

# Allianz Investment Management: Our Engagement Approach

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<b>Responsible</b>	Allianz Investment Management SE
<b>Area of Application</b>	Allianz proprietary investment portfolio

## **A. Why we conduct engagement: Increasing long-term financial resilience**

Engagement is one of the cornerstones of our active ownership approach at Allianz Investment Management (AIM). It is an important way to directly represent the long-term business interests of Allianz to both portfolio companies and asset managers on behalf of Allianz Group's clients and beneficiaries. We engage both bilaterally and multilaterally, where appropriate and in line with our asset owner interests. It is embedded in our Group Sustainability Strategy to be active owners and incorporate environmental, social, and governance issues into our ownership policies and practices.

For AIM, engagement on sustainability topics with our portfolio companies and asset managers is not only an expectation of our customers and stakeholders, it also makes clear business sense. When our portfolio companies emphasize creating value for their stakeholders while considering their long-term business strategies, we believe that they are better positioned to generate sustained business and investment results. This is particularly true for topics often considered systemic or systematic risks, like biodiversity loss or climate change, which we believe is not only a financial risk to our portfolios, but also a risk to the Allianz Group insurance business. This is reflected in Allianz SE's commitment to the United Nations-convened Net Zero Asset Owner Alliance (NZAOA), which has the goal to contribute to mitigating climate change and limiting global warming to 1.5 degrees Celsius.

Engagement reinforces sustainability performance at portfolio companies by supporting their employees and programs that are driving best practices. As a general principle we strive for additionality: supporting positive outcomes that would be less likely to occur without our involvement. This is particularly important for us as an asset owner because we want to complement, not duplicate, the efforts of the asset managers that we work with. We could not have this influence if we withdrew our investments whenever issues arose at the companies that we invest in, leaving sustainability risks or concerns unaddressed. Engagement is a way for us, as investors, to highlight topics that we see as material to the company or sector and to also support our investee companies improve sustainability topics that they also see important for their business success. However, if a company or asset manager does not demonstrate that they are taking our concerns seriously, and the situation or concern does not improve, we may exclude them from our investable universe or stop doing further business with them.

## B. Conducting engagement at Allianz Investment Management

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

### How we define engagements:

A contact to an investee company or an asset manager that:

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

The program is centred around three pillars of activities:

- I. Bilateral corporate engagement,
- II. Multilateral corporate engagement and
- III. Asset manager engagement, which includes both private and public market asset managers.

This three-pillar approach leverages the strengths of our global operations and investments. For example, acute, idiosyncratic risks at portfolio companies are often best addressed through our bilateral corporate engagement. Broad, systemic risks, such as climate change, are often better addressed by our multilateral engagements. Finally, our asset manager engagements help ensure that those who invest on our behalf conduct their stewardship and engagement programs in line with the long-term financial interests of Allianz SE and the expectations of AIM.

Recognizing the importance of engagements for our sustainability goals, we have set specific targets for year-end 2029 for climate, multilateral, and asset manager engagements:

- Bilaterally engage 15 among the top 100 non-engaged portfolio emitters (counted cumulatively)
- Lead or support 30 multilateral engagements, thereof 15 with climate focus (counted cumulatively)
- Engage with all external asset managers "below expectations" based on the systematic assessment described in Pillar III.

### PILLAR I: BILATERAL CORPORATE ENGAGEMENT

In scope of our bilateral corporate engagement activities are all companies in which AIM is invested via public equity or public fixed-income holdings. AIM has a systematic process for identifying and addressing acute sustainability concerns within our investment portfolio. This process is driven by the AIM Sustainable Investing team and has three steps:

1. Screening, review & selection, and defining objectives
2. Engagement
3. Engagement reporting.

## **Step 1) Screening, review & selection, and defining objectives**

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

### **A. Systematic screening**

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

- Fall in the bottom 10% of our data provider's "weighted average key issue scores" for their respective regions. This score assesses individual issuers on multiple dimensions and is intended to help us address issues present within the lowest scoring companies in our portfolio.
- Have one or more Principle Adverse Impact (PAI) concerns or other severe controversies. The indicators that we screen for include flags or low scores on the following topics: human rights, labour rights, governance, UN Global Compact violations, biodiversity, land use, toxic emissions and waste, or severe controversies.
- Contribute to our highest owned emissions in our portfolio where we believe that we can support real-world decarbonisation the most. This is further detailed in our Transition Plan.<sup>1</sup>

### **B. Thematic screening**

Our thematic screening process identifies companies exposed to specific material risks which do not necessarily correlate with criterion from our systematic screening process. This is a way to address topics in support of reputable and global initiatives that are aligned with Allianz SE's long-term interests. Current focus topics include best practices in the mining sector, biodiversity risks, methane emission abatement, climate transition plan disclosure, and climate lobbying alignment with stated commitments.

