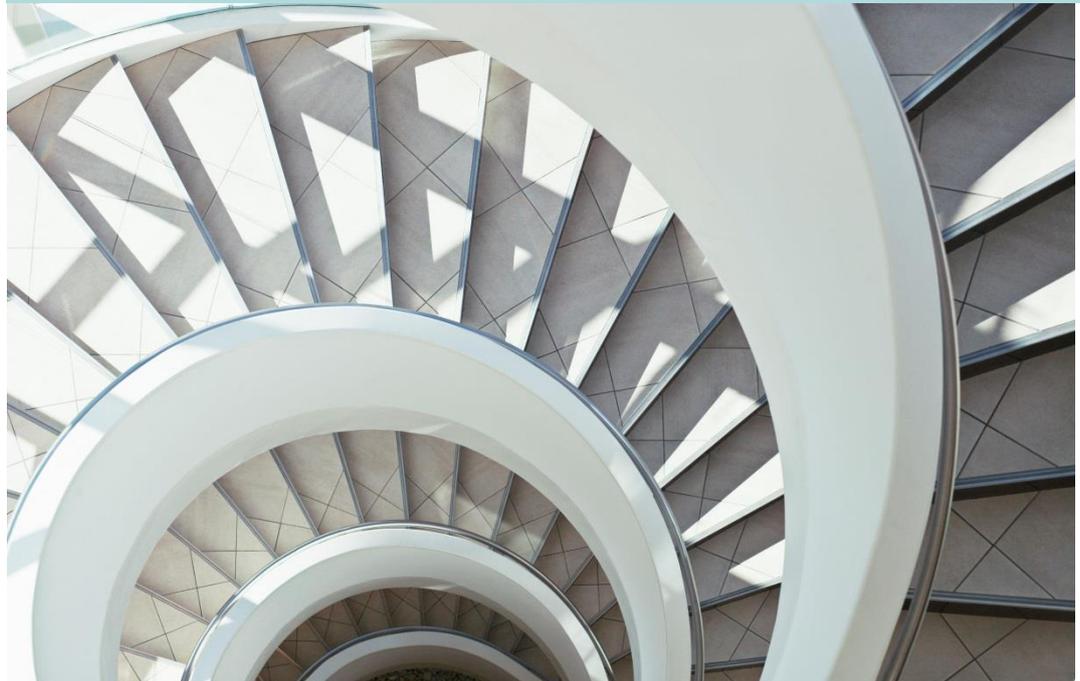


# ALLIANZ ESG INTEGRATION FRAMEWORK



## Version 3

Prepared by Group ESG Office (September 26, 2018)

Approved by Group ESG Board (September 05, 2018)





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# 1 INTRODUCTION

As a global insurer, investor and asset manager, understanding environmental, social and governance (ESG) issues allows Allianz to reduce risks and capture opportunities in underwriting, claims, investment management and asset management. A focus on ESG issues supports Allianz's core business and corporate responsibility strategies and ensures living up to corporate values, demonstrating responsibility in decision-making and interactions with societal stakeholders.

By scrutinizing investments and insurance projects from an ESG perspective, Allianz extends its understanding of risks and seizes potential business opportunities for the benefit of its shareholders, its customers and other stakeholders. Holistic assessment of risk is especially relevant to Allianz as a manager and carrier of risks that range from single events to decades as an insurance company.

ESG integration in insurance is carried out by all Allianz operating entities and global lines, through group-wide ESG guidelines and processes. Allianz integrates ESG factors into the investment of proprietary assets and the management of third-party assets. The investment of proprietary assets<sup>1</sup> is steered by Allianz Investment Management SE (AIM), while third-party asset<sup>2</sup> management is delivered by Allianz Asset Management (AAM) through its subsidiaries, Allianz Global Investors (AllianzGI) and the Pacific Investment Management Company (PIMCO).

The updated version of **Allianz ESG Integration Framework** further increases transparency by outlining the Allianz approach to integrating environmental, social and corporate governance (ESG) considerations into the core business.

Following an overview of ESG-related roles and responsibilities of the key Group functions in section 2, the Statement gives a detailed overview of Allianz's ESG approach (governance, policies, standards and guidelines) in section 3. The goal of these sections is to provide the reader with a detailed overview and understanding of how Allianz manages its ESG-related risks and opportunities through various governance processes.

Section 4 provides an overview of the ESG processes embedded within Allianz operating entities (OEs). This rounds-off the ESG integration description from previous sections, by describing how ESG is integrated at Allianz subsidiaries.

In the final part of the report (section 5), Allianz gives an overview of its membership in key external associations that promote the integration of ESG in the insurance and investment industries.

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<sup>1</sup> Proprietary assets include insurance investment portfolios, into which premiums collected from insurance customers flow.

<sup>2</sup> Third-party assets on the other hand are invested on behalf of asset management customers.



## 1.1 SCOPE

The processes and policies outlined in the Allianz ESG Integration Framework apply only to the insurance lines as well as the investment of proprietary assets of Allianz Group. ESG integration in third-party asset management is out of scope of this framework and governed by the respective entity's policies and processes.

## 1.2 ABOUT THIS DOCUMENT

The ESG Integration Framework is an important publication disclosing Allianz Group's standards and policies regarding ESG business integration. Formal and binding corporate rules are published in the internal corporate rules book. While this publication provides details on Allianz's ESG approach in insurance and investments, regular updates on KPIs, targets and achievements are published annually in the Group Sustainability Report and the Non-Financial Report.

All disclosures on corporate responsibility and ESG integration can be found on the Allianz Group website at [www.allianz.com/sustainability](http://www.allianz.com/sustainability).



# 2 ROLES AND RESPONSIBILITIES

This section outlines the key elements of the roles and responsibilities of actors involved in the ESG governance of Allianz Group.

## 2.1 GROUP ESG BOARD

The Group ESG Board, established in 2012, is a dedicated body to address environmental, social and governance (ESG) issues within Allianz. The Allianz SE Board of Management members in charge of Finance and Risk<sup>3</sup>, Asset Management<sup>4</sup>, Investments<sup>5</sup> and sit on the ESG Board. The CEO of Allianz Global Corporate and Specialty represents the insurance segment. A range of senior executives and functional attendees<sup>6</sup>, which vary according to topic, support the ESG Board.

The Board is responsible for integrating and strengthening ESG aspects within insurance, investment and asset management activities. Additionally, the Group ESG Board also oversees the following topics:

- Corporate responsibility
- Group-wide climate strategy
- Group-wide environmental management

The ESG Board meets quarterly making recommendations on ESG topics for decision-making to the Allianz SE Board of Management or one of its committees (for example Group Finance and Risk Committee). Key functions of the ESG Board include:

- Strategically defining and continuously developing ESG ambition for the Allianz Group
- Guiding the Group ESG approach and approving yearly ESG work-plan
- Defining and prioritizing ESG topics for the Group
- Regularly informing the Allianz SE Board of Management on ESG topics and activities
- Positioning the Group towards critical ESG topics (in collaboration with relevant functions within Group Communications and Corporate Responsibility)
- Reviewing and recommending ESG-related policy proposals for consideration by the Board of Management and/or relevant Board committees.
- Engaging on ESG topics with relevant stakeholders, e.g. peers and business partners, NGOs.

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<sup>3</sup> Holding Division H2

<sup>4</sup> Holding Division H8

<sup>5</sup> Holding Division H3

<sup>6</sup> Group Communications and Corporate Responsibility, Group Risk, Group Compliance, Allianz Global Corporate and Specialty (Head of ESG Business Services), Allianz Investment Management SE (Financial Control).



## 2.2 GROUP ESG OFFICE

The Group ESG Office is responsible for steering the integration of environmental, social and governance (ESG) aspects into core investment and insurance activities. The Group ESG Office is part of Group Communications and Corporate Responsibility and acts as the Executive Office of the Group ESG Board.

Tasks of the Group ESG Office include amongst others:

### Integrating ESG in core lines of business of Allianz Group

- Preparing ESG integration strategies, policies, guidelines and rules for Allianz proprietary investments
- Preparing ESG integration policies, guidelines and rules for Allianz insurance segments
- Developing sector-specific ESG viewpoints and guiding criteria for involvement in sectors considered sensitive, based on internationally recognized standards and guidelines, input from non-governmental organizations (NGOs) as well as external research
- Coordinating and supporting further implementation of relevant membership commitments, such as Principle for Responsible Investment (PRI) and Principles for Sustainable Insurance (PSI) across Allianz Group

### Integrating ESG into central Group processes

- Supporting Group centers and Allianz operating entities in coherently managing ESG issues
- Ensuring ESG implementation in the respective business units through existing (whenever possible) or new processes

### ESG related dialogues and communication

- Communicating the Allianz ESG integration approach to external stakeholders such as customers, NGOs and business partners
- Increasing transparency on ESG topics for internal and external stakeholders and general public
- Leading dialogues on ESG topics with NGOs and relevant stakeholders

## 2.3 ESG WORKING GROUP

The ESG Working Group brings together ESG specialists and/or representatives from different local operating entities (OEs), global lines (GLs) and Group centers (investment, insurance, asset management, risk management, communications, ...).

Led by the Group ESG Office, the Working Group's main role is to develop and discuss projects and proposals for ESG integration in the business. The working group allows for the identification of risks and opportunities of specific proposals and allows all participants to comment or voice concerns regarding the feasibility (for example with the implementation or rollout) of such plans and proposals.

The ESG Working Group meets at regular intervals throughout the year.

## 2.4 ESG FUNCTIONS IN GLOBAL LINES/LOCAL OPERATING ENTITIES

Several Allianz operating entities have begun setting up OE-specific ESG functions or have assigned responsibility for ESG topics to specific teams within the given entity. Some examples include

- Allianz Capital Partners (ACP)
- Allianz France
- Allianz Global Corporate and Specialty (AGCS)
- Allianz Global Investors (AllianzGI)
- Allianz Investment Management (AIM)
- Allianz Real Estate (ARE)
- PIMCO

Section 4 provides a detailed overview of ESG integration action at selected operating entities.



# 3 ESG APPROACH

The objective of this section is to provide a transparent overview of the key processes and guidelines Allianz applies to its insurance and investment business.

## 3.1 NGO DIALOGUE

A key component of the Allianz ESG Approach is direct engagement and dialogue with various internationally recognized non-governmental organizations (NGOs) to discuss ESG and sustainability topics.

The dialogue is a forum for direct exchange of ideas and points of view on such topics. Allianz listens to the concerns of its NGO partners and discusses potential solutions to address these concerns. The dialogue is a forum for Allianz to leverage NGOs expertise in ESG matters and receive input on the development and implementation of internal policies, programs and plans related to ESG.

