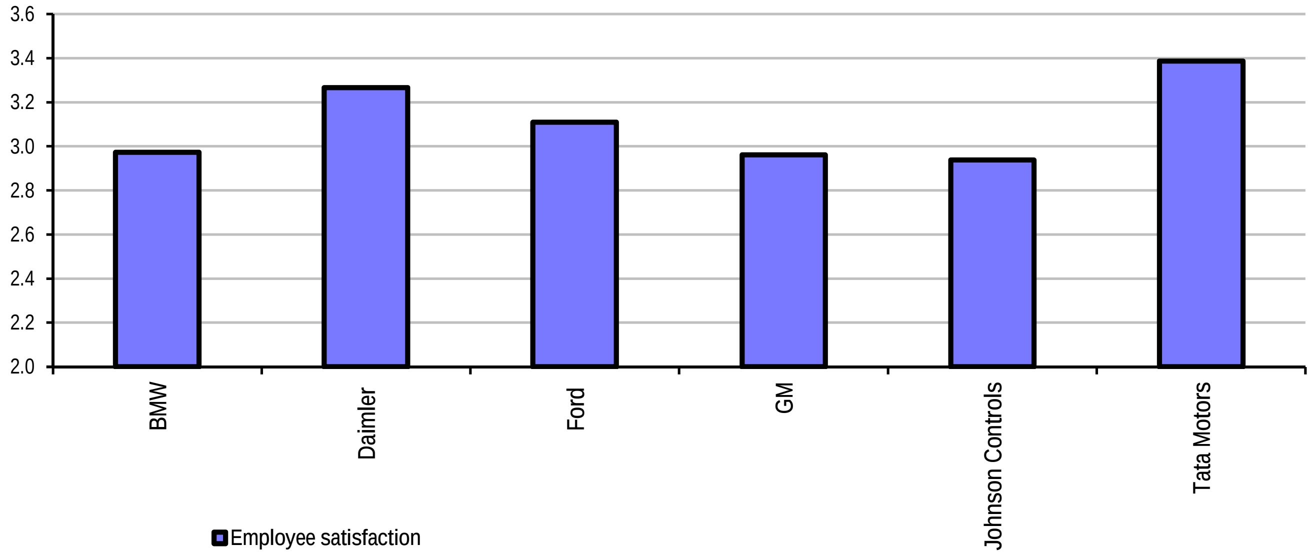
- Differences in the timing of operating performance or disruption, caused by increased pressure on employees to perform and/or make concessions.
- Relative corporate pride, such as having beaten the global recession in the case of Ford or the momentum of success behind the revival of Jaguar-Land Rover at Tata Motors.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Tata Motors	3.4	n/a	206	Well-respected brand and company, good employee empowerment and training opportunities	Mixed reviews on work/life balance and efficiency

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the auto sector



Source: Glassdoor.com, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
BMW	3.0	296	3.6	70	4	73	3.5	153
Daimler	3.3	82	3.8	48	n/a	0	3.5	34
Ford	3.1	2213	3.5	490	4.4	328	3.7	1395
GM	3.0	1671	3.2	483	4	250	3.7	938
Johnson Controls	2.9	1121	3.3	255	4	396	3.6	470
Tata Motors	3.4	206	3.7	167	n/a	0	3.9	39
Sector average	3.1		3.5		4.1		3.6	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Banks and insurance

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•			•

Source: UBS Global ESG Analyser survey

Companies to watch

Goldman Sachs – Neutral, PT US$165 – analyst: Brennan Hawken, CPA

Goldman Sachs has developed a very strong culture of success in an extremely competitive industry. Given that people in this industry tend to be highly competitive, working for a firm that is performing better than most peers can create a virtuous cycle, both reinforcing employees' competitive spirits and endorsing a positive perception of the firm. Separately, Goldman has supported a culture of risk management that permeates the organization. This has allowed Goldman to avoid large losses that have tripped up competitors during periods of volatility and crisis. This successful execution also reinforces a positive perception of the firm by its employees, and underlines the principals of success Goldman is built upon.

RBS Group – Buy, PT 365p – analyst: John-Paul Crutchley

We believe the nationalization of RBS weighs on the morale of its employees, but, in spite of this, the overall satisfaction level is similar to Barclays. Several recent employee reviews reflect a motivation to deliver change. In the context of RBS being further down the road of transformation by late 2014, we consider employee morale to be an interesting indicator to watch. We see the relatively optimistic tone of employee comments as an encouraging sign of the company's resilience, although we think this would have to be confirmed by further data, especially in the context of an upcoming change of leadership.

AIG – Neutral, PT US$48 – analyst: Brian Meredith

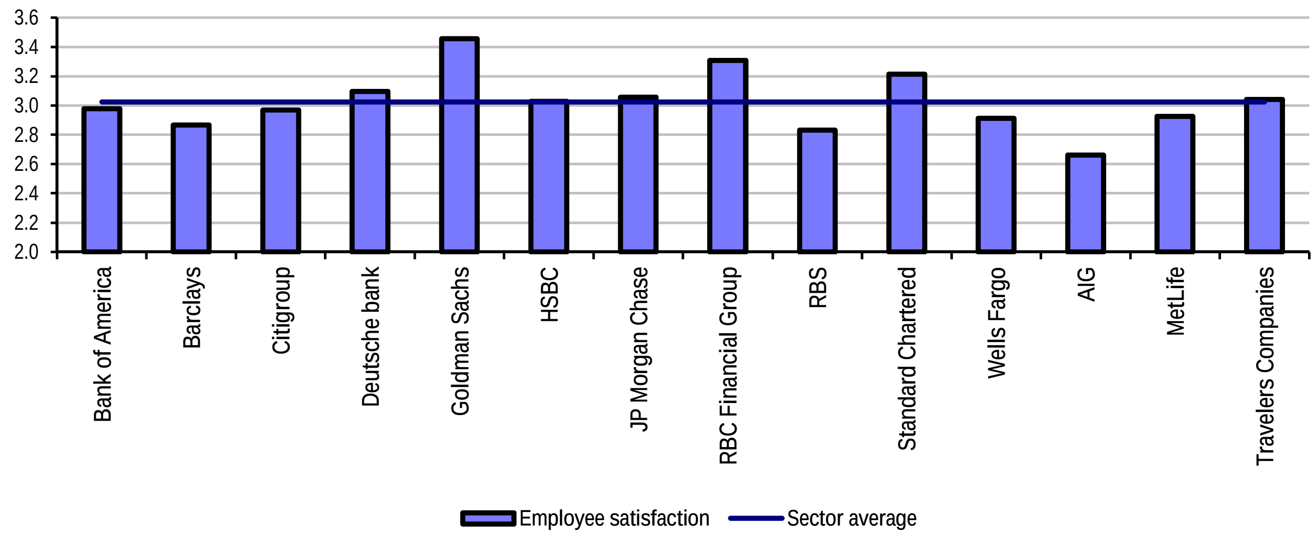
Morale has been an issue at AIG coming out of the financial crisis. Additionally, new management is trying to change the culture of the P&C insurance business to be more centralized rather than autonomous. This change is likely to hurt employee morale and we have seen a lot of departures at AIG over the past several years. Morale and the ability of employees to accept the new centralized culture, we believe, is a risk to the story, and morale indicators should be helpful indicators to watch.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying: Pros	What employees are saying: Cons
Goldman Sachs	3.5	n/a	1233	Brand name, compensation, entrepreneurial and success-driven culture, smart colleagues	Environment too competitive for some, high pressure, job security
AIG	2.7	Improving	1081	Benefits, working environment, opportunities to learn	Bureaucracy, restructuring, complex organization, impact of government bail-out
RBS	2.8	n/a	360	Opportunity to deliver change, emphasis on teamwork	Nationalisation, changing environment, colleagues leaving

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the banks and insurance sectors



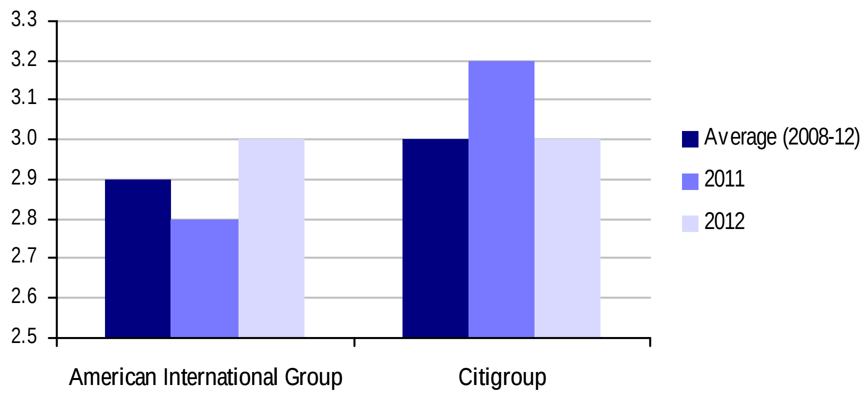
Source Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
Bank of America	3.0	8507	3.2	2708	4.0	2580	3.7	3219
Barclays	2.9	267	3.1	133	3.9	134	n/a	n/a
Citigroup	3.0	2857	3.0	1026	4.0	652	3.8	1179
Deutsche Bank	3.1	1214	3.4	724	4.0	149	3.8	341
Goldman Sachs	3.5	1233	3.8	1032	4.0	95	4.0	106
HSBC	3.0	1597	3.2	561	4.0	611	3.8	425
JP Morgan Chase	3.1	6519	3.3	3143	4.0	1687	3.8	1689
RBC Financial Group	3.3	196	3.6	196	n/a	n/a	n/a	n/a
RBS	2.8	360	3.1	309	4.1	6	3.5	45
Standard Chartered	3.2	256	3.5	256	n/a	n/a	n/a	n/a
Wells Fargo	2.9	5744	3.1	2782	3.9	1985	3.8	977
AIG	2.7	1081	2.9	242	3.9	106	3.5	733
MetLife	2.9	1105	3.1	500	4.0	260	3.7	345
Travelers Companies	3.0	440	3.3	366	n/a	n/a	3.8	74
Sector average	3.0		3.3		4.0		3.7	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

Biotechnology

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
		•	

Source: UBS Global ESG Analyser survey

Companies to watch

UBS analyst: Matthew Roden

Overall, we see employee satisfaction as not very well correlated to company performance in the biotech sector, and in our view not a meaningful metric on which to base investment decisions. Given that company culture, development priorities, stock price performance, and disease focus can influence employee satisfaction, because of intra-sector variability on these factors, as well as limited data on companies lower in the cap range (whose stock price performance tends to correlate more with research, rather than financial performance), we do not view employee satisfaction as meaningful for investors. Specifically, with Biogen (high) and Gilead (low) scoring at opposite ends of the satisfaction spectrum, the fact that both companies have (1) successfully managed transitional periods and new product cycle creation, (2) differentiated their revenue mix, and (3) delivered well-above market returns for investors suggests to us that satisfaction has limited relevance, and does not signal potential problems with profitability in the long run.

We highlight several additional data points to keep in mind:

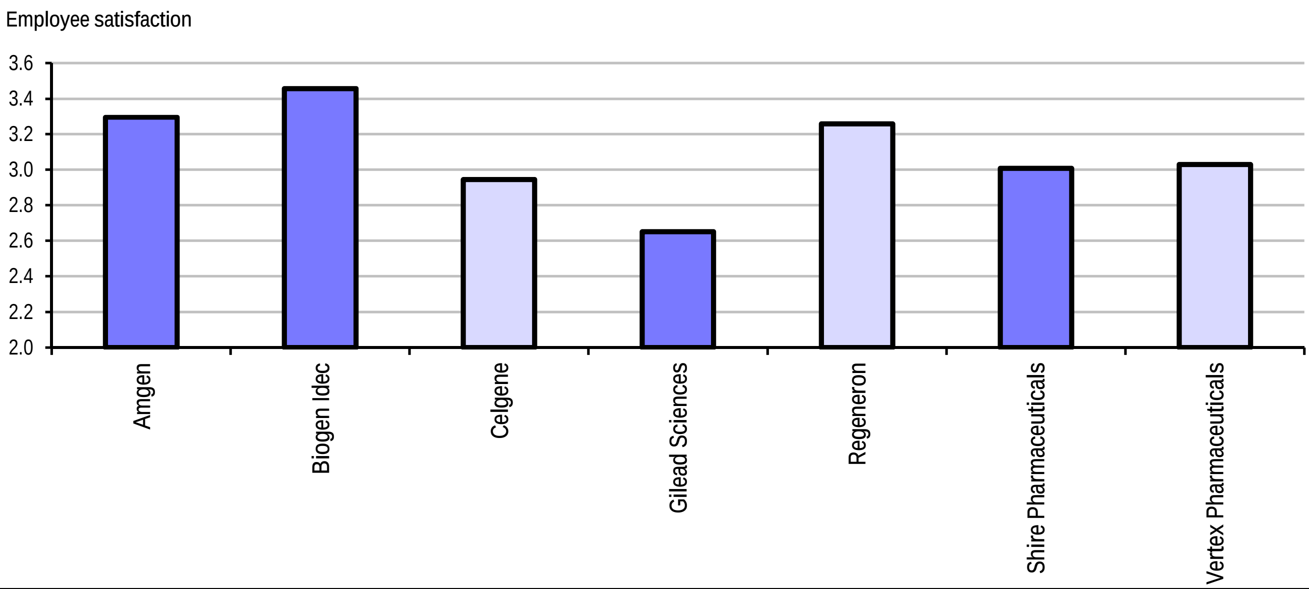
- Biotech is more R&D driven and a higher proportion of its employees are in R&D relative to other drug companies (pharma).
- Employee satisfaction tends to counter-correlate with margins and EBITDA/employee.
- Profitability in the sector is driven by successful product development, which is very company specific.
- With employee stock options a larger part of total compensation versus more mature sectors, stock price performance may have an outsized impact on employee satisfaction.
- Historically, biotechs have been viewed as very favourable places to work, with Genentech (now part of Roche) consistently ranked in the top five places to work in the US.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying: Pros	What employees are saying: Cons
Biogen Idec	3.5	Negative	183	Good science and research, meaningful job, compensation and benefits, good employee stock purchase plan	Some comments on the workload being too high
Gilead Sciences	2.7	n/a	105	Good products, successful and stable company, good benefits	Some comments on high workload and the company being understaffed, as well as a lack of employee recognition

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the biotechnology sector



Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
Amgen Inc	3.3	804	3.4	314	4.1	48	4.0	442
Biogen Idec Inc	3.5	183	3.8	108	4.2	24	4.0	51
Celgene Corporation	2.9	52	3.5	28	n/a		3.5	24
Gilead Sciences	2.7	105	2.9	80	n/a		3.5	25
Regeneron	3.3	51	3.6	38			3.8	13
Shire Pharmaceuticals Group	3.0	111	3.4	57	3.5	29	3.9	25
Vertex Pharmaceuticals	3.0	68	3.1	44	4	10	4.1	14
Sector average	3.1		3.4		4.0		3.9	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chemicals

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•		•	

Source: UBS Global ESG Analyser survey

Companies to watch

Chemicals companies with high R&D activity or market-leading technologies appear to fare well in terms of employee satisfaction metrics, comments UBS analyst Joe Dewhurst. Working at a company that is seen as a global leader or a centre of excellence in specific technologies makes employees feel more secure in their jobs, and there is a tangible activity they see as responsible for driving growth. High levels of R&D activity provide an environment that is both challenging and changing. Hence, we do not find the above-average employee satisfaction at **Monsanto, Syngenta** and **Novozymes** as surprising. **Novozymes,** in particular, is the global leader in enzyme technology and acknowledged to employee the top enzyme scientists globally. Although the sample size is small, the high rank of Novozymes in such surveys is not a surprise, in our view, given its market leading position, collegiate culture and the high potential of enzymes to act as chemical replacements in a wide range of technologies.

