



Active is:

Building a sustainable future together

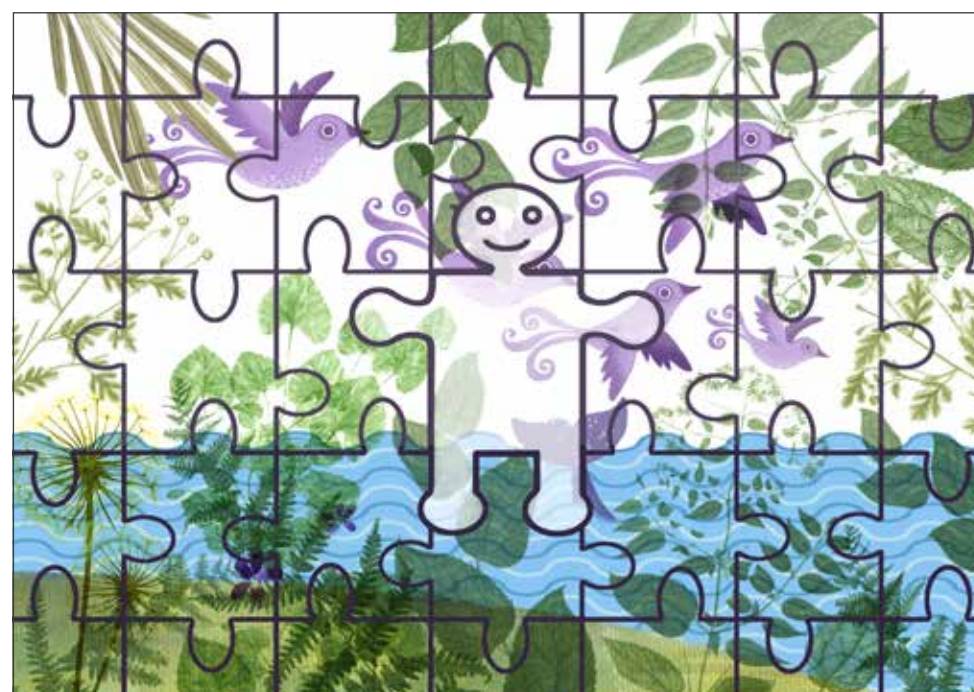
Allianz Global Investors
Sustainability Report 2019

Value. Shared.



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The cover image of the Sustainability Report has been submitted by Susana Rosique Diaz from Spain and is one of the shortlisted submissions for "Art On Climate", an international art competition initiated by Allianz Global Investors. Learn more about the contest and see a wider selection of shortlisted submissions on page 40.

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Allianz Global Investors (AllianzGI) is an active investment management firm and part of Allianz Group.

Working in 25 locations, we manage EUR 563 billion of assets on behalf of institutional and retail clients worldwide – from pension funds and blue-chip multinationals to charitable foundations, family offices and individuals.

About this report

Sustainable investing is in our DNA. We began our sustainable investing journey over 20 years ago and published our first global Responsible Investing Report in 2018.

As we aim to drive transparency and performance across our sustainable investment approach and beyond, we are broadening the focus this year by publishing our first full Sustainability Report. It encompasses not only how we invest, but also how we operate and engage with stakeholders as a sustainable company.

[For information on the sustainability commitments and performance of Allianz Group, please refer to the Allianz Group Sustainability Report 2019.](#)



Introduction

01.1 CEO perspective



This year, we are reporting not only on our sustainable investment approach, but also on how we operate our business and engage with our stakeholders as a sustainable company. The broader remit of this report reflects a shift in how investors are thinking. They rightly want to know that companies' commitment to sustainability – including our own – is more than skin deep.

The coronavirus pandemic is only set to reinforce this sentiment. Given the human and financial damage inflicted by the virus, the focus on responsible and sustainable business conduct is likely to increase.

We consider it our responsibility as a long-term investor to think proactively and holistically about risk. As part of Allianz Group, we share our parent company's focus on securing our clients' future. For us, this means providing asset management solutions that aim to preserve and enhance wealth. While our ability to generate investment outperformance is core to these objectives, clients also require us to understand the risks – from a range of factors – over an extended investment horizon.

In this context, the “non-financial” risks represented by environmental, social and governance (ESG) factors are more relevant than ever. These will increasingly determine a successful outcome – in terms of achieving financial returns for clients and meeting their specific sustainability objectives.

As a pioneer in sustainable investing, we have more than two decades of experience in this area. We created our first sustainable global equity strategy in 1999 and we were one of the first asset managers to introduce climate-focused investment strategies following the Paris Agreement (COP21) in 2015.

With the advent of the UN Sustainable Development Goals, we play a critical role in directing funds towards investments that support and enable these targets. Solutions to address climate change are a particular area of focus for us, and we are proud that our parent company is leading by example. Allianz is a founding member of the Net-Zero Asset Owner Alliance that was convened by the UN. This group of the world's largest pension funds and insurers is committed to carbon-neutral investment portfolios by 2050. Together, they represent USD 4.5 trillion in capital.¹

As a leading investor in alternatives investments, we can also identify and access opportunities in private-market investments – including renewable energy – that are at the frontier of change on the journey towards a more sustainable future.

Given how much capital our industry manages, we have the power and responsibility to effect change, including through constructive engagement with the companies in which we invest and by exercising our voting rights. We are committed to using all of our capabilities to help our clients achieve sustainable outcomes.

Conservative estimates by the World Resources Institute indicate that bold action on climate change could yield a direct economic gain of USD 26 trillion through to 2030 compared with business as usual. The challenge is that we are in a period when there is no such

thing this as business as usual, as the repercussions of the coronavirus outbreak will likely weigh on the economic outlook for some time. We should, however, draw hope from the unprecedented global solidarity shown during this crisis. A similar kind of international focus and effort will be critical in preventing global warming and facilitating the transition to a carbon-neutral economy.

While the opportunities of this transition are important and exciting, the process will be disruptive: there will be winners and losers. We believe that only active asset managers can navigate this disruption – by engaging proactively with firms and making active investment choices – to deliver change that is measurable and enduring. I welcome your feedback on this report. By working together, we can help make this change happen.

Thank you.

Tobias C. Pross

Chief Executive Officer
Allianz Global Investors

¹ As of mid-February 2020

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Every year, the World Economic Forum (WEF) canvasses global experts and decision-makers on their biggest risk concerns. In 2010, four out of the five global risks they considered most likely were economic risks. Ten years later, they are all environmental concerns – ranging from extreme weather and climate-action failure to biodiversity loss. The nature of some risks is that they are almost impossible to predict – so-called “black swan” events like the coronavirus outbreak – but the consensus is that there is a “green swan” risk in the making: the failure to address climate change.

These results underscore the importance for us as investors, and as fellow citizens, of finding solutions to address the risks we face, while also meeting our clients’ financial goals. Only as an active asset manager can we use capital allocation and engagement as catalysts towards positive change. Two developments in the past year underscore our commitment to being at the frontier of this change.

First, the creation of a Chief Sustainability Officer (CSO) position at Allianz Global Investors – a role I was pleased to assume in May 2019 – signals to our clients and other stakeholders how seriously we take sustainability.

One of our priorities is to enhance and broaden our product roadmap and address gaps as our clients’ needs evolve. We have built an extensive set of solutions across four pillars of sustainable investing expertise, drawing on a 20-year track record in this area and our deep commitment to active asset management and engagement. This means we can support a range of approaches and desired outcomes for clients as we continue to innovate.

Second, as our CEO Tobias Pross notes, this is our first report to encompass both our approach to sustainable investing and also how we embed sustainability in our business operations and engagement activities with stakeholders. This is a logical evolution of our reporting approach and aligns with client expectations. The other key piece of our commitment comes from being part of Allianz Group, which has topped the list of the world’s most sustainable insurers in the Dow Jones Sustainability Index for three consecutive years. As Tobias notes, in the past year Allianz was a co-initiator of the Net-Zero Asset Owner Alliance, with a commitment to transition its investment portfolios to net-zero carbon emissions by 2050.

Allianz Global Investors will continue developing strategies to support this ambition. In 2019, we joined the Climate Finance Leadership Initiative – a group of companies focused on mobilising and scaling private capital for climate solutions.

Following the coronavirus outbreak, will governments take the opportunity to focus their stimulus programmes on some of the other major issues facing the planet – such as facilitating pathways to decarbonisation? It may be too early to say, but these topics should remain high on decision-makers’ agendas.

This report shows our overarching activities – for our clients, employees and society – as an active asset manager to help protect and enhance our clients’ wealth. We can only achieve this goal by putting sustainability at the core of our activities.

I welcome your feedback.

Beatrix Anton-Groenemeyer
Chief Sustainability Officer
Allianz Global Investors

Introduction

01.3 About Allianz Global Investors

Allianz Global Investors is one of the world's leading active asset managers. We employ more than 800 investment professionals and 670 relationship managers who manage EUR 563 billion¹ (USD 632 billion) of assets for institutions and individuals around the globe.

- We offer a diversified range of active investment strategies across four main pillars: equities, fixed income, multi-asset and alternatives.
- Our key markets are Europe, the Asia-Pacific region and the United States.
- We have built extensive expertise covering developed and emerging markets, public and private markets.
- Our investment advisory services from our specialist risklab offering help clients achieve their investment objectives.

2019 highlights



EUR 563bn

Total assets under management.



Client satisfaction

1st quartile ratings and Quality Leader in core markets Germany and Europe.



EUR 165bn

Total value of sustainable investment offering.



+14%

Increase in assets under management (AuM) in sustainable investments compared to 2018.



+31%

Increase in engagement activities compared to 2018.



3 years

For three consecutive years Allianz Global Investors has achieved an A+ score from the PRI Association for Strategy & Governance; A+ score also for Infrastructure Equity and Listed Equity – Incorporation.



AfricaGrow

Innovation in Impact investing: New blended finance initiative to create more than 25,000 new jobs in Africa by 2030.



CSO

New Chief Sustainability Officer role established in May 2019.



The SeaCleaners

Entered global partnership with The SeaCleaners to combat plastic pollutions in the oceans.



Climate-friendly

Allianz Global Investors ranked 2nd by ShareAction on climate-related shareholder resolutions.

¹ Data as at 31 December 2019

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How we create value

Our mission is to protect and enhance our clients' wealth. Creating value goes beyond simply delivering investment returns. Our clients are our centre of gravity and we aim to generate value through long-term partnerships with them.

Active asset management

In our view, being an active asset manager offers unique advantages in today's investment environment. We have developed a deep and distinctive expertise across five key dimensions of active asset management:

- Sustainability – answering the growing call for sustainable solutions across asset classes by pooling our environmental, social and governance (ESG) expertise to capture opportunities linked to sustainable investing and increasingly across all our capabilities.
- Active allocation and risk management – harnessing our risk-management and asset-allocation expertise to provide specialist solutions that meet a range of client requirements.
- Thematic investing – drawing on our in-house research to identify investible themes that tap into clients' evolving priorities and interests as well as exploiting trends.
- Quant and factor investing – working across teams and asset classes seeking to harness long-term factor risk premia and structural market inefficiencies for alpha generation using new tools and techniques to support our decisions.
- Private markets – building on our time-tested capabilities and growing market presence to provide clients with access to new sources of long-term income, making complexity investable.

Our business objectives

Our ambition is to deliver value for all our stakeholders and therefore be seen as a leading global investor and trusted partner. To succeed, we aim to meet five principal business objectives.

All five objectives are interlinked: by serving our clients well and motivating our employees to excel, our company should grow sustainably and deliver strong results to our shareholder over the long term. These objectives are as follows:

1. Generating strong investment returns for our clients
2. Providing an excellent level of client service
3. Providing a fulfilling work environment
4. Growing our company sustainably so that we can continue serving clients to the best of our abilities
5. Generating profitable growth for our shareholder

Value shared

Allianz Global Investors views asset management as a shared endeavour with its clients. This principle is encapsulated in our brand promise: "Value. Shared."

We work with clients to elevate the active asset management experience. We are committed to unlocking the full potential of our sustainable investing proposition for clients by:

- Continuing to integrate ESG risk considerations into all our investment processes and into our active stewardship approach.
- Constructing portfolios designed for strong sustainability performance.
- Allocating capital in a way that, in addition to generating financial returns, seeks to contribute to specific environmental or social objectives, thus creating long-term value for our clients and society.

Case study: ESG in direct infrastructure equity

ESG factors often play out in the long-term and they need to be a key consideration when investing in private markets, particularly infrastructure.

The investment team of Allianz Capital Partners (ACP), a company of Allianz Global Investors, carries out an internal ESG screening to determine the ESG "health" of every newly identified direct infrastructure investment opportunity. The evaluation reflects the views of ESG Committees within the wider Allianz Group (Allianz ESG Committees) and considers fundamental issues such as environmental contamination (ground, water and air, including CO₂ emission levels), social impact (including resettlement, mistreatment of people and human rights) and governance (ethical and business compliance).

If no key issues are flagged, the investment opportunity passes to a secondary due diligence stage where internal scrutiny is supplemented by external advice to assist in further evaluating ESG performance and the materiality of any risks. Based on this information, ACP considers the human and financial impact of ESG risk covering severity levels, resulting impact, potential liability, probability of occurrence and remedy implementation.

Although historically analysis has focused on potential downside risk, ACP is working towards identifying ESG opportunities in this process. An investment will only be presented to the Allianz Group Investment Committee for approval once ESG issues have been satisfactorily addressed.

ACP applies the same process and scrutiny on ESG issues in its newly-established infrastructure offering for third-party clients. Portfolio companies are required to report regularly to ACP, including through bi-annual reviews during which ESG progress is monitored, ESG reporting improvements are implemented and new targets are set.

01.4 Our global context

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The impact of Covid-19 has been felt across the world. As well as creating a significant human impact, the virus has ushered in significant market volatility and uncertainty, ending the longest bull market in history.

Unprecedented circumstances

As this report went to press, we were operating in what is probably the “noisiest” market environment anyone can recall. Stock-market movements and policy interventions that seemed unthinkable a few weeks ago are now daily occurrences. In such volatile conditions, active management – whether it is in advisory, asset allocation, portfolio construction or security selection – is crucial and our portfolio managers continue to seek opportunities amid the turbulence. This crisis will pass, and we have focused on supporting clients throughout this period and beyond.

Sustainable investing gets to the core

While the coronavirus and its long-term implications will rightly be a priority for governments and investors for some time, the global challenges that have captured the public imagination in recent years – such as climate change – are not going away.

Climate action failure stood out as the biggest global risk by impact, and many other environmental and social issues were among the top risks being perceived by world leaders.²

As a result, sustainable investing is no longer seen as a trend but as an essential consideration in portfolio management. With the investment industry at a tipping point, sustainable investing incorporates non-financial inputs, such as ESG factors, to help generate sustainable outcomes as well as strong financial return potential.

This trend is increasingly important for asset managers, companies and investors alike:

- Asset managers are driving capital towards sustainable companies and projects that address what investors view as the world’s biggest challenges.
- Companies are finding that seriously addressing issues such as climate change can better inform their strategy and help them improve their competitive position.
- Investors are seeing proof that a conscious approach using ESG factors can help manage risk and improve return potential.

Crisis and opportunity

This widespread recognition of the importance of sustainable investing has translated into USD 30.7 trillion of sustainable investing assets globally in 2018, a rise of 34% over two years.³

Aside from the scientific imperative to take urgent climate action, the journey towards a low-carbon future could prove rewarding for investors. The global economic benefits stemming from investments in climate solutions could add up to USD 26 trillion by 2030. But the transition to a zero-carbon economy will see both winners and losers. With an estimated funding gap of USD 6 trillion per year to fill to achieve the objectives outlined by the UN Sustainable Development Goals (SDGs) and the push of regulators to promote a more sustainable economy and finance, there is more change to come.

And, if economic rescue programmes and fiscal policy measures triggered by the coronavirus outbreak promote sustainable priorities, major opportunities for funding and progress may emerge. This outbreak will likely sharpen the focus of businesses and investors on sustainable practices that enable organisations to be resilient when a crisis unfolds. This is especially the case if the crisis can be predicted and avoided, such as global warming. The current backdrop of diverse and complex factors disrupting businesses and capital flows makes an active, forward-looking approach to sustainable investment management key to delivering benefits for both investors and wider society.

