

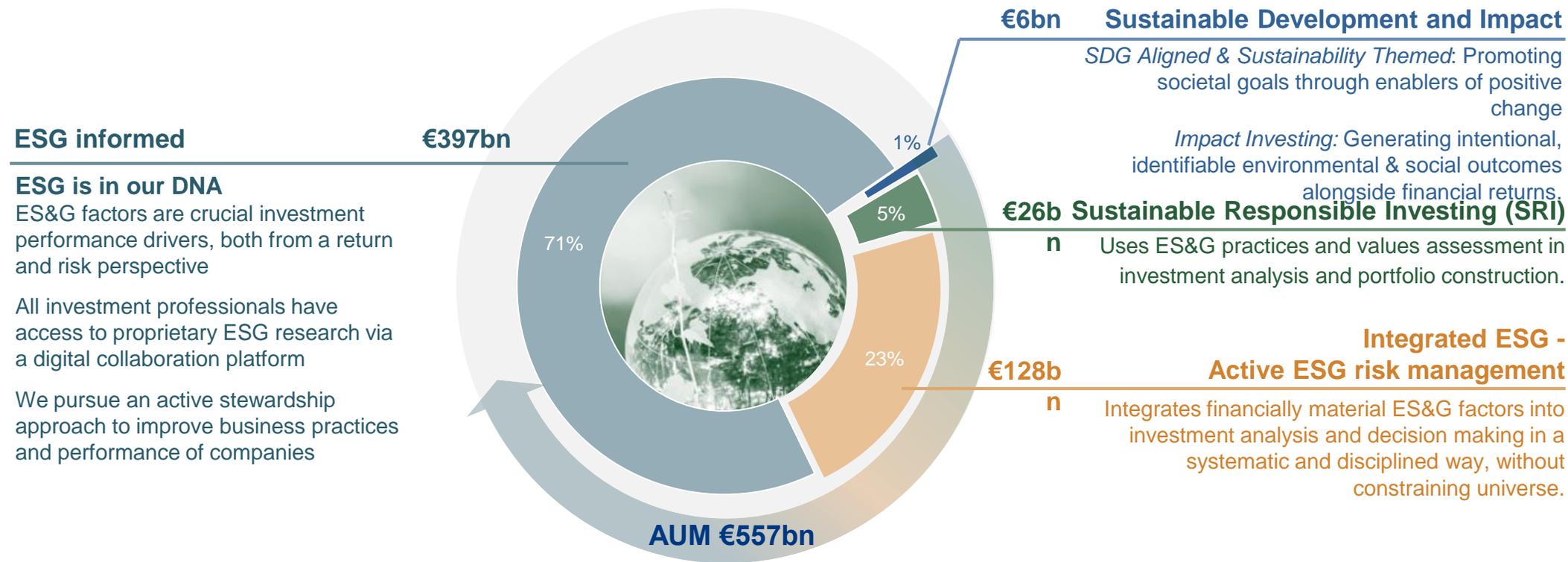
# Active is: Investing sustainably and responsibly