Monsanto – Neutral, PT US$110 – analyst: Bill Carroll

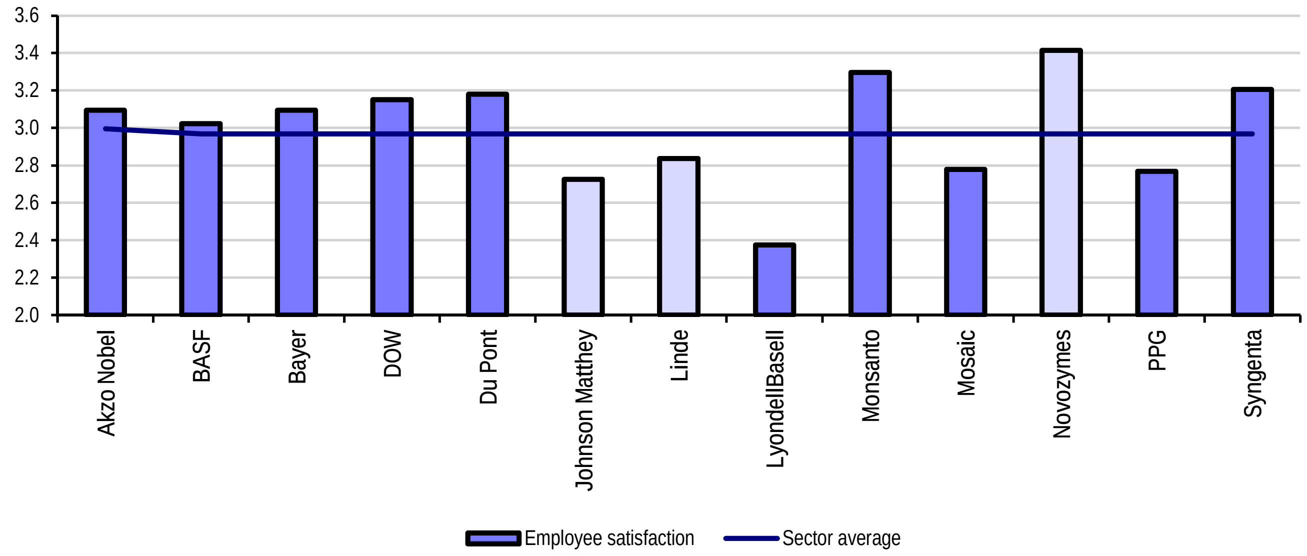
Monsanto is considered the undisputed leader in agricultural biotechnology, with its technology used on the overwhelming majority of major row crops in North and South America. By all accounts, the company has fostered a culture of innovation, and maintains a strong focus on R&D. About a quarter of the workforce is employed in an R&D function, and R&D spending has been high and steady at 10-11% of revenues over each of the past five years. Continued training and development are also hallmarks of the corporate ethos. Given these institutional traits and the company's strong stock performance over the past decade or so, it is no wonder that employee satisfaction for Monsanto is above average. However, as success inevitably breeds heightened competition, some of its peers (notably DuPont's Pioneer division) have aggressively increased their R&D spending and been making market share inroads. Additionally, as Monsanto's revenues have grown, so too has its complexity. As many of its products become more "commoditized", we believe the company will need to find additional ways to continue winning in the market.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Monsanto	3.3	~	368	At the cutting edge of science, creativity and innovation are encouraged, focus on employee safety, pay and benefits	Matrix organization can make things complex at times
LyondellBasell	2.4	n/a	137	Compensation and benefits, focus on safety	Recent loss of experienced employees according to some; lack of opportunities

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the chemicals sector



Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
Akzo Nobel	3.1	182	3.3	51	4.5	31	3.7	100
BASF	3.0	363	3.3	19	3.8	87	3.8	257
Bayer	3.1	246	3.3	48	4	134	3.9	64
DOW	3.2	437	3.4	220	4	92	3.9	125
DuPont	3.2	392	3.4	149	4	62	3.9	181
Johnson Matthey	2.7	51	3.1	25	3.8	11	3.3	15
Linde	2.8	71	3.3	32	4.1	4	3.4	35
LyondellBasell	2.4	137	2.2	78	4	20	3.6	39
Monsanto	3.3	368	3.7	185	4	68	3.9	115
Mosaic	2.8	126	3.3	69	3.6	57	n/a	
Novozymes	3.4	36	3.8	26	3.9	8	3.7	2
PPG	2.8	158	3.2	72			3.5	86
Syngenta	3.2	71	3.5	28	4	32	4.1	11
Sector average	3.0		3.3		4.0		3.7	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Consumer durables & apparels

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•			

Source: UBS Global ESG Analyser survey

Companies to watch

UBS analyst Michael Binetti comments that while the high employee satisfaction at **Nike** is an interesting data point, it is difficult to measure how important this result is from an investor standpoint. In fact, 85% of Nike's sale are wholesale and not retail, so the impact of staff on customers is less visible and direct than at a department store, for example. In a previous note, Michael noted that Nike had a "deep commitment to innovation and investing in brand assets […] and seeks out and reward top industry talent" (see *Initiating on US department stores*, April 2012).

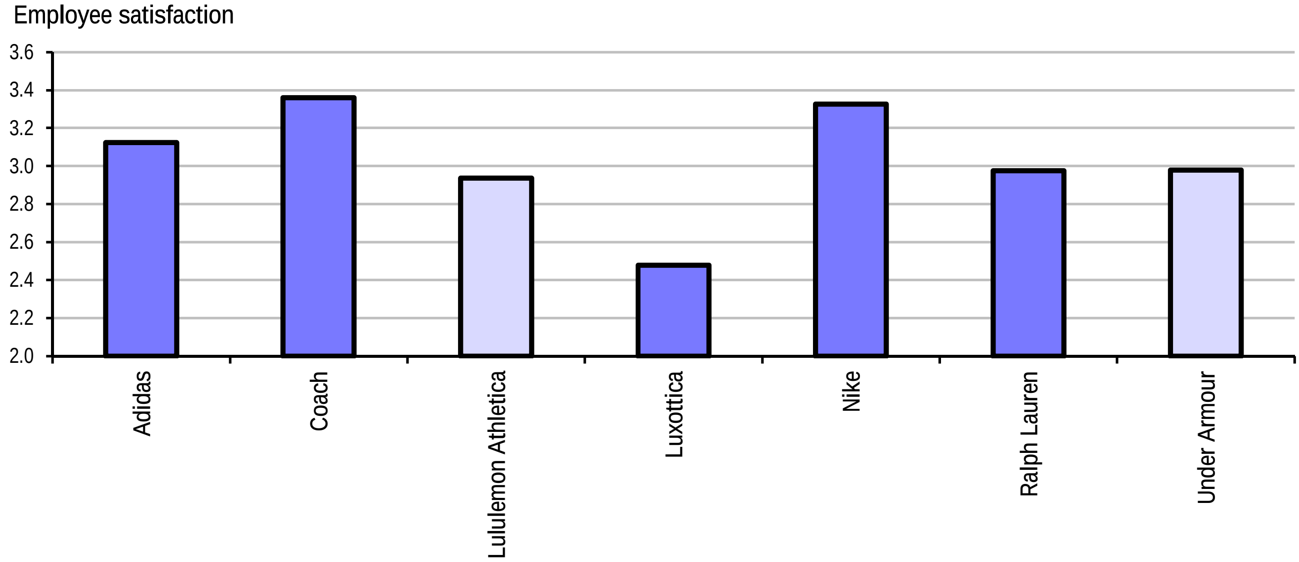
We note that the online survey results for **Luxottica** are skewed towards the US retail operations, and, therefore, may not be representative of the overall workforce. In 2012, retail represented around 65% of the workforce, and North American employees around 58% of the total headcount. In 2012, Luxottica performed its first global employee engagement survey, and reported an internal engagement index level of 75%.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Nike Inc.	3.3	Positive	677	Fun working culture, great products, creativity encouraged and rewarded, benefits	Long hours, competitive environment for some
Coach Inc.	3.4	Negative	234	Great brand, benefits, focus on employee and their development, realistic sales goals, loyal customers	Commissions based on store profitability
Luxottica	2.5	Positive	189	Good products, customer service, commissions	Commissions based on store profitability rather than individual sales, lack of career opportunities for some

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the consumer durables & apparels sector



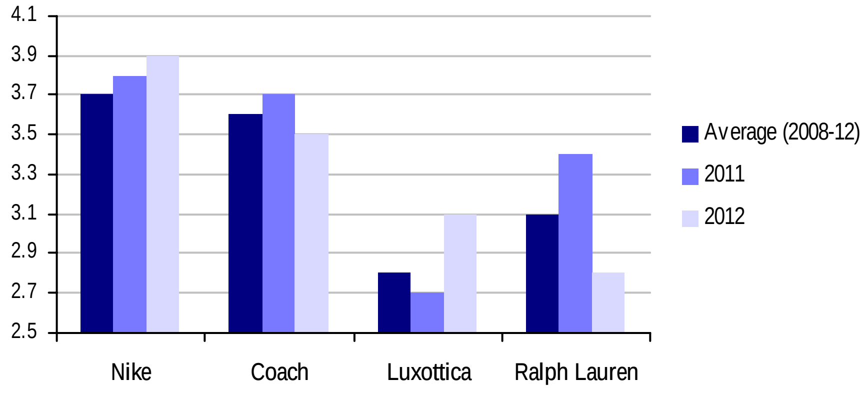
Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
Adidas AG	3.1	295	3.5	109	4.0	116	3.7	70
Coach Inc.	3.4	234	3.6	197	4.4	37	n/a	
Lululemon Athletica	2.9	66	3.2	66	n/a		n/a	
Luxottica	2.5	189	2.8	111	3.3	53	3.5	25
Nike Inc.	3.3	677	3.7	354	4.0	211	4.1	112
Ralph Lauren	3.0	349	3.1	155	4.0	105	3.8	89
Under Armour, Inc.	3.0	76	3.2	50	4.0	26	n/a	
Sector average	3.0		3.3		4.0		3.8	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

Consumer staples

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•		•	

Source: UBS Global ESG Analyser survey

Companies to watch

ABI – Buy, PT €80 – analysts: Melissa Earlam, Olivier Nicolai

We view ABI's culture as highly meritocratic and a key competitive advantage, but believe this is not captured by online employee satisfaction scores. ABI fosters a culture of ownership, in our view, which attracts and rewards a very specific type of employee, who buys fully into the business as a "stakeholder" and gets compensated quite materially with stock. Given its meritocratic culture, history of acquisition and lean structure, we are not surprised that ABI scores relatively low in those online surveys that can (in our view) be biased towards disgruntled employees and where the survey data has a US bias (as discussed on page 27), given InBev's acquisition of Anheuser-Busch in 2008 and subsequent integration.

ABI's internal survey shows relatively high employee engagement (77.4% in 2012, 76% in 2011 and 2010), which suggests online survey results may, in fact, be skewed towards the opinion of unhappy employees. ABI states that online survey results contradict its own internal engagement metrics. According to the company, its workforce is united behind ABI's Dream, People, Culture platform and is its most sustainable competitive advantage.

The fact that ABI has been highly acquisitive over the past 15 years means that the integration of businesses inevitably leads to headcount cuts, which likely heavily influence employee perception. Also, ABI's lean structure is often listed as one of the "cons" by employees. This is, in our view, quite consistent with the company's track record of achieving cost savings, based on practices such as zero-based budgeting, which means all expenses must be justified each year – not only the increases. This type of cost-saving initiative could generate dissatisfaction among some of the workforce.

Reckitt Benckiser – Buy, PT 5,210p – analyst: Eva Quiroga

Reckitt Benckiser's culture is highly meritocratic, in our view. Looking at online employee feedback, Reckitt Benckiser's culture seems to emphasize a focus on targets and results, relatively swift decision-making, and a willingness to take chances on new products. According to CEO Rakesh Kapoor, RB's culture is a source of competitive advantage: "Our company is very entrepreneurial. It has this edginess where it is able to take risks. Of course, these are considered risks that allow you to win big and fail small."

Probably because of the meritocratic aspect of RB's culture, the company is sometimes referred to as having a "marmite" culture[20]. CEO Kapoor comments that "the marmite culture actually points to the uniqueness of RB. We are not ashamed of the culture; we are proud of it. I think every company must find its own unique culture to succeed."[21]

Some employees will be attracted to and be highly motivated by a meritocratic environment. But, such less consensual cultures will also likely generate some degree of dissatisfaction in some parts of the workforce. Indeed, we find that the dispersion of employee opinions is higher for Reckitt Benckiser, which is not captured by measures of average employee satisfaction. What's more, we believe that the online employee survey results that we used can be biased towards the opinions of disgruntled employees.

How does this affect employee turnover? The company points out that its "regretted churn" is low. As a sign of this, the total turnover of the top 400 executives is relatively low at 8%, according to Reckitt Benckiser's annual report, and the "regretted churn" for the top 400 is likely to be lower than that figure.

Table 1: Companies that stand out in terms of employee satisfaction

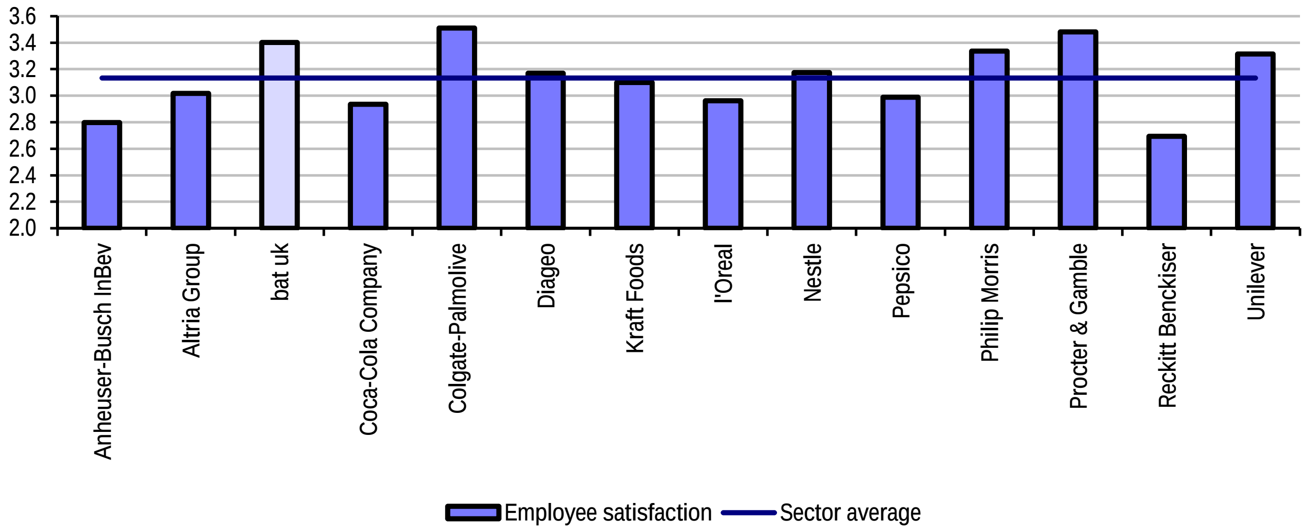
Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Reckitt Benckiser	2.7	Stable	243	Fast-paced environment, many opportunities to grow, company willing to take chances on new products, focused on exceeding targets	Work/life balance, high turnover
ABI	2.8	n/a	319	Great brands, good performance-driven remuneration, opportunities for career growth	High workload, focus on cost control

Source: CareerBliss, Indeed, Glassdoor, UBS

[20] http://www.ft.com/intl/cms/s/0/0dc91f26-c842-11dc-94a6-0000779fd2ac.html#axzz2RHP3R98O

[21] http://businesstoday.intoday.in/story/reckitt-benckiser-global-ceo-rakesh-kapoor-interview/1/191047.html

Chart 1: Employee satisfaction scores in the consumer staples sector



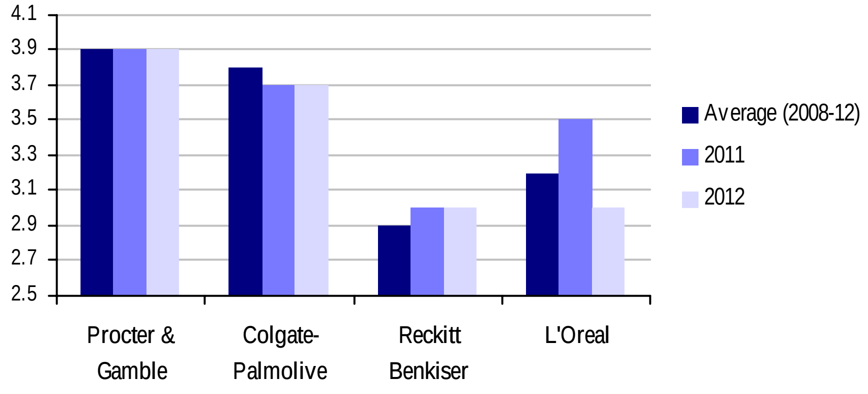
Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
Altria Group	3.0	195	3.3	165	n/a	-	3.7	30
Anheuser-Busch InBev	2.8	319	2.9	177	4	46	3.7	96
BAT UK	3.4	80	3.7	80	n/a	-	n/a	-
Coca-Cola Company	2.9	846	3.4	196	3.7	393	3.9	257
Colgate-Palmolive	3.5	323	3.8	144	4.5	89	3.9	90
Diageo	3.2	100	3.5	55	4	45	n/a	-
Kraft Foods	3.1	920	3.4	399	4	290	3.8	231
L'Oreal	3.0	253	3.2	122	4	77	3.7	54
Nestle	3.2	543	3.6	151	4	286	3.8	106
PepsiCo	3.0	856	3.3	375	4	40	3.7	441
Philip Morris	3.3	212	3.5	60	4.4	47	3.9	105
Procter & Gamble	3.5	1501	3.9	1079	4	251	4	171
Reckitt Benckiser	2.7	243	2.9	159	4	52	3.4	32
Unilever	3.3	664	3.6	280	4.2	279	3.9	105
Sector average	3.1		3.4		4.1		3.8	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