² http://www3.weforum.org/docs/WEF_Global_Risk_Report_2020.pdf

³ Global Sustainable Investment Alliance, April 2019

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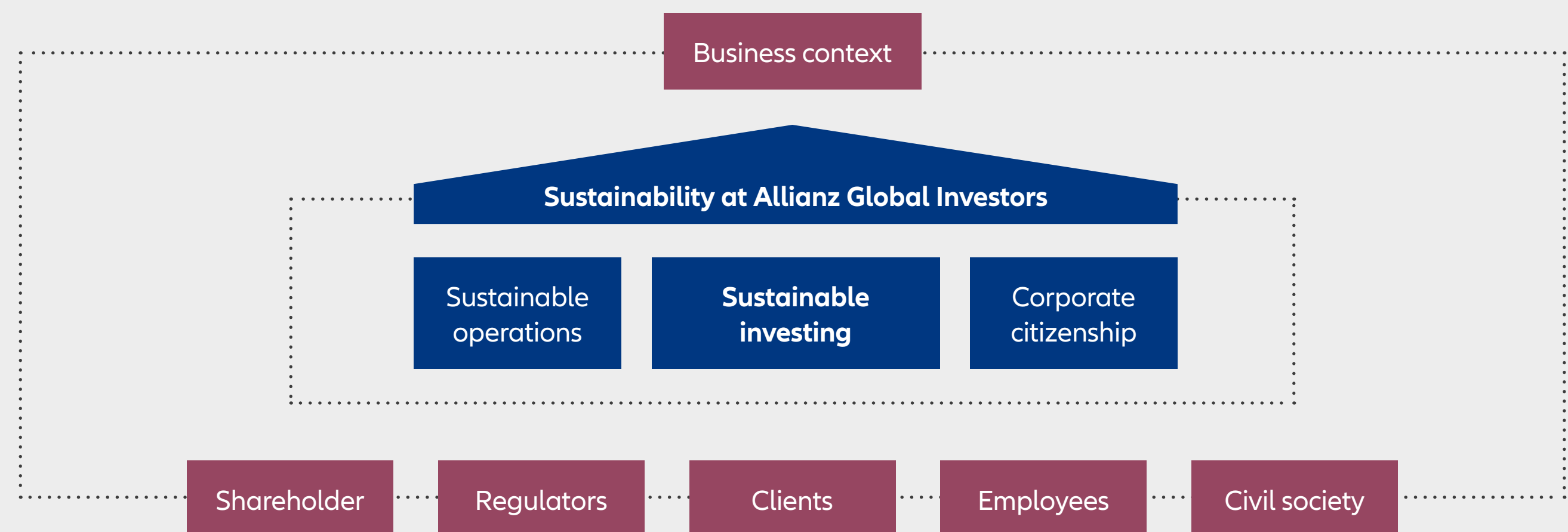
02 Sustainability strategy and governance



Putting sustainability at the heart of our investment process and proposition is inseparable from our purpose to secure our clients' future. We manage sustainability-related risks and opportunities through our investment approach and across our business operations.

We aim to make progress on the most important sustainability issues for our multiple stakeholders and our business. The main strategic pillar in this context is sustainable investing, which is complemented by sustainability considerations in our business operations and corporate citizenship.

Sustainability strategy framework



Sustainability strategy and governance

02.1 Strategy and approach

Sustainable investing

Allianz Global Investors is a global pioneer of sustainable investing with ESG credentials that date back two decades. Research is core to our ability to generate returns and we use ESG research as an important indicator of future performance, ensuring that all our portfolio managers have access to proprietary ESG research to inform their investment decisions.

We combine ESG analysis with robust stewardship and engagement to help improve the risk profile of investments and steer companies towards greater and more sustainable long-term profitability. This encourages investee companies to adopt better business models and business behaviours.

“Our commitment to active investment management ensures we bring our sustainability commitments to life through our investment decisions and engagement. Given the many different perspectives and needs of our clients, we tailor our sustainable investment offering to meet individual client needs and perspectives, rather than adopting a “one-size-fits-all” approach.”



Deborah Zurkow
Global Head of Investments

Our strategy is to provide a range of sustainable investing approaches that support clients in managing risk, addressing real-world problems and generating returns from these investments:

Sustainable Investing at Allianz Global Investors

We view global collaboration as the basis for delivering competitive financial returns.

 Integrated ESG	 Sustainable & Responsible Investing	 SDG-aligned/ Sustainability-themed	 Impact Investing
Value	Values	Mission	Impact
Integrating material environmental, social and governance (ESG) risk considerations into investment analysis and decisions without constraining the investment universe.	Using ESG assessments to construct portfolios reflecting our client values, mainly via exclusions and best-in-class considerations.	Intentionally contributing to positive environmental and societal change in alignment with one or multiple UN Sustainable Development Goals (SDGs). <small>Allianz Global Investors supports the UN SDGs.</small>	Generating measurable environmental and societal outcomes against specific KPIs in alignment with one or multiple SDGs. <small>Allianz Global Investors supports the time-tested SDGs.</small>

Active stewardship: company engagement and proxy voting

Sustainability strategy and governance

02.1 Strategy and approach

Sustainable investing

When Allianz Global Investors started its journey towards ESG integration in 2017, we managed EUR 24.7 billion in sustainable investment strategies. These comprised mainly SRI investments and a small fraction of Impact investments. Since we introduced our Integrated ESG approach in 2018, assets under management have multiplied to a total of EUR 165 billion. More importantly, through our collaborative approach, we have worked to ensure that material ESG risk considerations are top of mind for all of our portfolio managers.

Integrated ESG

Scrutinising ESG factors and integrating material ESG risk considerations into investment decisions and engagement across asset classes. We think this adds up to more robust risk management and improved investment performance without constraining the investment universe upfront.

See page 17.

Sustainable and Responsible Investing (SRI)

Building sustainable portfolios using an assessment of ESG practices and values in the investment analysis and portfolio construction processes. This approach seeks to deliver sustainable financial returns and above-average ESG quality in the portfolio. Allianz Global Investors offers SRI strategies across equities, fixed income and multi-asset.

See page 26.

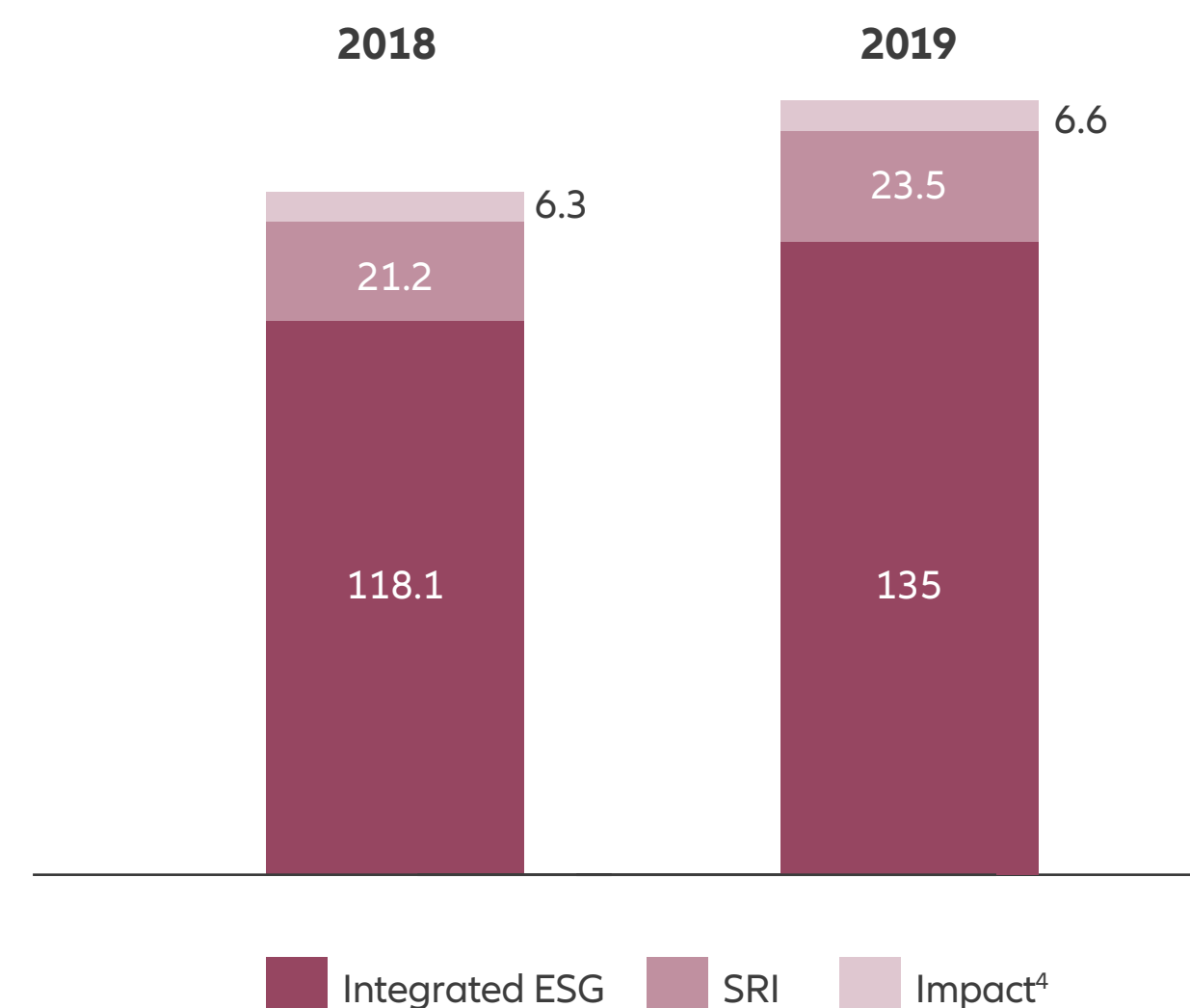
Supporting the Sustainable Development Goals (SDGs) and Impact Investing

Public market investments in companies that enable positive change towards one or multiple SDGs (labelled as “SDG-aligned” or “sustainability-themed” investments – see page 27) and, often, private market investments designed to deliver outcomes and report against key performance indicators specifically related to societal goals (labelled as “impact” investments – see page 28).

See page 27.

SUSTAINABLE INVESTMENT

AuM Growth



Sustainable business operations

Beyond generating long-term financial returns for our clients, we strive to manage the potential impacts of our operations – both positive and negative – on society, local communities and the environment. We believe we have a responsibility to lead by example and to hold ourselves to account for clearly demonstrating the standards and commitments we expect of the companies we invest in.

Client satisfaction: Our long-term success is built on clients’ trust in our integrity, our products, the way we inform and advise them, and the personal conduct and capability of our people.

See page 30.

Human resources: As an active manager, we need to attract and retain talent that shares our core values of passion, integrity, respect and excellence in order to succeed with our clients.

See page 31.

Compliance and data privacy: Our clients’ trust is our licence to operate. Allianz Global Investors has established a robust policy framework with strong control mechanisms to ensure employees follow the company’s Code of Ethics.

See page 36.

Environmental management: Our stakeholders expect us, like any global businesses, to manage our consumption of natural resources efficiently and effectively and to reduce the potential detrimental impacts of our operations.

See page 38.

Corporate citizenship: As a global company, we aim to connect with and contribute to the social and economic development of society.

See page 39.

⁴ Figures include AuM for newly created “SDG-aligned / sustainability-themed” category

Sustainability strategy and governance

02.2 Materiality

Our materiality assessment aims to identify the issues that are perceived as being of highest importance to our stakeholders and our business. We use the outcomes to shape our sustainability approach and reporting.

We have multiple touch-points with stakeholders across our value chain including: clients and distribution partners; employees; shareholders; investee companies; suppliers; regulators; rating agencies; civil society, including media, local communities and non-governmental organisations (NGOs).

Approach and methodology

The materiality assessment outlines key topics that are viewed as important by our stakeholders and lists the specific solutions or contribution Allianz Global Investors can make to influence the topic in the desired direction.

We used various sources of information to conduct this first materiality assessment. A major building block was the materiality analysis conducted by our parent company, Allianz, drawing on internal (for employees) and external (for clients) surveys as well as external data sources such as RepRisk (for media) and SIGWATCH (for non-governmental organisations).

Due to the nature of our business – of managing money on behalf of our clients – we recalibrated the material issues looking at the impact Allianz Global Investors has through its operations and via its investments.

We regrouped neighbouring or overlapping issues. We added market volatility and regulation as material issues for our stakeholders and our business.

The Sustainability Team, under the leadership of the Chief Sustainability Officer (CSO), engaged with internal stakeholders, including senior managers from different functions (Management, HR, Distribution, Legal & Compliance, Investment) and asked them to rate the importance of the respective issues and estimate the scope of Allianz Global Investors to influence the issues.



Sustainability strategy and governance

02.2 Materiality

Our material issues

The results of the assessment identified the topics that we perceive as the most important to address:

A. Client satisfaction is the key driver of our business. Investment performance, client service and brand reputation contribute to the long-term success of our business. As long-term investors, we pay utmost attention to staying close to our clients in times of accelerated change and disruption.

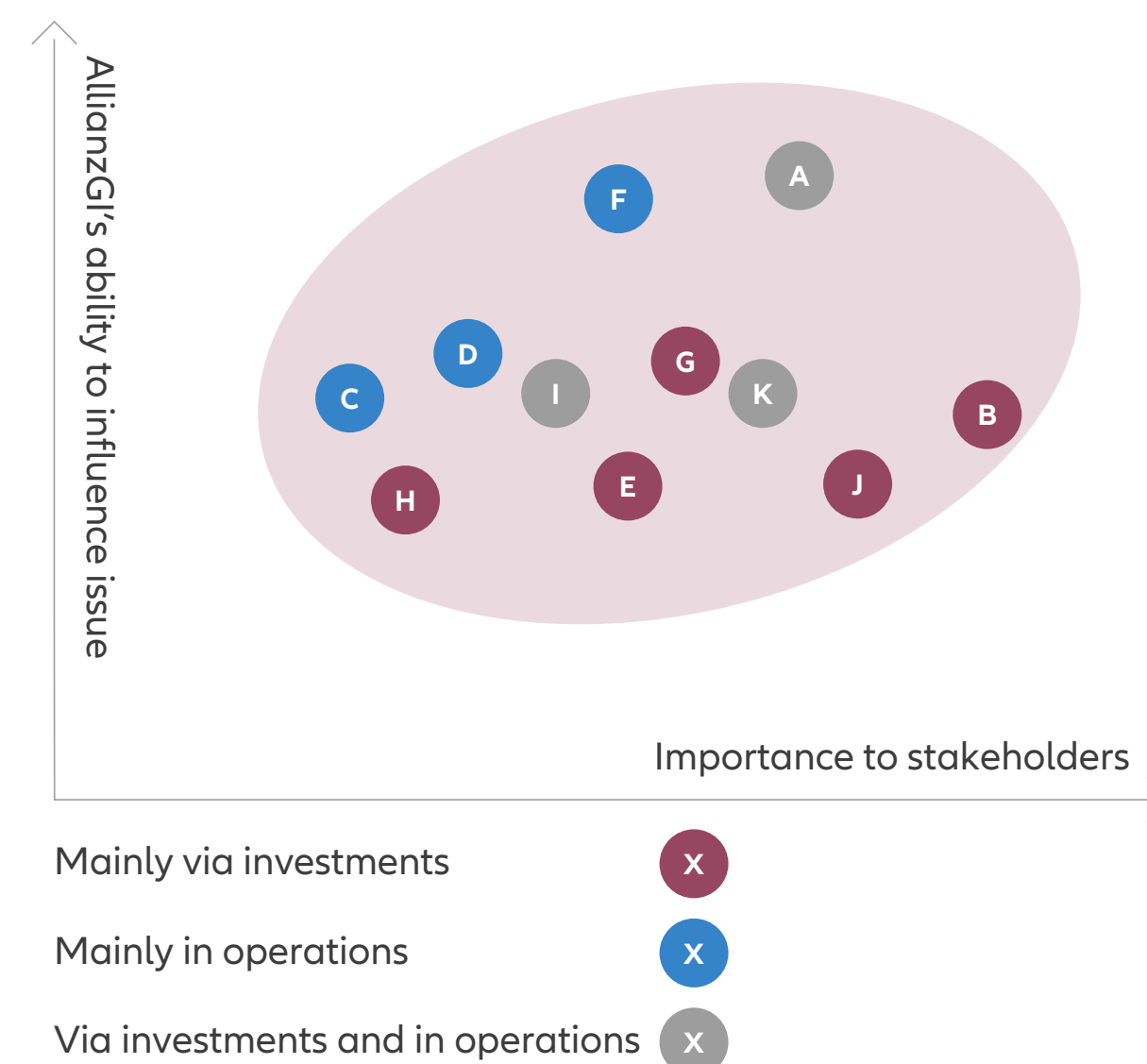
B. Climate change is a serious issue for all our stakeholders and, given the volume of assets we manage, we can be of some influence on this topic. The “failure of climate change mitigation and adaption” is this year’s number one long-term risk by impact and number two by likelihood according to the Global Risks Report 2020 published by the World Economic Forum. In this context, we help our clients to reflect climate risks and opportunities in their holdings. We also encourage investee companies to integrate climate change considerations in their strategic decision-making process.

C. Corporate citizenship is an area where the firm can provide a direct contribution to its local community and wider society while fostering employee engagement.

D. Data security is a material issue for our clients: they want to be confident that we are handling their data correctly. It is also a focus for our company engagement activities, given that it is an increased risk for our investee companies.

E. Demographic change is a major concern for our clients as the majority of the assets we manage are designed to provide future (retirement) income. With average life expectancy rising across the globe, public pay-as-you-go pension schemes are under increasing pressure, which underscores the importance of funded pensions.

Material issues for Allianz Global Investors



H. Human rights and respect for human rights are important to all stakeholders. As an active investor, we can use our influence with the companies in which we invest, or apply investment filters to exclude companies.

I. Innovation is material to our business in two major ways. Clients and market dynamics make innovation an imperative, while an innovative culture is a key driver for attracting and retaining top talent, creating a virtuous circle of innovation.

J. Market volatility is a key concern for our clients including investors and their advisers. They want their investment manager to show thought leadership to help them to understand better the ramifications, protect their wealth in times of decreasing markets and actively seize opportunities to generate alpha.

K. Regulation has always been an important element to establish and maintain trust in financial services. The increased emphasis on sustainable finance is leading to a major re-write of the rule books for asset managers and also for corporations, retail and institutional investors and their advisers. In this context, two elements are important: transparency and availability of adequate investment solutions.

F. Employees and workplace encompass future, current and past employees. Employees are the key driver of our business. Their expertise, diversity and skills in the context of an inclusive workplace are the reasons why we can thrive as an active manager, inspire trust among our clients and offer the solutions they need.