Gaia Mazzucchelli, ESG Analyst  
February 2020



# Active is: Unlocking the potential of ESG

**We are committed to integrating ES&G factors into all investment decisions and across all asset classes**

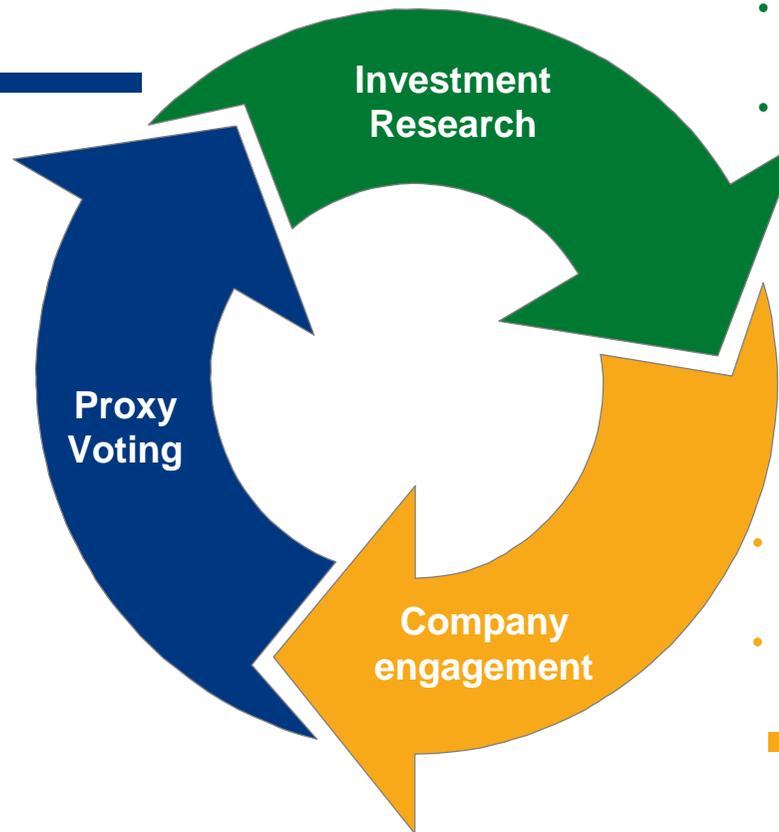


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**An ESG pioneer since 2000**
**PRI top score A+ on ESG strategy and governance**
**Allianz SE sustainability leader and within DJSI**

Data as at 30 September 2019. Source: Allianz Global Investors. Any differences in totals are due to rounding. Impact comprises different strategies targeting climate transition, environmental projects and renewable energy. Environmental, social, governance (ESG); Sustainable & responsible investing (SRI); Dow Jones Sustainability Index (DJSI); Principles for responsible investing (PRI). Sustainability leadership and inclusion in the DJSI are based on the research of and an evaluation of questionnaires submitted to RobecoSAM. The PRI assessment report is based on information reported directly by signatories. Moreover, the underlying information has not been audited by the PRI or any other party acting on its behalf.

# ESG Research Capabilities at AllianzGI

- Core element of fiduciary responsibilities - 100% voting coverage
- Corporate Governance Guidelines and Policy and designed to protect clients' interests and to hold boards and management accountable
- Active approach to improve governance standards with strategic involvement from portfolio managers and sector analysts in proxy voting decisions



- ESG tail risks identified through a proprietary ESG risk rating process
- Portfolio managers and fundamental analysts engaged in ESG reviews
- No restrictions on investments - decisions based on risk/ reward analysis

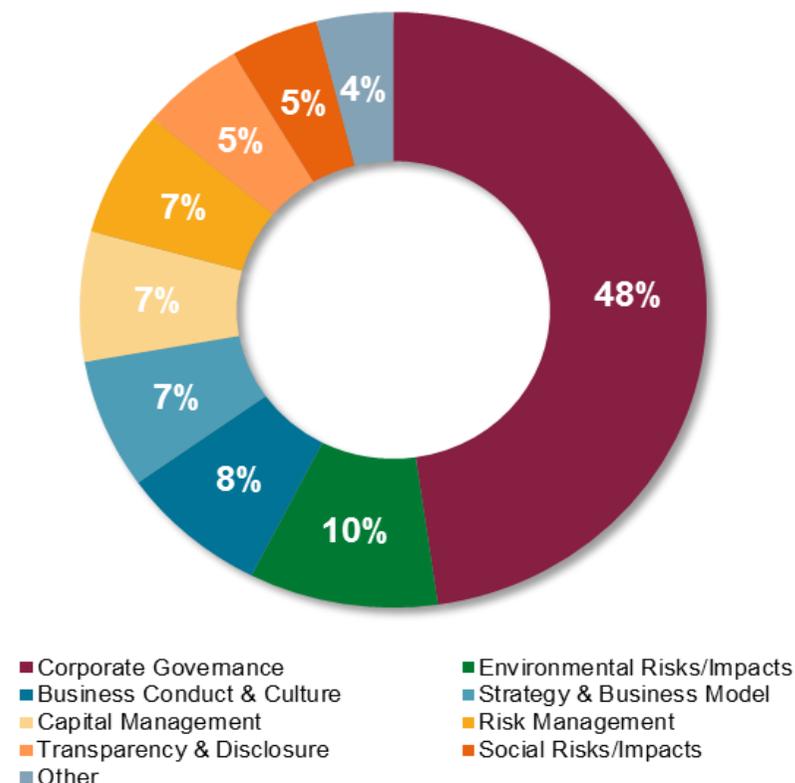
- Use AllianzGI's influence to improve ESG risks and returns of businesses
- Engage companies to generate alpha while achieving societal benefits