Healthcare services

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
	•		•

Source: UBS Global ESG Analyser survey

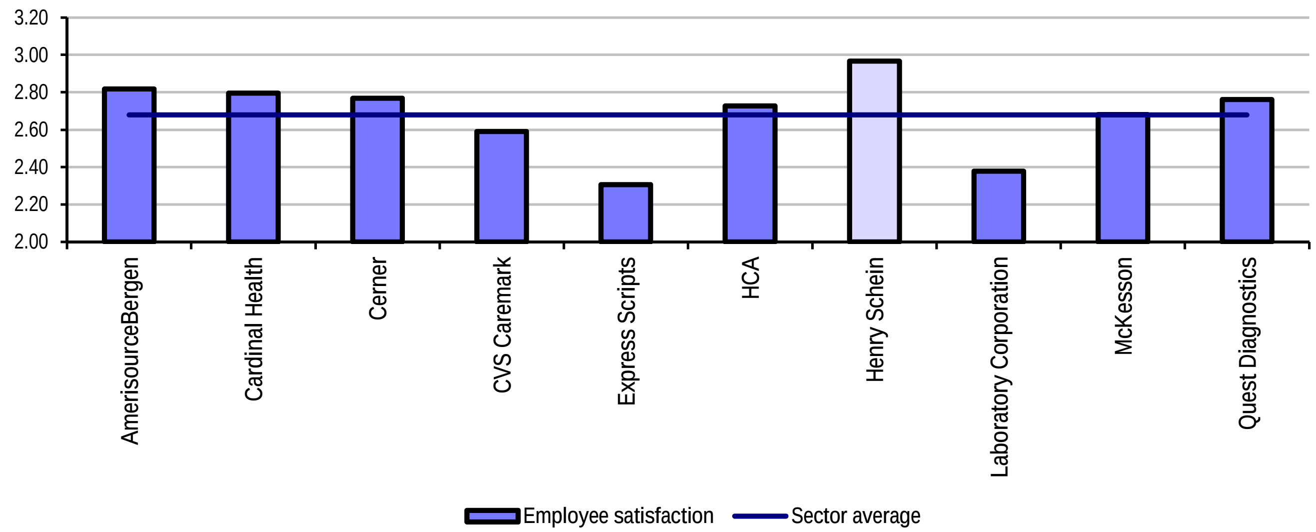
Companies to watch

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Express Scripts	2.3	Negative	441	Good benefits according to some	Lack of work/life balance, some complain about the focus on the bottom line
Laboratory Corporation	2.4	Negative	123	Job flexibility, good benefits	Some complaints on lack of training, and pressure to meet numbers

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the healthcare services sector



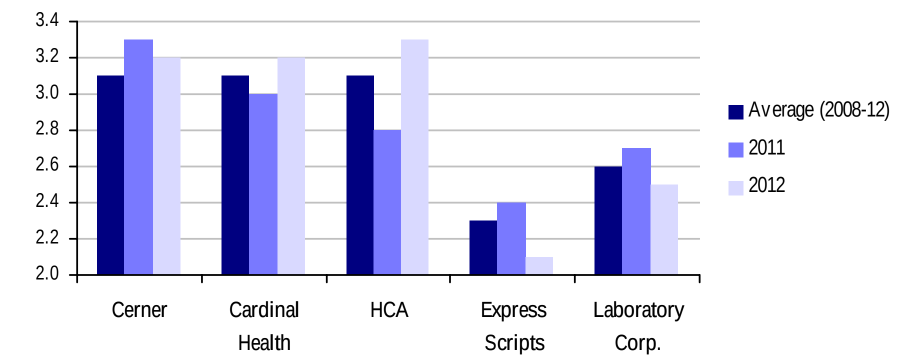
Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
AmerisourceBergen Corp.	2.8	190	2.8	65	n/a		3.7	125
Cardinal Health	2.8	927	3.1	217	3.8	223	3.6	487
Cerner Corp.	2.8	431	3.1	309	4	22	3.4	100
CVS Caremark Corporation	2.6	2910	2.8	1179	3.7	1573	3.4	158
Express Scripts Inc.	2.3	291	2.3	201	3.5	28	3.6	62
HCA Holdings	2.7	354	3.1	123	3.6	139	3.7	92
Henry Schein Inc.	3.0	97	3.1	52	n/a		3.8	45
Laboratory Corporation of America	2.4	123	2.6	123	n/a		n/a	
McKesson Corporation	2.7	668	2.9	234	3.7	250	3.6	184
Quest Diagnostics	2.8	739	2.9	194	3.9	325	3.5	220
Sector average	2.7		2.9		3.7		3.6	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

Industrials

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•		•	

Source: UBS Global ESG Analyser survey

Companies to watch

3M – Buy, PT US$128– analyst: Jason Feldman

3M's culture of innovation is considered critical to its success and an important component of our Buy rating on the stock. It is encouraging that employee satisfaction overall is high given the importance of retaining staff in key science/engineering functions, and because we believe that true innovation is more likely in a positive workplace environment. For an organization the size of 3M, it is not surprising that there are some complaints about bureaucracy. Regarding concerns about a lack of marketing capabilities, we believe this is a major focus of 3M's relatively new CEO.

General Electric – Buy, PT US$27 – analyst: Jason Feldman

GE's positive employee satisfaction score is a pleasant surprise to us given the substantial changes at the company (particularly at Finance) over the last few years. Employee retention is important for GE, particularly in sales and engineering-related roles. Historically, GE has attracted some of the "best and brightest", and it appears that trend continues. Given its sheer size and complexity, complaints about bureaucracy and slow decision-making are to be expected. This view is shared by many investors who believe that the structure and size of the company make it inherently less nimble.

Danaher – Buy, PT US$77 – analyst: Jason Feldman

Given Danaher's business model, we believe the low employee satisfaction score is to be expected. Simply, the Danaher culture is not for everyone. The high pressure and process orientation at Danaher can be difficult for some employees to accept. Further, given the rapid pace of acquisitions at Danaher, there are always large numbers of employees who are fairly new to the culture, and some do not last. This is partly exacerbated by Danaher's M&A focus, which often (although not always) targets underperforming companies that have not focused heavily on cost control, efficiency or process. We believe that employees who adapt and last at Danaher are among the most talented in the industrial space, and would expect a very different employee satisfaction score if employees recently added via M&A were excluded (or if the focus was on employees who had been with Danaher for a period of time). The low employee satisfaction score in no way undermines our positive view of the company, its strategy, or its future prospects.

The Danaher Business System (DBS) is a business management system, or a set of tools and processes, that is "designed to continuously improve business performance in critical areas of quality, delivery, cost and innovation". DBS is used both to assist with integration of newly acquired businesses, and then to achieve ongoing improvements in operational performance.

The DBS is based on the Toyota Production System, which was developed by Toyota in the early 1950s. The Jacobs Production System was implemented by Jacobs Vehicle Systems (a Danaher subsidiary) in the late 1980s, and then adopted more widely by Danaher as the DBS around 1990. Many (if not most) manufacturing companies today discuss their own version of a business system based on lean manufacturing or six sigma concepts. However, we believe that Danaher implemented its system earlier than most, that it has been extremely consistent and effective in its application of DBS, and that the concept of continuous improvement is more ingrained in the culture at Danaher than at other industrial firms. While it is difficult to quantify the benefits of DBS explicitly, we believe that Danaher's strict adherence to DBS is one of the main reasons why it has managed to successfully integrate the large number of acquisitions it has completed over the last few decades, and more recently it has been responsible for success in improving underlying organic growth rates and new product development.

Thermo Fisher – Buy, PT US$101 – analyst: Daniel Arias

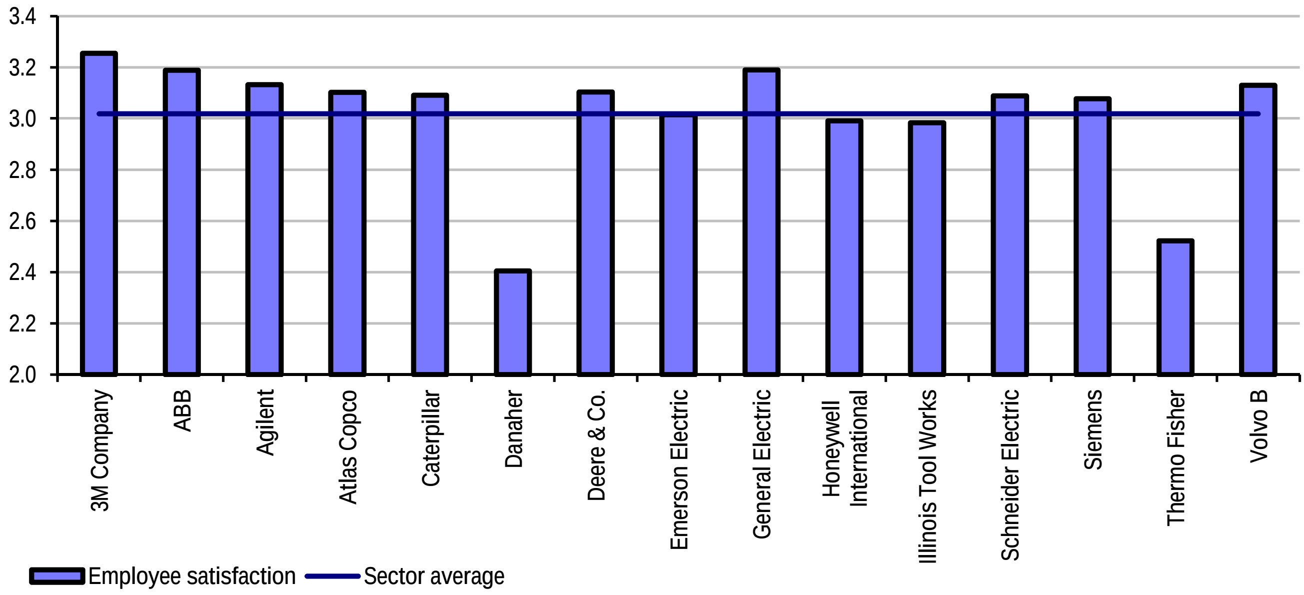
We are surprised by the relatively low employee satisfaction for Thermo Fisher. Thermo Fisher is an industry leader in many areas, and we have found its strategic vision to be intact and clear, based on conversations with management. We believe Thermo Fisher's acquisition strategy and focus on productivity gains may be skewing employee satisfaction downwards, as this tends to generate disappointment in some parts of the workforce (or indeed among ex-employees). The low employee satisfaction score does not change our overall investment thesis.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
3M	3.3	n/a	729	Innovative and collaborative environment, opportunities to move within the company	Bureaucratic, focus on sales, but some point out a lack of marketing capabilities
GE	3.2	Stable	2344	Talented workforce, great learning opportunities and good mobility	Very bureaucratic, slow decision-making processes
ABB	3.2	n/a	448	Good technology and strong on engineering, respected brand, work/life balance	Bureaucratic at times
Danaher Corporation	2.4	n/a	145	High pressure, process driven, focus on results	High pressure, lean management, too much focus on stockholder returns for some
Thermo Fisher	2.5	Negative	448	Good products and technology, good benefits	Lack of employee engagement for some, high workload for some

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the industrials sector



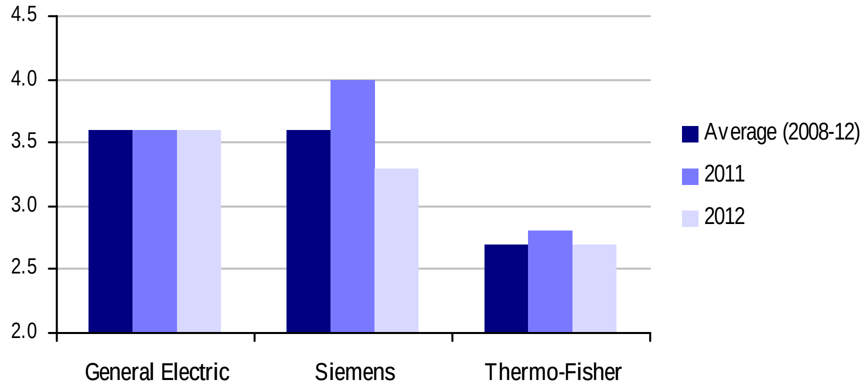
Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
3M Company	3.3	729	3.3	255	4.1	112	4.0	362
ABB Ltd	3.2	448	3.6	113			3.8	335
Agilent	3.1	992	3.6	316	4.1	55	3.7	621
Atlas Copco A	3.1	132	3.6	41	4.0	43	3.6	48
Caterpillar Inc.	3.1	1170	3.5	372	3.9	311	3.8	487
Danaher Corporation	2.4	145	2.3	61			3.5	84
Deere & Co.	3.1	374	3.5	193	4.0	58	3.7	123
Emerson Electric Co.	3.0	187	3.4	72			3.7	115
General Electric	3.2	2344	3.6	1015	4.0	206	3.8	1123
Honeywell International Inc.	3.0	1433	3.3	261	4.0	371	3.7	801
Illinois Tool Works	3.0	108	3.3	47			3.7	61
Schneider Electric	3.1	507	3.4	284	4.0	109	3.7	114
Siemens	3.1	1415	3.6	245	4.0	344	3.7	826
Thermo Fisher	2.5	448	2.7	214	3.6	90	3.5	144
Volvo B	3.1	175	3.6	47	4.0	58	3.7	70
Sector average	3.0		3.4		4.0		3.7	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

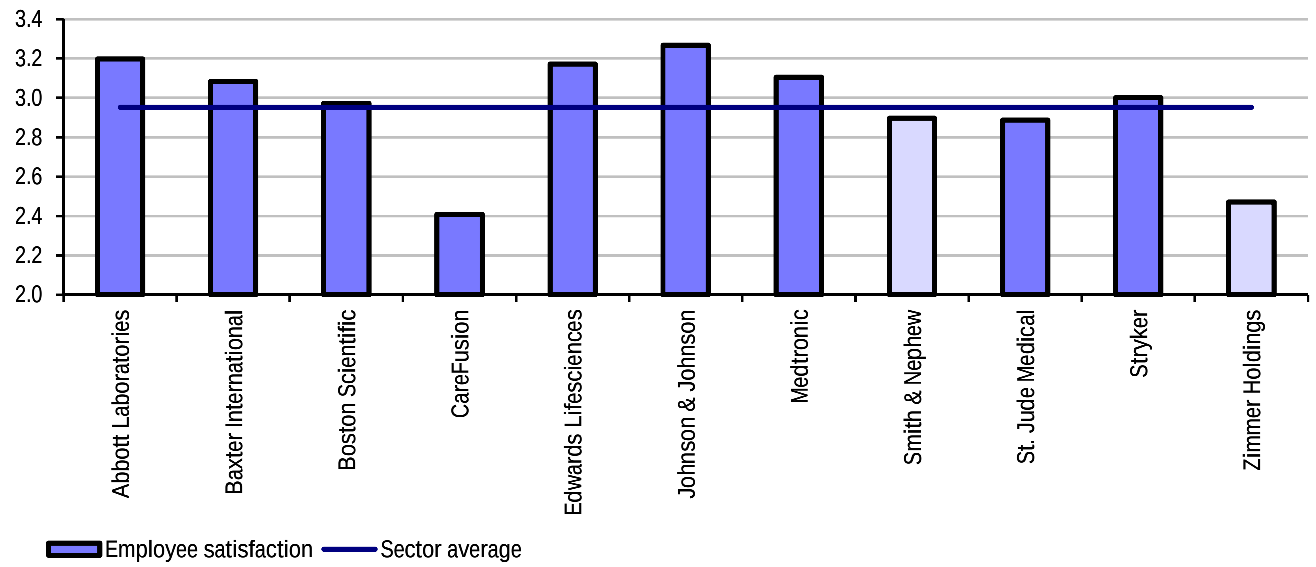
Medical technology

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•	•	•	

Source: UBS Global ESG Analyser survey

Chart 1: Employee satisfaction scores in the medical technology sector



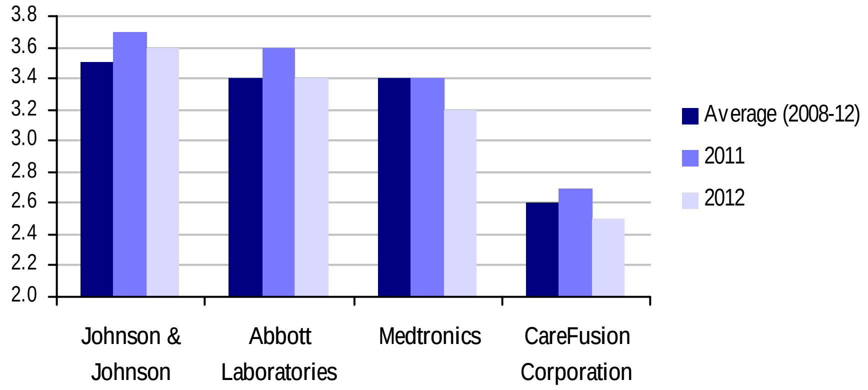
Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
Abbott Laboratories	3.2	1203	3.4	336	4.0	167	3.9	700
Baxter International Inc.	3.1	705	2.9	175	4.0	111	3.9	419
Boston Scientific Corp.	3.0	644	3.0	228	4.0	130	3.8	286
CareFusion Corporation	2.4	200	2.6	177			3.5	23
Edwards Lifesciences Corp	3.2	107	3.3	43			3.9	64
Johnson & Johnson	3.3	1389	3.5	812	4.0	138	4.0	439
Medtronic, Inc.	3.1	589	3.4	262	4.0	112	3.8	215
Smith & Nephew	2.9	68	3.0	38			3.9	30
St. Jude Medical, Inc.	2.9	243	3.1	141			3.7	102
Stryker Corporation	3.0	388	3.2	222	4.0	72	3.8	94
Zimmer Holdings, Inc.	2.5	73	2.7	73				
Sector average	3.0		3.1		4.0		3.8	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