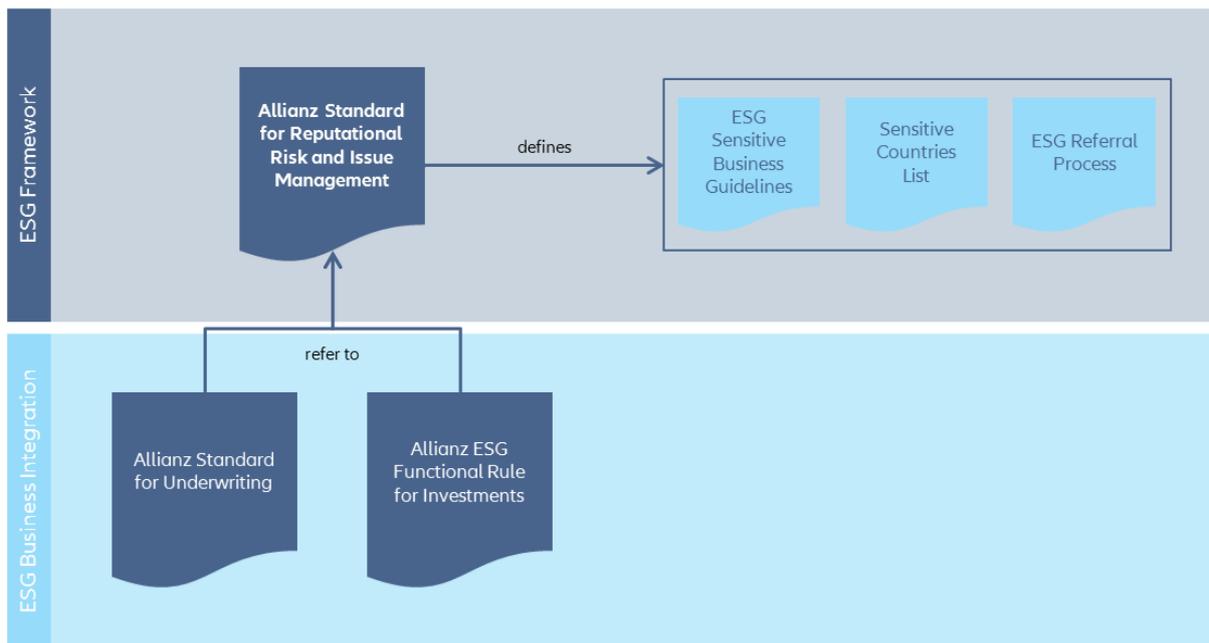
The Dialogue takes various forms from roundtable sessions with all partners present to one-on-one exchanges with specific NGOs.

For certain projects, such as for example the ESG Scoring Approach project (see also section 3.6), Allianz also brings NGO partners on board to participate in the project team. This gives Allianz a critical and external viewpoint in the development process of such projects.

Many elements of the Allianz ESG Approach described in this chapter were developed in cooperation with or aligned with NGO dialogue partners. Through on-going dialogue, Allianz continuously improves its approach based in part on input from internal and external stakeholders.



### 3.2 ESG IN CORPORATE STANDARDS AND GOVERNANCE



**Figure 1. Key ESG Governance processes at Allianz**

The cornerstone of the overarching ESG approach at Allianz is the Allianz Standard for Reputational Risk and Issue Management (AS RRIM). It defines the ESG Sensitive Business Guidelines (SBG) (see section 3.4), the Sensitive Countries List (SCL) (see section 3.5) alongside the ESG Referral Process (see section 3.3).

Deeper integration into the business processes of Allianz is achieved through reference of these AS RRIM and Sensitive Business Guidelines within the Allianz Standard for Underwriting (ASU) and the Allianz ESG Functional Rule for Investments (EFRI). Furthermore, external business partners, such as external asset managers, are informed of the ESG Guidelines through the Allianz ESG Integration Framework.

Various operating entities and global lines also publish specific standards and rules regarding ESG integration for their given organizational unit.

At the working level, the Group ESG Office and other functions have defined processes and procedures to support the proper implementation of the governance and requirements outlined in the Allianz Standards and Functional Rules.

The ESG Sensitive Business Guidelines and the AS RRIM ESG Referral Process (see section 3.3) apply across all insurance transactions as well as to investments in non-listed asset classes<sup>7</sup>.

For investments in listed asset classes<sup>8</sup>, Allianz integrates ESG factors through the requirements set out in the ESG Functional Rule for Investments, which includes the Allianz ESG Scoring Approach (see section 3.6).

Allianz has developed a single approach to ESG integration across insurance and investment lines of business. Nevertheless, due to differing roles as an insurer and an investor (including varying investment processes per asset classes) processes in some cases need to be differentiated. **Table 1** provides an overview of the different processes, which are applied across Allianz Group entities.

<sup>7</sup> Investments in non-listed asset classes include for example: real estate, infrastructure, renewable energy, private equity, private placements.

<sup>8</sup> Investments in listed asset classes include for example: tradeable equity and debt (e.g. stocks, bonds, ETFs, ...).

**Table 1. ESG Processes across Allianz business lines**

ESG Processes	Internal Governance Documents	Insurance	Investment	
			Listed	Non-Listed
ESG Referral Process (3.3)	AS RRIM	•		•
ESG Sensitive Business Guidelines (3.4)	AS RRIM	•		•
Sensitive Countries List (3.5)	AS RRIM	•		•
ESG Scoring Approach (3.6)	EFRI		•	
ESG Engagement Approach (3.7.1)	EFRI		•	•
ESG Risk Dialogues (3.8)		•		
ESG Exclusion Policies (3.9)	AS RRIM, EFRI	• <sup>9</sup>	•	•
Asset Manager Mandating, Selection and Review (3.10)	EFRI		•	•

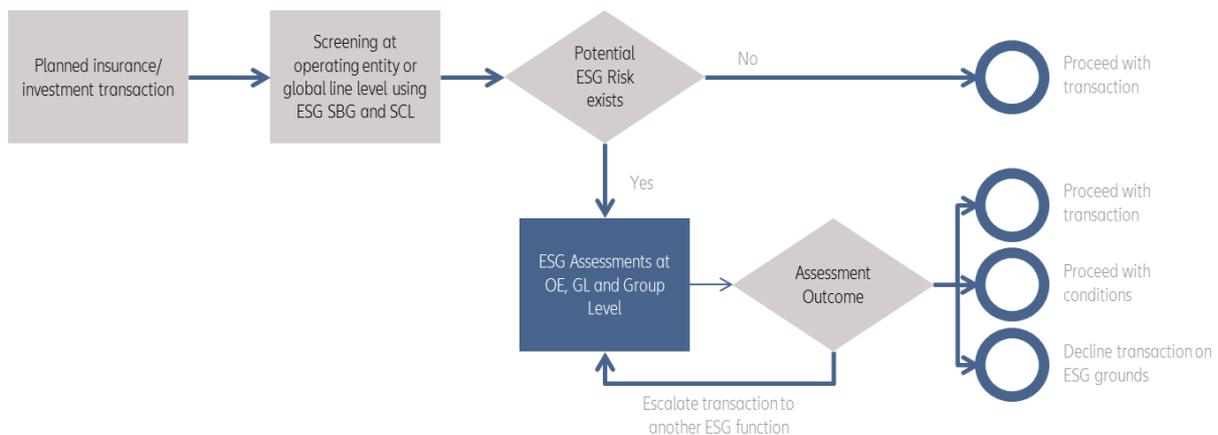
### 3.3 ESG REFERRAL PROCESS IN INSURANCE AND INVESTMENT

#### 3.3.1 Background and principles

The global Allianz ESG Referral Process and the ESG Sensitive Business Guidelines for both insurance and investment transactions in non-listed asset classes were developed in 2013, through dialogue with NGOs as well as an ongoing internal stakeholder engagement process through the ESG Working Group. Proposed changes or additions to the Referral Process as well as the accompanying ESG Sensitive Business Guidelines (see section 3.4) are regularly reviewed by the ESG Working Group and approved at Board-level.

#### 3.3.2 Referral Process

The ESG Referral Process identifies potentially critical transactions in 13 sensitive business areas considered material by Allianz. All potentially sensitive business is screened on a transaction-by-transaction basis and referred for a detailed ESG assessment, if necessary. This avoids blanket exclusions and allows Allianz to mitigate potential ESG risks associated with each specific transaction.

**Figure 2. ESG Referral Process flowchart**

When an ESG risk is detected in one of the sensitive business areas during screening<sup>10</sup>, a mandatory referral is triggered. The transaction then undergoes an OE, global line and/or Group-level ESG assessment (also see flowchart in Figure 2).

The process differentiates between single and multiple site risks. Single sites can undergo a more detailed ESG assessment while for multiple sites (for example a global liability cover for a multinational) a more policy-based assessment is conducted.

<sup>9</sup> Insurance engagement activities are not based on the ESG Functional Rule for Investments (EFRI).

<sup>10</sup> Screening is the first phase of the referral process. It leads to the identification of potentially ESG-critical transaction at the underwriting or investment management level.



The Referral Process consists of multiple levels of screening and assessments (see **Figure 3** for the escalation path of a transaction):

- ESG screenings are performed by local operating entities (OEs) and or global lines (GLs) to identify potentially sensitive transactions.
- OE or GL ESG Assessments are carried out for those transactions that were identified during screening. These assessments are currently performed by Allianz Global Corporate and Specialty (AGCS) ESG Business Services for all P&C transactions<sup>11</sup>, by the Allianz Real Estate ESG team for investments in real estate and the Allianz Capital Partners ESG team for investments in infrastructure, renewables and private equity. Other types of sensitive transactions or business activities where no local OE or GL ESG function is responsible should be referred for a Group ESG assessment.
- Group ESG Assessments under AS RRIM occur when an OE or GL ESG Assessment detects a material ESG risks. These assessments are carried out by the Group ESG Office together with other relevant risk and communications functions under AS RRIM and the ESG Sensitive Business Guidelines.

Following the ESG Assessment by the OE/GL ESG function or the Group ESG Office and other relevant risk and communications functions, a decision is made whether to

- proceed with a transaction,
- proceed with certain mitigation measures and/or conditions<sup>12</sup>,
- escalate for a Group ESG Assessment (at OE/GL level) or
- decline the business transaction (at Group level).

Should the original referring party disagree with outcome of the ESG Referral Process, the party can escalate the referral to the Group Finance and Risk Committee<sup>13</sup> (GFRC) for final review.

Allianz's ability to assess a transaction or place conditions on the business depends on a number of factors. For insurance, if Allianz acts as the primary insurer direct with the client it allows a greater degree of dialogue. If the business is via a broker, Allianz is part of a consortium or has a minority share of the risk, it limits the ability to obtain further information or to engage proactively.

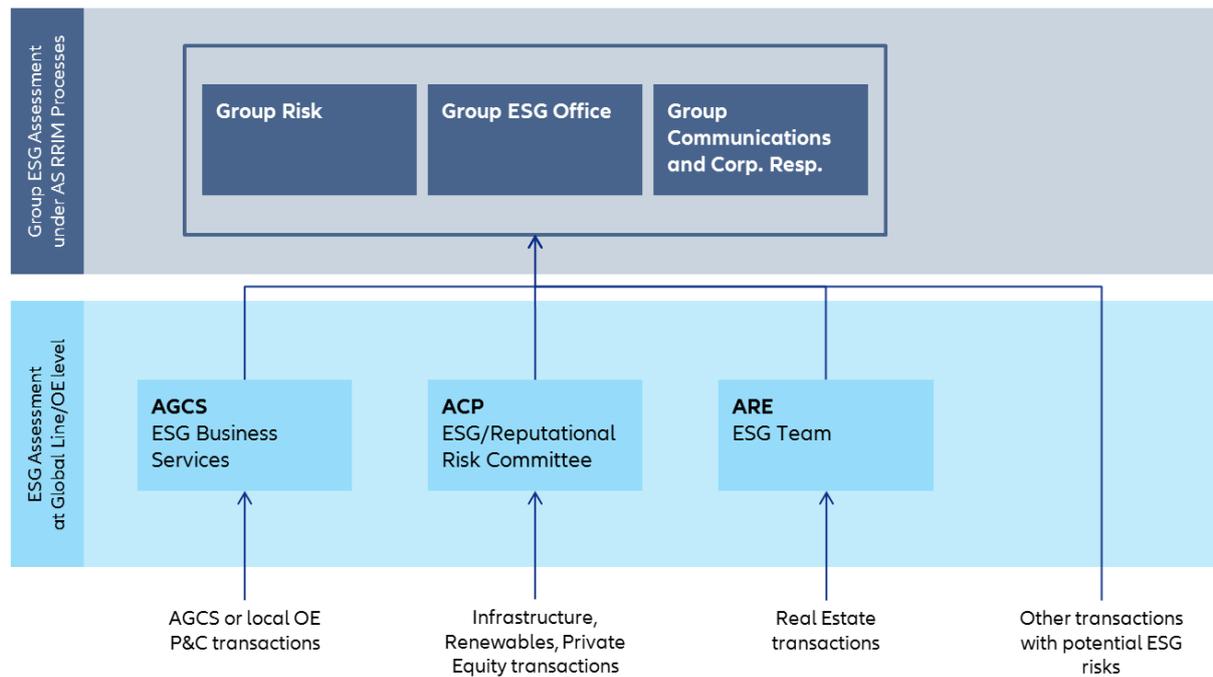
Implementation of the Referral Process across all Allianz entities is an ongoing process. The progress of this implementation as well as KPI regarding the referral process numbers are reported annually in the Group Sustainability Report.