G. Environmental issues are a concern to many of our clients, employees and investee companies. Caring about the environment can take different forms, by improving the environmental footprint of our business operations or by actively engaging on environmental issues with investee companies.

02.3 Assessing the financial implications of climate change

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Climate risk is a risk factor that must be considered as a crucial part of investment decision-making. We are improving transparency around climate-related disclosures and are working to further align our strategy and approach with the recommendations developed by the G20 Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD).

We have analysed methods for integrating climate change risk into strategic asset allocation and we support bottom-up climate risk integration into portfolio strategies.

Allianz Global Investors is in the process of developing dynamic climate investment strategies. These strategies will be driven by climate risks and opportunities. In addition to delivering financial performance, one of the key goals is to achieve climate neutrality in the respective portfolios.

For mainstream investment strategies, Allianz Global Investors portfolio managers have access to ESG and climate risk research, including intrinsic issuer ESG ratings. For many sectors, climate change already poses a material consideration for fundamental analysts and, as such, is reflected in the sector frameworks (capturing material ESG risks) and stock ratings used to inform investment decisions.

To date, we have mainly used a qualitative approach to assess future climate-related risks and opportunities. This approach uses scenarios to provoke discussion about the overall investment strategy and the prospects for a particular sector or region, rather than as a source of data to feed into models.

Allianz Global Investors became an official supporter of the TCFD recommendations in 2019 following its parent company Allianz SE. As part of our commitment, we will review and refine our approach and increasingly build scenario analysis into our processes.

In the immediate follow-up to the Paris Agreement 2015, we worked with Allianz Climate Solutions to develop an asset class climate risk scoring approach which accounts for technology, regulatory and physical climate change risks. The approach involves a qualitative “what if” asset allocation discussion accounting for asset class-specific climate risk sensitivity. While not fitting into some of the definitions of scenario analysis, a qualitative approach is consistent with the recommendations of the TCFD and can be an important way to build internal knowledge and understanding ahead of developing a more quantitative approach.

Carbon footprint assessment

The portfolio carbon footprint report⁵ is designed to show the implied CO₂ emissions intensity of all companies in the portfolio versus the benchmark. It is based on underlying data comprised of estimated annual direct (Scope 1) and indirect (Scope 2) CO₂ emissions of corporates.

Total carbon intensity is the weighted sum of the carbon intensities of the underlying corporates, adjusted by their respective weight in the portfolio or the benchmark.

[Read the Allianz Global Investors Climate Risk Investment Positioning Statement](#)

Leading the industry

As a member of the EU Technical Expert Group (TEG), we have contributed to the development of recommendations for minimum standards for EU Climate Transitions Benchmarks and EU Paris Aligned Benchmarks that anticipate key features of modern climate investment strategies.

[Read the EU Climate and ESG Disclosure Benchmark report](#)

[View webinar recording on EU Climate Benchmarks with Allianz Global Investors’ Global Head of ESG Integration & Solutions](#)

“Modern climate investment strategies can contribute positively to real-world climate improvement and climate neutrality. We consider them a source of financial innovation to meet our clients’ investment objectives. To perform financially – and deliver optimal overall results – climate investments should participate in corporate climate innovation opportunities and protect assets from climate transition and physical climate risks.”



Steffen Hörter
Global Head of ESG
Integration & Solutions the

⁵ This method is applied to funds in the scope of Art. 173 French Energy Transition Law.

Sustainability strategy and governance

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Beyond physical risk

A PRI-convened research project – “The Inevitable Policy Response” – is based on the hypothesis that a forceful policy response to climate change is not priced into today’s markets. Governments will inevitably need to act more decisively than they have done so far, leaving investors exposed to significant potential risk.

In December 2019, the PRI published a detailed forecast of the financial implications of the inevitable policy response to climate change by 2025 on the MSCI ACWI equity index, designed to provide a broad measure of globally listed equity performance.

Overall, the analysis shows a significant risk to financial markets representing a permanent (non-cyclical) hit to global stock markets translating into a 3.1% fall on current values. This includes a USD 2.1 trillion downside driven by demand destruction and rising carbon costs and a USD 0.5 trillion upside from demand for green products and services. One in five companies are impacted by at least 10% in either direction.

While those numbers may look manageable at first glance, the impact could be 1.5 times greater if market re-pricing is delayed and occurs more suddenly in 2025, with countries submitting their third round of climate pledges as stipulated by the Paris Agreement. The financial cost could be a further USD 0.7 trillion and likely result in increased volatility and fluctuations in risk premia. The forecast also does not include other important risks such as physical damage from climate change or the kind of financial contagion which often accompanies other major re-pricing events.

In-depth analysis at a company and sub-sector level shows these headline market-level numbers conceal the real story about which companies will win and lose in the low carbon transition.

There are significant variations in the financial upside and downside between and within sectors. The analysis shows there can be winners even in declining sectors, and losers in sectors where the overall impact is positive. The biggest impacts can be found in five key sectors: energy, automobiles, utilities, minerals and agriculture.

Find out more [here](#)

Separately, a 2005 report from the German Institute for Economic Research cited Intergovernmental Panel on Climate Change numbers putting the cost of a 60 to 80% reduction in greenhouse gases by 2100 – the level that climate experts assume will be needed – at USD 150 trillion worldwide.

Green swans: assessing the winners and losers of a low carbon future

In a paper issued early in 2020, the Bank for International Settlements (BIS) coined the notion of “green swans” or “climate black swans”. Climate-related risks typically fit fat-tailed distributions: both physical and transition risks are characterised by deep uncertainty and nonlinearity, their chances of occurrence are not reflected in past data, and the possibility of extreme values cannot be ruled out.

In this context, traditional approaches to risk management based on extrapolating historical data and on assumptions of normal distributions are largely irrelevant to assess future climate-related risks.

However, green swans are different from typical black swans in three regards. First, although the impacts of climate change are highly uncertain, “there is a high degree of certainty that some combination of physical and transition risks will materialise in the future” – as the Network of Greening the Financial System points out. That is, there is certainty about the need for ambitious actions despite prevailing uncertainty regarding the timing and nature of the impacts of climate change. Second, climate catastrophes are more serious than most systemic financial crises: they could pose an existential threat to humanity, as increasingly emphasised by climate scientists.

And third, the complexity related to climate change is of a higher order than for black swans: the complex chain reactions and cascade effects associated with both physical and transition risks could generate fundamentally unpredictable environmental, geopolitical, social and economic dynamics.

02.4 Contributing to the UN Sustainable Development Goals (SDGs)

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Since they were launched in 2015, the UN SDGs have come to represent a global call to action for stakeholders from all countries to address the greatest challenges facing society. Business has a clear role to play and the goals have developed into an increasingly important tool for assessing the impacts of companies on society more comprehensively.

Given the nature of its business, Allianz Global Investors has the opportunity to make a positive, measurable contribution to enable positive change towards the SDGs through its core business and targeted investments.

We support the delivery of the SDGs both as an employer and as an active, engaged investor. Given that the nature of our business is client-centric, seeking the most promising allocation of capital, we contribute to various SDGs, both directly and indirectly. We have clustered our contribution to the SDG into three different categories:

1. SDGs that are in our DNA, which are inextricably linked to our purpose and material to our core business activities

We have identified five SDGs to which we contribute through our core business activities.

Our portfolio managers aim to identify the most promising business ideas and allocate clients' money into areas that provide sustainable outcomes. In line with our growing private markets infrastructure business, we are increasingly laying the foundations for a prosperous economy at an early stage. In the longer term, the promotion of inclusive and sustainable economic growth, employment and decent work for all can be viewed as an outcome of sustainable investment activity.



The nature of Allianz Global Investors' business is mostly linked to retirement saving or wealth management and protection. We help to secure stable income streams across ages and provide a solution to demographic change, reducing inequalities across age cohorts and generations.



Climate risks have become a major consideration in our assessment of the value of any potential holding. As an active investor, we can help to find innovative ways to reallocate capital towards a fossil-free economy. The rising commitments of clients and asset owners to fully decarbonise their portfolios – as exemplified by the Net-Zero Asset Owner Alliance, of which our parent company was a founding member – seem to indicate where future demand will focus. Partnering towards achieving the SDGs is important. This can take the form of collaborative initiatives such as Climate Action 100+ or partnering with public finance (blended finance) to make progress towards the SDGs.



2. SDGs supported by our operations and corporate citizenship activities

Allianz Global Investors contributes to several SDGs through its business operations, as an employer and through its corporate citizenship activities:



3. SDGs addressed through investment strategies

A growing number of Allianz Global Investors' investment strategies target companies and activities that support and facilitate positive change towards achieving one or multiple SDGs. We address these SDGs via Impact strategies and SDG-aligned investments (see page 27).



Sustainability strategy and governance

02.5 Governance

Corporate responsibility governance

The Allianz Group ESG Board is the highest governing body for sustainability issues and oversees the Allianz Group Climate Change Strategy. It comprises three members of the Allianz SE Board of Management, meets quarterly and informs the Allianz SE Board on relevant topics and activities at least twice a year.

Allianz Global Investors also has its own ESG Committee. Comprised of representatives from the Sustainability Team, Portfolio Management, Research and Distribution. It advises the Executive Committee and other relevant committees on ESG issues, including climate change.

How we manage corporate responsibility

Allianz Global Investors created the role of Chief Sustainability Officer (CSO) in 2019 to lead and develop its holistic approach to sustainability. The CSO oversees and coordinates the full range of sustainable investment strategies at Allianz Global Investors including ESG/SRI Research, ESG Integration & Solutions, and Sustainability Reporting. The CSO is responsible for sustainable investing and acts as a central figure for fostering sustainable practices within the firm and overseeing the firm's corporate citizenship activities.

The Sustainability Team at Allianz Global Investors is composed of ESG/SRI Research (with responsibility for sustainability research, internal ratings, proxy voting, corporate engagement on sustainability issues and sustainability reporting) and ESG Integration & Solutions. It is supported by a group of sustainability specialists to educate clients on Allianz Global Investors' sustainable investing proposition. It is furthermore supported by all business segments within Allianz Global Investors via designated "go-to-persons".



03 Sustainable investing



With sustainable investing no longer seen as a trend, but as an essential consideration in portfolio management, the investment industry is at a tipping point.

Sustainable investing incorporates non-financial inputs, such as ESG factors, to seek sustainable outcomes as well as strong financial returns. Integration of ESG criteria and development of sustainable investing solutions is at the heart of Allianz Global Investors corporate responsibility approach. Sustainable investments can deliver significant positive outcomes. Active engagement with the companies in which we invest also offers huge potential benefits. For example, we may help to accelerate a company's decision to exit unsustainable practices or to enter new business areas that provide solutions for achieving a positive societal impact.

Our sustainable investing journey

In 2007, Allianz Global Investors was among the first 50 asset managers to sign the UN-supported Principles for Responsible Investment (PRI). Today, the principles continue to guide our approach and drive continuous improvement across our business.

Given the diversity of investors' objectives and requirements, we provide a broad range of approaches, adaptable to different levels of ESG incorporation and client preferences. This diverse approach enhances clients' investment decisions and creates wide benefits for society.

The PRI Reporting Framework aims to build a common language and industry standard for reporting responsible investment activities.

You can find the Allianz Global Investors PRI Transparency Report on our website.

What is ESG?

ESG is defined as the consideration of **environmental, social and governance** factors alongside financial factors in the investment decision-making process.

Environment	Social	Governance
Climate change	Human capital	Risk management
Natural resources	Health & safety	Corporate leadership
Pollution & waste	Supply chain	Internal controls
Environmental opportunities	Social opportunities	Executive remuneration
		Shareholder rights

03.1 ESG research and analysis

Allianz Global Investors has a strong track record of bottom-up, fundamental research. As an active investor, we consider ESG research as an important signal of future performance.

Why is ESG research important?

While accurate information on a company's financial performance remains extremely important, it no longer provides a complete story in a knowledge economy where an increasing percentage of a company's assets are intangible ones that are not shown on the balance sheet. Intangible assets include reputation, human capital, intellectual property, customer loyalty and brand value – many of which fall into the ESG category.

Investors complement research from third-party providers with their proprietary ESG research. In-house analysts and portfolio managers, through their expertise and access to company management, are often able to gain additional insights which support better analysis of a company's ESG risks and opportunities.

Consequently, Allianz Global Investors' dedicated and experienced ESG research team is the cornerstone of its active investment approach. The team works hand in hand with sector analysts and portfolio managers, providing ESG knowledge and insights that support better investment decisions as they consider ESG risks and opportunities that may not have been fully priced by the markets. The ESG research team offers specialist expertise across the entire spectrum of ESG-related requirements, including:

- ESG research, both company-specific and thematic
- Proprietary ESG rating model for dedicated strategies
- Research to support proxy voting as well as company and policy-level engagement.

Our global approach means every piece of ESG analysis is shared with all investment professionals via our proprietary research and collaboration platform, which facilitates and systematically records debate and assessment of ESG risks and opportunities. Discussions cover a global universe of corporate issuers, sectors and themes.

As a starting point, third-party research and numerical ratings are made available through the proprietary research database and collaboration system. Use of third-party ratings and underlying research helps provide the necessary coverage while indicating to our investors the likely market view on companies in their portfolios.

The added value for clients comes from the proprietary insights obtained through internal knowledge of a company's business, our in-house ESG expertise and collaboration and discussion of ESG risks and factors. Analysts and portfolio managers are at the core of this process, undertaking an initial review of third-party research and formally requesting further analysis and input from the ESG research team.

All output from the ESG research team, including comments from sector analysts and portfolio managers, is available on the collaboration platform alongside other information and company research. ESG analysts post their views on a company, highlight identified material risks or opportunities, and make a decision with regard to the company's intrinsic ESG rating.

This approach ensures we are not overly reliant on external research and can seek to generate independent and differentiated insights on ESG topics ahead of the market while ensuring full transparency internally.

Researching gender diversity risk in Japan

Combined with Japan's shrinking labour force, the male-female gender gap has become a major contributor to human capital risk among Japanese companies. As a critical component of ESG risk analysis for Japan equity portfolio holdings, human capital, labour management and gender diversity have become frequent discussion topics between Allianz Global Investors' Japan Equity and ESG Research teams.

In 2019, the two teams joined forces to gain further insights into how companies in our equity portfolio are dealing with these issues. While the challenges are not unique to Japan, many Japanese companies cite a need for cultural transformation to enable increased productivity, support overseas expansion and revitalise their businesses at home. Greater gender diversity and the advancement of women in leadership have the potential to deliver a significant positive impact on the Japanese economy and society.

Our research into gender diversity issues in Japan suggests that for many companies, particularly those in engineering, industrial, and technology sectors, the problem starts at the recruitment stage and is exacerbated by poor retention and advancement of female employees. Rectifying issues at every stage of the talent pipeline is a challenge that requires strong long-term commitment and focus by company management to yield benefits.

Closing the gender diversity gap is undeniably an important part of mitigating the human capital and labour challenges faced by Japanese companies. Changes are happening, but not fast enough. Companies need to be proactive in tackling the issue now, in a structured and systematic way.

We believe active stewardship can play a critical role in accelerating progress. Direct conversations with Japanese companies sends a strong and clear message on the importance of gender diversity from both a business and investment perspective.

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Allianz Global Investors is committed to active stewardship of the assets it manages for its clients. We strive to steer investee companies towards sustainable business success through corporate dialogue and proxy voting.

Consistent with our investment philosophy and approach, we routinely engage in dialogue with investee companies and seek proactively to present a viewpoint, effect change where necessary and monitor the results of our engagement.

Our investment views are influenced by the outcomes of engagements and are linked to the proxy voting process, forming a consistent stewardship approach. We believe in the value of taking a long-term approach to investing. This means working with companies to help them build sustainable businesses, rather than reacting to day-to-day news flow.

[Read the Allianz Global Investors Stewardship statement on our website](#)

Engagement and dialogue

Allianz Global Investors believes in gaining a deep understanding of the businesses in which it invests. Our portfolio managers, fundamental analysts and ESG analysts hold thousands of meetings with listed issuers every year to inform their investment decisions. The majority of meetings with companies are aimed at enhancing our knowledge of their business, management, performance and value drivers. We are also committed to engaging with investee companies to help them improve performance and safeguard their long-term prospects. Active stewardship is an ongoing process and is not limited to circumstances where escalation is deemed necessary.

Engagement can take various forms, including:

- Face-to-face meetings and conference calls with investor relations, executive directors and senior management, board chairmen and non-executive board members, company secretaries, as well as heads of operational, controls and sustainability functions

- Formal letters to boards and management
- Dialogue and collaboration with other shareholders
- Public interventions (exceptionally), through co-filing/filing shareholder resolutions, speaking at shareholder meetings and commenting in the media.

As an active manager, we are ideally positioned to engage in dialogue with investee companies. Common engagement activities relate to an investee company's strategy, operational or financial performance, capital management, and corporate governance, as well as environmental and social risks and impacts. Should our investment teams have concerns that cannot be resolved through normal interactions with investee companies, we may start a more focused engagement.