Mining

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•	•		

Source: UBS Global ESG Analyser survey

Companies to watch

Rio Tinto Plc – Buy, PT 3,650p – analysts: Myles Allsop, Glyn Lawcock

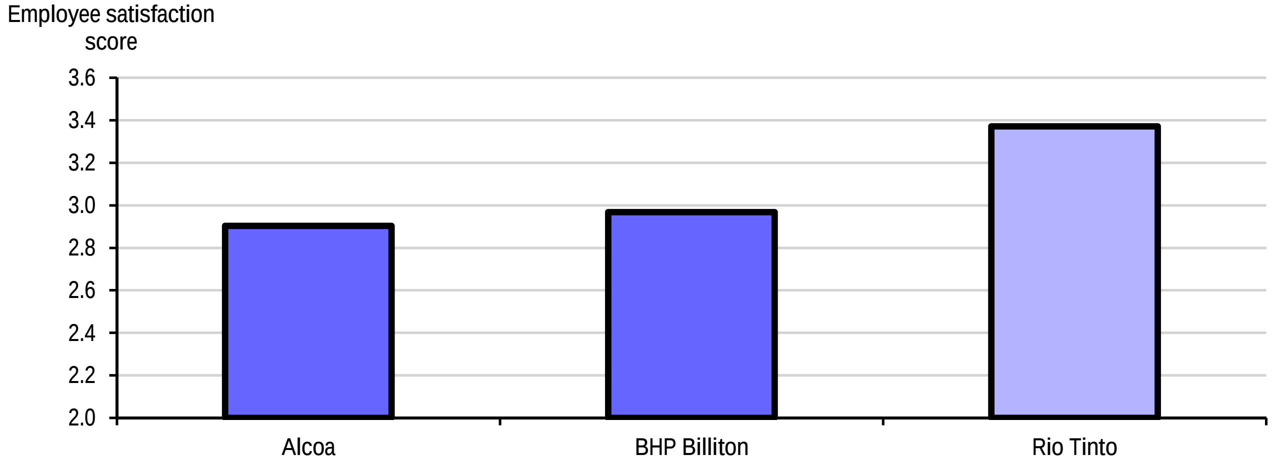
Online employee surveys suggest Rio Tinto is an attractive place to work in the mining sector, although we would like those results to be confirmed by further data because of the small sample size of the surveys. Employee comments also corroborate our view that Rio Tinto has a relatively strong focus on safety and communities. In October 2012, we selected Rio Tinto as one of our top picks among miners from an ESG standpoint, emphasizing the culture of openness and access to management, which is reflected, for example, in its top position in the 2013 Extel survey in the metals and mining sector. We expect this culture to be maintained by Sam Walsh, Rio's new CEO, but we intend monitoring the employee survey results next year in an environment where Rio Tinto is cutting costs significantly.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Rio Tinto	3.4	n/a	82	Great benefits and training, strong focus on safety and communities, multicultural environment	Process heavy and conservative at times

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the mining sector



Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
Alcoa Inc.	2.9	446	2.9	82	4.0	40	3.7	324
BHP Billiton Plc	3.0	117	3.2	83	4.0	24	3.9	10
Rio Tinto Limited	3.4	82	3.9	33	4.0	26	3.8	23
Sector average	3.1		3.3		4.0		4.0	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Oil and gas

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
	•		

Source: UBS Global ESG Analyser survey

Companies to watch

Royal Dutch Shell – Neutral, PT 2,200p – analyst: Jon Rigby, CFA

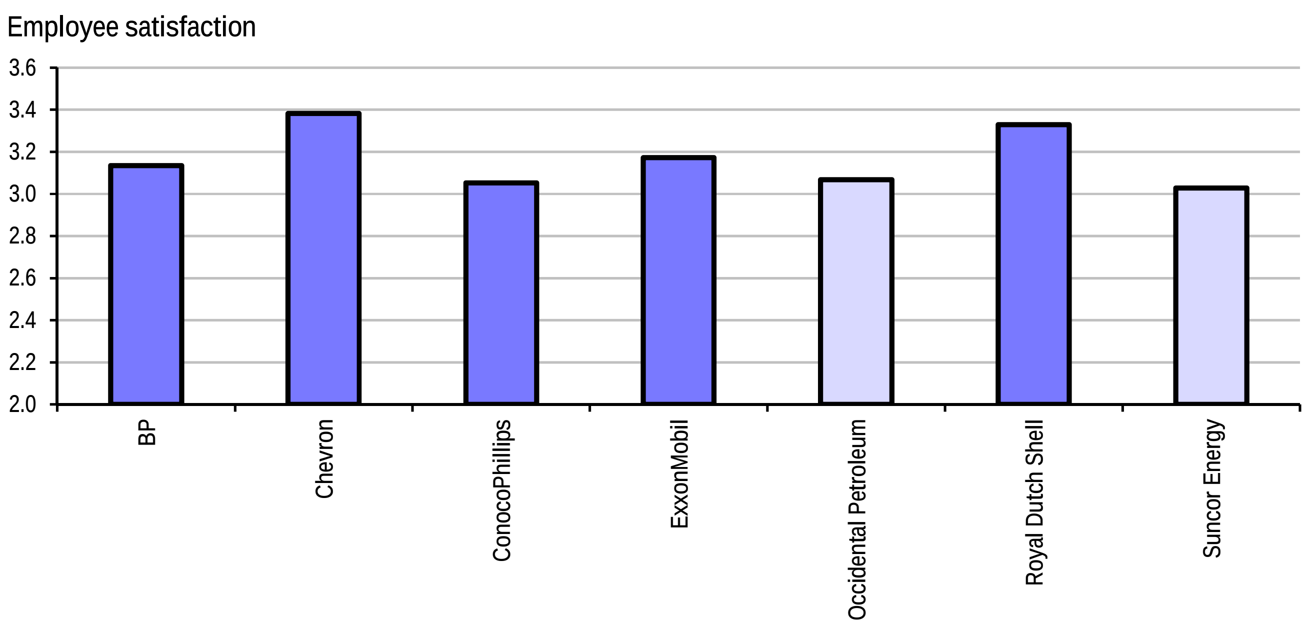
According to its annual report, the 'Shell People Survey' is one of the key tools used by the company to measure employee engagement. Shell states that the survey has a consistently high response rate and the engagement score in 2012 was 77% favourable – a three point increase from 2011.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Chevron Corp	3.4	Negative	846	Focus on safety, diversity, career development, good benefits, compensation and work/life balance; "Chevron does not skimp when it comes to taking care of its employees"	Process-oriented, slow-moving, somewhat risk-averse organization
Royal Dutch Shell	3.3	Negative	617	International opportunities, good compensation and benefits, career opportunities, and focus on safety	Slow decision-making and consensus culture

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the oil and gas sector



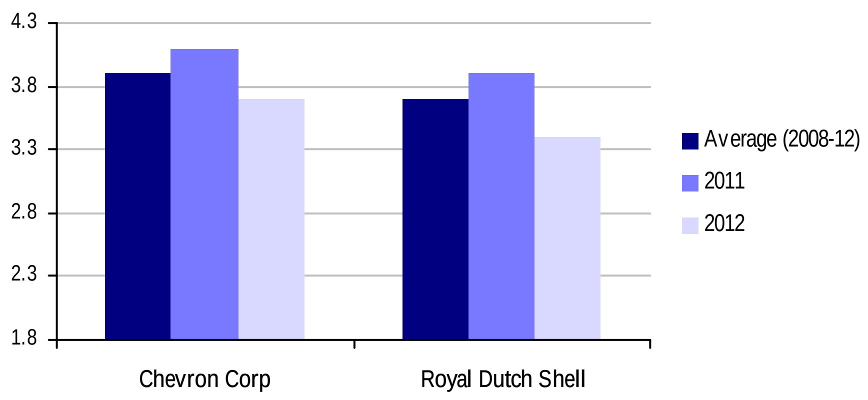
Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
BP	3.1	873	3.5	415	4.0	169	3.7	289
Chevron Corp	3.4	846	3.8	327	4.0	164	4.0	355
ConocoPhillips	3.1	335	3.4	193	4.0	14	3.7	128
ExxonMobil Corp	3.2	669	3.4	194	4.0	171	3.9	304
Occidental Petroleum Corp	3.1	83	3.2	50			3.9	33
Royal Dutch Shell	3.3	617	3.8	180	4.0	156	3.9	281
Suncor Energy Inc	3.0	61	3.3	61				
Sector average	3.2		3.5		4.0		3.9	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

Oil services

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
	•		

Source: UBS Global ESG Analyser survey

Companies to watch

Human capital is a relevant issue in the oil services sector, according to Angie Sedita, UBS US oil services and drilling sector analyst. Companies which value it are more likely to be higher-quality companies with more innovation, and tend to dominate their sector in the long term, in her view. Schlumberger and FMC Technologies are two examples of such companies with strong corporate culture, in her view.

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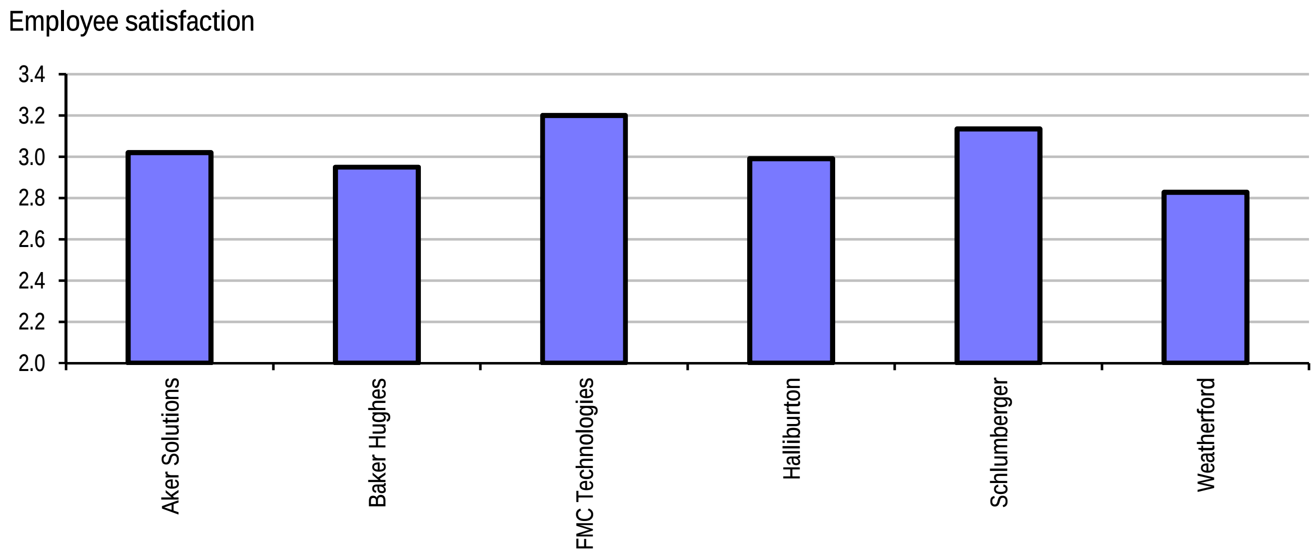
Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Schlumberger	3.1	Negative	1226	Leading technology and great technical training, multicultural environment	Heavy workload and very little work/life balance
FMC Technologies	3.2	n/a	205	Good technology and training, good work/life balance, and benefits	

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the oil services sector



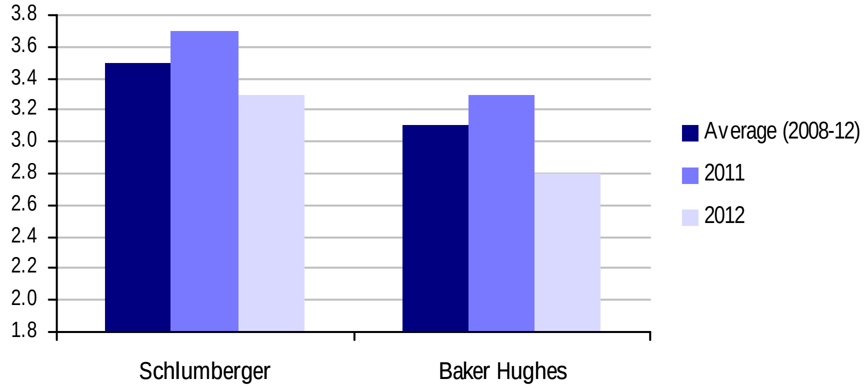
Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
Aker Solutions	3.0	137	3.2	43	4.0	20	3.8	289
Baker Hughes Inc.	3.0	677	3.1	296	3.9	146	3.8	355
FMC Technologies Inc.	3.2	205	3.5	64	4.0	50	3.9	128
Halliburton Co.	3.0	588	3.3	261	4.0	210	3.6	304
Schlumberger Ltd.	3.1	1226	3.5	775	4.0	200	3.7	33
Weatherford International Ltd.	2.8	266	3.2	136	3.9	72	3.4	281
Sector average	3.0		3.3		4.0		3.7	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of employee satisfaction levels for selected companies



Source: Glassdoor

Pharmaceuticals

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•		•	

Source: UBS Global ESG Analyser survey

Companies to watch

Novo Nordisk – Buy, PT DKr1,040 – analyst: Andrew Whitney, PhD, CA

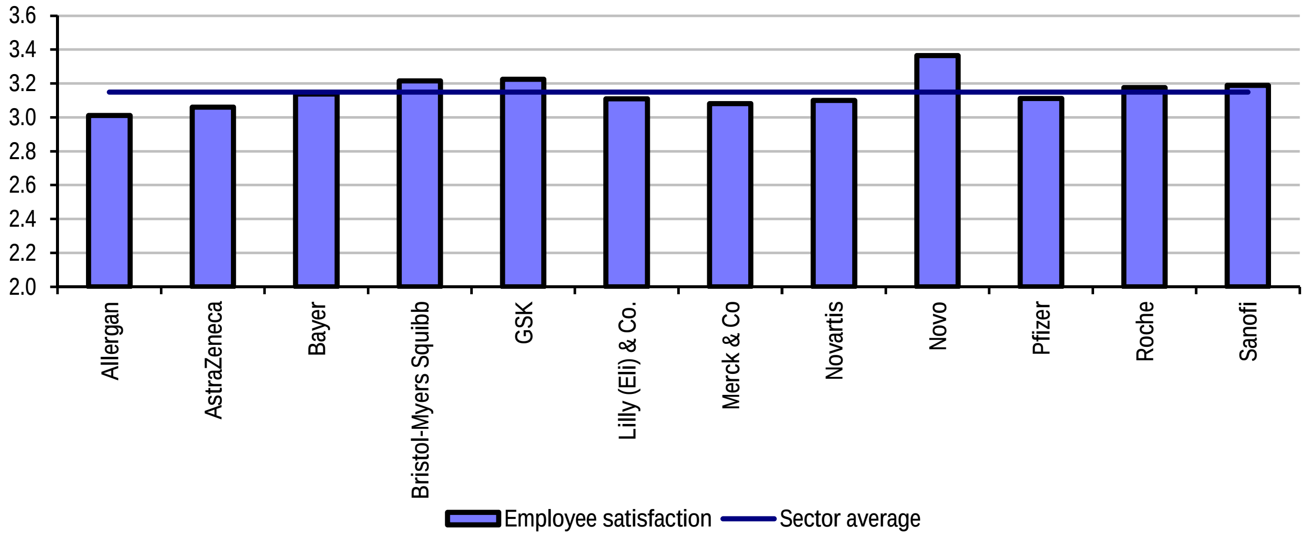
Given Novo is a leading innovator in its field (clinical research, in particular in diabetes) and the company/stock has performed well over the last five years, we are not surprised that Novo scores highly with its employees. We believe there is a positive feedback loop between motivated scientists, innovative medicine, and positive clinical (and therefore financial) results. Based on our knowledge of the company, we see the innovation-based culture and high levels of employee motivation/satisfaction as likely to persist. Novo is controlled by the Novo Nordisk Foundation. This potentially allows for strategic decisions to be made on a longer-term basis, with some of the uncertainty for employees removed relative to any companies with shorter-term pressures.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Novo Nordisk	3.4	n/a	121	Very employee focused, great pipeline of products, serious about social responsibility	Some worry that growth may change the company's culture

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the pharmaceutical sector



Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
Allergan	3.0	238	3.4	71	4.0	23	3.7	144
AstraZeneca	3.1	468	3.3	204			3.8	264
Bayer	3.1	226	3.3	43	4.0	119	4.0	64
Bristol-Myers Squibb	3.2	673	3.4	208	4.1	85	3.9	380
GSK	3.2	594	3.4	200	4.1	175	4.0	219
Lilly (Eli) & Co.	3.1	602	3.4	293	4.0	73	3.8	236
Merck & Co	3.1	1005	3.2	458	4.0	174	3.9	373
Novartis	3.1	567	3.4	108	4.0	167	3.8	292
Novo	3.4	121	3.7	59	4.0	23	4.0	39
Pfizer	3.1	1542	3.1	626	4.0	331	4.0	585
Roche	3.2	273	3.4	74	4.0	50	3.9	149
Sanofi	3.2	346	3.4	91	4.0	38	3.9	217
Sector average	3.1		3.4		4.0		3.9	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Retailers

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
			•

Source: UBS Global ESG Analyser survey

Companies to watch

General retailers

Costco – Buy, PT US$124 – analyst: Jason DeRise, CFA

Costco stands out with a particularly high employee satisfaction score in this survey. This result seems consistent with the former CEO and founder Jim Sinegal's stated business philosophy: "I happen to believe that, in order to reward the shareholder in the long term, you have to please your customers and workers." Along with the value proposition offered to Costco's members (high-quality products at a low price), high employee morale is likely to be a factor behind the high customer satisfaction (one of the highest among its peers, according to the American Customer Survey) and the very high customer loyalty (membership renewals reached an all-time high in the US of 90%, despite a recent fee increase in November 2011). In our view, its engaged workforce plays a role in reinforcing customers' general perception of quality surrounding Costco's products and generating the 'treasure hunt' atmosphere that Costco wants to create in its stores.

