

TRANSCRIPT

Video: Allianz | Trends in Sustainable Investing: a PIMCO perspective

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Thinking about some of the trends that we've seen in stable investing from a bond perspective, stable investing continues to be a megatrend across the industry with our clients, with our partners, and here at PIMCO as well. Just thinking about our participation at COP earlier this month in Egypt, it was great to see the private sector trying to work with the public sector to see how we could further some of these goals in this direction, particularly, in this case, on climate. We've seen this year are a couple of challenges, though, as well. I would say the first has been ESG returns. We've seen the technology sector massively underperform the energy sector, and so a lot of ESG equity portfolios tend to be overweight – the former – and underweight the latter. And that's impacted them, and it's caused investors to sort of question why they engaged in this in the first place.

In fixed income, we don't see that impact quite as much. And then here are PIMCO, in particular, when we evaluate issuers, we do it relative to their peers. So Company A relative to other companies within its industry, and that helps avoid that issue as well. Second challenge we've seen this year has been politics in the U.S. The whole concept of ESG and stable investing has been coming in question. For us, we think the industry really needs to be honest about its motivations overall. When we think about why we engage with issuers, why we evaluate issuers along these dimensions, it's simply to add value for our client portfolios and try to get them to better risk adjusted returns overall. For some of our client portfolios, they do have additional objectives other than risk return, and so we will incorporate those. It's their money. We want to manage it in the way that is appropriate for them. And so that makes sense. We just think everyone needs to be honest along these dimensions.

On the positive side, we've seen tremendous interest, continued interest in sustainable bonds. So green, social, sustainability, GSS, or sometimes we call them ESG label bonds. Issuance this year will be about the same as it was last year. That might sound unremarkable. However, total fixed income issuance this year's down substantially, relative to last year, and so this sector has seen its share increase. Finally, on the client side, we've seen tremendous interest in net-zero or decarbonization portfolios. We've seen increasing interest in outcome-based investing, and then finally increasing interest in SDG-aligned investing as well.

So just to recap, we've seen two challenges this year in ESG returns, as well as the political situation in the U.S. We've seen many positives on increased issuance within the sustainable bond market, as well as client interest on net-zero investing, SDG-aligned and outcome investing. Thinking about PIMCO's approach to net-zero and bond portfolios, we've been fortunate to work with a few clients over the past few years who have gone really far down this

road of figuring out how they want to decarbonize their portfolios. And that's allowed us to develop a standard framework that we can go to clients with who almost have a blank sheet of paper and say, How do I do this? And for us, there's four pillars that are key to this.

The first is looking at issuers in the portfolio who have very limited or no ambition to become Paris-aligned and looking to sell them or reduce them in the portfolio. The second would be to engage issuers within the portfolio to make sure that they have set science-based targets, that they're meeting those targets, and that they really have credible plans in order to adapt to the energy transition. The third would be we would want to overinvest or overemphasize climate leaders. So those companies within particular industries who have ambitious goals to address the energy transition through investing in solar or developing new projects that will help lead the energy transition. And then finally, we think it also makes sense to invest in projects through green bonds, either explicitly or through lending to issuers that are mainly engaged in projects that are, you know, unlabeled green bonds, so to speak. And we think taking this four pillar approach will ultimately be a multi-year process where we'll have to revisit it and come back and check on our goals from time to time. But we think this leads us to a good approach to be able to hopefully meet decarbonization goals for clients over the next 10, 20, 30 years.

PIMCO engages with issuers in a couple of different ways. We think that given our size, our scale and our scope, as well as our long history of being a top fixed-income manager across the industry, it really gives us a unique platform to speak with issuers about their strategic plans and where and when they're incorporating environmental, social, governance and other elements into that strategic plan.

Just to give you an example, methane has been an area where we've had a lot of focus over the last 12 to 18 months. And methane is interesting. It has about 83 times as much of an impact as carbon dioxide in the atmosphere. The IPCC has done an analysis where roughly one-third of all of the impact to global warming thus far has been caused by methane. And so it's something that if we can get it under control it has a big impact overall. What's even more interesting is that if you look at the existing technologies that are in place today, we have enough knowledge to reduce methane emissions by half by 2030. So we do need to develop new ways to deal with this. And then even more interesting, if you narrow it in to the oil-gas sector in particular, this is an area where 40% of the emission reductions that that should happen can happen at a net-zero cost simply by plugging some leaks or replacing some pumps. The efficiency gains that you get by doing that more than offset the costs of implementing those overall.

So this has been something that we've been working with a lot of issuers with across the oil and gas sector. We think it makes a lot of sense. If that wasn't enough to persuade them, there's some big economic benefits, as well. If we look, two years ago, there was a large French utility that canceled a US\$7 billion contract with a U.S. natural gas provider simply because they were worried about some of the methane leaks within the supply chain for that provider. And they were worried about some of the regulations that were coming in Europe, where there is going to be a methane performance standard. And any gas that was used or consumed in the EU would be regulated by that and that was going to impact them. And so it's really a strong argument to make to these issuers that it's in their economic best interests and helps create

additional value to the enterprise to think about these concepts. And so that's an example of how we like to engage with issuers overall.

And so thinking about our engagements more broadly, this is a multi-year, dynamic process where we want to talk to issuers about topics such as methane, as I just mentioned, and make sure that they're making progress along these dimensions in order to make sure that they're incorporating these environmental, social, governance aspects into their overall strategic plan.