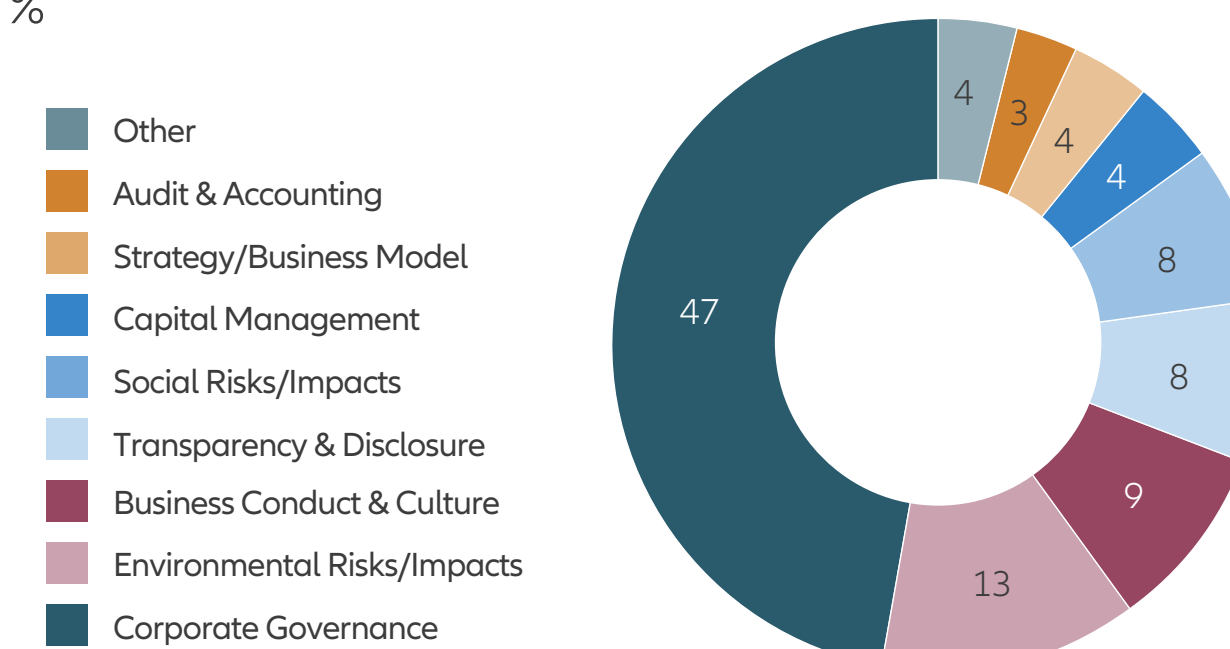
Our preference is to engage investee companies confidentially. We are prepared to engage in a more public way where a company does not respond constructively or our shareholding is insufficient for an effective escalation on a standalone basis. Options we might consider include:

- Voting against resolutions at shareholder meetings
- Expressing concerns through company advisers
- Collaborating with other institutional investors
- Co-filing/filing resolutions at shareholder meetings.

In addition to our focus on direct engagement with the boards and management of sizeable holdings, we lead targeted, themed engagement projects, for example on cyber security or the impact of climate change on investee companies' strategy. We also participate in collaborative engagement initiatives aimed at improving corporate practices and disclosure of information at an industry or market level.

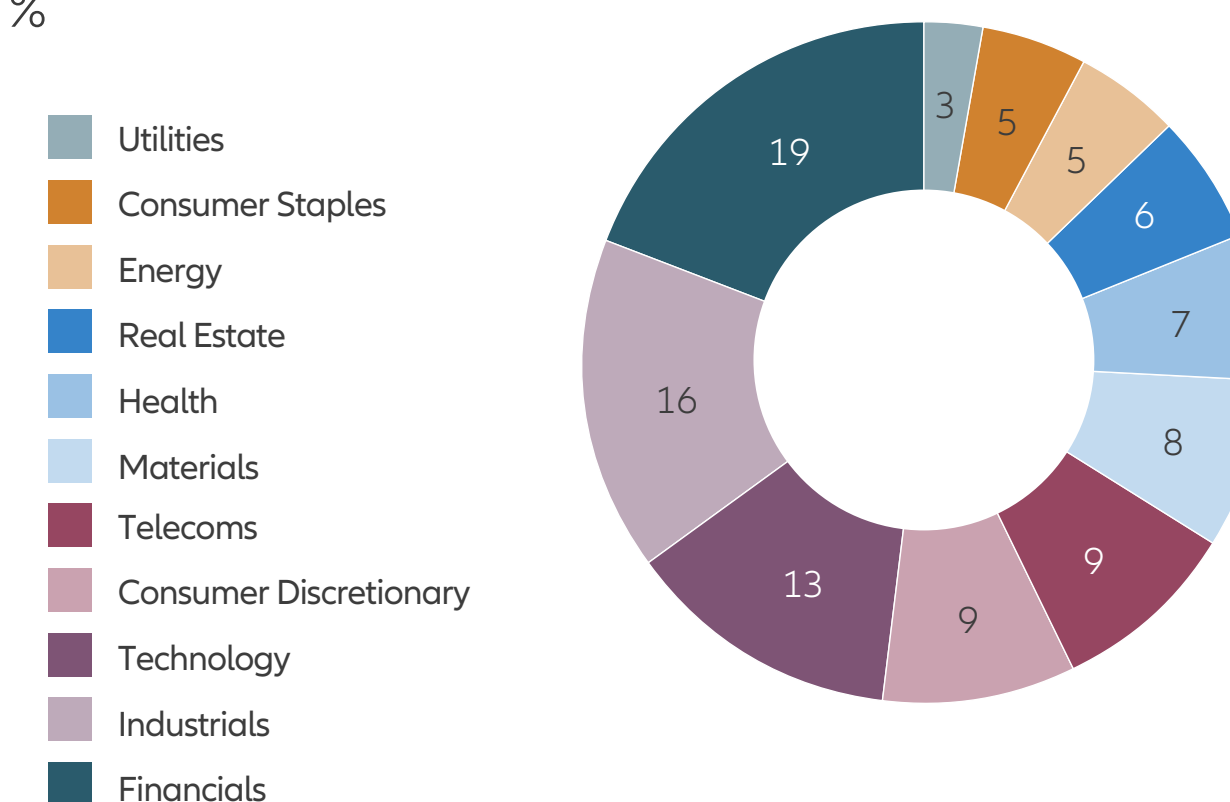
Engagement activity per topic

%



Industry engagements

%



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In 2019, we engaged on 448 occasions (2018: 343) and covered 711 topics (2018: 482), often engaging on more than one topic per company. Three-quarters of all engagements covered corporate governance, environmental risks and impacts, business conduct, and social risks and impacts. We registered 47 stewardship outcomes in 2019, capturing companies' reaction to investor feedback by taking action in the desired direction, some of which was achieved after a multi-year engagement. In half of the cases, companies reacted to our feedback about the transparency and the structure of executive remuneration.

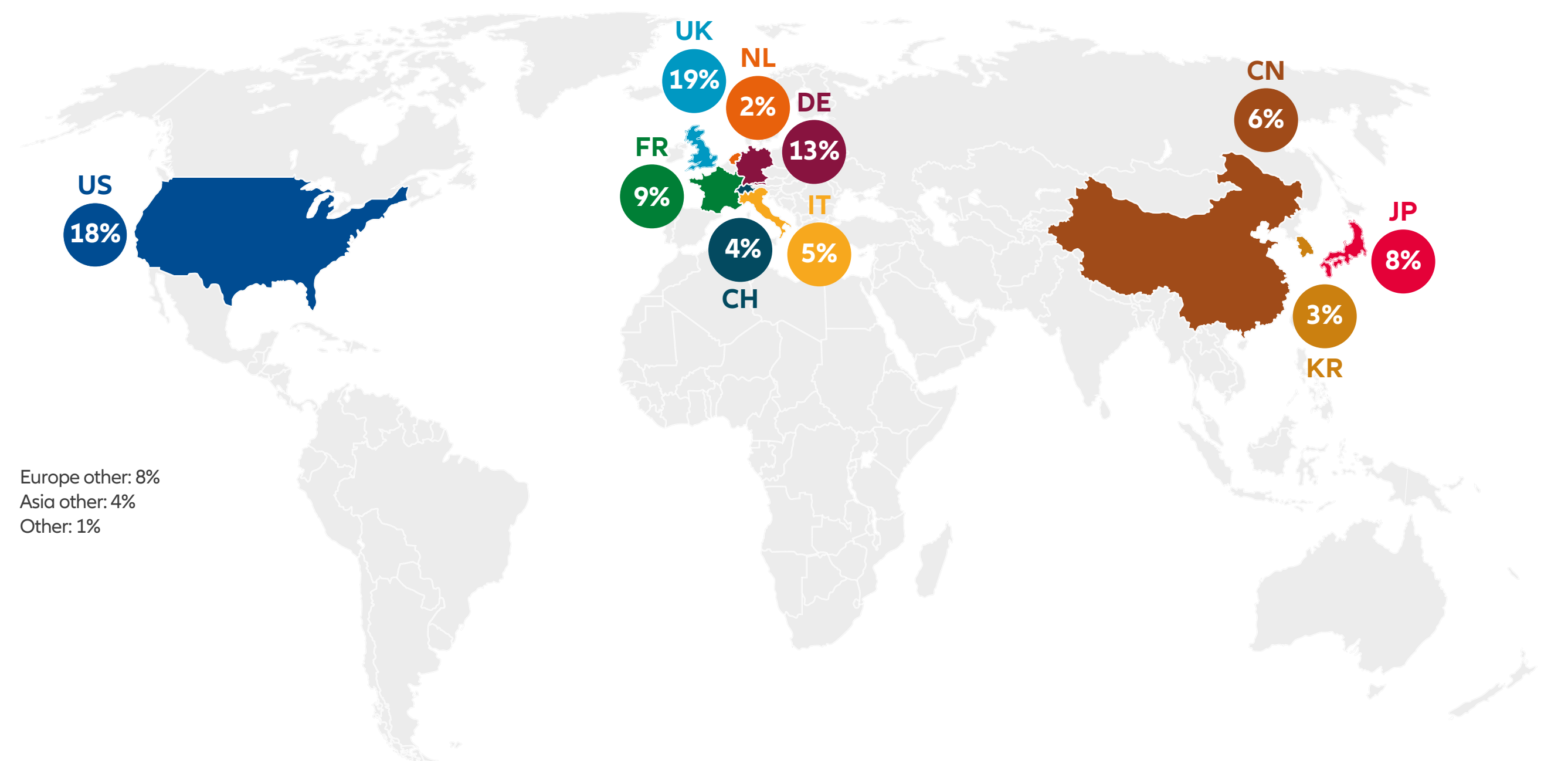
“Our engagements are focused on issues specific to each company, including material risks identified in our research process. The goal is to give the company perspectives from all critical parts of our investment platform, thus presenting a 360-degree view. Our investment views are influenced by the outcomes of these engagements and are linked to the proxy-voting process, forming a consistent stewardship approach.”



Eugenia Unanyants-Jackson
Global Head of ESG Research

Engagement per geography

Allianz Global Investors engaged 333 companies (2018: 247) across 28 markets (2018: 21) globally.

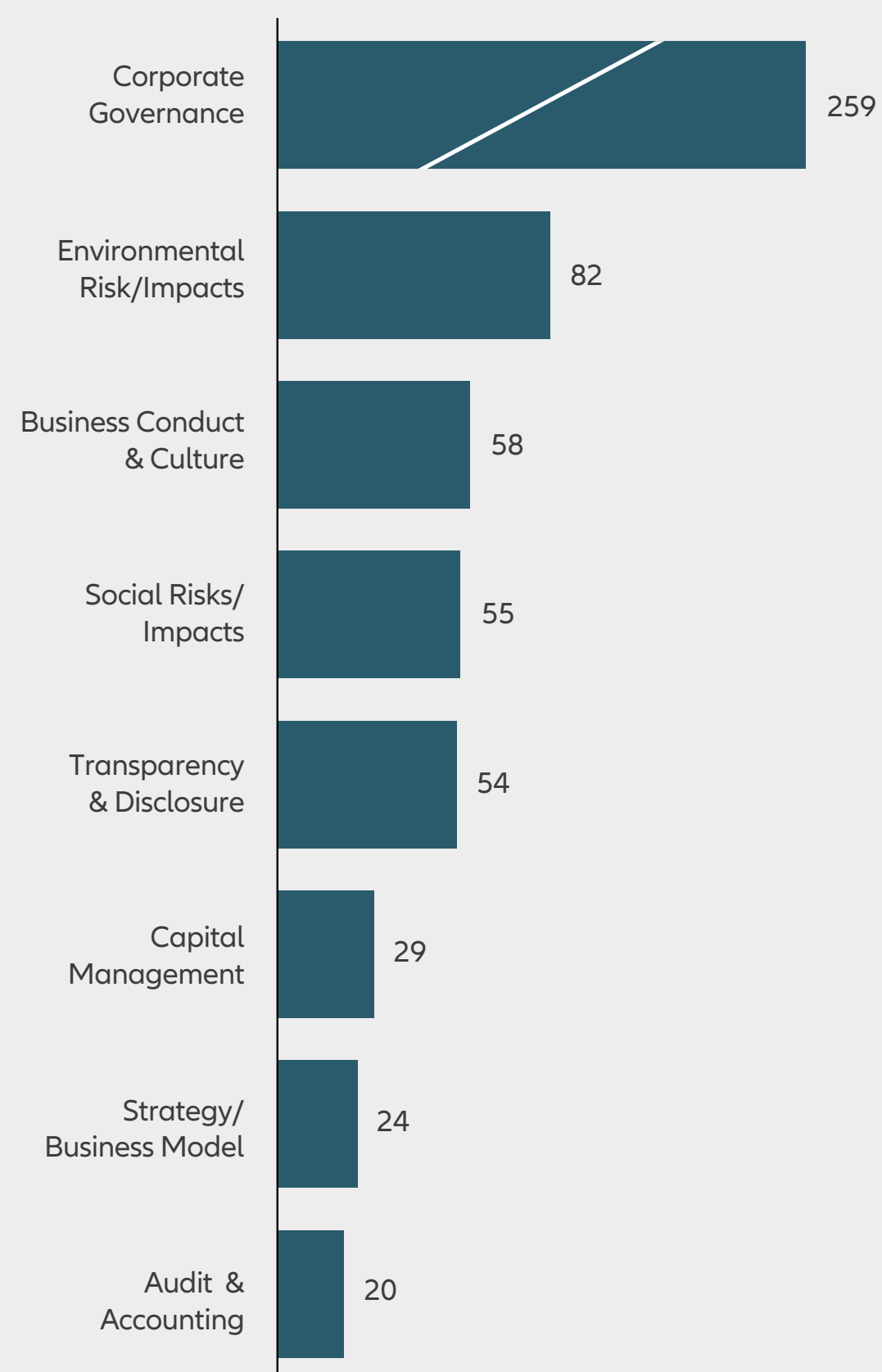


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Number of companies engaged, by topic



For illustrative purposes only.

Engagement focus: climate transition

In 2019, Allianz Global Investors engaged 82 companies on environmental risks and impacts, including climate change. Many discussions focused on climate risk assessment, how companies are reflecting climate risk and the imperative of low carbon transition in their strategy, operations and product pipelines, adoption of Science Based Targets (SBT) and disclosures on climate- and water-related KPIs. The engagements spanned multiple sectors including oil & gas, insurance, real estate and materials.

After engaging with an oil major, the company announced its commitment to reduce its net greenhouse gas (GHG) emission intensity in combination with investments in carbon capture and storage (CCS) projects. The company announced new goals to reduce oil-production related GHG emissions intensity by 2023. As a member of the Oil and Gas Climate Initiative (OGCI), the company sets a target reduction of 2-5% of its methane emissions over the same period. These targets apply to all upstream oil and natural gas activities. The company also announced a large

investment in CCS projects in Australia and Canada, which are expected to reduce GHG emissions by about 5 million metric tons per year.

In conjunction with FAIRR (an NGO), we engaged a consumer staples company asking them to set goals around Scope 3 emissions, to consider the environmental risks of their dairy supply chain and to hear more about their specific initiatives. The company has set extensive sustainability goals in conjunction with their signing up to the SBT initiative and reporting to the Carbon Disclosure Project (CDP). They have targets by 2020 to reduce their CO₂ by 15% and have been focusing on developing healthy products by improving nutritional value and lowering calorie count. Their work around reducing the deforestation associated with their cocoa supply chain (their primary environmental impact) is industry leading. We encouraged the company to consider whether there could be scope for animal-free alternatives to complement its existing products.

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Collaborative engagement on tailings safety

Allianz Global Investors actively participated in the Investor Mining & Tailings Safety Initiative as a signatory to a letter sent to 683 CEO/Chairs of listed extractive companies requesting additional disclosure around their tailings storage facilities (TSF). This issue has formed a core part of our direct and collaborative engagements with Metals & Mining companies. Tailings safety is a complicated issue impacted by factors such as dam design, water management and regional seismicity. We expect companies to increase disclosure on the management of tailings facilities, which should give investors a better view of future risk exposures across our portfolios and drive improvements in tailings risk management by companies.

ESG workshop for German issuers

Allianz Global Investors organised an ESG workshop for investee companies in Germany to explain how we approach ESG. The event provided insights into our ESG requirements and our expectations of good corporate governance at investee companies. It offered an opportunity for companies to meet with our portfolio managers and ESG analysts. Allianz Global Investors explained its approach to ESG integration in portfolio management and discussed in detail what portfolio managers expect in terms of ESG reporting by companies. We pointed to the challenges when managing small-cap portfolios, as smaller companies often do not sufficiently disclose ESG data to allow for a comprehensive ESG risk analysis. The Allianz Global Investors team was pleased with the large number of participants and the willingness of company representatives to discuss the issues.