Wal-Mart – Buy, PT US$88 – analyst: Jason DeRise, CFA

Wal-Mart scores lower than the industry average in this survey, but not significantly so (less than one standard deviation), and certainly better than one would expect, given the negative press coverage surrounding some of Wal-Mart's alleged labour practices[22]. Some employees complain about the compensation and high workload, but this is balanced by others saying that Wal-Mart offers good opportunities of advancement (keeping in mind that Wal-Mart employs 1.3m people in the US). What does this mean for investors? UBS analyst Jason DeRise believes that Wal-Mart can drive revenues and profits higher by increasing the number of employees per store to improve customer service[23] (*Wal-Mart, Now, later and long term*, Jason DeRise, CFA, 15 April 2013). With increased staff levels, Wal-Mart can improve on shelf availability and increase checkout speed, which should increase customer trips. As we model it, an improvement in shelf availability would pay for the increased staff levels, with increasing traffic providing incremental upside.

[22] See for example: http://www.nytimes.com/2012/10/05/business/walmart-workers-in-california-protest.html?_r=0

[23] Which trails the other US supermarkets according to the American Customer Satisfaction Index

Food retailers

According to UBS analyst Jason DeRise, the biggest challenge for a food retailer is getting the vision from the head office to be executed in the stores, because the business model typically relies on employees who are not usually paid highly to execute the plan. How do you motivate low-paid employees to be the face of the organization? Whole Foods' employees are not only given rewards for strong performance, but also given the ability to make decisions in the store which affect business outcomes. Whole Foods leverages its decentralized structure by properly incentivizing the right behaviour, which drives up employee satisfaction. Safeway is centrally structured and therefore requires store level employees to be good executors of the plan. However, the employees have less influence on the plan for their store than a comparable worker at Whole Foods. What is the motivation for these store-level employees to care about the customer and go the extra mile, other than avoiding complaints/bad reviews?

Whole Foods – Buy, PT US$60 – analyst: Jason DeRise, CFA

We do not find the above-average employee satisfaction at Whole Foods surprising, and it broadly supports our view (stated in *Differentiation wins*, 13 August 2012) that the company continues to drive employee and customer satisfaction simultaneously, by creating a structure where store-level employees are directly incentivised to drive both revenues and profits by providing high-quality service. Whole Foods stores have among the highest SG&A/sq. ft among its peers, but it is among the best in terms of revenue productivity.

Safeway – Sell, PT US$20 – analyst: Jason DeRise, CFA

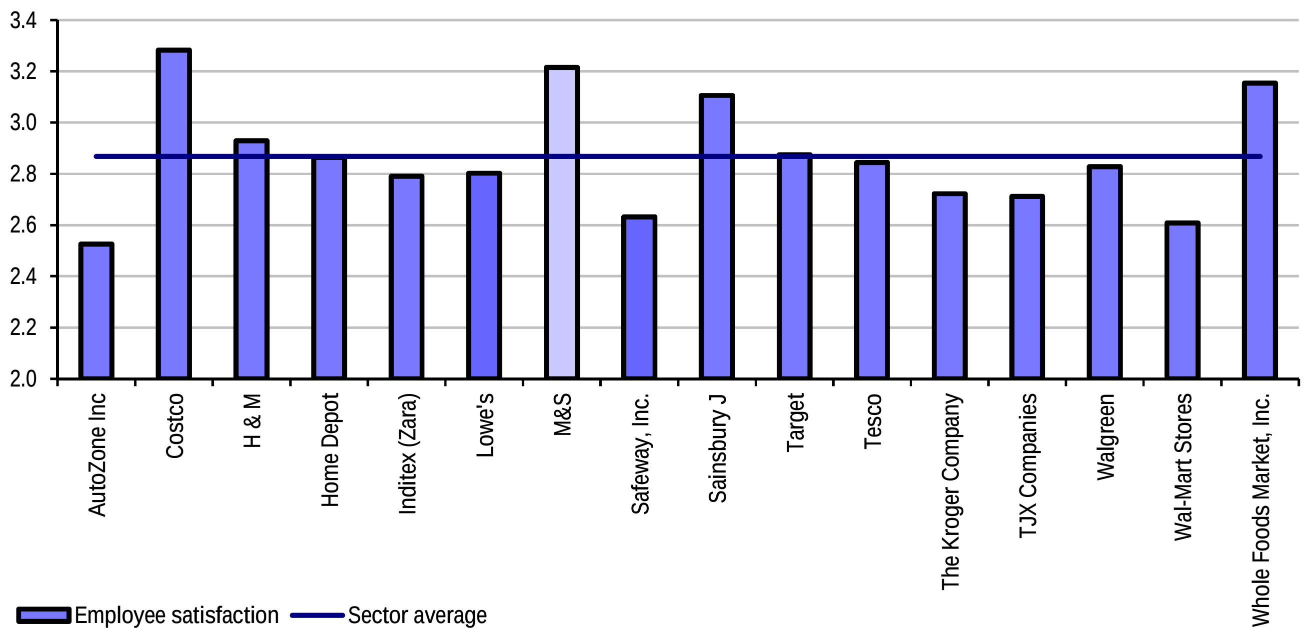
The relatively low employee satisfaction at Safeway seems consistent with the comparatively low number of employee/sq. ft that we observed in *Differentiation wins* (DeRise, 13 August 2012). In our view, investing in SG&A could be one way for Safeway to drive both employee and customer satisfaction levels up, and ultimately could help the company to differentiate (please see DeRise, *US Staples Retailers, Sector Keys*, June 2013). Safeway, however, state that their customer satisfaction scores are strong, which the company believes shows its employees are engaged and providing excellent service to its customers.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying: Pros	What employees are saying: Cons
Costco	3.3	Stable	1113	Compensation and benefits, career opportunities, low turnover, good working environment, and feeling that management cares	High expectations, work/life balance
Whole Foods Market	3.2	Positive	937	Compensation and benefits, strong values and diverse culture, culture of training for internal advancement	Some associates complain they cannot afford to shop there, customers are always right
Sainsbury J	3.1	N/a	68	Good working environment and opportunities	N/A
Safeway	2.6	Negative	1487	Good benefits, training, flexibility to move within departments	Some consider pay to be below average in the industry, work/life balance also an issue for some
AutoZone	2.5	Stable	1009	Job security, learning experience, flexible scheduling, compensation at higher levels	Work/life balance, some employees think they are not incentivised to perform, stores can be understaffed

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the retail sector



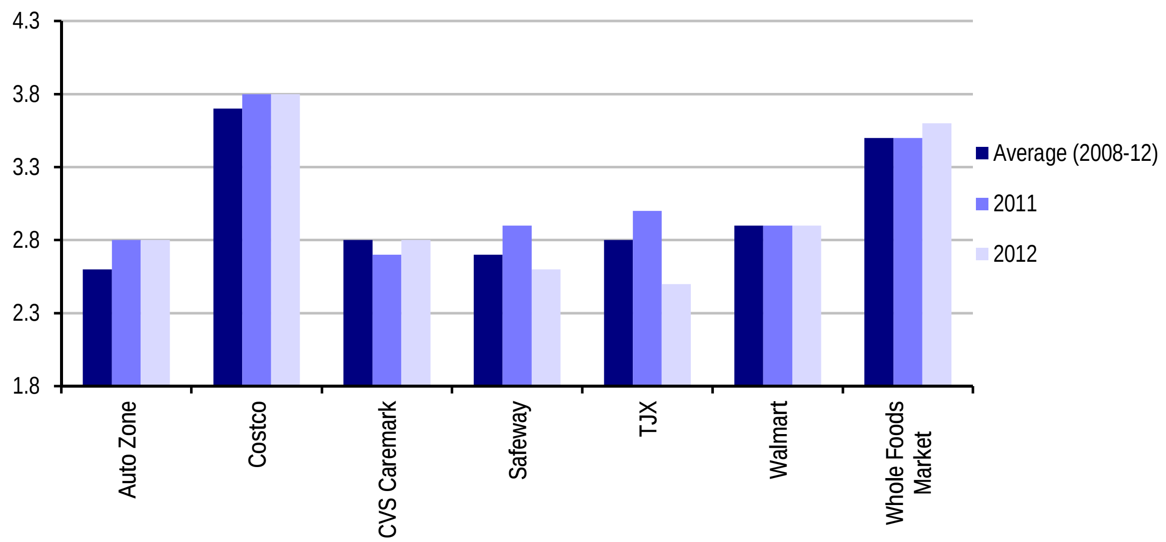
Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
AutoZone Inc	2.5	1009	2.6	260	3.8	439	3.3	310
Costco	3.3	1113	3.7	539	4.1	380	3.8	194
H & M	2.9	226	3.2	215	n/a	n/a	3.5	11
Home Depot	2.9	6640	3.2	1999	3.9	3323	3.5	1318
Inditex (Zara)	2.8	232	2.9	117	4.0	110	3.8	5
Lowe's	2.8	3851	3.2	1146	3.8	2269	3.5	436
M&S	3.2	57	3.5	57	n/a	n/a	n/a	n/a
Safeway, Inc.	2.6	1487	2.7	442	3.8	804	3.4	241
Sainsbury J	3.1	68	3.4	68	n/a	n/a	n/a	n/a
Target	2.9	7515	3.2	3488	3.9	3193	3.4	834
Tesco	2.8	123	3.1	123	n/a	n/a	n/a	n/a
The Kroger Company	2.7	1663	2.9	575	3.8	1000	3.5	88
TJX Companies	2.7	782	2.8	166	3.8	541	3.5	75
Walgreen	2.8	3827	3.0	1424	3.9	2071	3.5	332
Wal-Mart Stores	2.6	16050	2.9	3212	3.7	11747	3.3	1091
Whole Foods Market, Inc.	3.2	937	3.5	542	4.0	313	3.8	82
Sector average	2.9		3.1		3.9		3.5	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.5		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

Technology hardware

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
		•	

Source: UBS Global ESG Analyser survey

Companies to watch

Apple – Buy, PT US$500 – analyst: Steven Milunovich, CFA

Apple's culture of innovation and creativity is unusual – as well as critical to our Buy rating, as innovation is considered the primary way out of its current difficulties. Competitors catching up in technology along with the phenomenal success of the iPad make growth more difficult going forward. A big question is whether the "Apple magic" can continue without Steve Jobs. We are encouraged that employee satisfaction overall is high, as retaining and attracting top talent is important. On the negative side, Apple's famous secrecy has some drawbacks both internally and externally. Apple's lack of transparency with analysts, such as previously ultra-conservative guidance and no analyst meetings, was not a hindrance when the stock was outperforming, but that is no longer the case. We would like to see Apple not only sharing more of its excess cash with investors, but providing more insight into its thinking.

Hewlett-Packard – Neutral, PT US$28 – analyst: Steven Milunovich, CFA

It is not surprising that, following recent events and an underperforming stock, employee satisfaction at HP is at the bottom of the IT hardware group. CEO Meg Whitman is setting a new course and making positive moves, such as centralizing strategy and marketing, and investing in innovation. Headcount cuts continue, but management says it is keeping most of the people it wants to retain. FY1Q results exceeded expectations, especially in terms of strong cash flow, which removes the worst-case scenario. Still, the company's brand has taken a hit, and HP is losing share in most businesses. This is a multi-year turnaround which we expect to hit air pockets along the way.

ARM Holdings – Buy, PT 970p – analyst: Gareth Jenkins

ARM has a relatively small employee base for its global importance and, together with the strong financial, operational and share price performance, we are not surprised that ARM's employees feel satisfied with the achievements that they and their colleagues have made. Given the strength of margins, it is testament to ARM's senior management that costs are so well controlled (e.g. travel budget) and it is interesting that despite this employees remain well satisfied.

Ericsson – Neutral, PT SKr77 – analyst: Gareth Jenkins

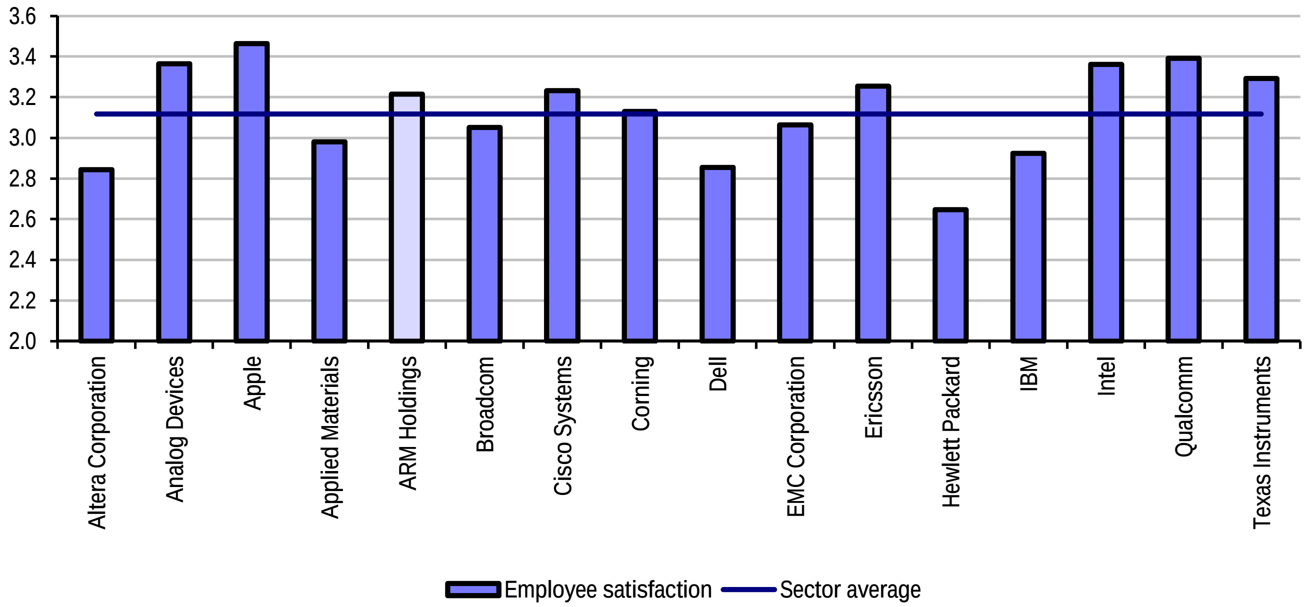
With tough competition, a difficult market and margins in its core business at a low in 2012, we believe it is impressive that employee satisfaction, driven by its number one market position, remains high at Ericsson. Facing ongoing competition from Chinese peers, the consensus-driven decision-making is a slight concern to us, but not something we believe is unique among large telecom equipment companies.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Apple	3.5	Stable	2547	Brand name, great products and innovation, talented colleagues with high degree of knowledge, focus on end-user experience	Secretive even internally, lack of career path, competitive, work/life balance
Qualcomm	3.4	Slightly negative	1121	Fast paced, compensation and benefits, technologically strong and IP driven	Focus on execution can get in the way of work-life balance, competitive environment
ARM Holdings	3.2	n/a	52	Highly technical resources, talented and committed colleagues, relaxed and positive work environment	Focus on keeping costs low, according to some
Ericsson	3.3	n/a	1316	Collaborative work culture and work/life balance, reputation	Consensus-driven culture, which results in slow decision-making
Hewlett Packard	2.6	Negative	6162	Work/life balance and flexible hours, good place to start a career with many learning opportunities	Sense of a loss of the company's culture following acquisitions (for some), too many strategic changes