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<sup>11</sup> AGCS Business Services acts as both an OE and GL ESG function, by providing ESG assessment services to AGCS and all local operating entities for property and casualty transaction.

<sup>12</sup> A condition can for example be approval subject to further information being provided, confirmation of facts by the client or longer term engagement.

<sup>13</sup> The GFRC is a committee of the Allianz SE Board of Management.



**Figure 3. ESG Assessments at OE and Group-level**

### 3.4 ESG SENSITIVE BUSINESS GUIDELINES

Along with the development of the ESG Referral Process, the ESG guidelines were developed across thirteen sensitive business areas<sup>14</sup> material to Allianz Group. Each guideline is based on internationally recognized standards and best-practice.

Each guideline contains criteria, which are reviewed in the context of a given transaction, to decide whether the transaction must be referred for an OE/GL and/or Group ESG Assessment. Information and data used for the review of ESG criteria include for example publicly available sources, ESG-specific data providers, information supplied by the clients, brokers, co-insurers and/or investors. The ESG Guidelines are not exclusion criteria, but criteria that assist all parties involved in the ESG screening of a transaction to determine if the transaction is potentially sensitive and must therefore be referred.

During the full assessment, the assessing ESG function uses the criteria as one element of the process to better understand the potential ESG risks associated with a particular business transaction.

<sup>14</sup> Sensitive business areas material to Allianz: Agriculture, fisheries and forestry, agricultural commodities investments, animal welfare in agriculture, betting and gambling, clinical trials, animal testing, defense, human rights, hydro-electric power, infrastructure, mining, nuclear energy, oil and gas, sex industry. Materiality of these issues was determined through a stakeholder dialogue with internal as well as external (NGO) partners.



### 3.4.1 Allianz ESG Guideline on Agriculture, Fisheries and Forestry

Allianz assists clients in many areas of the agricultural, fisheries and forestry sectors. The industry performs an essential role for society, which insurance and investment solutions can support.

There are a wide range of opportunities for agriculture to operate in a more environmentally or socially responsible manner, thus all business activities should seek to incorporate methods or forms of sustainable practices in operations where feasible. In many cases, ESG-related risks can be mitigated and avoided through the application of specific measures.

#### External Standards and Sources

The Allianz screening approach criteria are informed by use of various multi-stakeholder initiatives such as:

- Commodity specific initiatives including the Marine Stewardship Council (MSC), the Roundtable on Sustainable Palm Oil (RSPO), the Forestry Stewardship Council (FSC), the Aquaculture Stewardship Council, and Greenpeace International Black List (fisheries),
- Global Reporting Initiative (GRI) Food Sector Disclosures guidance,
- UN Food and Agriculture Organization (FAO) Guidelines,
- US Department of Labor and US Department of State List of Products Produced by Forced or Indentured Child Labor
- International human rights standards (for additional details see the ESG guidelines on human rights)

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, agriculture-related transactions are screened on the following criteria:

##### Risks related to agricultural practices

- Application of monoculture techniques impacting the environment
- Conversion of food crops to energy crops
- Inappropriate use of pesticides, fertilizers, insecticides or other chemicals (including neonicotinoids)
- Site clearing done using fire or located on marginal, fragile soils

##### Biodiversity risks

- Absence of mitigation measures to reduce impacts on endangered species
- Impact on endangered species listed in the IUCN Red List

##### Environmental risks

- Upstream/downstream impacts (incl. fisheries, pollution, flood risk changes, socio-economic impacts)

##### Risks related to fisheries practices

- Unconventional aquaculture practices (including use of wild caught juveniles, use of excessive amounts of medicine/chemicals, use of fish oil/meal feed or has a history of poor site selection (e.g. effluent discharge))
- Unconventional fisheries practices (including bottom trawling, beach seining, large-scale pelagic driftnets, poisons, explosives, muroami techniques, lack an approach to bycatch reduction)

##### Risks related to forestry practices

- Deforestation of primary forest
- Illegal logging activity or unsustainable harvesting/use of rare species

##### Risks to local communities

- Absence of a benefit sharing agreement or compensation
- Free, prior and informed consent (FPIC) of impacted parties not obtained
- Incidents of harm to local populations and/or the environment from pollution related to the project

##### Risks to protected areas

- Project located 30km or less from a site of environmental, social and/or cultural significance (UNESCO World Heritage Sites, RAMSAR sites, IUCN Category I-VI Protected Areas, Natura 2000, Key Biodiversity Areas)



#### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)

#### Resettlement risks

- Incidents of physical harm in relation to resettlement
- Relocation of people and land/water/property rights (incl. native peoples)
- Resettled persons not duly consulted

#### Workforce risks

- Disregard for labor rights including collective bargaining and unionization rights
- Involvement in child labor
- Involvement in forced labor or human trafficking
- Sub-standard working conditions (e.g. Health and safety standards, wages, etc.)

#### Agricultural commodity investments

- Allianz does not invest proprietary assets in physical agricultural commodities



### 3.4.2 Allianz ESG Guideline on Animal Welfare

Allianz supports clients in many areas of the agriculture sector including animal husbandry. The industry performs an essential role for society which insurance/investment supports.

There are a wide range of opportunities for operating in a more environmentally or socially responsible manner. All business activities should seek to incorporate methods or forms of sustainable practices in operations where feasible. This should not contravene cultural or religious requirements for the production of animal-related foodstuffs.

#### External Standards and Sources

The Allianz screening approach criteria are informed by

- various national, EU and international regulations,
- standards and best practice guidance on humane treatment of animals and
- Royal Society for the Prevention of Cruelty to Animals (UK) standards.

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, animal welfare-related transactions are screened on the following criteria:

##### Risks related to agricultural practices

- Absence of assurance or certification of farm's management of animal welfare
- Absence of mitigation of negative impacts on animal wellbeing
- Animal living conditions below sector average
- Animal transport (incl. loading and unloading) exceeding 8 hours
- Inappropriate use of antibiotics, hormones or other growth promoting substances
- Non-adherence to regulatory requirements on GMO labeling
- Occurrence of routine mutilation (e.g. teeth clipping, tail docking, dehorning, de-budding/de-horning, mulesing or beak trimming) without anesthetic or other distress reducing measures
- Slaughter practices without pre-slaughter stunning

##### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)



### 3.4.3 Allianz ESG Guideline on Betting and Gambling

Allianz respects national attitudes to recreational activities such as betting & gambling. As well as a source of leisure activity and employment, Allianz understands the potentially negative societal impacts which betting and gambling can have. It is important that operators in this industry understand their impact and take measures to reduce any negative aspects.

#### External Standards and Sources

The Allianz screening approach criteria are based on

- national regulations and
- standards of best-practice of industry leaders recognized for their corporate responsibility in the sector.

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, betting and gambling-related transactions are screened on the following criteria:

##### Governance risks

- Potential involvement in illegal activities such as money laundering and organized crime

##### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)

##### Risks associated with betting and gambling

- Absence of prevention measures against excessive gambling
- Absence of prevention measures against underage gambling
- Absence of support for customers with gambling-related behavioral problems, incl. self-exclusion.
- Use of improper marketing practices



### 3.4.4 Allianz ESG Guideline on Clinical Trials

The role of clinical trials is vital to the ongoing development of medical progress. Allianz is committed to supporting customers as an insurer and investor in this sector.

Due to the important role and wide range of standards which clinical trials operate under, it is important to ensure that all activity in this area is transparent, does not breach generally accepted standards of research and medical ethics and does not exploit vulnerable people.

#### External Standards and Sources

The Allianz screening approach criteria are informed by

- national and international transparency and ethical standards and
- Guidelines for Clinical Trial and Medical Research of the Medical Research Council (UK).

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, clinical trial-related transactions are screened on the following criteria:

##### Risks related to bio-medical research practices

- Inadequate medical, ethical and scientific review of the trial
- Involvement of children and/or pregnant women in the clinical trial
- Involvement of illiterate participants and/or participants that did not provide fully-informed prior consent
- Trial located in regions with vulnerable populations (developing countries, high-unemployment)

##### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)



### 3.4.5 Allianz ESG Guideline on Animal Testing

Allianz appreciates the sensitivity around the debate on animal testing. There is a lack of internationally available standards in relation to animal testing. Where testing involving animals occurs, the following principles should be considered: scientific method applied, up-to-date procedures and protocols used, best practice utilized, reduction of pain, suffering, distress, lasting harm avoided, use of alternatives before animal testing sought, continuous improvement of care and housing standards for test subjects.

#### External Standards and Sources

The Allianz screening approach criteria are informed by

- the Guiding Principles of Replacement, Reduction and Refinement outlined by the European Commission Directorate-General for Environment and
- the EU Directive on the protection of animals used for scientific purposes.

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, animal testing-related transactions are screened on the following criteria:

##### Risks related to bio-medical research practices

- Animal living conditions below sector average
- Inadequate medical, ethical and scientific review of the trial
- Non-adherence to best practice standards or codes
- Performance of invasive procedures without anesthetic
- Use of Great Apes (e.g. chimpanzees, bonobos, orangutans, etc.)
- Use of subjects caught in the wild

##### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)



### 3.4.6 Allianz ESG Guideline on Defense

The defense sector plays a critical role in providing the means for national and regional security policies. Allianz recognizes the right of sovereign states to arm themselves, but applies certain restrictions to business related to the defense sector.

Allianz excludes investments in and does not provide insurance for organizations<sup>15</sup> involved in the development, production, maintenance and trading of controversial weapons. For details, please also see section 3.9.1.

Banned or controversial weapons are those that fall under the scope of the following international conventions:

- **Anti-personnel landmines**  
as defined in Article 2 of the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (Ottawa Treaty)
- **Cluster munitions**  
as defined in Article 2 of the Convention on Cluster Munitions
- **Biological and toxin weapons**  
as defined in Article I of the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction (Biological Weapons Convention)
- **Chemical weapons**  
as defined in Article II of the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction (Chemical Weapons Convention)

In insurance, all business related to the development, production, maintenance and trading of controversial weapons must be referred for an ESG assessment. Based on the outcome of this assessment, Allianz restricts business with companies with confirmed involvement in controversial weapons.

Likewise, any insurance business related to the transport of conventional and controversial weapons to

- countries with severe human rights abuses such as those listed on the Sensitive Country List (see section 3.5), and/or
- zones of conflict, civil war or war

must also be referred.

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<sup>15</sup> This also includes certain investors of organizations involved in controversial weapons.



### 3.4.7 Allianz ESG Guideline on Human Rights

Allianz is a signatory to the United Nations Global Compact which supports key principles in upholding human rights. Allianz endeavors to ensure its operations and interactions with business partners do not conflict with those commitments. Any apparent breach should be addressed with partners whilst respecting local laws and customs.