Engagement focus: cyber risk

Following high-profile data breaches, privacy scandals, major IT outages and tighter data protection rules in Europe and beyond, cyber risk has become a core concern for businesses. But current disclosure on cyber security does not effectively enable investors to assess the risks. In 2018/2019 we undertook a cyber-security engagement project to gain insights into what companies are doing to manage the risks effectively.

Extensive discussions with 17 companies helped us build a strong understanding of current best practices to address cyber-security risks, incentives that can help create the right attitude and skills among individuals to prevent data breaches, and the importance of having clearly defined governance structures with dedicated responsibilities for specific tasks.

Having met with directors and executives responsible for risk management (CRO), compliance, information security (CISO) or IT infrastructure, we found companies to be highly responsive. Our engagements were appreciated by many companies for our deep understanding of the topic and its investment implications, as well as our willingness to follow up on previous discussions, making it a continuous dialogue rather than a one-off interaction.

Our engagements have led to tangible outcomes. Internally, we have been able to provide more accurate ESG risk signal, highlighting high-risk investments as well as low-risk issuers that manage cyber risk well, and embed cyber-risk assessment in investment cases across the targeted sectors and issuers. Externally, we have seen positive changes and improvements in cyber-risk governance, management and transparency at six investee companies with which we engaged.

According to the Allianz Risk Barometer 2020, 15 out of 21 industry sectors' top three business risks include cyber incidents. We live in a complex environment where various risk factors, including business interruption, changes in legislation and regulation, market developments, new technologies, and the loss of reputation or brand value, are all interlinked with cyber incidents across industries. Engagement on cyber-risk resilience should, therefore, be a "new normal" for investors.



Sustainable investing

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Proxy voting

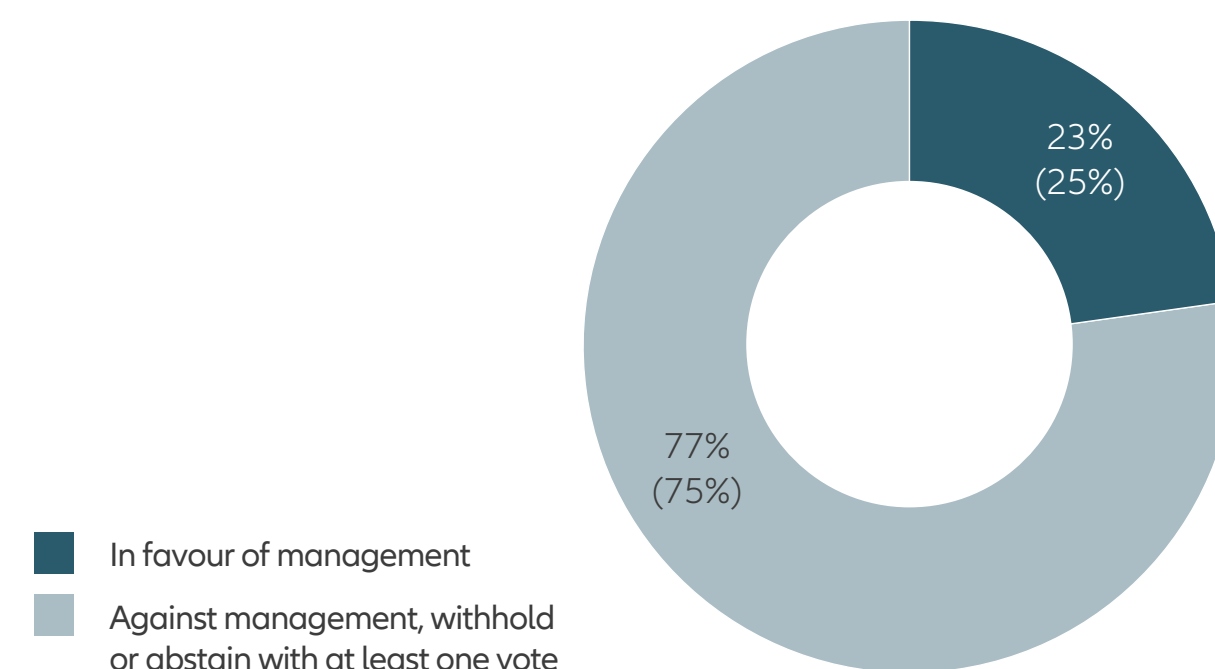
As well as engaging actively with the businesses in which we invest, we fulfil our fiduciary responsibilities to clients by exercising voting rights on their behalf during shareholder meetings. This allows us to have a say on some of the most important issues affecting wider society and the investee companies – including executive compensation, the election of board directors, climate change, workforce diversity, political donations and lobbying activities, and appointment of external auditors.

We put great effort and care into developing in-house views and positions on corporate governance and proxy voting matters. Voting decisions are informed by in-depth research, analysis and discussions with investee companies. Detailed proxy voting policies help shape our voting decisions, while a robust proxy voting process ensures significant governance. Voting matters, and potential conflicts of interest, are assessed on a case-by-case basis.

Allianz Global Investors is committed to full transparency of its proxy-voting activities. We publish detailed Global Corporate Governance Guidelines, a Stewardship Statement and provide real-time disclosure of all votes cast, including commentary on votes against management and abstentions.

During 2019, Allianz Global Investors participated in 9,532 shareholder meetings (2018: 8,535) and voted against, withheld or abstained from at least one agenda item at 77% of all meetings globally (2018: 75%). We opposed 24% of all resolutions globally (2018: 24%). These figures reflect our highly active and globally consistent approach to stewardship and a willingness to vote against proposals that do not meet our expectations of investee companies.

Voting in 9,532 shareholder meetings (2018: 8,535)



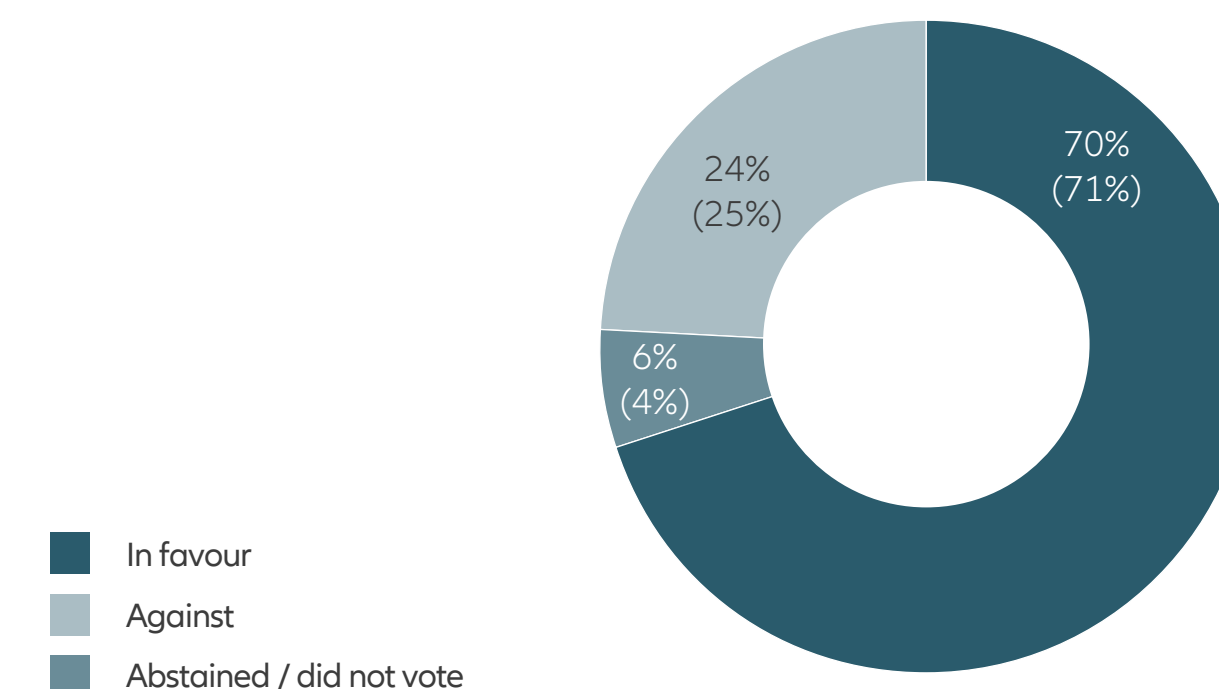
We aim to fulfil our duty to act in the interests of clients by considering each proposal on merit.

Allianz Global Investors was ranked 2nd out of 57 of the world's largest asset managers in a report by ShareAction⁶ for our voting record on climate-related shareholder resolutions.

[View details of how Allianz Global Investors voted at individual shareholder meetings](#)

[Read the Allianz Global Investors Global Corporate Governance Guidelines](#)

Voting in 97,928 proposals (2018: 88,962)



⁶ <https://shareaction.org/research-resources/voting-matters/>

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How we voted in 2019

Environmental and social matters: a key part of our stewardship programme is aimed at reducing environmental and social risks in our portfolios.

Allianz Global Investors supported the vast majority of resolutions on topics including calls to report on policies and actions, GHG emissions, carbon emissions reduction targets, and business risk and impact analysis under a 2 degrees scenario. Other environmental proposals supported by Allianz Global Investors concerned pesticide use, food waste, plastic waste, toxic emissions and waste management, mitigating the impacts of deforestation, reduction of water pollution and broader sustainability reporting.

On the social side, we supported proposals seeking transparency of political contributions and lobbying payments and policy, reporting on workforce diversity and the gender pay gap, and issues related to human rights and workplace harassment.

Key reasons for voting against proposals

Executive compensation: we vote against increasing executive pay if we find a poor link between remuneration and performance, or lack of transparency regarding key performance indicators (KPIs) and targets, or when we have concerns over potentially excessive executive pay.

47%

of compensation-related proposals voted against in 2019 (52% in 2018).

Board independence and overboarding: we promote high-quality boards and we use our voting rights to support boards that have a good balance of independence and diversity of background, experience and skills relevant to the business.

27%

of director-related proposals voted against in 2019.

Auditor-related votes: our expectation is that our investee companies will regularly evaluate and re-tender audit contracts and change auditors after a maximum of 20 years of service.

23%

of respective management proposals voted against in 2019.

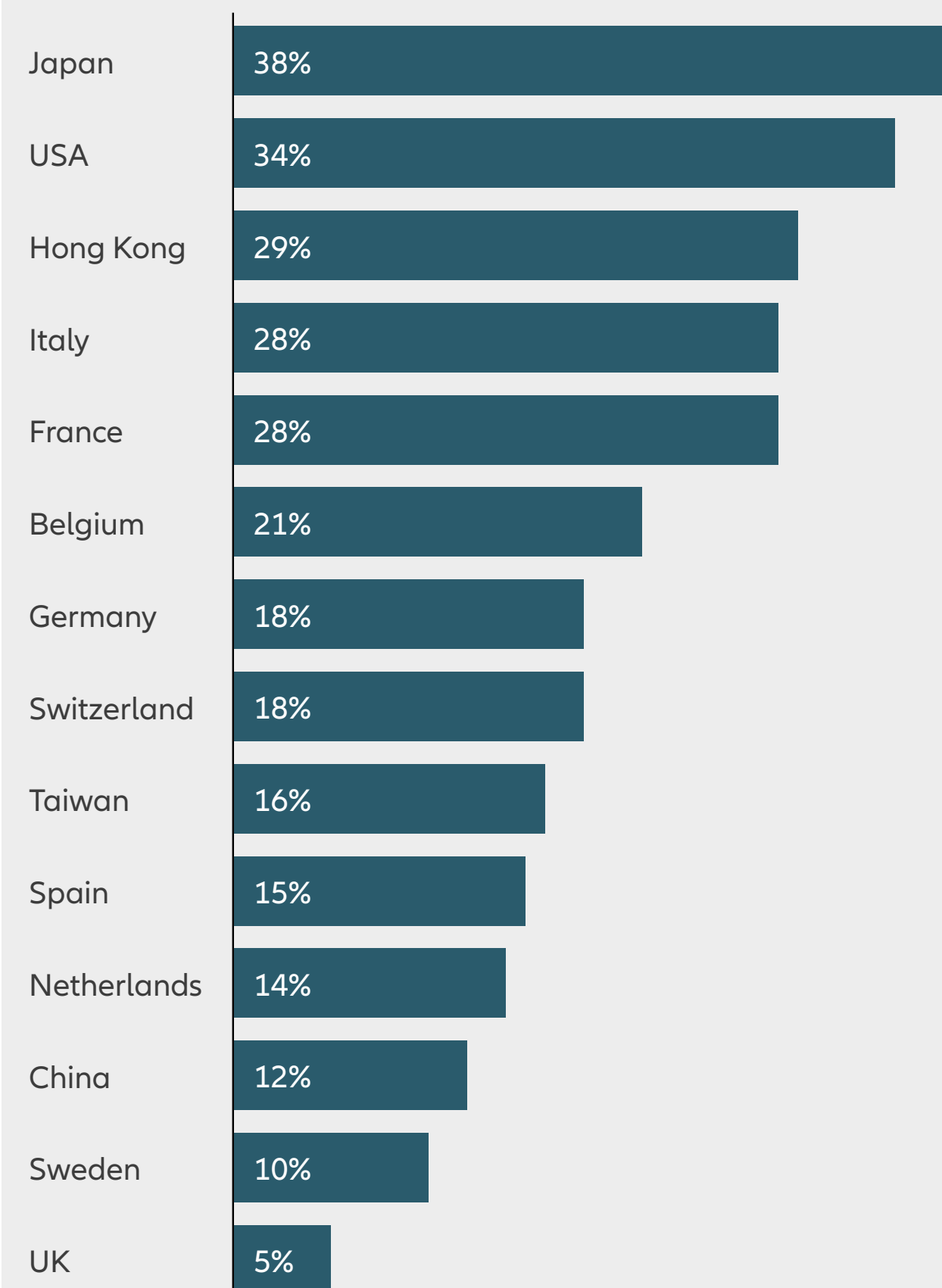
Capital-related reauthorisation: only in exceptional circumstances, and when justified by the company, will Allianz Global Investors support an increase in capital with pre-emption rights of greater than 33%, and an increase in capital without pre-emption rights of greater than 10%.

18%

of capital-related proposals voted against in 2019 (20% in 2018).

Proxy voting

Total percentage votes against all management proposals by market in 2019



Source: Allianz Global Investors, as at 31 December 2019.

Sustainable investing

03.3 Integrated ESG

To have a meaningful impact and be consistent with its fiduciary responsibilities, Allianz Global Investors is committed to integrating ESG throughout the entire investment value chain and across all its strategies, regardless of asset class.

We combine integrated ESG analysis with robust stewardship and engagement to improve the risk profile of our investments and steer companies towards greater and more sustainable long-term profitability. This approach also promotes the adoption of better business models and business behaviours among investee companies.

We take a rigorous approach to applying “Integrated ESG” labelling across all asset classes we offer – including equities, fixed income, multi-asset and alternatives. Portfolio teams are responsible for questioning potential holdings with low ESG ratings and contributing to the digital debate about companies’ ESG risks. This internal crowdsourcing ensures experienced portfolio managers and industry analysts contribute their views, rather than relying solely on external ESG ratings and third-party methodologies and judgements.

Our portfolio managers understand ESG risk and have the ability to own companies with higher ESG risks. When a portfolio team sees a compelling opportunity to invest in a company despite an acknowledged ESG risk, they must document their risk/return thinking in our collaborative system.

This puts us in a unique position to engage with the companies that need it most, as we seek to reduce ESG risk through positive and transparent change. We engage companies to help generate alpha while achieving societal benefits. As such, one of the strengths of Integrated ESG is that it builds an additional factor into existing investment processes – enhancing rather than changing the process without constraining the investment universe.

To evidence our Integrated ESG approach, we document ESG risk reviews, risk/reward considerations, company engagements and proxy voting discussions. This ensures full transparency internally and, on request, to clients, demonstrating ESG integration at work.

EUR 17 billion

increase of AuM managed according to Integrated ESG approach in 2019

12

new strategies run with Integrated ESG approach

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03.4 Sustainable and Responsible Investing (SRI)

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Allianz Global Investors' SRI strategies aim to create a sustainable portfolio by combining financial and sustainability assessments in investment analysis and portfolio construction. We offer "best-in-class" SRI strategies across equities, fixed income and multi-asset.

The SRI offering appeals to clients who want their investments to generate financial value and, at the same time, reflect their own values. Through our experience in SRI, we are well equipped to provide investment solutions that address clients' extra financial needs – whether by applying negative screening or, increasingly, through positive screening.

"Our SRI approach aims to build sustainable portfolios using assessment of ESG practices and values in the investment analysis and portfolio construction processes in order to deliver sustainable financial return potential alongside positive environmental and social outcomes."



Isabel Reuss

Global Head of SRI Research

SRI methodology

Allianz Global Investors' SRI approach uses proprietary ESG analysis that has been in place since 2002 and which has evolved as new information has become

available and new types of issues have emerged. Our SRI research process uses external data sources and qualitative research to ensure a deep understanding of the ESG factors that matter for a sustainable portfolio.

It does so using raw indicator data from external ESG data providers, to generate proprietary SRI ratings on a scale from 4 being the "best in class" rating to 0 being the "worst in class" rating.

Our SRI strategies usually focus on a "best-in-class" approach, ie, selecting companies with superior ESG credentials compared with their peers. SRI strategies can also invest in securities that are not "best-in-class" when they have at least average internal SRI ratings but credibly pursue an upwards trend in their sustainability profile. These securities showing "best efforts" are often a source for alpha generation. Our SRI strategies apply minimum exclusion criteria and a human rights filter and exclude "worst-in-class" issuers. Allianz Global Investors also offers a range of strategies that apply additional filters reflecting specific client values.