### **C. Review & selection of engagement candidates**

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

### **D. Defining objectives**

Once our engagement list is finalised, we compare companies' performance with sector best practices and set engagement objectives. For climate engagements we consider industry best practice approaches and frameworks, including those outlined in publications from NZAOA, IIGCC and other leading initiatives that align with our long-term interests.<sup>2</sup>

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<sup>1</sup> [Allianz Annual Report](#) > chapter E1 Climate Change

<sup>2</sup> [AOA Target Setting Protocol Third edition](#)

## Step 2) Engagement

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

Should further dialogue be necessary, we typically request a meeting with senior leadership such as board directors or department heads responsible for the respective topics. All discussions are treated as confidential (unless agreed otherwise), and we never ask for privileged, non-public material information.

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

- Monitor the company for their next reporting.

This may occur when we ask the company to publish emission reduction targets, to make commitments to best-practice reporting standards, to publish health and safety performance or acquire best-practice certifications, or publish lobbying transparency and alignment reviews.

or

- Close the engagement.

This may occur if the company addresses our expectations, meets our objectives, or the sustainability concern improves to an extent that we are satisfied.

or

- Restrict investments in the company.

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

## Step 3) Engagement reporting

AIM's engagement activities are reported annually in the Sustainability Statement of the Allianz Group Annual Report<sup>3</sup>. The report is audited with reasonable assurance. We publish the number and topics of active corporate and asset manager engagements as well as progress on our engagement targets. Our engagement figures are aggregated and anonymous to maintain the confidentiality commitments of our program.

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<sup>3</sup> Allianz Annual Report > chapter Sustainability Integration

## PILLAR II: MULTILATERAL CORPORATE ENGAGEMENT

AIM's participation in multilateral corporate engagements, through initiatives like Climate Action 100+<sup>4</sup>, the Net-Zero Engagement Initiative<sup>5</sup>, Nature Action 100<sup>6</sup>, Farm Animal Investor Risk & Return (FAIRR)<sup>7</sup>, SPRING<sup>8</sup>, and the Investor Initiative on Hazardous Chemicals<sup>9</sup>, leverages a unique and useful tool for keeping investor engagement effective. It allows investors and companies to pool resources around a common topic or concern, such as climate change, and develop a deeper and more meaningful exchange than what would occur if all investors approached the company individually. The benefits and limits of investor engagement, including how multilateral initiatives can be an effective way to represent our long-term interests, are further detailed in the NZAOA discussion paper titled, *"The Future of Investor Engagement: A call for systematic stewardship to address systemic climate risk"*.<sup>10</sup>

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

## PILLAR III: ASSET MANAGER ENGAGEMENT

Asset managers stewarding Allianz proprietary assets, operate in both private and public markets. As critical stakeholders to our investment activities, asset managers often have long-standing relationships with the companies that they invest in, deep analytical competencies to assess companies, and dedicated stewardship teams. Therefore, the way in which they execute and represent investment activities on our behalf is critical to meeting our expectations that their activities align with the long-term financial interests of Allianz regarding sustainability and climate topics.

AIM has been an active contributor to authoring and rolling out the NZAOA guidelines on asset manager best practices. Implementing these best practices guidelines, where applicable, in our assessment and selection of our asset managers is an effective way to ensure that they are improving their alignment with our long-term interests on climate change when investing our proprietary assets.

### **Asset manager selection, appointment and monitoring**

Each asset class has its unique needs and opportunities for where asset manager engagement can add value. Given the material and potentially sizable financial impacts that sustainability risks and opportunities, including climate change, can have on our investment portfolios, we require efforts from respective investment teams. These investment teams are responsible to evaluate and engage their asset managers in line with our long-term interests. In turn, those investment teams make use of the approach and best practices designed or implemented by the AIM Sustainable Investing team. In addition to our regular due diligence activities, AIM actively assesses the asset managers on core sustainability themes to ensure there is consistent messaging across our asset classes.