#### External Standards and Sources

The Allianz screening approach criteria are informed by the

- UN Declaration of Human Rights,
- International Labor Organization Standards,
- UN Global Compact, and
- Guiding Principles for Business and Human Rights.

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, human rights-sensitive transactions are screened on the following criteria:

##### Governance risks

- Absence of anti-bribery and anti-corruption plans/systems/procedures

##### Risks to local communities

- Absence of a benefit sharing agreement or compensation
- Free, prior and informed consent (FPIC) of impacted parties not obtained
- Incidents of harm to local populations and/or the environment from pollution related to the project

##### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)

##### Resettlement risks

- Incidents of physical harm in relation to resettlement
- Relocation of people and land/water/property rights (incl. native peoples)
- Resettled persons not duly consulted

##### Workforce risks

- Disregard for labor rights including collective bargaining and unionization rights
- Employee rights not taken into consideration (for any outsourcing/restructuring program)
- Incidents of physical harm or inappropriate conduct of security personnel
- Involvement in child labor
- Sub-standard working conditions (e.g. health and safety standards, wages, etc.)
- Sub-standard working conditions of (sub-)contractors



### 3.4.8 Allianz ESG Guideline on Hydro-Electric Power (HEP)

Allianz is a supporter of sustainable methods of energy generation. Every HEP installation is different and with the right planning, many of the social and environmental risks can be mitigated. As an insurer Allianz is committed to working with clients to reduce risk in all aspects of their project.

#### External Standards and Sources

The Allianz screening approach criteria are informed by

- the World Commission on Dams report,
- the International Hydropower Association Sustainability Protocol and
- international human rights standards (for additional details see the ESG guidelines on human rights).

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, hydropower-related transactions are screened on the following criteria:

##### Biodiversity risks

- Absence of mitigation measures to reduce impacts on endangered species
- Impact on endangered species listed in the IUCN Red List

##### Environmental risks

- Absence of plans for decommissioning / end-of-life
- Environmental and regulatory licensing and permitting processes not started or incomplete
- Environmental impact assessment not conducted or not conducted in line with national or international standards and the necessary public consultation (including all supporting infrastructure, i.e. power lines, access roads)
- Upstream/downstream impacts (incl. fisheries, pollution, flood risk changes, socio-economic impacts)

##### Governance risks

- Absence of anti-bribery and anti-corruption plans/systems/procedures

##### Risks to local communities

- Absence of a benefit sharing agreement or compensation
- Free, prior and informed consent (FPIC) of impacted parties not obtained
- Health impacts have not been assessed and/or taken into consideration

##### Risks to protected areas

- Project located 30km or less from a site of environmental, social and/or cultural significance (UNESCO World Heritage Sites, RAMSAR sites, IUCN Category I-VI Protected Areas, Natura 2000, Key Biodiversity Areas)

##### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)

##### Resettlement risks

- Incidents of physical harm in relation to resettlement
- Relocation of people and land/water/property rights (incl. native peoples)
- Resettled persons not duly consulted

##### Workforce risks

- Disregard for labor rights including collective bargaining and unionization rights
- Involvement in child labor
- Involvement in forced labor or human trafficking
- Sub-standard working conditions (e.g. health and safety standards, wages, etc.)



### 3.4.9 Allianz ESG Guideline on Infrastructure

Infrastructure encompasses a wide range of areas, such as:

- transport infrastructure (roads, bridges, rail, airports),
- commercial buildings (shopping centers, office towers, sports stadiums),
- energy (power plants<sup>16</sup>, transmission lines),
- social services (schools, hospitals),
- environmental services (waste facilities, water treatment) and
- telecommunications.

Allianz is a major investor in and insurer of infrastructure applying risk management expertise for clients. Due to the size of some infrastructure programs the environmental or social risk can be significant, but also feasible to be mitigated through best practice management of the issues.

#### External Standards and Sources

The Allianz screening approach criteria are informed by

- IFC E&S Performance Standards,
- GRI Sector Guidance on Construction and Real Estate,
- international human rights standards (see also human rights guideline, section 3.4.7), and
- coal-specific information sources, including the International Energy Agency (IEA) and NGOs.

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, infrastructure-related transactions are screened on the following criteria<sup>17</sup>:

##### Biodiversity risks

- Absence of mitigation measures to reduce impacts on endangered species
- Impact on endangered species listed in the IUCN Red List

##### Environmental risks

- Absence of plans for decommissioning / end-of-life
- Environmental impact assessment not conducted or not conducted in line with national or international standards and the necessary public consultation (including all supporting infrastructure, i.e. power lines, access roads)
- Upstream/downstream impacts (incl. fisheries, pollution, flood risk changes, socio-economic impacts)
- Use of lignite/coal in power plant

##### Governance risks

- Absence of anti-bribery and anti-corruption plans/systems/procedures

##### Risks to local communities

- Absence of a benefit sharing agreement or compensation
- Free, prior and informed consent (FPIC) of impacted parties not obtained
- Incidents of harm to local populations and/or the environment from pollution related to the project

##### Risks to protected areas

- Project located 30km or less from a site of environmental, social and/or cultural significance (UNESCO World Heritage Sites, RAMSAR sites, IUCN Category I-VI Protected Areas, Natura 2000, Key Biodiversity Areas)

##### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)

##### Resettlement risks

- Incidents of physical harm in relation to resettlement

<sup>16</sup> Excluding hydro-power (see 3.4.8) and nuclear (see 3.4.11), as covered by separate guidelines.

<sup>17</sup> Certain criteria may not be applicable to all types of infrastructure projects.



- Relocation of people and land/water/property rights (incl. native peoples)
- Resettled persons not duly consulted

#### Workforce risks

- Disregard for labor rights including collective bargaining and unionization rights
- Incidents of physical harm or inappropriate conduct of security personnel
- Involvement in child labor
- Involvement in forced labor or human trafficking
- Sub-standard working conditions (e.g. health and safety standards, wages, etc.)
- Sub-standard working conditions of (sub-)contractors

#### **3.4.9.1 Exclusions regarding investments in and insurance of coal-related infrastructure**

In May and September 2018, Allianz announced that it would expand its exclusion approach regarding coal-related infrastructure. For details about Allianz's restrictions on investment in and insurance of coal-based business models see section 3.9.2.



### 3.4.10 Allianz ESG Guideline on Mining

The mining sector is a major part of the global economy. Allianz aims to support the sector as an insurer and investor. Allianz is supportive of measures taken to mitigate or avoid environmental and social risks.

#### External Standards and Sources

The Allianz screening approach criteria are informed by

- the IFC Environmental and Social Performance Standards and Guidance Notes,
- the GRI Mining Sector Guidelines,
- the Extractive Industry Transparency Initiative,
- the International Council on Mining and Metals,
- the International Cyanide Management Code and
- international human rights standards (see also human rights sensitive business area).

Furthermore, particular attention is paid to operations in countries listed in the United States Department of Labor (US DoL) List of Goods Produced by Child Labor or Forced Labor.

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, mining-related transactions are screened on the following criteria:

##### Biodiversity risks

- Absence of mitigation measures to reduce impacts on endangered species
- Impact on endangered species listed in the IUCN Red List

##### Environmental risks

- Absence of plans for decommissioning / end-of-life
- Environmental impact assessment not conducted or not conducted in line with national or international standards and the necessary public consultation (including all supporting infrastructure, i.e. power lines, access roads)
- Improper storage and disposal of mine tailings
- Use of cyanide or cyanide-related processes
- Use of mountain and/or hill-top removal mining methods

##### Governance risks

- Absence of anti-bribery and anti-corruption plans/systems/procedures

##### Risks to local communities

- Absence of a benefit sharing agreement or compensation
- Free, prior and informed consent (FPIC) of impacted parties not obtained
- Health impacts have not been assessed and/or taken into consideration

##### Risks to protected areas

- Project located 30km or less from a site of environmental, social and/or cultural significance (UNESCO World Heritage Sites, RAMSAR sites, IUCN Category I-VI Protected Areas, Natura 2000, Key Biodiversity Areas)

##### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)

##### Resettlement risks

- Incidents of physical harm in relation to resettlement
- Relocation of people and land/water/property rights (incl. native peoples)
- Resettled persons not duly consulted

##### Workforce risks

- Disregard for labor rights including collective bargaining and unionization rights
- Incidents of physical harm or inappropriate conduct of security personnel



- Involvement in child labor
- Involvement in forced labor or human trafficking
- Sub-standard working conditions (e.g. health and safety standards, wages, etc.)

#### 3.4.10.1 Exclusions regarding investments in and insurance of coal-related mining activities

In May and September 2018, Allianz announced that it would expand its exclusion approach regarding coal-related mining activities. For details about Allianz's restrictions on coal investment and insurance see section 3.9.2.



### 3.4.11 Allianz ESG Guideline on Nuclear Energy

Allianz respects the decisions of national governments on the production and use of nuclear energy, as well the operation of research reactors or facilities used for the production of radioisotopes for medical or other purposes.

#### External Standards and Sources

The Allianz screening approach criteria are informed by documentation, best-practice and guidance from

- 1 the International Atomic Energy Agency,
- 2 the European Bank for Reconstruction & Development and
- 3 international human rights standards (see also human rights sensitive business area).

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, nuclear energy-related transactions are screened on the following criteria:

##### Environmental risks

- Absence of plans for decommissioning / end-of-life
- Environmental impact assessment not conducted or not conducted in line with national or international standards and the necessary public consultation (including all supporting infrastructure, i.e. power lines, access roads)
- Upstream/downstream impacts (incl. fisheries, pollution, flood risk changes, socio-economic impacts)

##### Environmental risk management

- Occurrence of geological and environmental events and disasters (floods, seismic activity, landslides, etc.)

##### Risks to local communities

- Evacuation and crisis response plans not in-place or not in line with IAEA Fundamental Safety Principles

##### Nuclear safety risks

- Design and operating plan of facility not in line with IAEA safety standards and requirements
- Inadequate oversight by an independent national nuclear regulator
- Inadequate transport and storage management plans in line with IAEA definitions
- Nuclear facility not located in a member country of the IAEA allowing access to IAEA inspectors
- Nuclear facility not located in a signatory country to the non-proliferation treaty and its amendments
- Nuclear Steam Supply Systems (NSSS) in non-compliance with relevant IAEA standards and requirements

##### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)



### 3.4.12 Allianz ESG Guideline on Oil and Gas

The oil & gas sector continues to play the dominant role in supplying the energy needs of the global economy. Allianz aims to support the sector as an insurer and investor as long as organizations take measures to mitigate or avoid environmental and social risks. Naturally with new forms of energy production there can be increasing levels of risk which can be mitigated with the right technical expertise.

#### External Standards and Sources

The Allianz screening approach criteria are informed by

- 1 the IFC Environmental and Social Performance Standards and Guidance Notes,
- 2 the GRI Oil & Gas Guidance,
- 3 the Extractive Industries Transparency Initiative,
- 4 the IPIECA Oil and Gas Guidance and
- 5 international human rights standards (see also human rights sensitive business area).