Proprietary SRI ratings now are available for sovereigns, companies, local authorities, agencies and supranationals. The SRI methodology is reviewed annually and the central SRI database is updated monthly to ensure that analysis integrates all new information available.

Expanding our SRI offering

In 2019, we launched or repositioned 16 funds as SRI strategies. This included the launch of systematic equity strategies that use a risk factor investment approach and emerging market debt. We also converted our EUR 2.2bn flagship dynamic multi-asset strategy family. In addition, minimum exclusion criteria for all SRI strategies that are part of Allianz Global Investors' global Luxembourg-domiciled umbrella fund were harmonised to raise standards and improve consistency.

12%

increase in AuM in SRI strategies in 2019

How does the SRI analysis work?

Allianz Global Investors' SRI research analyses four SRI domains. These are weighted according to the domain's importance for a specific sector.

Corporate governance: analysis of an issuer's willingness and capacity to organise its internal structure to limit risks. For corporate issuers, this includes evaluation of the Management Board or Supervisory Board composition, transparency of remuneration systems and existence of independent remuneration, nomination and audit committees. For sovereign issuers, it includes evaluation of systems used in the prevention and fight against corruption, the stability of political structures and government capacity to introduce necessary reforms.

Environment: assessment of the issuer's direct and indirect environmental impacts and risks, including sector-specific environmental challenges, the way it undertakes its environmental responsibility and the development of environmental solutions. Analysis of sovereign issuers includes a global appraisal of government environmental policy.

Social: the extent of dialogue the issuer has with employees, workplace health and safety considerations, career management and the relationship with suppliers. General social policy is considered in the assessment of government states with a focus on topics such as healthcare, education, the role played by women in civil society and infrastructure available to provide citizens with access to basic needs.

Business behaviour: analysis of the relationships between the issuer and other parties, the impact of products or services on society, respect for market regulations and fair business practices. This domain does not apply to sovereign issuers.

03.5 SDG-aligned and sustainability-themed investing

The 17 global Sustainable Development Goals (SDGs) were set by the UN General Assembly in 2015 as a way of achieving a better and more sustainable future by 2030. With the UN Commission on Trade and Development (UNCTAD) estimating that meeting the SDGs will require USD 5 trillion to USD 7 trillion in investment each year, large capital investments are crucial to meeting the targets detailed under SDGs⁷.

Investors are beginning to realise that they have the power to make an impact by choosing where and how to invest their capital. Investing with sustainability goals in mind allows investors to influence the way the economy works or how a company behaves through the allocation of capital. It can drive innovation by channelling money towards new technologies, reinforce positive behaviour by rewarding good practices, and impact the entire economic value chain. Furthermore, designated strategies can make investments with a specific goal in mind, such as addressing the need for clean water or curbing carbon emissions.

In 2019, Allianz Global Investors developed a framework to allow clients to contribute to positive environmental and societal change in alignment with one or multiple SDGs. Allianz Global Investors' capability with a focus on water has been the first capability in this category.

Meeting the demand for clean water

Despite global progress, billions of people still lack access to safe water and achieving universal access to even basic sanitation services by 2030 will require a doubling of the current rate of progress.⁸ The investment required to achieve SDG 6 on clean water and sanitation by 2030 is estimated at approximately USD 1.7 trillion.⁹

As the global population increases, urbanisation grows and lifestyles change, drinking water supplies are coming under increasing pressure. Even in developed countries, water infrastructure constructed at the beginning of the 20th century has reached the end of its life cycle and needs to be replaced. But a scarcity of public funds over the past decade, especially in the wake of the financial crisis, has led to a reluctance to invest in water infrastructure. More investment in increasingly outdated water infrastructure is needed to make efficient and effective use of this valuable resource. This investment backlog is likely to begin to reduce as debates about water quality and emerging supply bottlenecks drive the development of so-called "smart water" solutions. Some of the providers of these solutions and the technology powering them are listed on the stock exchange and investors can benefit from direct exposure.

Ensuring that clean water will become available and affordable for everyone requires investments in products that enhance water efficiency, supply and quality. Companies which offer these types of solutions play a vital role in the achievement of the UN's Sustainable Development Goal of clean water. These companies are financial beneficiaries of the need for more sustainable water infrastructure while enabling its achievement and making a positive difference to society.



⁷ <https://www.unpri.org/sdgs/investors-and-the-sustainable-development-goals/304.article>

⁸ <https://sustainabledevelopment.un.org/sdg6>

⁹ <https://sustainabledevelopment.un.org/content/documents/hlpwater/08-WaterInfraInvest.pdf>

Sustainable investing

03.6 Impact investing

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Case study: AfricaGrow

On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), KfW Development Bank and Allianz Global Investors have undertaken an initiative that is designed to provide financial resources for African private equity and venture capital funds.

The aim of the initiative, named AfricaGrow, is to finance 150 innovative small and medium-sized enterprises (SMEs) and start-ups in reform-oriented African countries through local funds, close the financing gap and build a solid equity base. It targets to promote sustainable economic and social development and create more than 25,000 new jobs by 2030.

The design and structure of the AfricaGrow initiative which is managed by Allianz Global Investors is a milestone in support for the African economy. In Africa's economy, it is mainly small, local companies that create jobs and contribute most significantly to securing people's incomes.

When the fund was designed, great importance was attached to ensuring that the investments had clear sustainability objectives. Through regular and careful monitoring, the aim is to have a measurable positive social and/or economic impact in the form of, for instance, income security and the creation of decent jobs in areas such as education, energy and financial services.

The initiative is evidence of the cooperation between public and private partners and is initially EUR 170 million. EUR 85 million comes from the Federal Ministry for Economic Cooperation and Development (BMZ), EUR 30 million from KfW subsidiary DEG and EUR 55 to 70 million from Allianz insurance companies, general accounts.

“AfricaGrow is an innovative solution that enables us to have a positive long-term impact on Africa’s social infrastructure on a large scale. I am proud that in our debut on the private equity side in the growing area of blended finance we were able to bring to life this important project, the largest of its kind, together with our partners in such a short amount of time.”



Deborah Zurkow
Global Head of Investments

At Allianz Global Investors, we aim to enable our clients to maximise their exposure to positive environmental and social outcomes in private and public markets by offering a choice of impact investing strategies across asset classes.

Allianz Global Investors offers listed and private market impact investing strategies which address pressing environmental and social issues. These have the clear intention of generating societal benefits and positive environmental outcomes which naturally align with aligned with the UN SDGs.

Although many investments may relate in some way to a social or environmental theme, this does not mean that they will necessarily fulfil the criteria for impact investment. What sets Allianz Global Investors’ Impact investing strategies apart from SDG-aligned and sustainability-themed strategies is that they must also measure and provide evidence of associated positive outcomes. This is done in line with industry standards such as the Global Impact Investing Network (GIIN) and the Impact Management Project.

Allianz Global Investors’ Impact investment strategies are defined by three core beliefs:

Intention: a strategy and its investments intend to generate incremental positive social and/or environmental value while delivering financial returns.

Association: there is a clear association between each investment and the positive output delivered.

Measurement and report: the impact will be measured on a best efforts basis and reported to validate the funds’ strategy.

Private market impact investing can directly measure its impact and demonstrate causality between the investment and the impact generated. By nature, public market investments may provide less documentation to achieve this, however, the market is developing, with the likes of green and social bonds offering levels of documentation that enable investors to measure and report outcomes in a similar manner to private market impact investments.

In 2019, Allianz Global Investors launched a new generation of private market impact capabilities to invest in real assets and private companies (direct and indirect debt and equity) that contribute positively to solving global environmental and/or social challenges. This approach follows the philosophy that an impactful contribution of investment targets allows for both a competitive edge versus peers and sustainable and stable investment returns. Accordingly, the Investment Team measures, monitors, optimises and reports on the generated impact, analogous to the financial KPIs across the entire investment lifetime.

Through its mix of private investments, impact investing can generate largely uncorrelated and attractive financial return potential for clients while delivering environmental and/or social impact. The impact is continuously measured and improved and this is integral to the investment process.

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04 Sustainable business operations



Sustainable business operations

Beyond generating long-term financial returns for our clients, we strive to manage the potential impacts of our operations – both positive and negative – on society, local communities and the environment. We believe we have a responsibility to lead by example by demonstrating the standards and commitments we expect of the companies we invest in.

Client satisfaction: We look beyond pure economic gain and aim to develop strong, long-term partnerships with our clients to create value together.

Human resources: Asset management is a people business that depends on talented individuals who can make sense of markets to generate strong performance for clients and advise on client needs. Allianz Global Investors aims to be an attractive employer for current and future talent and fosters an inclusive and diverse workforce.

Compliance and data security: Compliance, risk management and data security are central to the integrity of our operations and systems and we uphold the highest standards to gain and keep trust in our fiduciary business.

Environmental management: We welcome more clients asking for more information about Allianz Global Investors' own ESG practices as they seek a partner who leads by example.

Corporate citizenship: While financial literacy is an essential life skill for individuals, it is not sufficiently reflected in the curricula of many schools. As an active asset manager, we are a credible expert and provide knowledge on financial literacy by leveraging our skills to support younger generations.

Plastic pollution is a key concern among our employees around the globe. We have launched a global partnership with The SeaCleaners, an entrepreneurial initiative to combat plastic in the oceans.

See page 39.

Sustainable business operations

04.1 Client satisfaction

Our reputation is built on the way we inform and advise clients, and the personal conduct and capabilities of our people – helping us to build trust in our integrity and products.

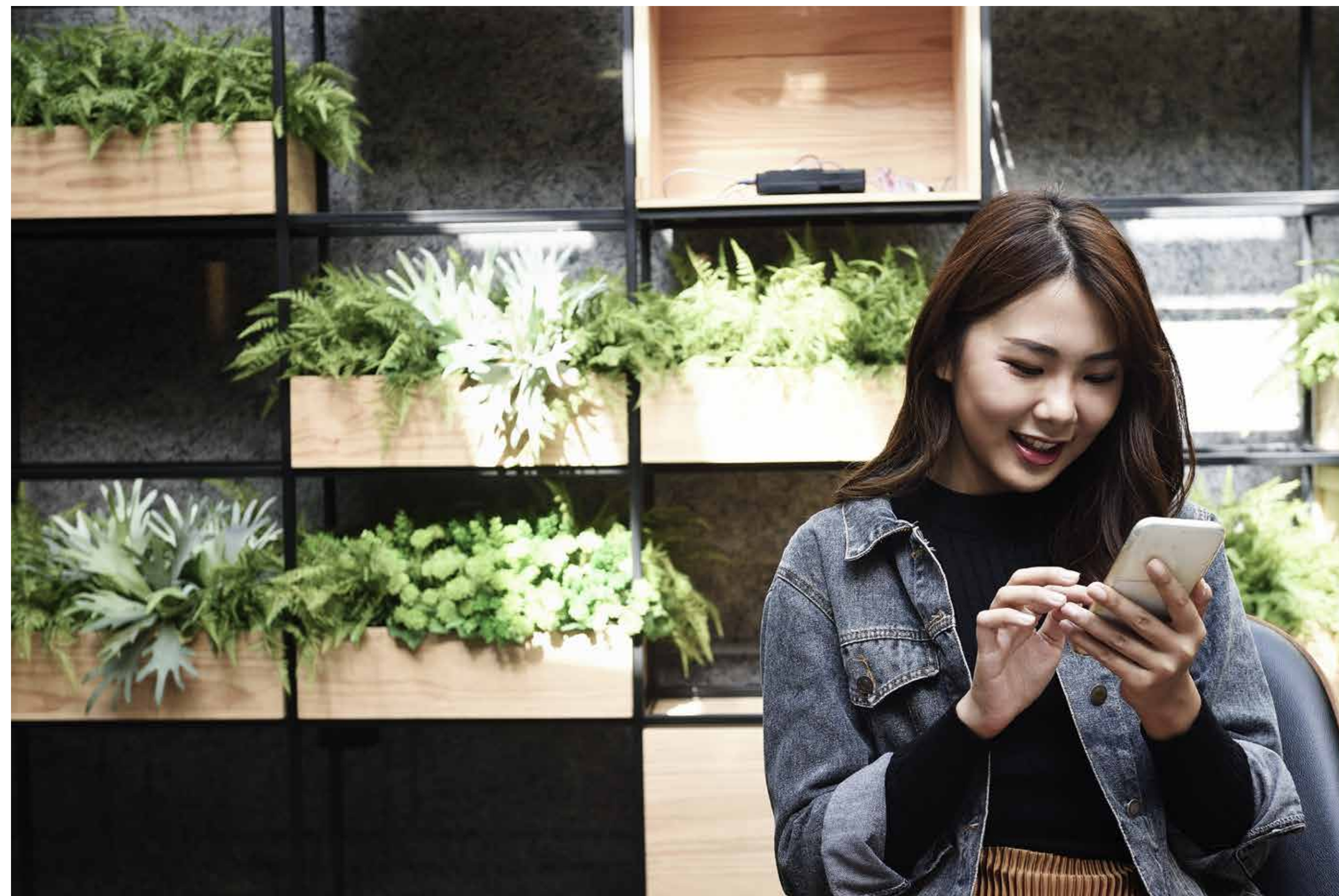
At Allianz Global Investors, we look beyond pure economic gain and aim to develop strong, long-term partnerships with our clients to create and share value together. We believe every conversation and interaction counts and that the client experience should exceed expectations.

The key to providing excellent service is understanding each client’s unique circumstances and acting in their best interests. With our consultative approach and more than 670 relationship managers globally, our goal is to offer solutions that truly address our clients’ needs.

Independent client satisfaction surveys consistently show that one of Allianz Global Investors’ main strengths is the quality of client service, which historically has ranked in the first quartile against competitors across all relevant major markets.

9th consecutive year
of being named Greenwich Quality Leader¹⁰ in Institutional Investment Management in Germany, and 3rd consecutive year in Europe.

2nd consecutive year
of being named Greenwich Quality Leader in Overall European Intermediary Distribution Quality.



¹⁰ Source: Greenwich Associates. Allianz Global Investors has been named “Greenwich Quality Leader in Overall German Institutional Investment Management” for the ninth consecutive time in Germany. Moreover, Allianz Global Investors has been named “Greenwich Quality Leader in Overall Continental European Institutional Investment Management” for the third time and “Greenwich Quality Leader in Overall European Intermediary Distribution Quality” for the second time. As at 16/09/2019. A ranking, a rating or an award provides no indicator of future performance and is not constant over time. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested.

Sustainable business operations

04.2 Human resources

We foster a working environment where our people, performance and clients matter equally. We take a strong stance regarding inclusion and we care for the health, well-being and safety of our employees.

Inclusive Meritocracy is the term Allianz uses to describe a working environment where both people and performance matter. The Allianz People Attributes are at the core of all activities; also at Allianz Global Investors employees live by these principles and they are at the heart of our corporate culture. The People Attributes also impact all areas of people management – from talent acquisition and strengthening the feedback culture to people development, promotion and reward.

Allianz’s target is to reach an Inclusive Meritocracy Index (IMIX) score of 73% by 2021. The IMIX measures the organisation’s progress towards Inclusive Meritocracy and covers aspects of leadership, performance and corporate culture. In 2019, Allianz Global Investors met the defined target scoring 73% for the second consecutive year.

Our culture

As one of our biggest differentiators, our culture helps us attract and retain the talent we need to elevate the active asset management experience and to deliver for clients today and in the future.

Allianz Global Investors’ culture is active, investment-oriented and client-centric. Our values and people attributes are at the core of all our activities.

Our values and people attributes are:



Trust. We foster trust as a prerequisite for how we build and sustain our business. We create trust by living our values of excellence, passion, integrity and respect.



Collaborative leadership. We promote active collaboration to help our employees be their best and serve our clients most effectively.



Customer and market excellence. We create value for our clients through our commitment to excellence – from how we invest to how we deliver a high-quality service. Investment returns are the most important proof points, and we always strive to offer new sources of alpha.



Inclusion and diversity. We benefit from and encourage diversity in our workforce, and we build an inclusive culture. We believe in the benefits of a diverse workforce. A mix of experience, backgrounds and outlooks helps us understand diverse client needs and deliver optimal outcomes.



Entrepreneurship. By embracing agile ways of working and continuous innovation, we display an open-minded, entrepreneurial spirit. We believe that creating and sharing value through active asset management is sustainable only by constantly evolving what we do – and how we do it – in line with dynamic client needs.



Sustainable business operations

04.2 Human resources

Inclusion and diversity

As an active and responsible investor, we believe that building an inclusive organisation will unlock the power of diversity. By embracing difference, we will achieve better performance and greater innovation.

Inclusion and diversity (I&D) are key pillars of how we work with and serve our large variety of clients. Promoting inclusive behaviours and empowering employees to succeed is not only the right thing to do, it is how we add value for our clients, enhance our brand and grow and retain our talent.

Everyone who works at Allianz Global Investors is responsible for behaving in accordance with our values and for co-creating our inclusive culture, as outlined in our inclusion and diversity as well as in our anti-harassment and anti-discrimination policies.

Established in 2012, the Global I&D Committee, since 2020 expanding to People & Culture, meets regularly to review progress towards agreed company goals, while our global I&D lead orchestrates dedicated thematic I&D workstreams – each one sponsored by a senior executive:

- Fostering gender balance at all levels of the organisation
- Understanding cultures and welcoming people from all origins
- Engaging across generations
- Shaping new ways of working well
- Supporting LGBT+ colleagues to be their authentic selves at work
- Welcoming differently-abled people in the workplace.