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the technology hardware sector



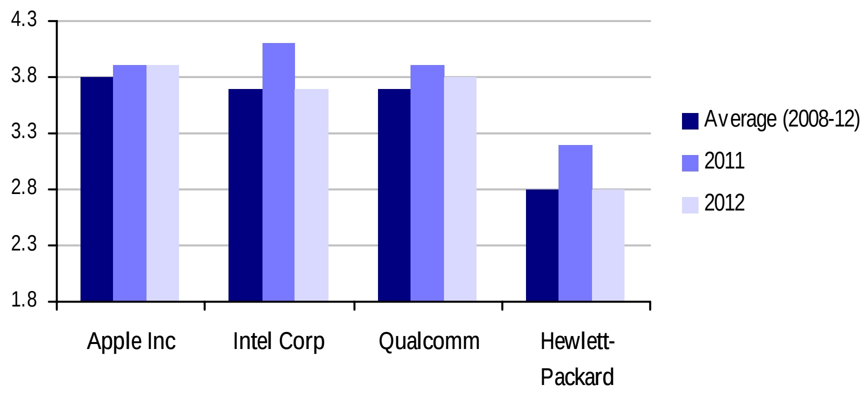
Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
Altera Corporation	2.8	161	3.1	161	n/a	n/a	n/a	n/a
Analog Devices Inc	3.4	245	3.6	129	n/a	n/a	4.0	116
Apple Inc	3.5	2547	3.8	1643	4.4	340	3.9	564
Applied Materials Inc	3.0	954	3.0	332	4.0	61	3.8	561
ARM Holdings plc	3.2	52	3.5	52	n/a	n/a	n/a	n/a
Broadcom Corporation	3.1	494	3.3	352	n/a	n/a	3.8	142
Cisco Systems Inc	3.2	3929	3.4	2515	n/a	n/a	4.0	1414
Corning Inc	3.1	249	3.5	72	4.0	41	3.8	136
Dell	2.9	2820	3.1	1478	4.0	394	3.6	948
EMC Corporation	3.1	1512	3.4	943	4.0	96	3.7	473
Ericsson	3.3	1316	3.6	790	4.0	123	3.8	403
Hewlett Packard	2.6	6162	2.8	4856	4.0	782	3.6	524
IBM	2.9	9430	3.1	6362	4.0	1033	3.8	2035
Intel Corp	3.4	3199	3.7	1918	4.3	187	3.9	1094
Qualcomm Inc	3.4	1121	3.7	725	4.0	58	4.0	338
Texas Instruments Inc	3.3	908	3.5	577	n/a	n/a	4.0	331
Sector average	3.1		3.3		4.0		3.8	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

Technology software & services

Human capital materiality scorecard

Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•	•	•	

Source: UBS Global ESG Analyser survey

Companies to watch

Intuit – Buy, PT US$69 – analyst: Brent Thill

Intuit's high employee satisfaction scores are consistent with the company's history of being recognized as "most admired", "most innovative", and "best places/companies to work". We believe a culture of innovation is important in fuelling Intuit's goal of remaining a growth company, especially given its size (annual revenue in excess of US$4bn). Management is aware of the need for motivated employees to drive that innovation. In the past, it adopted Google's model of allowing key employees to set aside part of their week to work on individual projects. The focus on a high-performing organization is showing results: employee engagement scores exceed 85%, the number of mobile apps increased from just one in April 2008 to more than 50 in early 2013, and Intuit has consistently delivered double-digit earnings growth.

SAP – Neutral, PT €62 – analyst: Michael Briest

Since 2012, senior management at SAP has been measured and rewarded on the level of "employee engagement", which stood at 79% in 2012, up from 68% in 2010 when the current co-CEOs were appointed. There is a target of reaching 82% by 2015. Human capital is considered to be of crucial importance to SAP's ability to innovate and compete. We believe management to be charismatic and popular, and this is reflected in the internal and external employee feedback. The recently-announced decision of co-CEO Snabe to move to the Supervisory Board next year was therefore seen as a loss and taken negatively. The 2012 acquisitions of SuccessFactors and Ariba brought in 4,000-plus employees from two cloud companies, and SAP is keen to preserve the stand-alone culture of these businesses, despite their making up a minority of the nearly 65,000 workforce. We see it as crucial that SAP is successful here, given the growing threat to SAP from cloud-based competitors. Involuntary attrition is not a problem for SAP, with a rate of just 6% in 2012 (2011: 7%), but this comes at a high cost in terms of employee and executive options, which totalled €522m in 2012 and are expected to reach €440-480m this year. Base salaries and bonuses also rose 3% last year to average €110k per employee, and employee costs made up 44.8% of sales including share-based payment expenses in 2012 (2011: 41.3%), one of the main drags on margin expansion.

Visa – Neutral, PT US$202 – analyst: John T Williams

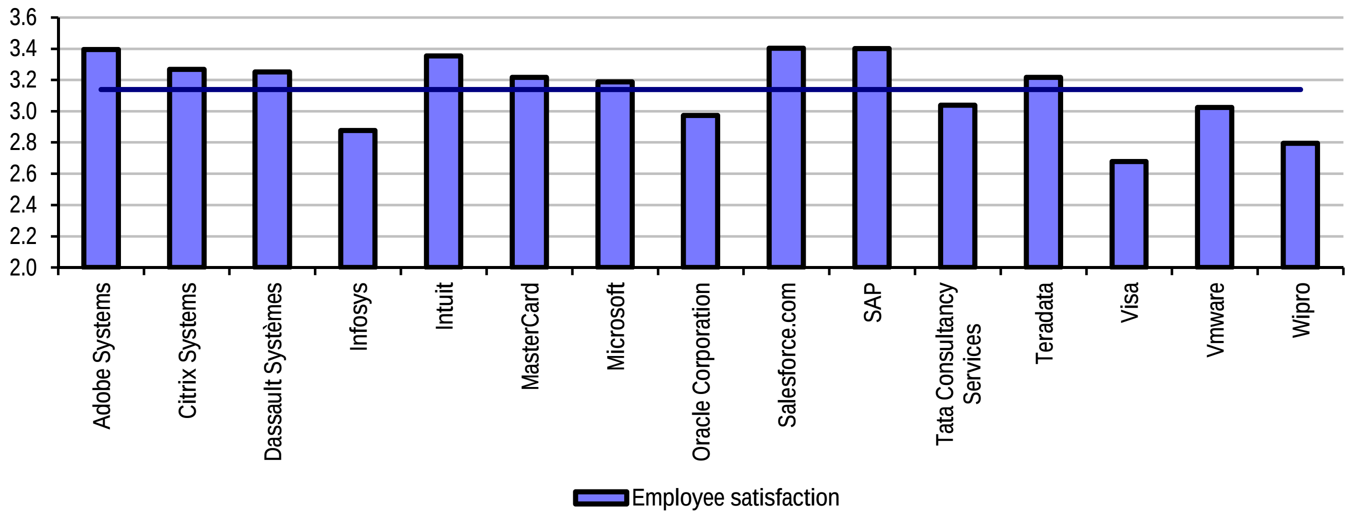
We believe that Visa's corporate culture is not a defining factor in the company's performance, for several reasons. First, a major driver of the company's strong results in recent years is secular-driven growth (i.e. the shift from cash and cheque to electronic payments) that would have materialized regardless of the strength of the company culture, given Visa's strong brand and market position. Second, we believe the survey results make sense, as we have always viewed the culture as conservative. This is a result of Visa's gate-keeping, partner-agnostic role in the system. Simply put, Visa's strong share and market position mean it does not need to be an innovator. Finally, the business itself is a relatively low user of human capital - it is asset-light and not labour-intensive, so revenue/profit per employee is quite high. We suspect that, over time, the employee base will not scale up much higher, and it is possible that employees recognize that and feel they may be challenged by advances in technology.

Table 1: Companies that stand out in terms of employee satisfaction

Company	Employee satisfaction score	Trend 2011-12	# of reviews	What employees are saying	
				Pros	Cons
Adobe Systems	3.4	Negative	807	Good technology, collaborative culture, work/life balance, compensation and benefits	Recurrent changes in strategy, employee morale hurt by recurring layoffs
SAP	3.4	Negative	664	Great brand and products, work/life balance, employee focused	Process-driven and bureaucratic for some
Salesforce.com	3.4	Negative	469	Great products, competitive yet collaborative environment, good compensation and benefits	High pressure for some, growing organization and changing culture
Visa	2.7	Negative	356	Good brand and benefits	Conservative culture, lack of innovation for some

Source: CareerBliss, Indeed, Glassdoor, UBS

Chart 1: Employee satisfaction scores in the software and services sector



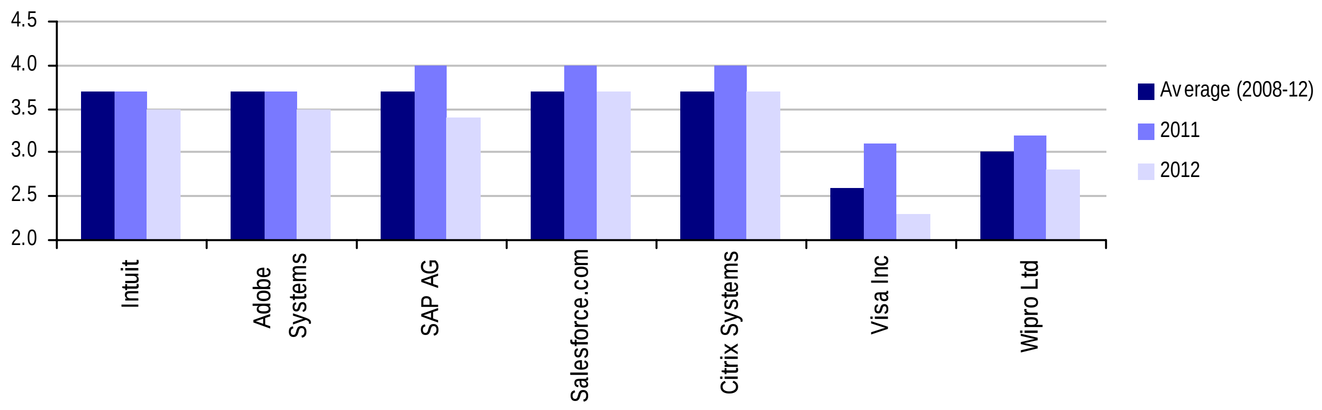
Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings — details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
Adobe Systems Inc.	3.4	807	3.7	610	4.0	28	4.0	169
Citrix Systems Inc.	3.3	473	3.7	334	n/a	n/a	3.7	139
Dassault Systèmes	3.2	108	3.5	38	n/a	n/a	3.9	70
Infosys Ltd	2.9	4842	3.1	3738	4.0	275	3.8	829
Intuit Inc.	3.4	1247	3.7	941	4.0	79	3.9	227
MasterCard Inc.	3.2	120	3.5	120	n/a	n/a	n/a	n/a
Microsoft Corp.	3.2	5553	3.5	4211	4.0	200	3.8	1142
Oracle Corporation	3.0	3415	3.2	2676	4.0	103	3.8	636
Salesforce.com	3.4	469	3.7	433	n/a		4.0	36
SAP AG	3.4	664	3.7	487	4.2	51	4.0	126
Tata Consultancy Services	3.0	2692	3.3	1902	4.0	427	3.8	363
Teradata Corporation	3.2	120	3.5	120	n/a	n/a	n/a	n/a
Visa Inc.	2.7	356	2.6	243	4.1	55	4.0	58
VMWare, Inc	3.0	819	3.3	717	4.0	27	3.7	75
Wipro Ltd.	2.8	2896	3.0	1758	3.9	547	3.7	591
Sector average	3.1		3.4		4.0		3.9	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

Telecom services

Human capital materiality scorecard

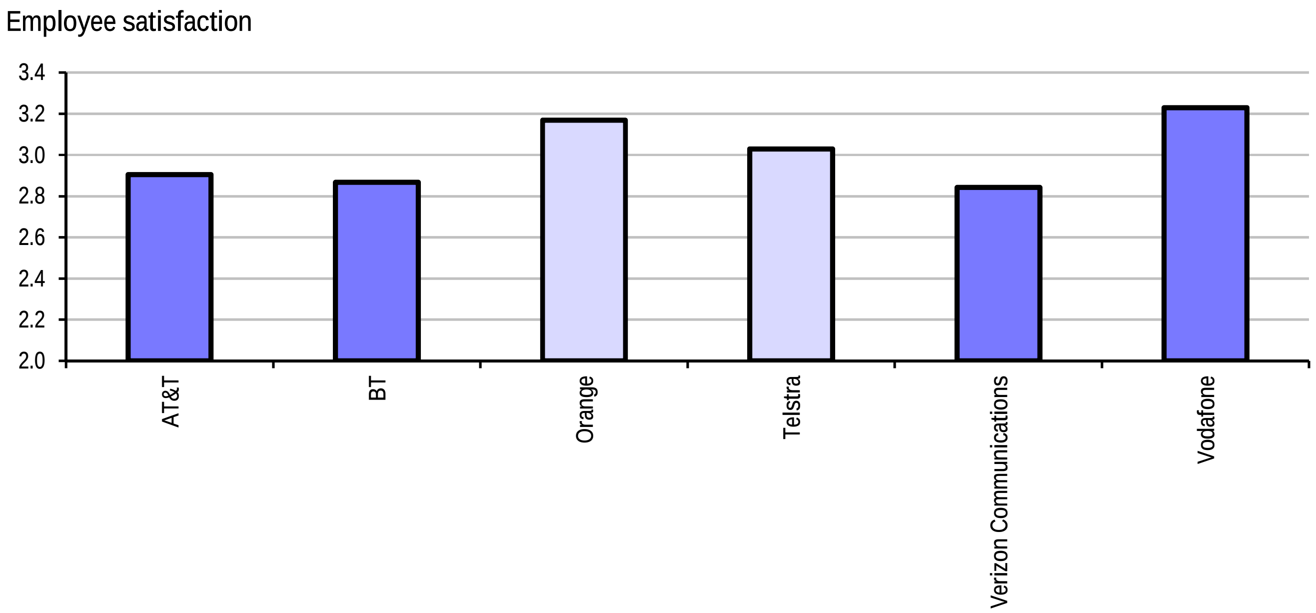
Labour relations, working conditions	Availability of skilled labour	Importance of innovation	Customer focus (services)
•			•

Source: UBS Global ESG Analyser survey

Companies to watch

In the telecom services sector, employee satisfaction scores for all companies in the sample lie within one standard deviation of the sector average – i.e. they are not meaningfully different from the mean.