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, oil and gas-related transactions are screened on the following criteria:

##### Biodiversity risks

- Absence of mitigation measures to reduce impacts on endangered species
- Impact on endangered species listed in the IUCN Red List

##### Environmental risks

- Absence of plans for decommissioning / end-of-life
- Environmental and regulatory licensing and permitting processes not started or incomplete
- Environmental impact assessment not conducted or not conducted in line with national or international standards and the necessary public consultation (including all supporting infrastructure, i.e. power lines, access roads)
- No water reclamation/reuse from oil sands tailings ponds
- Upstream/downstream impacts (incl. fisheries, pollution, flood risk changes, socio-economic impacts)

##### Environmental risk management

- Absence of spill management/response/remediation management plan

##### Governance risks

- Absence of anti-bribery and anti-corruption plans/systems/procedures

##### Risks to local communities

- Absence of a benefit sharing agreement or compensation
- Free, prior and informed consent (FPIC) of impacted parties not obtained
- Incidents of harm to local populations and/or the environment from pollution related to the project

##### Risks to protected areas

- Project located 30km or less from a site of environmental, social and/or cultural significance (UNESCO World Heritage Sites, RAMSAR sites, IUCN Category I-VI Protected Areas, Natura 2000, Key Biodiversity Areas)
- Project located in polar regions, where salvage and pollution remediation could be an issue

##### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)

##### Resettlement risks

- Incidents of physical harm in relation to resettlement
- Relocation of people and land/water/property rights (incl. native peoples)
- Resettled persons not duly consulted



#### Workforce risks

- Disregard for labor rights including collective bargaining and unionization rights
- Incidents of physical harm or inappropriate conduct of security personnel
- Involvement in child labor
- Involvement in forced labor or human trafficking
- Sub-standard working conditions (e.g. health and safety standards, wages, etc.)



### 3.4.13 Allianz ESG Guideline on transactions related to the Sex Industry

Allianz does not wish to be associated with any business where human rights are violated. Allianz requires all clients to adhere to national (and international) legislative requirements in relation to pornography, prostitution and the sex industry.

#### External Standards and Sources

The Allianz screening approach criteria are informed by

- national and international legislation and best-practice, and
- international human rights standards (see also human rights sensitive business area).

#### Criteria

Following an assessment of company, sector and country-specific ESG risk databases, transaction in this sector is screened on the following criteria:

##### Reputational risks

- Negative reputational impacts on Allianz stakeholders (investors, customers, business partners, regulators, staff, ...)

##### Workforce risks

- Disregard for labor rights including collective bargaining and unionization rights
- Involvement in child labor
- Involvement in forced labor or human trafficking
- Sub-standard working conditions (e.g. health and safety standards, wages, etc.)



### 3.5 SENSITIVE COUNTRIES LIST

The AS RRIM also contains the sensitive countries list. This list was developed to identify transactions in countries where systematic human rights violations occur and refer those transactions to the referral process for human rights.

Criteria, to determine if systematic human rights violations occur in a given country, are based on a range of international human rights country-level assessments ranging from conflict zones to corruption levels:

- Heidelberg Institute for International Conflict Research (Country Indexes)
- Transparency International – Corruptions Perceptions Index
- UNICEF Child Labor Database
- Global Slavery Index
- Pew Research Government Restrictions on Religion Index
- Minority Rights Group International – Peoples Under Threat
- United Nations Development Programme – Gender Inequality Index
- ILGA – List of Countries with State Sponsored Homophobia

The Allianz ESG Guideline on Human Rights (see section 3.4.7) is applied to any business in those countries, unless restricted by legal and economic sanctions and restrictions that are in place, in which case such transaction are already addressed under separate processes managed by legal and compliance functions.

The Group ESG Office regularly updates the Sensitive Countries List.



## 3.6 ESG SCORING APPROACH

### 3.6.1 Motivation and Background

The primary objective of Allianz's investment approach (for proprietary investments such as customers' insurance premiums) is to achieve the highest and stable investment returns for customers in the long-term. In this respect, it is becoming increasingly important to take environmental, social and governance risks and opportunities into consideration early on in the investment process, as these may impact financial performance in the mid and long-term.

Through the ESG Scoring Approach, Allianz's investment professionals have access to in-depth extra-financial information on listed issuers. This allows them to systematically take ESG risks and opportunities into consideration, when making investment decisions. Ultimately, the integration of ESG-related information supports the achievement of Allianz's primary investment objective.

The approach was developed by the Group ESG Office and AIM SE in close collaboration with the asset managers AllianzGI and PIMCO. Furthermore, three NGOs (Transparency International, WWF and Germanwatch) were involved in the set-up of the ESG Scoring project and their expertise on ESG topics was an important input for shaping the overall approach.

**Table 2. Pillars, Themes and Issues of the ESG Rating by MSCI ESG Research<sup>18</sup>**

3 Pillars	10 Themes	37 ESG Key Issues		
Environment	Climate Change	Carbon Emissions	Financing Environmental Impact	
		Product Carbon Footprint	Climate Change Vulnerability	
	Natural Resources	Water Stress	Raw Material Sourcing	
		Biodiversity and Land Use		
	Pollution and Waste	Toxic Emissions and Waste	Electronic Waste	
		Packaging Material and Waste		
	Environmental Opportunities	Opportunities in Clean Tech	Opportunities in Renewable Energy	
		Opportunities in Green Building		
	Social	Human Capital	Labor Management	Human Capital Development
			Health and Safety	Supply Chain Labor Standards
Product Liability		Product Safety and Quality	Privacy and Data Security	
		Chemical Safety	Responsible Investment	
		Financial Product Safety	Health and Demographic Risk	
Stakeholder Opposition		Controversial Sourcing		
Social Opportunities		Access to Communications	Access to Health Care	
		Access to Finance	Opportunities in Nutrition and Health	
Governance		Corporate Governance	Board	Ownership and Control
			Pay	Accounting
	Corporate Behavior	Business Ethics	Corruption and Instability	
		Anti-Competitive Practices	Financial System Instability	
		Tax Transparency		

Based on ESG ratings and scoring data provided by MSCI ESG Research, Allianz has developed its approach to systematically integrate ESG risks and opportunities in its investments, assessing them along 37 key environmental, social and corporate governance issues. These issues include for example carbon emissions, product safety and quality, data protection and corruption (see Table 2 for an overview). See section 3.6.2 for a detailed overview of the scoring process.

<sup>18</sup> For additional details on the MSCI ESG Rating, please see the MSCI ESG Research website at [www.msci.com/esg-ratings](http://www.msci.com/esg-ratings). Information in Table 2. Copyright © 2018 MSCI ESG Research. Reprinted with permission.



The ESG Scoring Approach is governed through the Allianz ESG Functional Rule for Investments (EFRI). The initial implementation of the Scoring Approach was piloted on the portfolios of Allianz Life Germany (Allianz Lebensversicherungs-AG) and Allianz Health Germany (Allianz Private Krankenversicherungs-AG) and by the end of 2017 the process was rolled out to all in-scope Allianz proprietary portfolios globally<sup>19</sup>.

### 3.6.2 Scoring Process

#### 3.6.2.1 ESG data integration

Quantitative ESG data from MSCI is integrated into Allianz's investment management information systems. From there, all investment management staff, as well as the respective portfolio management and analyst teams at AllianzGI and PIMCO have access to the MSCI data. Further qualitative and quantitative ESG research and data is accessible through the MSCI ESG Manager tool.

#### 3.6.2.2 Setting the ESG threshold

Companies with a low ESG performance are generally linked to high ESG and reputational risks. In order to identify companies with a low ESG performance, the scoring process uses an ESG threshold. The threshold is set in the following way:

All corporate issuers in the MSCI ESG Rating universe<sup>20</sup> are grouped by region (Europe, North America, Asia-Pacific and Emerging Markets). For sovereign issuers no regional categorization is done.

The threshold is set at the bottom 10 percent in ESG performance for each issuer group. In other words, the 10<sup>th</sup> percentile score is set as the threshold for a given issuer group. Allianz flags all issuers below the respective threshold.

The ESG threshold is reassessed based on ESG data on an annual basis. Thresholds are incorporated into the investment management information system and communicated to asset managers.

#### 3.6.2.3 Operationalizing the ESG scoring process

When analyzing current investments in a given portfolio and when selecting new investments, an asset manager must take the investment's ESG score and applicable threshold into account.

This means that investments in issuers below the threshold are to be avoided. This applies to existing investments, reinvestments and new investments. Should an asset manager hold investments below the threshold, a comply-or-explain clause becomes effective. Asset managers must justify these investments in quarterly ESG review meetings with AIM supported by the Group ESG Office.

Examples for valid justifications include regulatory requirements, market availability or proprietary research findings.

#### 3.6.2.4 Systematic engagement

Further, Allianz subjects issuers below the threshold in its portfolio to a systematic, goal-oriented and time-limited engagement process. Such engagements are conducted on a case-by-case basis either by AIM, the Group ESG Office and/or the respective asset manager. Details on the engagement approach are described in section 3.7.1.

#### 3.6.2.5 ESG-specific asset manager reviews

ESG integration (including the ESG scoring approach) is part of the regular asset manager review and ESG-specific asset manager review meetings. Implementation of the scoring requirements is a measured KPI, relevant to the financial compensation of the asset management firms (see also section 3.10.2).

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<sup>19</sup> For example, assets owned by Allianz Austria are excluded from the Group ESG Scoring Approach, as this OE has developed their own ESG scoring approach.

<sup>20</sup> All issuers rated by MSCI ESG Research.



## 3.7 ACTIVE OWNERSHIP

### 3.7.1 Engagement approach

For Allianz, active ownership is an integral part of the ESG integration approach. Through systematic engagement with its invested companies, Allianz intends to improve these companies' management of material ESG risks and issues.

The principal engagement approach is linked to the ESG scoring approach. All issuers below the applicable ESG scoring threshold (see section 3.6 for details) are potential candidates for engagement.

Engagement is driven by a team of experts from AIM SE and the Group ESG Office.

#### 3.7.1.1 Objectives of the engagement approach

To address these ESG risks, clear objectives are defined at the onset of each engagement:

- Encourage stronger governance and management oversight regarding sustainability topics
- Encourage additional disclosure on e.g. ESG-related policies, processes and programs
- Encourage setting ESG-related targets and disclosing KPIs
- Encourage assurance, audit, and/or verification of approach (e.g. policies, KPIs & targets)
- Call for the adoption of or adherence to international standards, best-practice, and/or frameworks
- Clarification of controversies/allegations

In certain cases, additional objectives may be adopted for a given engagement.

Through these objectives Allianz aims

- to raise awareness for ESG risks that can have material business impacts,
- to better understand companies' approaches to addressing these risks, and
- to act as a partner of its invested companies to improve their non-financial performance.

#### 3.7.1.2 Material engagement topics

Based on Allianz's ESG work over the past years, certain material engagement topics have been identified to assist prioritization of engagement activities.

The most material ESG concerns for Allianz and its stakeholders include:

- Climate Change (carbon emissions etc.)
- Natural Capital (water stress, raw material sourcing etc.)
- Pollution & Waste (lacking environmental management system, toxic emissions & waste etc.)
- Human Capital (child labor, supply chain labor standards, health & safety etc.)
- Involvement in highly controversial projects

Allianz sees potential mid-term to long-term investment and reputational risks from these ESG issues. The aforementioned topics are considered high priority engagement topics, thus Allianz generally engages all companies that have issues in these areas.

For other ESG concerns, Allianz closely monitors companies' performance and reviews annually to decide, on a case-by-case basis, if an engagement should be initiated with the respective company.

#### 3.7.1.3 Engagement selection

Based on the initial research and prioritization of companies falling under our ESG scoring threshold, Allianz prepares a short list of companies to be engaged.

To avoid duplicate engagements from Allianz Group with the engaged companies, the short list is reviewed with the engagement teams at AllianzGI and PIMCO. Any companies already being engaged by those asset managers are filtered out from the engagement list.

#### 3.7.1.4 Engagement operationalization

Following this prioritization and selection, the engagement team conducts in-depth research for each company on the list using information from MSCI ESG Research, various other ESG data and intelligence providers, and the respective corporate disclosures and publications of each company. The results of this in depth research, along with any supporting documents, are summarized and documented for future reference.