80%

of Allianz Global Investors employees said they experience an environment where people from diverse backgrounds can succeed.

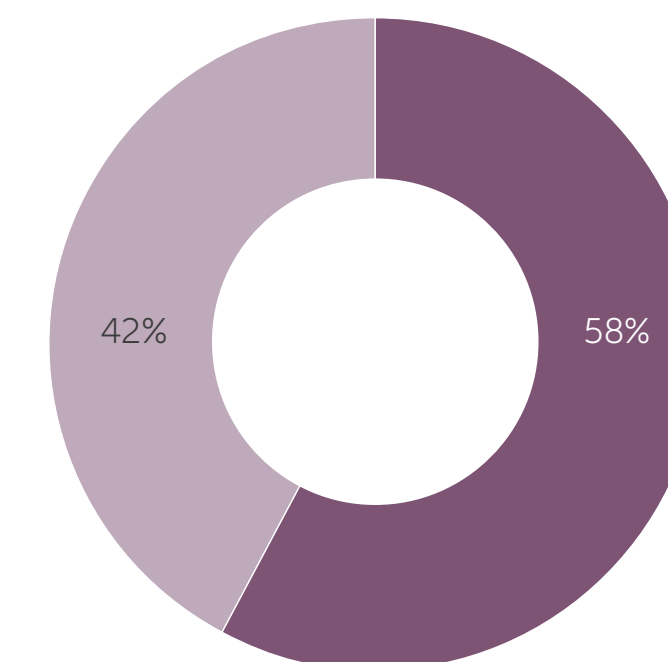
“Creating an organisational culture that welcomes everyone to participate is the only way to capture the real value of a diverse workforce. Only if people feel included, will they bring their full selves to work and give their best. Only if people feel they can share their different perspectives in a respectful and safe environment, will companies fully unlock their potential to innovate and make the best decisions.”



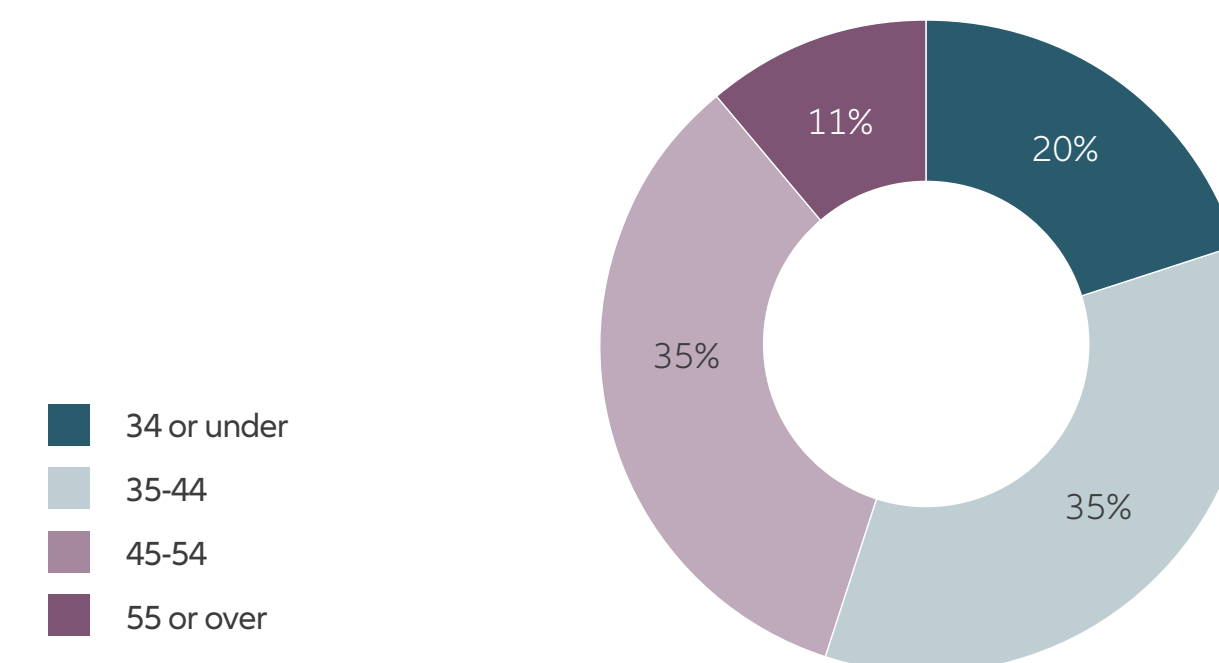
Marine Palies
Lead, Inclusion & Diversity

Staff Snapshot (as at 31 December 2019)

Gender



Age

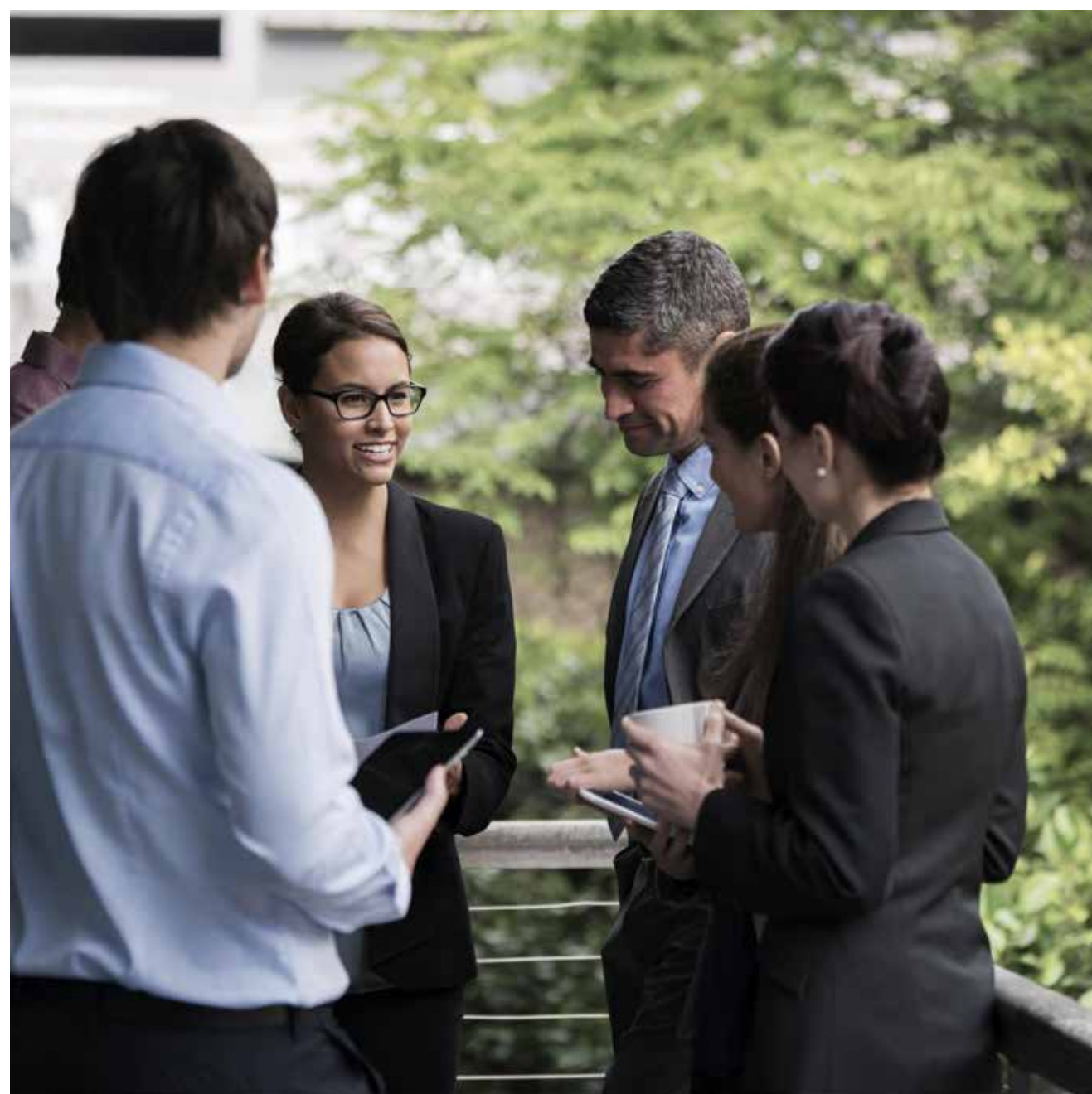


Sustainable business operations

04.2 Human resources

Gender equality

At Allianz Global Investors, gender equality means supporting both women and men to achieve their goals and raise their potential. For many years, we have devised ambitious targets to improve female representation across the firm and in senior management roles in particular. Our approach includes an extensive gender equality plan which spans talent attraction, hiring, compensation benchmarking and specific development opportunities for women. We have made good progress and will continue our efforts to achieve gender equality across the firm. In the Executive Committee, we have achieved gender parity already. As of February 2020, 26% of first-tier managers (reporting to the Executive Committee) are women and there is 34% female representation at the second management tier.



Championing diversity in the UK financial services industry

We are keen to make the financial services industry more attractive for women and we actively collaborate with peers and partners to achieve this goal. In the UK, we sponsor HerCapital in partnership with the Chartered Financial Analyst (CFA) Gender Diversity Partner Programme. The program targets female undergraduate students from ethnic minority and disadvantaged socioeconomic backgrounds. It includes a four-day insight session, co-hosted by Allianz Global Investors, which provides unique exposure for participants to the investment industry and relevant career opportunities. In 2019, we also hosted 10 young women as part of the Lord Mayor of London's Appeal "She Can Be" to help them appreciate the variety of options available to them in the asset management industry. Finally, we signed the Women in Finance Charter, a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry. The Charter commits firms to support the progression of women into senior roles in the financial services sector.

Celebrating uniqueness

Our commitment to inclusion and diversity goes beyond gender equality and includes all dimensions of diversity – ethnicity, sexual orientation, gender identity, age, disability, thoughts, skills and backgrounds.

Creating an LGBT+ inclusive workplace is a priority for Allianz Global Investors and we make sure every employee can be their authentic self at work. In April 2019, Allianz Global Investors became a signatory of the UN Standards of Conduct for Business as part of the company's effort to show support for LGBT+ equal rights and fair treatment. The Standards set out five actions that companies should take to align their policies and practices with international human rights standards and tackle discrimination in the workplace and the broader community.

We have celebrated International Day of People with Disabilities globally since 2017, to raise awareness and organise activities around the different forms disability can take, both visible and invisible, and promote disability inclusion.

In 2019, in conjunction with Allianz SE, Allianz Technology and Allianz Germany, we sponsored a Disability Talent Programme with MyAbility, offering two students job shadowing opportunities within two Allianz Global Investors departments.

Sustainable business operations

04.2 Human resources

Training and development

We operate in an employment market where there is strong competition for highly-skilled professionals. The skillset that leaders and professionals will need to succeed in the future is changing, and Allianz Global Investors employs a wide range of learning and development approaches to develop its people.

Development

Development at Allianz Global Investors is about creating opportunities for employees to build and expand their capabilities. We want to create an environment which encourages and supports everyone to develop the skills and knowledge they need to be successful in their current roles and to prepare for potential future roles. While Allianz Global Investors offers on-the-job training and ongoing personal development, several programmes stand out.

The Global Graduate Programme (GGP) allows candidates to gain a unique and immersive start into the world of active asset management in a truly global, engaging and diverse environment. The 24-month programme prepares employees for their next professional steps while creating value for our clients, our colleagues and the individual employee's career. The GGP includes a comprehensive overview of the firm, built upon job rotations between different departments and dedicated learning modules, giving graduates access to company insights and a broad network. In 2019, 26 people took part in the programme.

Growth

The Global Development Programme (GDP) has been running for more than a decade to facilitate the development of the mindset and skills which are key to Allianz Global Investors' success.

We also run two programmes to support female talent at different seniority levels in their career development. Both programmes are built as a year-long multi-modular experience including mentoring and sponsoring. In 2019, 57 women took part in the programmes.

Performance and feedback

To maximise our business success, we must continuously ask ourselves how we can best contribute to everything we do. By setting goals that align with Allianz Global Investors' strategy, values (passion, excellence, respect, integrity) and employee and client value propositions, we create a firm-wide understanding of performance excellence. We embed high standards through 360-degree feedback, regular appraisals and structured goal-setting.

Employee engagement

Employee engagement is a high priority for Allianz Global Investors. We understand that an engaged workforce performs better, is more committed and accountable, and delivers a strong customer focus.

The Allianz Engagement Survey is our main platform for gathering employee feedback and promoting a high-performance culture. We encourage managers and employees to discuss the results of the Allianz Engagement Survey (AES) within their teams and to agree on actions to address areas for improvement.

We use the Employee Engagement Index (EEI) to monitor employee satisfaction, loyalty, advocacy and pride within their teams. In 2019, our Employee Engagement Index score was 69% favourable (vs. 2018: 71%).

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04.2 Human resources

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Responding to the 2018 employee survey: where collaboration and employee development intersect

In 2019, several teams across the globe developed new ideas to connect with colleagues and share information and knowledge. One example is the newly-built Opportunity Platform which functions like a marketplace, connecting skills and projects across the company. The platform allows our employees to share details of a short-term project and invites others with relevant skills to connect and contribute. The aim is to reduce bottlenecks, avoid project delays and create a more engaging work environment by providing a transparent way for employees to develop skills, increase their exposure and expand their networks.

“The idea for this arose from several parts of the business simultaneously. In IT, there was a grassroots push to provide a place where colleagues could make their skillset known. In Investments, management wanted to move more quickly on short-term needs by having a transparent way to leverage capabilities within teams. And in HR, we sought a way to provide more internal growth opportunities in an agile and transparent way.”



Cecilia Grøndahl
Lead, Employee Experience

Health and wellbeing

The health and wellbeing of our people directly impacts our business success. We strive to provide a productive workplace where employees are empowered to achieve better integration between their work, career development and personal priorities.

Activities to promote health and wellbeing take place in all offices, in line with the local customs and requirements. We support flexible working where it is possible for the business and the individual.

78%

of our employees feel that our flexible work arrangements meet their needs according to our recent firm-wide engagement survey.

75%

of female respondents globally have told us that having a family and pursuing a career is compatible for women at Allianz Global Investors.

Tackling work-related stress

Stress is a major health-related challenge facing today's workforce, especially for people in service-oriented, desk-based jobs. The Allianz Work Well Program systematically addresses the root causes of work-related stress, offering effective solutions and making changes to the work environment that enable employees to realise their full potential.

We track work-related stress through the Allianz Group Work Well index (WWi®), a scientifically validated tool that measures work-related psychosocial stress. The WWi was introduced in 2015. It is based on 10 equally weighted metrics including demands, rewards, control, support and social capital, where a higher index score is associated with better employee health and productivity.

In 2019, our score remained at a stable level of 66%.

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Code of Ethics

Allianz Global Investors has embedded robust business policies and processes with regard to ethics and client confidentiality. These are detailed in the Allianz Global Investors Code of Ethics and echo Allianz SE's overall group standards.

Employees are required to act in accordance with these policies at all times, whether dealing with customers, external third parties or other employees of Allianz Group. They must, at all times, adhere to confidentiality in relation to customer information and Allianz Global Investors activities. Additionally, employees must not engage in any activities that would result in either a direct or indirect conflict of interest with the Allianz Global Investors activities.

The Compliance function oversees the effective implementation of all regulations stipulated in the Code of Ethics regarding acceptable business practices, conflicts of interest policies and expected standards of ethical behaviour within all departments of Allianz Global Investors. In addition, it ensures every employee participates in regular compliance training. A key issue of importance for compliance with the Code of Ethics is personal account dealing, which is monitored via a computer-based system StarCompliance.

Allianz Global Investors has an Anti-Money Laundering (AML) policy and Know Your Customer (KYC) guidelines in place which reflect the current requirements of the fifth EU AML Directive, the recommendations of the Financial Action Task Force on Money Laundering (FATF), and the German Anti-Money Laundering Act as well as other European AML laws. Allianz Global Investors has implemented procedures and controls to prevent money laundering and terrorist financing.

The responsibility to perform tasks concerning anti-money laundering and to implement procedures to prevent money laundering and terrorist financing following the "Three Lines of Defence" model lies within the business and the Compliance and Audit functions. Allianz Global Investors has documented all procedures and measures regarding the prevention of money laundering and terrorist financing.

Further key responsibilities of the Compliance function include:

- Implementation of regulatory requirements into the business processes of Allianz Global Investors
- Management of conflicts of interest
- Anti-Money Laundering and Anti-Bribery/Fraud monitoring
- Setting up information barriers to prevent confidential information from being passed on
- Monitoring of personal account dealings
- Prevention of insider trading and market abuse
- Monitoring trading activities to ensure best execution to all clients
- Investment guideline coding and monitoring: Allianz Global Investors checks portfolios for compliance with investment guidelines on both pre- and post-trade bases
- Employee regulatory training
- Implementation and maintenance of an effective Compliance Programme (including the execution of a Compliance Risk Analysis and an annual Compliance Self-Assessment).

Data privacy

Allianz Global Investors is committed to protecting the privacy rights of its employees, clients, business partners and other third-parties when processing their personal data. Personal data includes any information related to an identified or identifiable individual. We adhere to strict data privacy laws as well as to the Allianz Privacy Standard (APS).