Chart 1: Employee satisfaction scores in the telecom services sector



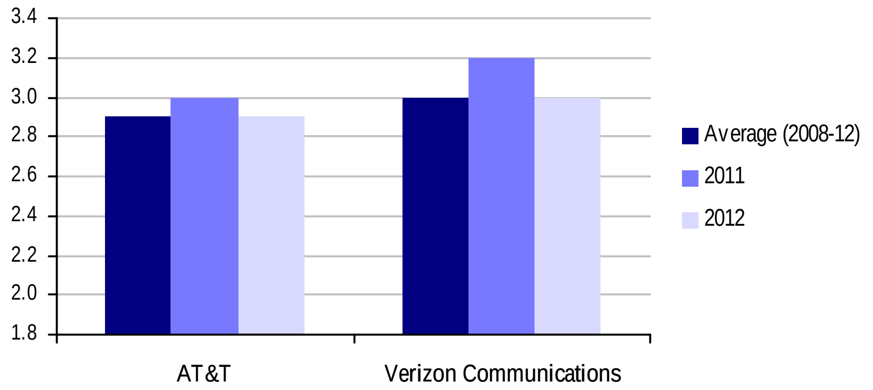
Source: Glassdoor, CareerBliss, Indeed. In light blue are companies for which there are less than 100 reviews

Table 2: Company ratings – details and number of reviews

Companies	Normalized weighted average scores	Total # of reviews	Glassdoor employee rating	Glassdoor # of reviews	Indeed rating	Indeed # of reviews	CareerBliss rating	CareerBliss # of reviews
AT&T Inc.	2.9	7918	2.9	1774	4	1658	3.7	4486
BT Group	2.9	247	3.1	156	n/a	n/a	3.7	91
Orange	3.2	87	3.4	45	n/a	n/a	3.9	42
Telstra Corp. Limited	3.0	70	3.3	70	n/a	n/a	n/a	n/a
Verizon Comm.	2.8	2590	3.0	1313	4	709	3.6	568
Vodafone Group	3.2	368	3.6	189	4	144.0	3.8	35
Sector average	3.0		3.2		4.0		3.7	
Average – all sectors	3.0		3.3		4.0		3.7	
Standard deviation – all sectors	0.3		0.3		0.2		0.2	

Source: CareerBliss, Glassdoor, Indeed, UBS

Chart 2: Evolution of Glassdoor company ratings for selected companies



Source: Glassdoor

Appendix

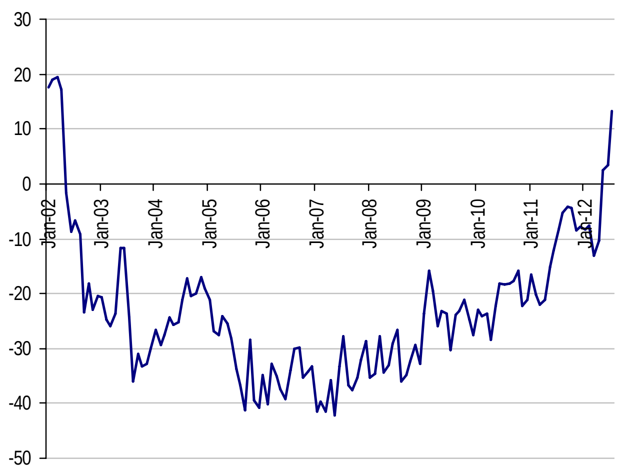
Case studies

Home Depot's customer-focused culture

Home Depot's experience under the leadership of Robert Nardelli (CEO from 2000 to 2007) is an oft-cited example demonstrating the importance of employees as a success factor in retail[24]. Under the management of the founders, the corporate culture at Home Depot was entrepreneurial and customer focused. Our analyst Michael Lasser quotes the company as saying: "take care of your customers, take care of your associates, and everything else will take care of itself". When Bob Nardelli took over the management of Home Depot, the culture seemed to change significantly, as the focus shifted to efficiency rather than customer service[25]. Staff levels in stores were cut and the number of part-timers increased, which had the effect of reducing the number and availability of experienced employees in the stores[26].

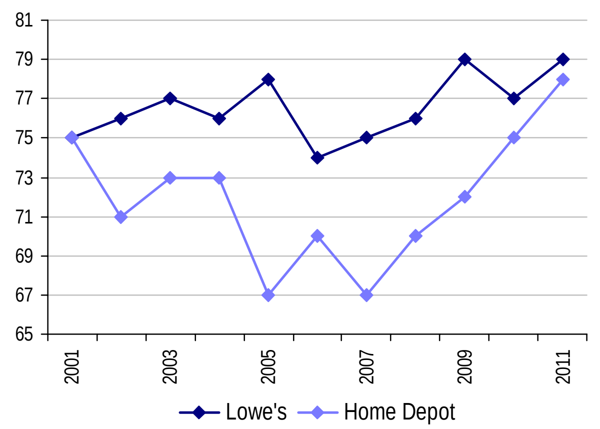
As a symptom of the cultural change, Home Depot lost eight points in the American customer satisfaction index from 2001 to 2005, bottoming at 67 and trailing 11 points behind Lowe's, a close peer. Interestingly, the relative share price performance of the two companies seems to follow a similar pattern to their relative customer satisfaction scores, although of course it is not the only factor at play.

Chart 18: Relative share price performance (%): Home Depot vs. Lowe's



Source: Bloomberg

Chart 19: Consumer satisfaction index: Lowe's vs. Home Depot



Source: American Consumer Satisfaction Index

Since 2007, Frank Blake, the new CEO, has been successful at reviving Home Depot's customer culture. Customer satisfaction bounced back to higher levels, reaching 78 points in 2011, according to the ACSI. UBS analyst Michael Lasser notes in his initiation report in June 2011 that "under the leadership of Frank Blake and the rest of the management team, the company has made a variety of

24 See for example Zeynep Ton, Why good jobs are good for retailers, Harvard Business Review, 2012

25 http://knowledge.wharton.upenn.edu/article.cfm?articleid=1636

26 http://money.cnn.com/2008/09/18/magazines/fortune/fortune500/reingold_homedepot500.fortune/index2.htm

investments in the business, including a maintained commitment to store labour, implementing better merchandising tools, and erecting an advanced supply chain" (*It's good to be home*, Lasser, June 2011). According to the *Seattle Times*, steps taken by Frank Blake included giving more power to store managers, granting restricted stock to assistant store managers, making it easier for store employees to win bonuses, as well as refocusing the performance appraisal metrics onto customer satisfaction[27].

[27] http://seattletimes.com/html/businesstechnology/2012783334_homedepotprofilte05.html

■ Statement of Risk

In addition to the specific risks and limitations already discussed in this report (including those on page 27), the immediate risk in relation to the subject-matter covered by UBS's Global Sustainability Team arises from the lack of definition in the field, reflected in the many names and acronyms in use by practitioners: Sustainability; Responsible Investment (RI); Socially Responsible Investment (SRI); ESG (Environmental, Social and Governance) Investment; Ethical Investing, Impact Investing and so on. The field covers an enormous range of potential issues, and, over time, their importance fluctuates. At the time of writing, we believe the issues raised in this research to be relevant to investors, but this may change. Additionally, this research should not be read as a complete or definitive account of all relevant issues for firms. Although we attempt to address all significant or nascent issues, these may not always be apparent, and these may change over time. Finally, this document should not be interpreted to mean that all the issues addressed in our research have a financial impact. Whether or not environmental, social and governance issues have a financial impact remains an open question as there is no accepted financial model that can determine whether any given issue - ESG or otherwise - is already reflected in share prices.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	46%	35%
Neutral	**Hold/Neutral**	44%	37%
Sell	**Sell**	10%	21%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	33%
Sell	**Sell**	less than 1%	20%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2013.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.
Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
3M Company[4a, 6a, 6c, 7, 16b]	MMM.N	Buy	N/A	US$115.90	16 Aug 2013
ABB Ltd[2, 4a, 5, 6a, 13, 16b, 22]	ABBN.VX	Buy	N/A	CHF20.92	16 Aug 2013
Abbott Laboratories[4a, 5, 6a, 6c, 7, 16b]	ABT.N	Not Rated	N/A	US$34.97	16 Aug 2013
adidas AG[16b]	ADSGn.DE	Buy	N/A	€83.19	16 Aug 2013
Adobe Systems Inc.[6c, 7, 16b]	ADBE.O	Buy	N/A	US$45.40	16 Aug 2013
Agilent Technologies Inc.[16b]	A.N	Buy	N/A	US$46.79	16 Aug 2013
Aker Solutions	AKSO.OL	Neutral	N/A	NKr89.95	16 Aug 2013
Akzo Nobel[16b, 22]	AKZO.AS	Sell	N/A	€47.60	16 Aug 2013
Alcoa Inc.[6b, 7, 16b, 22]	AA.N	Neutral	N/A	US$8.12	16 Aug 2013
Allergan[16b]	AGN.N	Buy	N/A	US$87.93	16 Aug 2013
Altera Corporation[16b]	ALTR.O	Not Rated	N/A	US$35.00	16 Aug 2013
Altria Group[16b, 22]	MO.N	Not Rated	N/A	US$34.29	16 Aug 2013
Amazon.com[16b]	AMZN.O	Neutral	N/A	US$284.82	16 Aug 2013
American International Group[2, 4a, 6a, 6b, 6c, 7, 16b, 22]	AIG.N	Neutral	N/A	US$47.10	16 Aug 2013
AmerisourceBergen Corp.[16b]	ABC.N	Neutral	N/A	US$56.53	16 Aug 2013
Amgen Inc.[2, 4a, 5, 6a, 6c, 7, 16b]	AMGN.O	Buy	N/A	US$104.91	16 Aug 2013
Analog Devices Inc.[16b]	ADI.O	Neutral	N/A	US$48.31	16 Aug 2013
Anheuser-Busch InBev[16b]	ABI.BR	Buy	N/A	€73.99	16 Aug 2013
Apple Inc.[6c, 7, 16b, 22]	AAPL.O	Buy	N/A	US$502.33	16 Aug 2013
Applied Materials Inc.[16b]	AMAT.O	Neutral	N/A	US$15.62	16 Aug 2013
ARM Holdings Plc[14, 16b]	ARM.L	Buy	N/A	870p	16 Aug 2013
AstraZeneca[13, 16b]	AZN.L	Buy	N/A	3,200p	16 Aug 2013
AT&T Inc.[2, 4a, 6a, 6b, 6c, 7, 16b, 22]	T.N	Neutral	N/A	US$34.18	16 Aug 2013
Atlas Copco A[16b]	ATCOa.ST	Sell	N/A	SKr177.50	16 Aug 2013
AutoZone Inc.[16b]	AZO.N	Neutral	N/A	US$416.52	16 Aug 2013
BAE SYSTEMS[4a, 5, 6a, 14, 16b]	BAES.L	Buy	N/A	437p	16 Aug 2013
Baker Hughes Inc.[6a, 6b, 6c, 7, 16b]	BHI.N	Buy	N/A	US$46.86	16 Aug 2013
Bank of America Corp.[2, 4a, 5, 6a, 6b, 6c, 7, 16b]	BAC.N	Neutral	N/A	US$14.42	16 Aug 2013
Barclays[16b, 18e]	BARC.L	Neutral	N/A	288p	16 Aug 2013
Barnes & Noble, Inc.[16b]	BKS.N	Not Rated	N/A	US$17.54	16 Aug 2013
BASF SE[4a, 5, 6a, 14, 16b]	BASFn.F	Neutral	N/A	€68.00	16 Aug 2013
BAT UK[4a, 8, 14, 16b, 18h]	BATS.L	Buy	N/A	3,398p	16 Aug 2013
Baxter International Inc.[2, 4a, 5, 6a, 6b, 6c, 7, 16b]	BAX.N	Not Rated	N/A	US$71.12	16 Aug 2013
Bayer[5, 6a, 16b]	BAYGn.F	Neutral	N/A	€86.50	16 Aug 2013
BE Aerospace Inc.[4a, 6a, 16b]	BEAV.O	Buy	N/A	US$69.24	16 Aug 2013
Best Buy Co. Inc.[6a, 6c, 7, 16b]	BBY.N	Neutral	N/A	US$30.37	16 Aug 2013
BHP Billiton Plc[4a, 5, 6a, 16b]	BLT.L	Buy	N/A	1,988p	16 Aug 2013
Biogen Idec Inc.[5, 6c, 7, 16b]	BIIB.O	Neutral	N/A	US$206.89	16 Aug 2013
BMW[2, 4a, 5, 6a, 16b]	BMWG.F	Neutral	N/A	€75.29	16 Aug 2013
Boeing Co.[2, 4a, 6a, 6c, 7, 8, 16b, 22]	BA.N	Neutral	N/A	US$103.47	16 Aug 2013
Boston Scientific Corp.[2, 4a, 5, 6a, 6b, 6c, 7, 16b]	BSX.N	Not Rated	N/A	US$11.06	16 Aug 2013
BP[2, 4a, 5, 6a, 14, 16b]	BP.L	Buy	N/A	442p	16 Aug 2013
Bristol-Myers Squibb[4a, 6a, 6b, 6c, 7, 16b]	BMY.N	Neutral	N/A	US$41.68	16 Aug 2013
Broadcom Corporation[16b]	BRCM.O	Neutral	N/A	US$25.91	16 Aug 2013
BT Group[5, 16b]	BT.L	Neutral	N/A	326p	16 Aug 2013
Cardinal Health, Inc.[2, 4a, 5, 6a, 6c, 7, 16b]	CAH.N	Buy	N/A	US$51.32	16 Aug 2013
CareFusion Corporation[2, 4a, 5, 6a, 6c, 7, 16b]	CFN.N	Not Rated	N/A	US$35.82	16 Aug 2013
Caterpillar Inc.[6b, 7, 8, 16b]	CAT.N	Neutral	N/A	US$85.16	16 Aug 2013

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Celgene Corporation[4a, 5, 6a, 6c, 7, 16b]	CELG.O	Neutral	N/A	US$132.49	16 Aug 2013
Cerner Corp.[16b]	CERN.O	Neutral	N/A	US$47.38	16 Aug 2013
Chevron Corp.[5, 6b, 6c, 7, 16b]	CVX.N	Neutral	N/A	US$119.88	16 Aug 2013
Cisco Systems Inc.[4a, 6a, 6b, 6c, 7, 8, 16b]	CSCO.O	Buy	N/A	US$24.27	16 Aug 2013
Citigroup Inc[2, 4a, 5, 6a, 6b, 6c, 7, 16b]	C.N	Buy	N/A	US$50.35	16 Aug 2013
Citrix Systems Inc.[6c, 7, 16b]	CTXS.O	Neutral	N/A	US$71.60	16 Aug 2013
Coach Inc.[16b]	COH.N	Neutral	N/A	US$51.90	16 Aug 2013
Coca-Cola Co.[4a, 6a, 6b, 6c, 7, 16b]	KO.N	Not Rated	N/A	US$39.05	16 Aug 2013
Colgate-Palmolive[16b]	CL.N	Not Rated	N/A	US$59.47	16 Aug 2013
ConocoPhillips[2, 4a, 5, 6a, 6b, 6c, 7, 16b]	COP.N	Sell	N/A	US$67.38	16 Aug 2013
Corning Inc.[16b]	GLW.N	Buy	N/A	US$15.03	16 Aug 2013
Costco Wholesale Corp[16b]	COST.O	Buy	N/A	US$111.90	16 Aug 2013
CVS Caremark Corporation[16b]	CVS.N	Buy	N/A	US$58.57	16 Aug 2013
Daimler AG[16b]	DAIGn.F	Buy	N/A	€55.19	16 Aug 2013
Danaher Corporation[6a, 6c, 7, 16b]	DHR.N	Buy	N/A	US$66.73	16 Aug 2013
Dassault Systèmes[16b]	DAST.PA	Neutral	N/A	€99.99	16 Aug 2013
Deere & Co.[8, 16b]	DE.N	Sell	N/A	US$84.11	16 Aug 2013
Dell Inc.[4a, 6a, 6c, 7, 16b]	DELL.O	Neutral	N/A	US$13.82	16 Aug 2013
Deutsche Bank[2, 4a, 5, 16b, 18d, 22]	DBKGn.DE	Neutral	N/A	€34.16	16 Aug 2013
Diageo[2, 4a, 5, 6a, 14, 16b]	DGE.L	Neutral	N/A	2,011p	16 Aug 2013
Dow Chemical[6b, 6c, 7, 8, 16b]	DOW.N	Buy	N/A	US$36.89	16 Aug 2013
E I du Pont de Nemours and Co[2, 4a, 6a, 6b, 6c, 7, 8, 16b]	DD.N	Neutral	N/A	US$58.28	16 Aug 2013
Edwards Lifesciences Corp[16b]	EW.N	Not Rated	N/A	US$70.01	16 Aug 2013
EMC Corporation[2, 4a, 5, 6a, 6b, 6c, 7, 16b]	EMC.N	Buy	N/A	US$25.88	16 Aug 2013
Emerson Electric Co.[5, 6a, 6c, 7, 16b]	EMR.N	Neutral	N/A	US$61.27	16 Aug 2013
Ericsson[16b]	ERICb.ST	Neutral	N/A	SKr80.00	16 Aug 2013
Express Scripts Inc.[6a, 16b]	ESRX.O	Buy	N/A	US$64.61	16 Aug 2013
ExxonMobil Corp.[6b, 7, 16b]	XOM.N	Neutral	N/A	US$87.91	16 Aug 2013
FMC Technologies Inc.[6a, 6c, 7, 16b]	FTI.N	Buy	N/A	US$53.25	16 Aug 2013
Ford Motor Co.[6a, 6b, 6c, 7, 16b]	F.N	Buy	N/A	US$16.30	16 Aug 2013
Gap Inc.[16b]	GPS.N	Neutral	N/A	US$43.12	16 Aug 2013
General Dynamics Corp.[16b]	GD.N	Buy	N/A	US$83.75	16 Aug 2013
General Electric Co.[2, 4a, 5, 6a, 6b, 6c, 7, 16b, 22]	GE.N	Buy	N/A	US$23.95	16 Aug 2013
General Motors Company[4a, 5, 6a, 6b, 6c, 7, 16b]	GM.N	Buy	N/A	US$34.38	16 Aug 2013
Gilead Sciences[16b]	GILD.O	Buy	N/A	US$56.91	16 Aug 2013
GlaxoSmithKline[2, 4a, 5, 6a, 14, 16b]	GSK.L	Neutral	N/A	1,655p	16 Aug 2013
Goldman Sachs Group Inc.[2, 4a, 6a, 6b, 6c, 7, 16b, 22]	GS.N	Neutral	N/A	US$160.66	16 Aug 2013
Google Inc[4a, 6a, 6b, 6c, 7, 16b, 22]	GOOG.O	Buy	N/A	US$856.91	16 Aug 2013
H & M[16b]	HMb.ST	Buy	N/A	SKr243.20	16 Aug 2013
Halliburton Co.[16b]	HAL.N	Buy	N/A	US$46.95	16 Aug 2013
HCA Holdings[2, 4a, 5, 6a, 16b]	HCA.N	Buy	N/A	US$37.90	16 Aug 2013
Henry Schein Inc.[16b]	HSIC.O	Neutral	N/A	US$103.20	16 Aug 2013
Hewlett-Packard[4a, 5, 6a, 6b, 6c, 7, 16b]	HPQ.N	Neutral	N/A	US$26.42	16 Aug 2013
Home Depot Inc.[16b]	HD.N	Buy	N/A	US$75.38	16 Aug 2013
Honeywell International Inc.[6b, 6c, 7, 16b]	HON.N	Neutral	N/A	US$81.96	16 Aug 2013
HSBC[2, 3g, 4a, 6a, 16a, 16b, 22]	HSBA.L	Neutral	N/A	709p	16 Aug 2013
Illinois Tool Works[2, 4a, 6a, 16b, 18g]	ITW.N	Neutral	N/A	US$72.43	16 Aug 2013
Inditex SA	ITX.MC	Neutral	N/A	€102.75	16 Aug 2013
Infosys Ltd[16b]	INFY.BO	Buy	N/A	Rs3,005.45	19 Aug 2013
Intel Corp.[4a, 6a, 6b, 6c, 7, 8, 16b, 18a]	INTC.O	Neutral	N/A	US$21.92	16 Aug 2013

