

Allianz Investment Management: Our [Engagement](#) Approach

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Responsible	Allianz Investment Management SE
Area of Application	Allianz proprietary investment portfolio

A Why we conduct engagement: Driving real world change

Engagement is one of the cornerstones of our active ownership approach at Allianz Investment Management (AIM). It is embedded in our commitment to the Principles of Responsible Investment: to be “active owners and incorporate ESG (Environmental, Social, Governance) issues into our ownership policies and practices”.¹ Engagement is an important way to directly represent the long-term interests of Allianz’s clients and beneficiaries to both portfolio companies and asset managers. We engage both bi- and multilaterally, where suitable.

For AIM, engagement exchanges on sustainability topics with our portfolio companies and asset managers is not only an expectation of our customers and stakeholders, it also makes clear business sense. When our portfolio companies emphasize creating value for their stakeholders, we believe that they are better positioned to generate sustained, long-term business success and to deliver better investment results. This is particularly true for climate change, which we believe is a financial risk to our portfolios. This is reflected in Allianz’s commitment to the United Nations-convened Net Zero Asset Owner Alliance (UN AOA), which has the goal to contribute to mitigating climate change and limiting global warming to 1.5 degrees Celsius.

Engagement leads to positive change within companies by not only reinforcing sustainability programs within the engaged companies’ organisations, but also by supporting their employees that are driving more sustainable business practices. *We could not have this influence if we withdrew our investments when issues arose at the companies that we invest in. Engagement is a way for us, as investors, to drive positive real world change in our investee companies.* However, if a company or asset manager does not demonstrate that they are taking our concerns seriously, and the situation or concern does not improve, we may exclude them from our investable universe or stop doing further business with them. As a general principle we strive for additionality: supporting positive outcomes that would be less likely to occur without our involvement. This is particularly important for us as an asset owner because we want to complement, not duplicate, the efforts of the asset managers that we work with.

¹ PRI Principles

B Conducting engagement at Allianz Investment Management

The AIM Sustainable Investing team oversees the engagement program and its implementation across our global operations. In all engagements AIM represents the interests of Allianz and strives for well researched, content driven exchange.

How we define engagements:

A contact to an investee company or an asset manager is an engagement if:

- it addresses a concrete sustainability related opportunity or concern, and
- it is based on in-house research (including also the broader market context and peer analysis), and
- it is preceded by a documented objective or a rationale for what a satisfactory response would entail.

The program is centred around three types of activities: I: Bilateral corporate engagement activities, II: Multilateral engagement activities and III: Asset manager engagement activities, all of which include both private and public market assets. This three-pillar approach leverages the strengths of our global operations and investments. For example, acute, idiosyncratic risks at portfolio companies are often best addressed through our bilateral corporate engagement. Broad, systemic risks, such as climate change, are often best addressed by our multilateral engagements (particularly through the CA100+ initiative). Finally, our asset manager engagement program helps ensure that those who invest on our behalf conduct their stewardship and engagement programs in line with the interests of Allianz and the expectations of AIM.

PILLAR I: BILATERAL CORPORATE ENGAGEMENT

In scope of our bilateral corporate engagement are all companies in which Allianz is invested in via equity or fixed income holdings. AIM has a systematic process for identifying and addressing acute sustainability concerns within our investment portfolio. This process is driven by the AIM Sustainable Investing team and has three phases: 1. Screening, review & selection, 2. Engagement and 3. Engagement reporting.

1) Screening, review & selection

We screen our portfolio for potential sustainability risks or concerns based on ESG data that we receive from our data providers. We have two forms of screening: systematic and thematic.

A. Systematic screening

Our screening process is a method to monitor our portfolio for sustainability concerns in a consistent manner over time. We flag companies in our portfolio for further review that:

- Fall in the bottom 10% of our data provider's "weighted average key issue score" for their respective regions. This score assesses the sustainability performance of individual issuers in multiple dimensions and is intended to address the lowest scoring companies in our portfolio.
- Have a Principle Adverse Impact (PAI) concern(s) or other severe controversies. The indicators that we screen for include flags or low scores on the following topics: human rights, labour rights, governance, UN Global Compact violations, biodiversity, land use, toxic emissions, waste or severe ESG controversies.

- Contribute to our highest owned emissions in our portfolio where we can support the most real-world decarbonisation. This is in line with our commitment through the UN AOA.²

B. Thematic screening

Our thematic screening process identifies companies exposed to specific material risks which do not necessarily correlate with a criterion from our systematic screening process. This is a way to address topics in support of reputable and global initiatives that are aligned with the long-term interests of Allianz. Past topics include tailings dam safety in the mining sector, TCFD (Taskforce on Climate related Financial Disclosure) aligned reporting, and methane emissions.