The data privacy function of Allianz Global Investors is handled by the Global Data Protection Officer (DPO). The DPO informs, advises and issues recommendations regarding compliance with applicable data privacy laws and regulations, the APS, and other internal standards and guidelines. The DPO works in close cooperation with the respective Information Security Officer to ensure that adequate data protection-related technical and organisational measures are in place. This includes controls regarding confidentiality and integrity, availability and resilience as well as procedures for regular testing.

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04.3 Compliance and data privacy

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Risk management

The Global Risk Management function at Allianz Global Investors manages four main risk categories: portfolio risk, business risk, operational risk and reputational risk.

Portfolio risk is defined as the risk of changes in the value of investment portfolios that can be perceived not to be in line with the risk profile of the respective portfolio communicated to the investor; including the risk that the company is exposed to market risk and credit risk in the portfolio via implicit or explicit performance promises. Portfolio risk also includes risk relating to: liquidity; counterparty and settlement; and portfolio compliance.

Operational risk is defined as the risk of loss inherent in our internal organisational setup, processes and controls resulting from potential failure to deliver our products or services in the required time and quality and in line with all regulations. Our definition of operational risk includes risk relating to: projects, outsourcing and third parties, legal, regulatory and compliance, IT and business continuity, corporate tax/finance, and people.

Business resilience

Business resilience (business continuity and disaster recovery) is an essential component of our service commitment to our clients. Our business resilience framework is a multi-tiered risk defence model with input from steering groups, a corporate resilience organisation and directly from each function within our firm. In addition, the programme is subject to oversight by Allianz Group and Allianz Asset Management (AAM). Annual self-assessments are submitted to AAM in accordance with group requirements. The programme is subject to periodic audit reviews by the AAM audit department.

The business resilience team is responsible for administering the programme and ensuring all business functions comply with the framework. Its role includes identifying threats, creating guidelines and policies, developing tools and best practices and delivering training and awareness.

Allianz Global Investors' functional business recovery plans are designed by functions to ensure that key business processes can resume in the event of a serious interruption to business activities. These plans cover scenarios involving the loss of staff, facility, technology and third-party support. We review our functional recovery plans at least once a year to ensure their feasibility and effectiveness. Tests are performed and results analysed to enhance the effectiveness of business continuity management.

IT and IT security

As part of Allianz Group, Allianz Global Investors complies with the Allianz Group Information Security Framework, which sets out minimum requirements for information security. Our approach is based on the requirements and methods of the International Organization for Standardization ISO 27001 and 27002. Allianz Global Investors monitors the cyber threat and risk landscape and leverages state-of-the-art techniques and tools to prevent data breaches of any kind. These include dynamic malware inspection and continuous monitoring of all systems. We use a robust framework to detect and respond to any cyber or information security incident.



04.4 Environmental management

The Allianz Group has been 100% carbon-neutral since 2012. As part of this commitment, Allianz Global Investors offsets its carbon emissions by retiring carbon credits created via investments in sustainable forest protection projects. The savings in emissions are independently measured and certified once a year.

As a signatory to the RE100 initiative, Allianz has committed to source 100% of its power for its group-wide operations from renewable sources by 2023. Allianz Global Investors in Europe has made major steps towards achieving that goal with its largest office in Frankfurt already using 100% renewable energy (hydropower) for its electricity needs. Allianz Global Investors' London office in Bishopsgate is also now supplied with 100% renewable energy, while Sion Hall, our other London office, which is consolidated in our environmental data for the first time, is not. This is also the reason why overall share of renewable energy in the mix decreased from 48% to 43% in 2019.

In 2019, we saw an overall increase in waste per employee which is mainly due to improved data availability and measurement in our London office where we needed to estimate in previous years.

Many local initiatives aim to reduce single-use plastics, increase recycling rates, save energy and foster more eco-friendly/healthier practices in cafeterias and canteens. More than 100 initiatives were implemented across Allianz Global Investors' European offices in 2019.

Initiatives being implemented at our Hong Kong office were rewarded by Wastewi\$e & Energywi\$e Certificates from the Environmental Campaign Committee of the Hong Kong Green Organisation.

Allianz Global Investors' offices in Asia Pacific continued their journey towards becoming more eco-friendly, with solid strategies and implementation plans to raise employee awareness and promote reduction, reuse, recycling and certification.

The Hong Kong office, having joined the Energy Saving Charter 2018 and revised its lighting and air-conditioning plan, reduced its energy consumption by around 14% compared to 2017-2018. The office was also rewarded Wastewi\$e & Energywi\$e Certificates as a result of its efforts.

With Allianz Global Investors' Singapore office relocating to a new Platinum & Green Mark building in 2020, we expect a further improvement of the ecological credentials there and in the region.

In an effort to encourage broader awareness and understanding of environmental sustainability, US colleagues established a new Green Group in 2019 to promote volunteering and other initiatives that will help reduce the firm's environmental impact in the region. In line with multiple efforts across the firm, Green Group members will be working to implement a more eco-friendly approach across all US locations.

Procurement

In 2019, Allianz Global Investors launched a global project to procure goods and services more efficiently, including by harmonising the vendor selection and screening process. As part of a new supplier management solution, sustainability issues are being integrated into onboarding questionnaires covering topics such as quality assurance, data protection, environmental management, supply chain and business integrity.

Allianz Global Investors environmental data at a glance

	2019	2018
CO ₂ -emissions (tons per employee)		
Energy consumption (internal)	1.5	1.5
Business travel	1.9	2.7
Paper consumption	0.03	0.03
Share of renewable energy in the mix (%)		
Share of renewable energy	43	48
Water consumption (cubic meters per employee)		
Water consumption	22	27
Waste (kg/employee)		
Waste	136	116

Sustainable business operations

04.5 Corporate citizenship

Beyond investing and its core operations, Allianz Global Investors seeks to use its resources and employees' skills to have a positive impact on the world and contribute to the social and economic development of communities.

Financial education

Our financial literacy programme aims to expose young people from less-advantaged backgrounds to the financial services industry. By providing opportunities to meet with employees from across departments, students can see the range of roles available within an asset management company and learn how they can position themselves – both personally and professionally – for a successful career in the industry.

Since 2012, we have partnered with Boys Hope, Girls Hope and the Fiver Children's Foundation in the US to introduce students to the company and the financial services industry.

In 2019, we expanded our financial literacy efforts in a number of countries, including:

- Additional Career Inspiration Days at several locations in Europe
- A new financial literacy programme in Germany in partnership with IW Junior
- Mentoring programmes in Paris in partnership with Article 1
- A partnership in London with Central Foundation Boys' School
- A financial literacy programme in Singapore supported by the organisation Junior Achievement.

Overall, approximately 150 Allianz Global Investors colleagues in 10 of our offices helped 750 students gain a better understanding of money and the role of the asset management industry.

In 2020, we are planning to expand our financial literacy programmes in Asia Pacific to encompass experience days, working directly with schools and providing mentoring initiatives.



The SeaCleaners

We have entered into a five-year partnership with The SeaCleaners to support their efforts to combat the scourge of plastic pollution in the world's oceans. The partnership is a natural fit with our commitment to sustainable investing and decarbonisation as healthy oceans store more than 30% of human-generated CO₂ emissions. It will also open up new engagement opportunities for our colleagues and clients, many of whom are already actively working to combat plastic waste.

The initiative, led by its founder Yvan Bourgnon, will employ cutting-edge technology to reduce plastic pollution in the oceans. The partnership will support the development of "The Manta", The SeaCleaners' giant new waste collection ship which is expected to take to the seas in 2023. As well as collecting discarded plastic and bringing it back to land to be processed in waste treatment or recycling facilities, the ship, which is powered by wind turbines, solar panels and automated rigs, will conduct cutting-edge scientific research. Allianz Global Investors is also

involved in The SeaCleaners' global educational programme to raise awareness among current and future generations, opinion leaders, communities and government sustainability organisations.

Since January 2019, The SeaCleaners is accredited to the United Nations Environment Programme (UNEP) as observer among the major non-governmental organisation groups in the European region.

We are also supporting the Tara Ocean Foundation in France. A leader in ocean study, it uses its schooner, Tara, to conduct innovative research to help forecast the impact of climate change and rally political decision-makers. The Tara Foundation is a UN Special Observer and actively contributes to the goals of the United Nations' 2030 Agenda for Sustainable Development. Two expeditions are ongoing: one studying the impact of plastic pollution on the ecosystem and the other carrying out a global study into the planktonic ecosystem.

PRI in Person

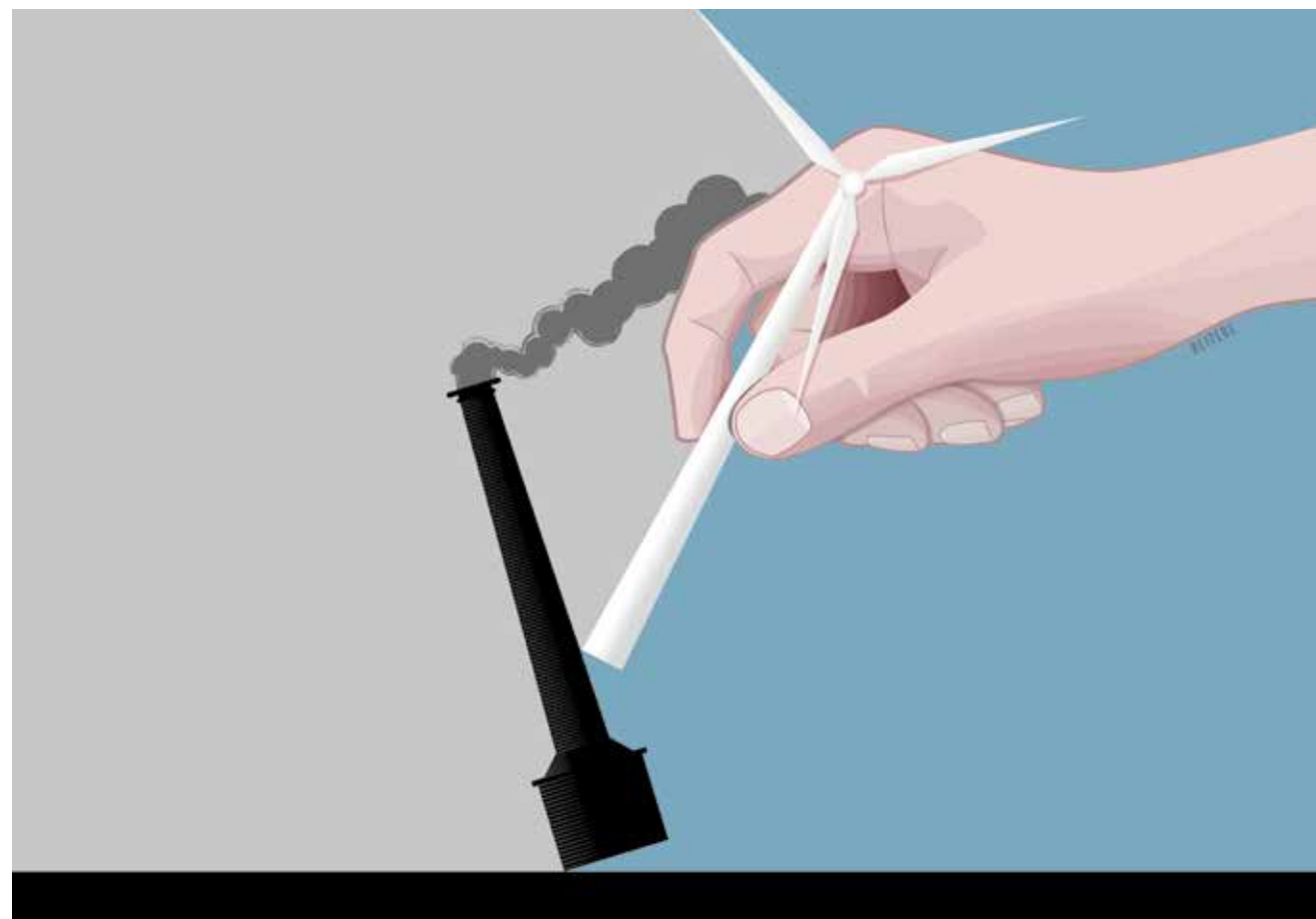
Carbon offsetting partner

In 2019, Allianz Global Investors partnered with the PRI in Person conference to offset the direct greenhouse gas emissions of the three-day conference and all emissions related to delegates travelling to the conference. In total, 2,272 tons of carbon emissions were retired in the form of carbon credits. Those credits came from the Rimba Raya Reducing Emissions from Deforestation and Degradation (REDD) project in Borneo, which is helping to prevent the deforestation of nearly 65,000 hectares of peat swamp forest to avoid more than 130 million tonnes of carbon emissions. In 2020, Allianz Global Investors will be again the PRI in Person conference's official carbon-offsetting partner.

Sustainable business operations

04.5 Corporate citizenship

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Works from: Ana Barrado (Spain), Susana Rosique Diaz (Spain), Agustín Gagliano (Argentina), Yoselin Rocha Montoya (Spain), Dmitry Timofeichev (Russia) in the first row from left to right, and from Tania Correa Rios (Colombia).

Art On Climate

“Sustainable investing requires us to look at the world through a different lens, and we’ve turned to the power of art to help us develop new perspectives,” says Marisa Aguilar Villa, Country Head Iberia, Allianz Global Investors.

In 2019, our Iberian business launched “Art On Climate”, an international art competition to raise awareness of climate change and foster solutions to address it. Since the launch of the contest, nearly 450 artists from 69 countries have submitted more than 900 original works.

As this report went to press, a jury comprised of four art experts, and chaired by Chief Sustainability Officer Beatrix Anton-Groenemeyer, was selecting the winning entries. Joaquin Garralda, the President of the Spanish Sustainable Investment Forum (Spainsif), has provided invaluable support.

“As an active asset manager, we seek to influence and facilitate the change towards a low-carbon economy, both through our investment decisions and the way we operate and behave as a business,” explains Ms Anton-Groenemeyer.

“We think that art can be a powerful tool to engage a broad audience and help us contribute to the global discussion on climate challenges and solutions.”

Ms Aguilar Villa adds: “This competition celebrates the special and unique view of artists on the world and society. It has been a big success and I am pleased by the number of submissions and by the optimism for a better world they express.”

To view a selection of the best entries, including the winner and finalists, visit our virtual museum at www.artonclimate.com.



Sustainable business operations

04.5 Corporate citizenship

Allianz Global Investors collaborative networks – December 2019

Initiative	Allianz Global Investors' Position	since
ACGA (Asian Corporate Governance Association)	Member	2013
AFG (Association Francaise de la Gestion financiere)	Member	since inception
	Member Corporate Governance Committee	since inception
	Member SRI Label specifications	2019
	Member Technical Committee Responsible Investment	2019
AIGCC (Asian Investor Group on Climate Change)	Member	2018
Bloomberg Roundtable on EU Sustainable Finance	Participant	2019
BVI (Bundesverband Investment und Asset Management)	Member	2011
	Member of the working group on responsible investing	2011
	Member of the working group on corporate governance	2015
	Member of the working group on ESG risk management	2019
CDP (Carbon Disclosure Project)	Investor Member	2015
CBI (Climate Bonds Initiative)	Partner	2015
CFLI (Climate Finance Leadership Initiative)	Founding Member	2019
CII (Council of Institutional Investors)	Member	2017
Climate Action 100+	Participant	2017
The Conference Board	Co-Chair Corporate Governance Council II	2019
DVFA (Deutsche Vereinigung für Finanzanalyse und Asset Management)	Board Member/Sponsor	2005
	Member Sustainable Investing Kommission	2018
	Member Kommission Corporate Governance	2015
EFAMA (European Fund and Asset Management Association)	Member Stewardship, Market Integrity, ESG Investment Standing Committee	since inception
European Commission – Technical Expert Group on Sustainable Finance (TEG)	Member	2018
FAIRR Initiative	Member	2019
FIR (Forum pour l'Investissement Responsable)	Member	2009
FFS (Forum per la Finanza Sostenibile)	Board member	2011

Initiative	Allianz Global Investors' Position	since
FNG (German, Austrian and Swiss Sustainable Investment Forum)	Member	2013
GBP (Green Bond Principles)	Member	2015
	Member Advisory Council Green Bonds and Social Bonds	2019
GIIN (Global Impact Investing Network)	Member	2018
IA (The Investment Association)	Member	2015
	Member Stewardship Committee	2016
	Member Sustainable and Responsible Investment Committee	2018
The Investor Mining & Tailings Safety Initiative	Participant	2019
ICGN (International Corporate Governance Network)	Member	2015
The Investor Forum, UK	Underwriting signatory	2015
IIGCC (Institutional Group on Climate Change)	Member	2016
	Member Paris Aligned Investor Initiative	2019
IIRC (International Integrated Reporting Council)	Member of the <IR> Investor Network	2017
PRI (UN Principles for Responsible Investment)	Signatory	2007
	Member UN PRI Infrastructure Advisory Committee	2017
	Member of the Global Policy Reference Group	2018
	Member Sovereign Working Group	2018
Spainsif (Spain Sustainable Investment Forum)	Member	2018
TCFD (Taskforce on Climate-related Financial Disclosures)	Supporter	2019
US CFTC (US Commodity Futures Trading Commission)	Member Climate-Related Market Risk Subcommittee	2019
WBA (World Benchmarking Alliance)	Member	2019
WBCSD (World Business Council for Sustainable Development)	Member Steering Committee "Aligning Retirement Assets" (ARA)	2018

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