The engagement team then contacts the investor relations, sustainability, and/or other relevant corporate function by e-mail with initial questions linked to the identified ESG risks and engagement objectives for the given company. Based on the company's response to these questions, Allianz conducts additional research and continues engagement activities through conference calls and meetings as needed to clarify all open points and address any potential risks.

### 3.7.1.5 Engagement evaluation, monitoring and exclusions

Considering the information obtained through the dialogue, the engagement team discusses potential next steps regarding the invested company.

If the company's answers have shown significant action or willingness to improving their ESG risk management and/or solving and avoiding further ESG issues and controversies in future, the company engagement will be closed. Allianz will then either

- 1 continue to monitor the company's future performance, or
- 2 remove the company from the future engagement list.

This is depending on the level of success of the engagement's outcome.

Should answers be insufficient, the company shows no willingness to improve its ESG performance, or if the company has not responded to any of Allianz's engagement communications over a given timeframe, the Chair of the ESG Board approves the restriction of that company from all proprietary portfolios based on the recommendation from AIM SE and the Group ESG Office. Exclusions of companies based on the engagement approach are also described in section 3.9.3.

These decisions are taken once per year. Companies are reviewed and reassessed annually.

### 3.7.1.6 Engagement reporting

Allianz reports on its engagement approach, activities and outcomes in the PRI Transparency Report and in the Group Sustainability Report.

## 3.7.2 Other engagement activities

In addition to the ESG Scoring Engagement, Allianz has established processes for additional engagement triggers:

- **Coal-based Exclusion Engagement:** As part of the exclusion of coal-based business models, Allianz may engage companies to clarify their coal-related strategies and to encourage these companies to climate-proof their business activities. These engagements follow a simplified engagement procedure.
- **Collaborative Engagement:** Allianz works with other asset owners, asset managers and the Principles for Responsible Investment (PRI) initiative to identify and evaluate opportunities for collaborative engagement. Participation in such engagement activities is based on a case-by-case assessment.
- **Engagement by internal asset managers:** PIMCO and AllianzGI both conduct engagements on behalf of Allianz as well as their third-party clients. The asset managers report on their engagement activities on their websites.

### 3.7.3 Voting

For equity investments managed by AllianzGI on behalf of Allianz Group insurance entities, AllianzGI exercises the voting rights. AllianzGI conducts voting activities in line with their Global Corporate Governance Guidelines, which include consideration of ESG concerns. AllianzGI makes records of voting decisions available publicly.

Other asset managers managing equity investments on behalf of Allianz are encouraged to exercise voting rights.



### **3.8 RISK DIALOGUES**

Within the industrial insurance business unit, the client risk dialogue is an established approach to address specific risks and provide expertise in managing those. This approach benefits both the client and Allianz. For insurance-related ESG risks, Allianz also may engage and perform a risk dialogue with insurance clients, in case significant risks are identified. The goal of these dialogues is to address and better understand the risks identified, as well as mitigation measures in place. Since the establishment of the AGCS ESG Business Services function (see also section 4.1) in 2014, many of these dialogues have taken place across various industries and regions.



## 3.9 EXCLUSION POLICIES

### 3.9.1 Controversial weapons exclusions

Allianz enforces a Group-wide exclusion policy relating to banned weapons and investments of proprietary assets.

Banned or controversial weapons are those that fall under the scope of the following international conventions:

- **Anti-personnel landmines**  
as defined in Article 2 of the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (Ottawa Treaty)
- **Cluster munitions**  
as defined in Article 2 of the Convention on Cluster Munitions
- **Biological and toxin weapons**  
as defined in Article I of the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction (Biological Weapons Convention)
- **Chemical weapons**  
as defined in Article II of the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction (Chemical Weapons Convention)

All investment transactions<sup>21</sup> in issuers **related to the development, production, maintenance and trading of banned weapons** under the above-listed international agreements are prohibited.

Allianz reassesses the exclusion list at quarterly intervals, using inputs provided by an external ESG data provider to determine if businesses are potentially involved in controversial weapons. Should specific risks arise outside the regular revision cycle of the exclusion list, the list may also be updated on an ad-hoc basis.

For insurance restrictions regarding controversial weapons, please see section 3.4.6.

### 3.9.2 Coal exclusions<sup>22</sup>

#### 3.9.2.1 Rationale

While the global demand for reliable and affordable energy is expected to rise, there is widespread scientific consensus that energy generation needs to be decoupled from greenhouse gas (GHG) emissions. This is necessary to limit global warming to below 2° Celsius compared to pre-industrial times, as postulated by the Intergovernmental Panel on Climate Change (IPCC) and as adopted in the Paris Agreement.

The necessary GHG-emissions reduction entails that fossil-fuel based energy generation will have to be drastically reduced in the coming decades. With coal being the fuel with the highest CO<sub>2</sub> emissions in relation to its energy content,

- 1 a stringent phase-out of installed coal-based energy production, and
- 2 far-reaching avoidance of new coal additions

is required to enable transitioning global energy generation to lower emission levels.

To drive the transition to a low-carbon economy, Allianz is a member of the Portfolio Decarbonization Coalition<sup>23</sup> of the UN Environment Programme Finance Initiative, participates in The Investor Agenda<sup>24</sup> and is committed to the Science Based Targets initiative<sup>25</sup>.

#### 3.9.2.2 Objectives

- 1 Since 2015, Allianz has not financed coal-based business models. Equity stakes have been divested; fixed income investments made before 2015 are in run-off; no new investments have been allowed since 2015. Criteria for exclusion are being further sharpened over time

<sup>21</sup> Allianz takes these exclusions very seriously. The ability to apply this exclusion policy nevertheless varies for some types of investments, such as when for example, restricted companies are listed on major stock exchange indices, or when they are part of an investment fund managed by other organizations, it is not feasible for the exclusion policy to be applied.

<sup>22</sup> This section of the Allianz ESG Integration Framework integrates the Allianz Statement on Coal-based Business Models (May 2018, update September 2018)

<sup>23</sup> Website: [www.unepfi.org/pdc](http://www.unepfi.org/pdc)

<sup>24</sup> Website: [www.theinvestoragenda.org](http://www.theinvestoragenda.org)

<sup>25</sup> Website: [www.sciencebasedtargets.org](http://www.sciencebasedtargets.org)



- 2 Allianz will no longer offer insurance for single-site/stand-alone coal power plants or mines and will gradually phase out all coal-based risks from its Property & Casualty (P&C) insurance portfolios by 2040.

### 3.9.2.3 Implementation

#### Investment criteria

Excluded are companies involved, either directly or through entities they control (indirectly, minimum of 20% stake), in coal-based business models which are defined as follows:

#### Energy generation from coal

- Companies deriving 30% or more of their generated electricity from thermal coal, and/or
- planning more than 0.5 gigawatts (GW) of thermal coal capacity additions<sup>26</sup> which are not in line with the 2°C ceiling, and/or
- having to retire<sup>27</sup> more than 50% of their generation capacities in the next ten years to be in line with the 2°C ceiling.

#### Coal mining

- Companies deriving 30% or more of their revenues from mining thermal coal.

The thresholds for the energy generation share from coal power plants and the revenue share from coal mining will be tightened over time. Allianz will reduce the thresholds from the 30% in place since 2015 to 0% by 2040.

As of December 31, 2022, Allianz will reduce the thresholds to 25%<sup>28</sup>.

Exceptions are only possible following a case-by-case assessment. Companies with a share of revenue or share of generated electricity from coal above the stated threshold need to show a clear public strategy to reduce their coal share at a pace which is scientifically compatible with limiting global warming to below 2°C in the next years.

Furthermore, Allianz continues not to directly invest in unlisted assets related to coal-related infrastructure, such as coal power plants, coal mines, coal-related railways or coal ports.

#### Insurance property & casualty criteria

Allianz no longer offers single-site/stand-alone insurance coverages related to the construction and/or operation of lignite/coal-fired power plants (CFPP) and mines where lignite/coal is extracted, effective immediately. Single-site/stand-alone coverage means the covering of loss and damages for a single power plant and/or mine (green- and brownfield) for an insured, as well as for offering guarantees (bonds) to a respective client. The exclusion is applicable for new (first time) contracts and the renewal of contracts.

Exceptions to the above are only applicable for coal-fired power plants based on a case-by-case assessment. Criteria for this assessment include thermal efficiency, consideration of renewable and/or other low-carbon alternatives to a power plant and reasonable rejection of these alternatives, blackouts or load shedding in the region due to a lack of generation capacities and the development status of the country (in line with the UN classification). Based on the criteria outlined above and experience, Allianz will grant only a very limited number of exceptions.

### 3.9.2.4 Allianz Coal Phase-Out Plan<sup>29</sup>

The reduction pathway for the Allianz Coal Phase-Out Plan is based on the IEA Energy Technology Perspectives (ETP) data. Allianz is committed to fully phase out coal-based business models across Allianz's proprietary investments and

<sup>26</sup> Coal capacity additions: This criterion is based on International Energy Agency's World Energy Outlook (IEA WEO) data. It assesses whether a company is planning and/or building additions of more than 0.5 GW in coal power capacity over the next ten years which exceed the ceiling compatible with limiting global warming to below 2°C compared to pre-industrial times. This allowance is established mainly for data and technical reasons, e.g. to allow retrofitting or refurbishment of existing plants in order to improve their efficiency. This criterion is provided by the 2° Investing Initiative (2dii). The build-up of new coal power capacities is only possible in limited number of occasions according to the scientific estimations and projections provided by the International Energy Agency, for instance.

<sup>27</sup> Required retirements: This criterion is based on IEA WEO data. It assesses if a company needs to retire more than 50% of its current generation capacity over the next ten years to be compatible with the 2°C ceiling. The data is provided by 2dii.

<sup>28</sup> Further reductions are expected to happen in steps of no more than five percentage points and within no more than five years of the previous adjustment.

<sup>29</sup> Allianz will develop the detailed Coal Phase-Out Plan including defined milestones later in 2018.



P&C portfolios by 2040. The thresholds<sup>30</sup> applicable to a company's coal share will be more ambitious than the 2°C pathway of the 2°C Scenario in the ETP (2DS)<sup>31</sup>.

### **3.9.3 Exclusion of specific issuers following engagement on ESG concerns**

As an outcome of the engagement approach, certain companies with material ESG concerns may be added to the GRGR by the Chair of the ESG Board upon advice of the engagement team at AIM and the Group ESG Office (see section 3.7.1 for details).

Implementation of these exclusions is managed and monitored following the same processes as the controversial weapons and coal exclusions.

### **3.9.4 Implementation of exclusions**

The Group ESG Office works with Group Risk to implement the exclusions into the investment systems through the Group Risk Global Restrictions (GRGR) List. This list is updated regularly and integrated into Allianz's investment data systems. Internal and external asset managers are informed about changes to the GRGR list immediately. In underwriting, the exclusions are implemented through the AS RRIM processes.

The composition of the exclusion lists is reviewed regularly and updated when necessary.

### **3.9.5 Monitoring of exclusions**

The Group ESG Office and Allianz Investment Management SE have set up an automated system to monitor asset managers' compliance with the exclusion policies. In case of non-compliance, the responsible investment function works with the asset manager to remediate the issue immediately.

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<sup>30</sup> Further adjustments to these thresholds and scope of application will be announced in advance.

<sup>31</sup> Coal without carbon capture and storage.



