

01 MARCH 2023

AllianzGI targets directors of high emitting companies lacking credible net zero targets

Key takeaways

- **Executive pay is again the biggest area of concern**
- **AllianzGI will hold directors accountable if the company does not have credible net zero targets in place**

22.02.2023. Allianz Global Investors (AllianzGI), one of the world's leading active investment managers, has today published its annual analysis of how it voted at AGMs around the globe, based on its participation in 10,205 (2021: 10,190) shareholder meetings and voting in more than 100,000 shareholder and management proposals.

AllianzGI voted against, withheld or abstained from at least one agenda item at 69% (2021: 68%) of all meetings globally. It opposed 16% of capital-related proposals, 23% of director-related proposals and 43% of remuneration-related proposals globally.

Commenting, Matt Christensen, Global Head of Sustainable and Impact Investing at Allianz Global Investors, said:

"From our viewpoint as a responsible, long-term investor, two topics really stand out: greater accountability with regards to credible climate transition targets and continued scrutiny of remuneration. Throughout 2022 we continued to utilise our proxy voting power, to influence companies – this remains one of the most powerful tools we have to effect change. As we look towards the 2023 voting season, we will continue to utilise this form of influence to help to shape a more sustainable future for the companies and society, in the best interests of our clients."

Votes against compensation related proposals continue to stand out

The biggest cause for disagreement was once again the compensation of management teams. AllianzGI voted against 43 % of compensation-related resolutions proposed by management. Many companies fail to adopt long-term incentives that are truly aligned with the interest of shareholders by rewarding outperformance, not merely market movement.

Antje Stobbe, Head of Stewardship at Allianz Global Investors commented: "We often had concerns on transparency, in particular when it came to clearly disclosing the link between performance and pay-out, as well as discretionary pay components that were not backed by performance as well as high pension payments."

Chris Liu, Hong Kong-based Stewardship Analyst at Allianz Global Investors commented:

"In Asia, we voted against around 56%, 37%, and 12% of compensation-related resolutions in Hong Kong, Mainland China, and Japan respectively, which shows gradual improvement in comparison with our voting statistics in 2021 (95%, 48%, and 17% respectively). The fewer against votes are in accordance with our observations on investee companies' increased transparency in more granular indicators inside their remuneration proposals, including detailed performance hurdles and vesting conditions.

However, we're still concerned in areas such as remuneration plans disclosed in the second half of the year still including the first half's already-achieved numbers as part of performance targets, board directors who're recipients of incentive

schemes not excluded from the scheme's administrative body, as well as a lack of formal clawback policy. Additional efforts are in need to tackle the above common practices."

In light of current economic conditions, in particular high inflation rates in many countries, AllianzGI will carefully evaluate generous pay packages taking into account how they relate to pay increases of the wider workforce and consider whether companies underwent significant layoffs, restructuring or cut dividends.

Stobbe: "We generally vote against if we consider pay packages overly generous taking these aspects into account. As of 2023, we further strengthen our voting guidelines with respect to sustainability aspects: we expect European large-cap companies to include environmental, social and governance key performance indicators into their remuneration and would vote against pay policies if this is not implemented. We already had a number of conversations on the topic in 2022 with companies where we felt there was a gap."

Corporate governance shaping sustainability outcomes

In 2022, the second largest focus area is "Say on Climate". Say on Climate has taken off only in few European countries, mostly in France and the UK. **Stobbe:** "We voted on 52 climate-related proposals from management and supported 70 of 87 shareholder proposals on climate in the past year. We expect in particular that high emitters implement a net zero strategy and share it with their owners. In addition, we continue to support shareholder proposals addressing climate change issues. We are ready to vote alongside independent shareholders including NGO's if this helps the cause. There is no "opt out" from climate change for any company."

Liu: "Unlike in Europe, Say-on-Climate proposals haven't gained traction in Asia. Yet, Japan continues to stand out from the rest of Asian markets with steady increase in climate-related shareholder resolutions urging Japanese companies' commitment to developing robust decarbonisation strategies. Nevertheless, this year we still haven't observed any 'Say-on-Climate' management proposals in Japan. With the Financial Services Agency's mandatory Task Force on Climate-Related Financial (TCFD) disclosure requirements for Tokyo Stock Exchange's Prime Market taking effect since April 2022, we expect to see an increasing number of climate proposals and would evaluate their rationale, feasibility and impact on a case-by-case basis."