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
International Business Machines Corp.[3h, 4a, 6a, 6b, 6c, 7, 12, 16b]	IBM.N	Buy	N/A	US$185.34	16 Aug 2013
Intuit Inc.[16b]	INTU.O	Buy	N/A	US$64.24	16 Aug 2013
Johnson & Johnson[5, 6b, 7, 16b]	JNJ.N	Not Rated	N/A	US$89.37	16 Aug 2013
Johnson Controls Inc.[16b]	JCI.N	Neutral	N/A	US$40.54	16 Aug 2013
Johnson Matthey[16b]	JMAT.L	Buy	N/A	2,776p	16 Aug 2013
JPMorgan Chase & Co.[2, 4a, 5, 6a, 6b, 6c, 7, 16b, 22]	JPM.N	Buy	N/A	US$53.29	16 Aug 2013
Kraft Foods Group Inc.[6c, 7, 16b]	KRFT.O	Not Rated	N/A	US$52.77	16 Aug 2013
Laboratory Corporation of America Hldg[16b]	LH.N	Neutral	N/A	US$96.86	16 Aug 2013
Lilly (Eli) & Co.[4a, 5, 6a, 6b, 6c, 7, 16b]	LLY.N	Neutral	N/A	US$52.86	16 Aug 2013
Linde[16b, 22]	LING.DE	Neutral	N/A	€145.85	16 Aug 2013
Lockheed Martin Corp.[4a, 6a, 6b, 6c, 7, 16b]	LMT.N	Sell	N/A	US$122.20	16 Aug 2013
L'Oréal[16b]	OREP.PA	Neutral	N/A	€129.45	16 Aug 2013
Lowe's Companies, Inc.[16b]	LOW.N	Buy	N/A	US$43.96	16 Aug 2013
lululemon athletica[16b]	LULU.O	Neutral	N/A	US$70.13	16 Aug 2013
Luxottica[5, 16b]	LUX.MI	Neutral	N/A	€41.35	16 Aug 2013
LyondellBasell Industries[16b]	LYB.N	Neutral	N/A	US$68.87	16 Aug 2013
Marks & Spencer[16b]	MKS.L	Buy	N/A	453p	16 Aug 2013
MasterCard Inc.[4a, 6a, 16b]	MA.N	Neutral	N/A	US$618.21	16 Aug 2013
McKesson Corporation[16b]	MCK.N	Buy	N/A	US$121.82	16 Aug 2013
Medtronic, Inc.[2, 4a, 6a, 6b, 6c, 7, 16b]	MDT.N	Not Rated	N/A	US$53.91	16 Aug 2013
Merck & Co.[2, 4a, 5, 6a, 6b, 6c, 7, 16b]	MRK.N	Buy	N/A	US$47.70	16 Aug 2013
MetLife[2, 4a, 5, 6a, 6b, 6c, 7, 13, 16b, 22]	MET.N	Buy	N/A	US$48.28	16 Aug 2013
Microsoft Corp.[2, 4a, 5, 6a, 6b, 6c, 7, 16b, 22]	MSFT.O	Buy	N/A	US$31.80	16 Aug 2013
Monsanto Co.[16b]	MON.N	Neutral	N/A	US$94.99	16 Aug 2013
Mosaic Co[13, 16b]	MOS.N	Neutral	N/A	US$42.87	16 Aug 2013
Nestlé[2, 4a, 5, 16b, 22]	NESN.VX	Neutral	N/A	CHF62.10	16 Aug 2013
Nike Inc.[16b]	NKE.N	Buy	N/A	US$63.65	16 Aug 2013
Northrop Grumman Corp.[16b]	NOC.N	Neutral	N/A	US$94.02	16 Aug 2013
Novartis[2, 3b, 4a, 5, 6a, 13, 16b, 18b, 22]	NOVN.VX	Buy	N/A	CHF67.65	16 Aug 2013
Novo Nordisk[16b]	NOVOb.CO	Buy	N/A	DKr985.00	16 Aug 2013
Novozymes A/S[16b]	NZYMb.CO	Sell	N/A	DKr209.20	16 Aug 2013
Occidental Petroleum Corp.[4a, 5, 6a, 16b, 22]	OXY.N	Neutral	N/A	US$86.51	16 Aug 2013
Office Depot, Inc.[16b, 20]	ODP.N	Neutral (CBE)	N/A	US$4.29	16 Aug 2013
OfficeMax Incorporated[5, 16b, 20]	OMX.N	Neutral (CBE)	N/A	US$11.13	16 Aug 2013
Oracle Corporation[2, 4a, 6a, 6b, 6c, 7, 16b]	ORCL.N	Buy	N/A	US$32.41	16 Aug 2013
Orange[16b]	ORAN.PA	Sell	N/A	€7.97	16 Aug 2013
PepsiCo Inc.[2, 4a, 6a, 6b, 6c, 7, 16b]	PEP.N	Not Rated	N/A	US$80.18	16 Aug 2013
Pfizer Inc.[6b, 7, 16b]	PFE.N	Buy	N/A	US$28.37	16 Aug 2013
Philip Morris International[2, 4a, 16b, 22]	PM.N	Neutral	N/A	US$85.75	16 Aug 2013
PPG Industries Inc.[8, 16b]	PPG.N	Neutral	N/A	US$158.59	16 Aug 2013
Procter & Gamble[2, 4a, 5, 6a, 6b, 6c, 7, 16b]	PG.N	Not Rated	N/A	US$79.90	16 Aug 2013
Qualcomm Inc.[6b, 7, 16b]	QCOM.O	Buy	N/A	US$66.90	16 Aug 2013
Quest Diagnostics[16b]	DGX.N	Neutral	N/A	US$58.09	16 Aug 2013
Ralph Lauren[4a, 6a, 6b, 6c, 7, 12, 16b]	RL.N	Buy	N/A	US$172.08	16 Aug 2013
Raytheon Co.[2, 4a, 6a, 6c, 7, 16b]	RTN.N	Neutral	N/A	US$76.74	16 Aug 2013
RBC Financial Group[2, 4a, 4b, 5, 6a, 16b]	RY.TO	Not Rated	N/A	C$64.36	16 Aug 2013
RBS Group[2, 3d, 4a, 5, 6a, 14, 16b, 22]	RBS.L	Buy	N/A	343p	16 Aug 2013
Reckitt Benckiser[8, 16b]	RB.L	Buy	N/A	4,460p	16 Aug 2013
Regeneron Pharmaceuticals[16b]	REGN.O	Neutral	N/A	US$230.98	16 Aug 2013
Rio Tinto Limited[8]	RIO.AX	Buy	N/A	A$60.14	19 Aug 2013

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Roche[4a, 5, 16b, 22]	ROG.VX	Neutral	N/A	CHF236.20	16 Aug 2013
Rockwell Collins Inc.[4a, 5, 6a, 6b, 6c, 7, 8, 16b]	COL.N	Buy	N/A	US$72.56	16 Aug 2013
Rolls-Royce[8, 16b]	RR.L	Sell	N/A	1,121p	16 Aug 2013
Royal Dutch Shell[4a, 6a, 16b]	RDSa.L	Neutral	N/A	2,050p	16 Aug 2013
Safeway Inc.[16b]	SWY.N	Sell	N/A	US$26.66	16 Aug 2013
Sainsbury J[3e, 4a, 5, 6a, 14, 16b]	SBRY.L	Buy	N/A	384p	16 Aug 2013
Salesforce.com[16b]	CRM.N	Buy	N/A	US$43.83	16 Aug 2013
Sanofi[16b]	SASY.PA	Buy	N/A	€77.75	16 Aug 2013
SAP AG[2, 4a, 6a, 16b]	SAPG.DE	Neutral	N/A	€57.10	16 Aug 2013
Schlumberger Ltd.[16b]	SLB.N	Buy	N/A	US$81.92	16 Aug 2013
Schneider Electric[16b]	SCHN.PA	Neutral	N/A	€61.10	16 Aug 2013
Shire Pharmaceuticals[16b]	SHP.L	Buy	N/A	2,385p	16 Aug 2013
Siemens[2, 3c, 4a, 5, 6a, 14, 16b]	SIEGn.DE	Buy	N/A	€83.57	16 Aug 2013
Smith & Nephew[5, 6a, 14, 16b]	SN.L	Neutral	N/A	780p	16 Aug 2013
St. Jude Medical, Inc.[16b]	STJ.N	Not Rated	N/A	US$51.47	16 Aug 2013
Standard Chartered[2, 4a, 14, 16a, 16b]	STAN.L	Buy	N/A	1,552p	16 Aug 2013
Staples Inc.[16b]	SPLS.O	Neutral	N/A	US$16.84	16 Aug 2013
Stryker Corporation[16b]	SYK.N	Not Rated	N/A	US$67.97	16 Aug 2013
Suncor Energy Inc.[16b]	SU.TO	Not Rated	N/A	C$35.33	16 Aug 2013
SUPERVALU Inc.[16b, 20]	SVU.N	Neutral (CBE)	N/A	US$7.46	16 Aug 2013
Syngenta[4a, 5, 16b, 18c]	SYNN.VX	Sell	N/A	CHF369.70	16 Aug 2013
Target Corporation[16b, 22]	TGT.N	Neutral	N/A	US$68.58	16 Aug 2013
Tata Consultancy Services Ltd.	TCS.BO	Buy	N/A	Rs1,777.90	19 Aug 2013
Tata Motors Ltd.[16b]	TAMO.BO	Buy	N/A	Rs301.60	19 Aug 2013
Telstra Corporation Limited[4a, 16b, 22]	TLS.AX	Sell	N/A	A$4.91	19 Aug 2013
Teradata Corporation[16b]	TDC.N	Neutral	N/A	US$61.69	16 Aug 2013
Tesco[3a, 16b]	TSCO.L	Buy	N/A	368p	16 Aug 2013
Texas Instruments Inc.[16b]	TXN.O	Neutral	N/A	US$38.74	16 Aug 2013
Thales	TCFP.PA	Neutral	N/A	€38.71	16 Aug 2013
The Kroger Co.[16b]	KR.N	Neutral	N/A	US$38.25	16 Aug 2013
The TJX Companies, Inc.[16b]	TJX.N	Buy	N/A	US$50.48	16 Aug 2013
Thermo Fisher Scientific Inc.[16b]	TMO.N	Buy	N/A	US$90.69	16 Aug 2013
Travelers Companies[4a, 6a, 6b, 6c, 7, 16b]	TRV.N	Buy	N/A	US$81.10	16 Aug 2013
Under Armour, Inc.[16b]	UA.N	Neutral	N/A	US$68.93	16 Aug 2013
Unilever NV[4a, 6a, 16b]	UNc.AS	Buy	N/A	€29.72	16 Aug 2013
United Technologies Corp.[4a, 6a, 8, 16b]	UTX.N	Buy	N/A	US$103.08	16 Aug 2013
Verizon Communications[2, 4a, 5, 6a, 6c, 7, 16b]	VZ.N	Neutral	N/A	US$47.71	16 Aug 2013
Vertex Pharmaceuticals Inc.[16b]	VRTX.O	Neutral	N/A	US$76.51	16 Aug 2013
Visa Inc.[6a, 6b, 6c, 7, 16b]	V.N	Neutral	N/A	US$173.13	16 Aug 2013
VMware, Inc[13, 16b]	VMW.N	Buy	N/A	US$83.97	16 Aug 2013
Vodafone Group[3f, 4a, 5, 12, 16b, 18f]	VOD.L	Buy	N/A	192p	16 Aug 2013
Volvo B[6a, 16b]	VOLVb.ST	Neutral	N/A	SKr98.10	16 Aug 2013
Walgreen Co.[16b]	WAG.N	Buy	N/A	US$48.84	16 Aug 2013
Wal-Mart Stores[2, 4a, 5, 6a, 6b, 6c, 7, 16b]	WMT.N	Buy	N/A	US$74.11	16 Aug 2013
Weatherford International Ltd.[4a, 5, 6a, 6c, 7, 16b]	WFT.N	Neutral	N/A	US$14.58	16 Aug 2013
Wells Fargo & Company[2, 4a, 5, 6a, 6b, 6c, 7, 16b, 22]	WFC.N	Neutral	N/A	US$42.75	16 Aug 2013
Whole Foods Market, Inc.[16b]	WFM.O	Buy	N/A	US$52.96	16 Aug 2013
Wipro Ltd.[16b]	WIPR.BO	Buy	N/A	Rs455.80	19 Aug 2013
Woolworths Limited[20]	WOW.AX	Neutral (CBE)	N/A	A$33.63	19 Aug 2013

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Zimmer Holdings, Inc.[16b]	ZMH.N	Not Rated	N/A	US$79.54	16 Aug 2013

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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3b. UBS AG is acting as agent on the announced share buy-back programme of Novartis AG

3c. UBS Deutschland AG is currently acting as advisor to Siemens AG

3d. UBS Limited is acting as advisor to Royal Bank of Scotland Group on the sale of part of its UK banking business comprising certain branches, SME customers and supporting infrastructure

3e. UBS Limited is acting as financial adviser to J Sainsbury on the acquisition of the 50% of Sainsbury's Bank they do not already own from Lloyds Banking Group.

3f. UBS Limited is advising Vodafone in respect of its discussions with Kabel Deutschland Holding AG

3g. UBS Securities LLC is acting as advisor to Bancolombia on its announced agreement to acquire HSBC's Panama assets.

3h. UBS Securities LLC is acting as advisor to Trusteer on its announced agreement to be acquired by International Business Machine.

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8. The equity analyst covering this company, a member of his or her team, or one of their household members has a long common stock position in this company.

12. An employee of UBS AG is an officer, director, or advisory board member of this company.

13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company`s common equity securities as of last month`s end (or the prior month`s end if this report is dated less than 10 days after the most recent month`s end).

14. UBS Limited acts as broker to this company.

16a. UBS Securities (Hong Kong) Limited is a market maker in the HK-listed securities of this company.

16b. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

18a. The U.S. equity strategist, a member of his team, or one of their household members has a long common stock position in Intel Corp.

18b. UBS AG is acting as agent in regard to Novartis AG's announced share buyback programme.

18c. UBS AG is acting as an agent in regard to the company's announced share buy-back programme.

18d. UBS AG, its affiliates or subsidiaries beneficially owned 5.26% of this company`s voting rights as of last month`s end.

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18g. UBS Securities LLC is a named advisor to Clayton, Dubilier & Rice for its announced agreement to acquire Wilsonart International from Illinois Tool Works and is also providing financing.

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20. Because this security exhibits higher-than-average volatility, the FSR has been set at 15% above the MRA for a Buy rating, and at -15% below the MRA for a Sell rating (compared with 6/-6% under the normal rating system).

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For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Securities LLC, 1285 Avenue of Americas, New York, NY 10019, USA, Attention: Publishing Administration.

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