### 3.10 ASSET MANAGER SELECTION, MANDATING, MONITORING AND REVIEW

The Allianz ESG Functional Rule for Investments (EFRI) outlines the key requirements for ESG integration by internal<sup>32</sup> and external<sup>33</sup> asset managers. Furthermore, Functional Rule defines the selection process and criteria for external asset managers and requires both internal and external asset managers who are investing proprietary assets on behalf of Allianz to integrate ESG considerations as an integral part of their investment process.

The Functional Rule covers all new and updated asset manager mandates.

#### 3.10.1 Requirements for Asset Managers

The specific requirements for asset managers listed in the EFRI include:

- Disclosure of asset manager's ESG policy and application thereof to Allianz proprietary assets
- Implementation of the ESG exclusion policies (controversial weapons and coal)
- Compliance to the corresponding Sensitive Business Guideline (for non-listed assets) and/or consideration of the ESG Integration Framework (for listed assets) for any transaction in a sensitive business area
- Immediately disclose and report any ESG-related issues, conflicts, concerns and breaches to AIM
- Provide ESG-related information for external reporting to AIM upon request
- Report on ESG-related topics to AIM within the annual asset manager review

Where no policy is in place, a commitment must be made to develop one over a pre-defined period of time. AIM monitors compliance with these requirements and reports on these in the Group Sustainability Report.

#### Minimum Standards for ESG Policies

An asset manager's ESG Policy is defined as a written document which shall fulfil the following criteria:

- State the ESG-specific principles according to which the asset manager acts and decides
- Describe the applied approaches of ESG integration (such as investment research, exclusions, best-in-class approaches, monitoring, reporting, control mechanisms to ensure the proper implementation of the integration process etc.),
- Outline the available and employed resources,
- list annual ESG specific-targets, and
- is an official company document approved by responsible board or committee.

An asset manager who is a signatory of the UN-backed Principles for Responsible Investment (PRI) will also be considered to have an adequate ESG integration approach.

#### 3.10.2 Annual Review

Discussion of ESG-related topics is an inherent part of regular annual asset manager reviews. Since 2014, ESG-specific annual reviews with asset managers are conducted in addition to general review meetings. The purpose of these reviews is to assess the asset managers' ESG policies, their application and related processes.

<sup>32</sup> Internal asset managers: Allianz Global Investors, Allianz Capital Partners, Allianz Real Estate, PIMCO and assets managed internally by local entities, AIM SE or Allianz SE

<sup>33</sup> External asset managers: Any third-party investing proprietary assets on behalf of AIM



### 3.11 ESG BUSINESS OPPORTUNITIES

In addition to its ESG risk management approach, Allianz also sees certain ESG-related trends as business opportunities. Allianz also capitalizes on specific growth opportunities linked to such ESG developments. Examples include the transition to a low-carbon economy and the need for greater environmental protection and social inclusion.

Year-on-year information on Allianz's ESG business opportunities is published in the Group Sustainability Report.

#### 3.11.1 ESG insurance opportunities

##### 3.11.1.1 Sustainable insurance solutions

Across Allianz Group, local OEs and global lines offer a variety of products and services<sup>34</sup> with environmental or social benefits, or that address a societal issue.

In order to be classified as a sustainable solution, a product or service must fulfil at least two of the six criteria in the sustainable solutions definition (see **Table 3**, below).

**Table 3. Sustainable Solutions Definition**

Environmental criteria <sup>35</sup>	Social criteria
Support the development of a technology/market focusing on the environment and/or climate change (e.g. renewable energy, environmental goods and services, green infrastructure). Reduce the client's exposure to financial (risk reduction) and/or regulatory risks (e.g. CO <sub>2</sub> regulations, environmental pollution liability).	Enable and/or support those that tackle social challenges and issues faced by socially disadvantaged groups <sup>36</sup> . These include products that 'help the helper' (for e.g. travel insurance for charity workers, insurance solutions tailored for social value-adding products/services that would otherwise not be insured).
Conservation or mitigation of at least one of the following: natural resources, biodiversity, environment or climate change (e.g. encouraging or rewarding environmentally responsible behavior that improves energy efficiency or avoids pollution).	Fosters socially responsible behavior by offering specifically tailored solutions for socially disadvantaged groups (for e.g. reducing the risk of underserved groups by providing otherwise unavailable access to financial services). A discount on such policies would partly apply.
Protection from environmental risks and adaptation to climate change impacts through managing clients' risks (e.g. weather risks) and/or fostering risk awareness and/or providing incentives for reducing risk exposure.	Raises awareness through various activities (e.g. cause-related marketing or support schemes) to prevent and mitigate social challenges in relation to socially disadvantaged groups.

For products categorized as sustainable under the definition, Allianz tracks and publishes key metrics such as revenue

##### 3.11.1.2 Green energy and renewables insurance

The global energy system is changing rapidly, with renewables starting to gain meaningful market share across most markets. Generating electricity from renewable sources is becoming progressively more effective and acquiring growing significance. Modern critical infrastructures are becoming increasingly smarter and interconnected which expose them to cascading and ripple effects and high impact threats, such as cyber and terrorist attacks or extreme weather events. Building and operating plants that generate green energy is a process that poses a number of different risks for investors, construction companies, operators and manufacturers.

Allianz is the major insurer of green energy projects globally throughout all stages of the project lifecycle, from planning to decommissioning with a variety of insurance, such as erection and construction all risk insurance, liability insurance, marine insurance and technical advisory solutions.

Allianz Climate Solutions, Allianz Reinsurance and Allianz Global Corporate and Specialty, alongside local operating entities are continuously developing new insurance opportunities associated with the transition to a low-carbon economy.

In addition to classic insurance products Allianz offers integrated service solutions for risk assessment, quality assurance and certification of photovoltaic plants (in cooperation with Verband der Elektrotechnik, Elektronik und

<sup>34</sup> Sustainable solutions can be insurance, assistance service solutions.

<sup>35</sup> Initial environmental criteria were developed in conjunction with WWF and KPMG in 2011.

<sup>36</sup> Socially disadvantaged groups are defined as populations that are excluded in their local society for reasons that may be tied to age, sex, disability, race, ethnicity, origin, religion or economic or other status.



Informationstechnik e.V. (VDE) and Fraunhofer Institute for Solar Energy Systems (ISE) including long-term performance guarantees, in cooperation with Allianz Risk Transfer.

### **3.11.2 ESG investment opportunities**

#### **3.11.2.1 ESG opportunities in proprietary investments**

When looking at investment opportunities linked to ESG topics, Allianz's key focus is to enable the transition to a low-carbon economy, promote sustainable development, and to address environmental or climate-related concerns through

- equity and debt investments in renewables,
- investments in green bonds,
- investments in certified sustainable buildings,
- investments in infrastructure in developing economies, and
- green infrastructure.

#### **3.11.2.2 Sustainable asset management solutions**

Complementing the sustainable insurance solutions, through the asset management entities Allianz Global Investors and PIMCO, Allianz offers a selection of sustainable and responsible investment opportunities to customers. These range from sustainability-themed retail funds to dedicated ESG solutions tailored to the specific needs and requirements of institutional clients.



# 4 ESG INTEGRATION IN ALLIANZ GROUP OPERATING ENTITIES

This section gives an overview of the ESG integration approaches and processes in selected operating entities of Allianz Group.

## 4.1 ALLIANZ GLOBAL CORPORATE & SPECIALTY SE

### AGCS ESG Business Services

AGCS ESG Business Services acts as a center of competence for ESG and central contact point for Allianz Group's Property & Casualty (P&C) underwriters globally. As part of the ESG Referral Process (section 3.3) the AGCS ESG Business Services team ensures all potentially ESG critical business transactions are screened and assessed in-detail to allow informed decision making. If ESG risks cannot be mitigated or reputational impacts are likely to affect Allianz Group, a transaction is escalated for a Group-level ESG assessment to determine, if and if so, under which conditions, the local underwriting can proceed. An example for a condition is the ESG Risk dialogue with clients. ESG Risk dialogues are an important tool to engage with clients and directly address issues of concern. This engagement is beneficial for both sides. It improves the understanding of the risk in focus and increases expertise on both sides to manage and mitigate the risks accordingly.

A systematic approach concerning communication to and trainings for underwriters globally ensures awareness and understanding of critical topics and sectors as well as applicable processes to follow. A related ESG training module has been already available via the "Underwriting Academy" for AGCS Underwriters, a similar module for all other Underwriters in the Allianz Group has been finalized in 2018..

AGCS started the integration of ESG screenings into the underwriting front office tool that is supposed to be applied gradually by all lines of business at AGCS in the coming years. The roll-out of the front office tool to Underwriters is planned for the end of 2018. The tool will make sure that all underwriting business transactions are screened for ESG issues automatically. The current applicable screening methodology will be translated into a digital algorithm screening for material risks which will be only further reviewed by an analyst, if necessary.. The coverage of ESG and reputational screening will be gradually extended to 100% of the applicable and relevant portfolio.

Another focus is currently on the relevance of ESG on the overall underwriting quality and profitability, as underwriting and ESG increasingly understand where the sustainability perspective has potential implications for the core underwriting business.

In addition, the unit is responsible to develop guidance on new and emerging ESG issues that might become relevant for Allianz clients and business. As an example, AGCS ESG Business Services publish external ESG Risk Briefings on current and emerging ESG topics on a quarterly basis. ESG Risk Briefings can be found online at <https://www.agcs-esg-riskbriefings.com>. ESG consulting services and the development of new insurance coverages for ESG-related risks is complementing the work of the unit.



## 4.2 ALLIANZ INVESTMENT MANAGEMENT SE

Investment management is an integral part of the insurance business, as the premiums of Allianz clients are invested and converted into investment returns. Allianz Investment Management SE (AIM) pools and manages all proprietary assets on behalf of insurance operating entities across a range of asset classes, sectors and countries to meet long-term liabilities. As a result, Allianz is both directly and indirectly connected with other businesses, sectors and economies.

## 4.3 ALLIANZ REAL ESTATE

Allianz Real Estate (ARE) is the strategic center of real estate expertise within the Allianz Group and a leading global real estate investment and asset manager. ARE develops and executes tailored portfolios and investment strategies worldwide on behalf of the Allianz companies, including direct and indirect property investments as well as commercial real estate financing.

It is ARE's view that environmental, social and governance (ESG) issues, such as climate change, increasingly impact the fundamentals of the real estate markets worldwide. Therefore, ARE believes that ESG needs to be integrated within its business, for example the investment processes, in order to enhance financial returns of real estate investments and to mitigate ESG-related risks for Allianz investors.

### 4.3.1 Allianz Real Estate ESG Group Policy

The ARE ESG Group Policy that was developed in collaboration with Allianz Climate Solutions is the real estate-specific implementation of the Allianz Group ESG policies such as the ESG Sensitive Business Areas and Sensitive Countries in AS RRIM and the EFRI (see section 3.1) and the policy guiding ESG and sustainability integration at ARE. Its implementation is based on three areas of activity: **assess, engage and improve.**

**Assess** activities largely aim at the acquisition phase with each transaction being screened for potential ESG issues. This includes, among others, that each new direct investment undergoes a thorough due diligence process including a technical and environmental due diligence. Moreover, a property-related ESG assessment is conducted making use of "green" or "sustainable" certification (pre-)assessments to explicitly evaluate overall ESG performance and identify ESG issues that currently or may potentially materialize over the investment horizon. As a general rule, new office and retail investments (direct equity) must be "green" or "sustainable" certified. The certifications in scope are either globally recognized (e.g. LEED, BREEAM) and/or locally dominant (e.g. HQE in France, DGNB in Germany). With regards to new indirect investments, each fund managers must principally have an ESG policy. In addition, all involved parties (including buyer, seller, co-investors, etc.) undergo a screening for potential ESG and reputational risks (see section 3.3) including checks that none of the parties involved in a given transaction is listed in Allianz Exclusion Policies (see section 3.9).