Going forward AllianzGI will hold directors accountable if the company does not have net zero targets in place and a credible strategy for how to achieve them. As of 2024, depending on the set-up of the board AllianzGI will vote against the Chairperson of the Sustainability Committee, the Strategy Committee or the Chairperson of the Board of certain high-emitting companies if the net zero ambitions or the Climate-related Financial Disclosures are deemed dissatisfactory.

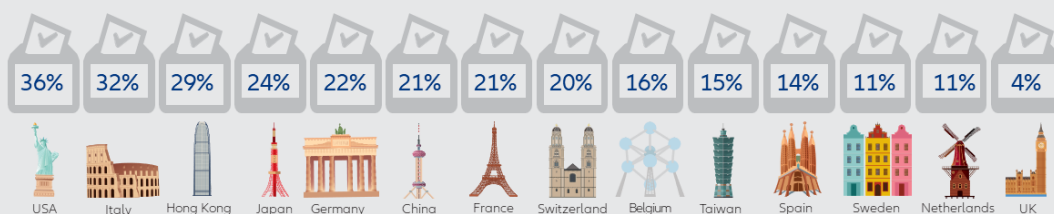
Promoting high-quality boards

AllianzGI places high importance on the quality of boards as good governance goes hand in hand with better financial performance and high sustainability standards. In 2022 AllianzGI voted against a quarter of all directors standing for election. **Stobbe:** "A high concern remains that directors have too many commitments. In particular in times of crisis and high-geopolitical risk, as we face currently, we expect non-executive directors to have sufficient time to fulfill their duties." AllianzGI also frequently voted against non-independent directors because of concerns about them serving in key committees, in particular the audit committee.

Liu: "Board structure issues are also widely witnessed among Asian companies. For example, the board and key committees' independence level in China and Japan are still yet to improve. In Hong Kong and Taiwan markets, prolonged tenure of independent directors and the combination of the Chairman and CEO roles are some common practices that we do not support in general, which could sacrifice board independence and result in ineffective management oversight.

However, it is worth noting that, gender diversity is improving across boards in Asian companies with the increasing number of female directors standing for election to boards of Hong Kong companies, and a few Japanese and Taiwanese companies, with all-male boards previously, have introduced female directors to the boards. Having said that, Asian companies still lag behind the US and Europe on board gender diversity ratios, and this is an area that our stewardship team will continue to focus on in 2023. "

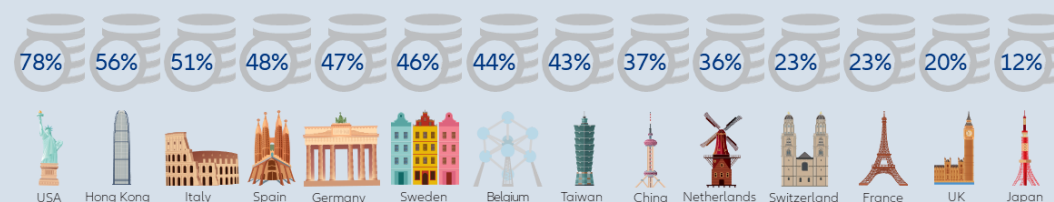
Total percentage votes against all management proposals by location in 2022



In 2022, compensation, the composition of many boards and committees as well as climate-related resolutions were high priorities.

Source: AllianzGI 2022 proxy voting data

Total percentage votes against compensation related proposals by location in 2022



We typically voted against packages that were not supported by robust and challenging targets or when performance KPIs and actual targets were not sufficiently transparent.

Source: AllianzGI 2022 proxy voting data

Total percentage votes against director related proposals by location in 2022



In 2022 we opposed 25% of all director elections as we continue to have major concerns about the sound and balanced set-up of many boards.

Source: AllianzGI 2022 proxy voting data

Notes for the editorial offices:

For more information on AllianzGI's approach to active stewardship, please visit:

<https://www.allianzgi.com/en/our-firm/esg/active-stewardship#activestewardship>

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About Allianz Global Investors:

Allianz Global Investors is a leading active asset manager with over 600 investment professionals in over 20 offices worldwide and managing EUR 506 billion# in assets. We invest for the long term and seek to generate value for clients every step of the way. We do this by being active – in how we partner with clients and anticipate their changing needs, and build solutions based on capabilities across public and private markets. Our focus on protecting and enhancing our clients’ assets leads naturally to a commitment to sustainability to drive positive change. Our goal is to elevate the investment experience for clients, whatever their location or objectives.

Active is: Allianz Global Investors

#Data as at 31 December 2022

Disclaimer

Unless otherwise stated, all data, views and opinion are as of 22 February 2023.

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