For asset managers that do not meet our expectations or sustainability needs, AIM requests time-bound commitments to implement improvements. In circumstances where the asset manager has

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<sup>4</sup> Climate Action 100+

<sup>5</sup> Net Zero Engagement Initiative

<sup>6</sup> Nature Action 100

<sup>7</sup> FAIRR Initiative

<sup>8</sup> PRI | Spring

<sup>9</sup> Investor Initiative on Hazardous Chemicals (IIHC)

<sup>10</sup> The Future of Investor Engagement: A call for systematic stewardship to address systemic climate risk

multiple areas of concern, the investment teams may escalate to AIM's Sustainable Investing team for further review. Jointly we decide if further engagement is likely to be effective, or if the asset manager should be deemed ineligible for further business.

In private markets, we systematically assess and consider the following topics in our evaluation and subsequent engagement, if necessary, of asset managers:

1. Sustainability governance
2. Sustainability commitments from leadership
3. Human capital management (of asset manager and at investees)
4. Systematic integration of sustainability risks and opportunities
5. Systematic approach to tracking and monitoring portfolio risks
6. Engagement approach
7. Linking climate risk to financial risks
8. Sustainability and climate regulation preparedness
9. Sustainably reporting
10. High GHG emissions engagement approach
11. Climate disclosure and public messaging
12. Climate training for own workforce
13. Net zero targets and portfolio planning

In public markets we conduct semi-annual sustainability deep dives with our in-house asset managers. We focus on how well they are addressing sustainability risks and opportunities, decarbonizing our portfolios, and engaging with investee companies. For all our public assets asset managers we evaluate them on their annual sustainability performance, and their proxy voting, policy engagement, and systematic engagement approaches.

### **Regular sustainability KPI reviews**

Sustainability performance is one of the core sets of KPIs that we evaluate our public assets asset managers on regularly. These KPIs are both quantitative and qualitative including: reporting and progress on carbon metrics relative to Allianz targets, strategy steering, adherence to Allianz's exclusions and restrictions, engagement with investee companies, sustainability reporting and regulatory compliance. By building such KPIs into our review processes, we are not only regularly exchanging with our asset managers on these topics, but integrating and accounting for sustainability performance as an important factor in our review and assessment of their overall performance against our expectations.

### **Proxy voting**

For public equity asset managers, voting on shareholder resolutions, routine votes, and directors is one of the clearest ways that they can represent our interests. Proxy voting on behalf of our proprietary assets is delegated to our asset manager(s). Therefore, we place high scrutiny on asset managers proxy voting approaches being aligned with our long-term interests. Our asset managers' proxy voting approaches are expected to be congruent with the asset manager's other stewardship activities, like engagement and public messaging. We use the NZAOA paper, "*Elevating Climate Diligence on Proxy Voting Approaches*"<sup>11</sup> across our public equity asset manager selection, appointment, and monitoring activities.

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<sup>11</sup> NZAOA [Elevating Climate Diligence on Proxy Voting Approaches](#)

## **Policy engagement**

Asset managers' own public discourse, and their stewardship of corporate policy engagement is material to our portfolios and representing our long-term interests. Companies that have public commitments for performance on sustainability topics, particularly climate, inform our investment view. Therefore, we expect that companies and asset managers that have public commitments ensure that their policy engagement activities are congruent with those commitments. We ask that all our asset managers have a stewardship approach to ensure companies lobbying activities are aligned with their stated commitments. We use the NZAOA paper, "*Aligning Climate Policy Engagement with Net-Zero Commitments*"<sup>12</sup> for the basis of our assessments.

## **Systematic engagement**

For public equity asset managers, engagement is one of the most effectively way to represent our material investment concerns directly to the companies in our portfolio. However, corporate engagement has limits to what it can be expected to achieve. It does not solve societal level problems that are in the realm of other stakeholders to address. This is discussed in the NZAOA paper, "*The Future of Investor Engagement*". Best practices for asset managers to have relevant engagement programs that represent our long-term interests despite these limitations are detailed in the NZAOA paper, "*Elevating Asset Manager Net-Zero Engagement Strategies*"<sup>13</sup>. We evaluate our asset managers against these best practices and particularly want to see asset managers publicly sharing the sectoral views that they develop via their bilateral conversations with companies in our portfolio.

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<sup>12</sup> [Aligning-Climate-Policy-Engagement-with-Net-Zero-Commitments.pdf](#)