In contrast to the assess activities, the *engage* and *improve* activities are largely focused on the management phase: **Engage** covers a collaborative engagement strategy towards ARE's key business partners – seeking to influence them to improve ESG activities. This includes, among others, that asset managers are supposed to make ESG considerations part of the regular performance review meetings with external joint ventures partners and with external property managers with the aim to improve ESG standards, ambition, and/or performance.

**Improve** activities have the objective to measure and subsequently improve the ESG performance of ARE's real estate portfolio, for example, by pilot projects ("lighthouse projects") and group-wide initiatives. Examples for potential "lighthouse projects" include the procurement of certified green energy, consideration of on-site energy production facilities or specific energy efficiency measures (e.g. installation of LED lighting).

In line with the Group's commitments to the **Science Based Target Initiative (SBTi)**, ARE initiated a SBTi working group in 2018 that is part of a Group-wide SBTi taskforce to further intensify ESG activities with regards to decarbonization of ARE's real estate portfolio. As first steps, ARE will work towards an initial estimation of a carbon footprint for the global direct and EU debt portfolios, will derive respective science-based, mid-term emission reduction targets (e.g. 2030), and develop a first set of measures to ensure that ARE meets its targets. In a second stage, ARE will work towards the global implementation of these measures (e.g. investments in energy monitoring systems, energy efficiency projects or renewable energy generation etc.). However, as decarbonization won't be achieved in the next years, this initiative is particularly about ongoing efforts and re-evaluation of ARE's approach.

Based on the results of this SBTi working group, ARE will update its ESG framework accordingly.



## 4.4 ALLIANZ GLOBAL INVESTORS

AllianzGI is one of the investment management industry's responsible investment pioneers, tracing its ESG credentials back nearly two decades. It is the conviction of AllianzGI that ESG factors are important investment performance drivers which can only be realized fully through a truly active approach to asset management. Recognizing the value that ESG factors can add to portfolios and to its clients, AllianzGI is committed to integrating ESG factors into all investment decisions, across all asset classes, on their global investment platform. The cornerstone of AllianzGI's investment approach is that their dedicated ESG research team works hand-in-hand with their mainstream analysts and portfolio managers. The engagement work is grounded in driving performance in the portfolios – not undertaking engagement for engagement's sake - but being integral to the firm's ESG approach. AllianzGI's research platform facilitates and systematically records their international network of investors debating and assessing ESG risks and opportunities on a global universe of corporate issuers, sectors and themes. The platform allows AllianzGI to 'crowdsource' insights from the entire firm, giving them a truly holistic view on each and every issuer.

For additional details about the AllianzGI ESG approach, please go to [www.allianzgi.com/en/our-firm/our-esg-approach](http://www.allianzgi.com/en/our-firm/our-esg-approach).

## 4.5 ALLIANZ CAPITAL PARTNERS

Allianz Capital Partners (ACP) as the alternative asset manager for the Allianz Group turns premiums from insurance customers into investment returns. Investments in infrastructure, renewables assets as well as in private equity funds enhance the overall Allianz investment portfolio in several dimensions. In addition to integrating ESG principles in the investment selection process, ACP also incorporates these into its ownership policies and practices and aims for appropriate disclosure on ESG issues by the entities in which ACP invests.

### 4.5.1 ACP ESG/Reputational Risk Policy

ESG issues are integrated in infrastructure, renewable energy and private equity investments through the ACP ESG/Reputational Risk Policy, which is based on the ESG Sensitive Business Guidelines of the Allianz Standard for Reputational Risk and Issue Management (AS RRIM) and the Allianz ESG Functional Rule for Investments (see more details on these Group processes in section 3).

Each investment is screened for potential ESG risks during due diligence. Should any concerns arise during this screening process, the transaction will be referred to the relevant ESG experts within Allianz Capital Partners (ACP) and/or the Group ESG Office. The outcome of the ESG assessment will lead to

- a transaction proceeding in the regular investment processes of ACP, or
- additional information being needed or certain conditions being attached prior to proceeding, or
- a transaction being declined on ESG grounds.

In addition to the ESG risk screening, ACP also performs checks that none of the parties involved in a given transaction are listed in Allianz Exclusion Policies (see section 3.7).



## 4.6 PIMCO

PIMCO has incorporated environmental, social and governance factors in its investment process for many years and more recently has launched a range of dedicated ESG core bond strategies. As significant lenders of capital, PIMCO believes that bondholders have a critical role to play in putting a price on risk drivers such as climate change to protect the value of clients' investments. PIMCO's fixed income ESG platform includes dedicated specialists that work with the financial, product and client teams to support sustainability-focused solutions that retain PIMCO's time-tested investment process. This means managing portfolios to reflect PIMCO's secular and cyclical views while seeking to ensure that sector and security selection emphasizes best-in-class issuers and those committed to improving their ESG practices. When assessing any corporate issuer, PIMCO's team of over 60 credit analysts consider factors that can affect both its current and future credit quality, and ESG fits naturally within this process. Similarly, including ESG factors has enhanced PIMCO's Sovereign team's country risk assessments, particularly in countries at the lower end of the rating scale where the quality of institutions (governance) and social and environmental factors can correlate to social cohesion, competitiveness and growth potential.

PIMCO has assigned a proprietary ESG score to over 2,300 corporate parent issuers in research notes alongside PIMCO credit ratings, while ESG criteria have been an integral part of PIMCO's sovereign ratings analysis since 2011. Over time these assessments have been relevant in shaping credit portfolios. Engagement is an important part of PIMCO's ESG performance review as, while sustainability reporting and data disclosure are typically focused on historical behavior, detailed discussions with senior management or governments help the investment team to evaluate how the issuer plans to address ESG risk factors going forward. Engagement is also at the heart of influencing positive impact. PIMCO is committed to encouraging issuers to align their activities to achieving the UN Sustainable Development Goals (SDGs).

For additional details about PIMCO's approach to ESG investing, please see the 2017 ESG report: [www.pimco.com/our-firm/esg-framework](http://www.pimco.com/our-firm/esg-framework).



# 5 EXTERNAL ASSOCIATIONS

Allianz also intends to promote ESG integration in the broader investment and insurance industries. Therefore, Allianz Group is a signatory member of both the UNEP-FI Principles for Sustainable Insurance (PSI) and the United Nations-backed<sup>37</sup> Principles for Responsible Investment (PRI). The associations promote the increased integration of ESG in the core business of Allianz. The subsidiaries AllianzGI and PIMCO are also members<sup>38</sup> of the PRI.

Allianz has publically committed to these principles and has committed to incorporating them into its business.

## 5.1 PRINCIPLES FOR SUSTAINABLE INSURANCE

Allianz has been a signatory of the UNEP-FI Principles for Sustainable Insurance (PSI) since 2014.

### 5.1.1 Principles

- We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.
- We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.
- We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.
- We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

### 5.1.2 Public Disclosure of Progress

Every year, Allianz Group publishes a disclosure of progress describing how it has committed to the UNEP-FI PSI principles and how Allianz has integrated the principles in its core business.

### 5.1.3 Development of a global industry standard for ESG in insurance

Allianz is participating in a PSI-led initiative to develop global standards for ESG in insurance along other major insurers and reinsurers, brokers, academics and industry experts.

<sup>37</sup> PRI is an investor initiative in partnership with United Nations Environment Programme Finance Initiative and the United Nations Global Compact.

<sup>38</sup> Allianz SE is an asset owner member, while AllianzGI and PIMCO are investment manager members.



## 5.2 PRINCIPLES FOR RESPONSIBLE INVESTMENT

Allianz has been a signatory of the United Nations-backed Principles for Responsible Investment since August 2011. As a signatory Allianz engages to promote the principles within the Group and amongst industry peers. All investment-related ESG integration activities by Allianz Group entities are in line with commitments to the Principles.

In addition to integrating ESG into core investment practices across the company, Allianz Group has participated in or participates in various PRI-led initiatives and working groups such as:

- Asset Owner Advisory Council
- Fixed Income Advisory Committee
- Global Policy Reference Group
- Infrastructure Advisory Committee
- Manager Selection Working Group
- Sovereign Working Group
- Sustainable Development Goals Advisory Committee

### 5.2.1 Principles

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the Principles within the investment industry.
- 5 We will work together to enhance our effectiveness in implementing the Principles.
- 6 We will each report on our activities and progress towards implementing the Principles.

### 5.2.2 Transparency Report

As part of principle 6, Allianz Group publishes the PRI Transparency Report on an annual basis. Allianz SE publishes a report as an asset owner (of Allianz proprietary investments), while AllianzGI and PIMCO (both signatories in their own right) publish a report each as investment managers.

The reports describe in detail how Allianz, AllianzGI and PIMCO are integrating ESG and responsible investment in its processes.

## 5.3 OTHER MEMBERSHIPS AND COMMITMENTS

For an overview of Allianz Group's other memberships and commitments, please see the Appendix of the Group Sustainability Report.



# APPENDIX

## A1 ABBREVIATIONS

AGCS	Allianz Global Corporate and Specialty SE
AIM	Allianz Investment Management SE
AllianzGI	Allianz Global Investors GmbH
AS RRIM	Allianz Standard for Reputational Risk and Issue Management
AS TRA	Allianz Standard for Top Risk Assessment
ASU	Allianz Standard for Underwriting
EBRD	European Bank for Reconstruction & Development
EFRI	Allianz ESG Functional Rule for Investments
ESG	environmental, social and (corporate) governance
ESGB	Group ESG Board (Allianz SE)
ESGBC	ESG Board Charter
ESGO	Group ESG Office (Allianz SE)
EU	European Union
FAO	United Nations Food and Agriculture Organization
FPIC	free, prior and informed consent
GCORE	Group Communications and Corporate Responsibility (Allianz SE)
GRI	Global Reporting Initiative
IAEA	International Atomic Energy Agency
IFC	International Finance Corporation
ILGA	International Lesbian, Gay, Bisexual, Trans and Intersex Association
km	kilometer (1 km = 0.62 miles)
L&H	Life and health



MSC	Marine Stewardship Council
OE	operating entity
P&C	Property and casualty
PIMCO	Pacific Investment Management Company
PRI	Principles for Responsible Investment
PSI	Principles for Sustainable Insurance
RSPO	Roundtable on Sustainable Palm Oil
SBG	Sensitive Business Guidelines
SCL	Sensitive Countries List
UK	United Kingdom
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNEP-FI	United Nations Environment Programme Finance Initiative
UNICEF	United Nations Children's Fund
US	United States
US DoL	United States Department of Labor



## A2 DOCUMENT CHANGE LOG

Version	Changes	Prepared	Reviewed and Approved
1.0	First publication of the Allianz Statement on ESG Integration	2016-06-20 Group ESG Office Nico Ahn Dr. Urs Bitterling Katharina Latif Luise Seyfferth James Wallace	2016-06-29 Group ESG Board Jay Ralph Dr. Axel Theis Dr. Maximilian Zimmerer
2.0	Update of the Allianz Statement on ESG Integration to include additional information regarding the ESG Scoring Approach	2017-09-14 Group ESG Office  Nico Ahn Luise Seyfferth	2017-09-29 Group ESG Board  Jacqueline Hunt Dr. Günther Thallinger Dr. Axel Theis
3.0	Update regarding the new approach to Coal-based Business Models and the ESG Engagement Approach	2018-09-26 Group ESG Office  Nico Ahn	2018-10-05 Group ESG Board  Jacqueline Hunt Dr. Günther Thallinger Giulio Terzariol

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Information in Table 2

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