C. Review & selection of engagement candidates

After compiling the list of potential candidates for engagement through the two above screening processes, we conduct in-house research on the companies and topics identified and prioritise those we see as most suitable for engagement. During this phase, we leverage our global resources by involving AIM or Allianz colleagues from around the world to support engagements with companies in regions or topics that they are familiar with. This results in our final list of companies that we plan to engage.

D. Define expectations & objectives

Once our engagement list is finalised, we compare companies' performance with best practices and set expectations that are translated into engagement objectives and documented in our internal systems. For climate engagements we take into account the net-zero engagement recommendations as outlined in the UN AOA Target Setting Protocol among others.³

2) Engagement

Our engagements are normally initiated by sending a letter to the company's investor relations or sustainability contacts. This letter, signed by the Chief Sustainability Officer of Allianz SE and the Managing Director of AIM responsible for sustainability, outlines both our concerns and inquiries, while requesting a written explanatory response. Depending on the extent to which the company demonstrates that they are addressing the concerns, we may enter further dialogue.

Should further dialogue be necessary to support improvement or address uncertainties, we typically request a meeting with senior leadership such as board directors or department heads responsible for the respective topics. All discussions are treated as confidential (unless agreed otherwise), and we never ask for privileged, market relevant information.

Considering the extent to which our topics or concerns are acknowledged and the company's efforts to address them, the AIM Sustainable Investing team evaluates further course of action which may include:

- Monitor the company for the next reporting season.

This may include emission reduction targets, commitments to reporting standards, health and safety or performance certifications.

or

² Collaborating for a sustainable future | Allianz

³ AOA Target Setting Protocol Third edition

- Close the engagement.

Usually this occurs if the company fully addresses our expectations and meets our objectives, or the sustainability concern improves.

or

- Exclude the company from the investment universe.

This could occur if the company's answers are insufficient, if the company shows no willingness to improve their sustainability performance, or if the company does not respond to our communications.

3) Engagement reporting

AIM's engagement activities are reported annually in Allianz SE's sustainability report. The sustainability report is audited under limited assurance. We endeavour to provide quantitative figures, which include the regions and sectors of the companies we engage, the topics addressed, and the outcomes. Our engagement figures are aggregated and anonymous to maintain the confidentiality commitments of our program.

PILLAR II: MULTILATERAL ENGAGEMENT INITIATIVES

Multilateral engagements, through initiatives like CA100+ and the UN AOA, are a unique and useful tool for keeping investor engagement effective. It allows investors and companies to pool resources around a common topic or concern, like climate change, and develop a deeper and more meaningful exchange than what would occur if all investors approached the company individually. The benefits and limits of investor engagement, including how collaborations can help address some of them, are further detailed in the UN AOA discussion paper titled, *"The Future of Investor Engagement: A call for systematic stewardship to address systemic climate risk"*.⁴

In all instances of multilateral engagement, the topics and questions of concerns are pre-identified before AIM agrees to join the conversation. We always make clear that each investor continues to make their own stewardship and portfolio allocation decisions independently. We do not have conversations with other investors regarding proxy voting decisions or decisions to hold, increase or sell a position in a company and do not exchange any competitively sensitive information with other investors.

PILLAR III: ASSET MANAGER ENGAGEMENT

AIM's asset manager engagement efforts cover managers operating in both private and public markets. As critical stakeholders to our investment activities, asset managers often have long standing relationships with the companies that they invest in, dedicated stewardship teams, and deep analytical competencies to assess companies. Therefore, the way in which they execute and represent investment activities is critical to meeting our expectations and to align with the long-term interests on sustainability and climate topics of Allianz.

Asset manager selection, appointment and monitoring

Each asset class has its unique opportunities for where engagement can add value. Given that our commitments to sustainability topics and to climate change mitigation require efforts from across our business, our respective investment teams are responsible to evaluate and engage their asset managers.

⁴ [The Future of Investor Engagement: A call for systematic stewardship to address systemic climate risk](#)

In addition to our regular due diligence activities, AIM actively assesses the asset managers on core sustainability themes to ensure there is consistent messaging across our asset classes.

For asset manager's that do not meet our expectations or sustainability objectives, AIM requests time bound commitments to implement improvements. In circumstances where the asset manager has multiple areas of concern the investment teams may escalate to AIM's Sustainable Investing team for further review. Jointly we decide if further engagement is likely to be effective, or if the asset manager is ineligible for further business.

Proxy voting

For public equity asset managers, voting on shareholder resolutions, routine votes, and directors is one of the strongest ways that they can represent our interests. Our asset managers' proxy voting approaches are expected to be congruent with the asset manager's other stewardship activities, like engagement and public messaging. We use the UN AOA paper, *"Elevating Climate Diligence on Proxy Voting Approaches"* across our public equity asset managers selection, appointment, and monitoring activities.⁵

⁵ UN AOA Elevating Climate Diligence on Proxy Voting Approaches