**We are active stewards of the assets we own on behalf of the clients we serve**

# AllianzGI Engagement Activities in 2018

- Signatory to national Stewardship Codes across all key markets
- 343 recorded engagements
  - ✓ 247 companies engaged covering 482 topics
  - ✓ 39% of issuer engagements led by fundamental analysts/ PMs
  - ✓ 18% of engagements included non-ESG issues
- Initiated and participated in collective engagements via UK Investor Forum and Climate Action 100+
- Actively engaged in public policy matters on major issues impacting our investment portfolios

**Engagement activity per topic**



**Engagement success is part of delivering investment performance**

# Appendix



# AllianzGI Engagement Approach: financials

## POTENTIAL CULTURAL ISSUES

**News about cultural issues** in the investment division of a financial co.

This company is **not in the portfolio**, but it is a good potential candidate.

The **PM flag this on chatter**, our internal platform, and asks the analyst to find out the gravity of the issue

## ENGAGEMENT

**Engaged with multiple individuals** on Human Capital questions at the division and group level

- Investor Relations,
- General Counsel,
- Head of HR,
- Head of Diversity,
- Chairman of the board

We asked to **receive additional data** on Human Capital practices.

We asked to **read the latest employee surveys** per department and at the group level

## DEEP-LEVEL ANALYSIS

**Analysed Human Capital metrics :**

- Turnover, tenure,
- Engagement survey results,
- Glassdoor feedback,
- Customer complaints,
- Whistle-Blowing structure,
- Content & frequency of reporting to the board

Analysed Human Capital related **controversies** and **restructuring** activities

Identified the risk **was not material** for the case but worth monitoring. Provided feedback to the investment team and company

**We formed an opinion on the severity of the case and decided to invest in the company**

# ESG Sector Framework to integrate ESG risks

- A common language developed across AllianzGI for engagement activity in each corporate sector
- Engagement topics in the framework allow for a consistent approach to assessing ESG risks

## Sector framework for Banks

Fundamental Factors	ESG Driver	Metrics to watch	Key ESG Questions for companies
Salaries costs	<b>Human Capital challenges</b>	<ul style="list-style-type: none"> <li>- Composition of the workforce: % temporary staff, turnover, absenteeism, mentorship, diversity;</li> <li>- Employee engagement surveys: results and action items;</li> <li>- Succession planning;</li> <li>- Glassdoor to see the most recurrent cultural issues.</li> </ul>	<ul style="list-style-type: none"> <li>- Talent retention: How do you ensure succession planning at the top and throughout the organization? What is your strategy to attract and retain talents? What are the key features that distinguish you from your peers? Have you experienced high voluntary turnover?</li> <li>- Culture: What are the areas of improvements from the employee survey and how do you plan to address them? What are the key behaviors that are promoted at the firm?</li> </ul>
Litigation & provision costs	<b>Business Ethics: Culture</b>	<ul style="list-style-type: none"> <li>- Policies: frequency of the updates, implementation, oversight;</li> <li>- Whistle-blower: managed internally vs. externally, frequency of use, anonymity, oversight major issues identified;</li> <li>- Controversies on market manipulation or any other types highlighting potentially wrong employee behavior.</li> </ul>	<ul style="list-style-type: none"> <li>- Business ethics: can you share more insights on the way you conduct business? For instance, how do you make sure that your policies are effectively followed by your employees?</li> <li>- Prevention: What types of controls are in place to prevent market manipulation, fraud, mis-selling, and why do you think they're effective?</li> <li>- What resources and channels are available for employees to raise concerns &amp; where do those channels report (to the Board)?</li> </ul>
	<b>Business Ethics: Regulatory Visibility</b>	<ul style="list-style-type: none"> <li>- Controversies by type &amp; amount of fines paid;</li> <li>- Amount of fines provisioned: pending litigation;</li> <li>- Actions taken after major fines;</li> <li>- Systemic risks: results of stress tests, Basel III Liquidity Coverage Ratio, fully loaded CT1 ratio, net exposure to written credit derivatives, Level 3 assets.</li> </ul>	<ul style="list-style-type: none"> <li>- How much have you increased your headcount/expenses in regulatory/ compliance in the last 3 years? How big is your compliance department?</li> <li>- How many fines are still pending and how do you plan to settle?</li> <li>- How well is the bank positioned to meet stricter regulatory requirements?</li> </ul>
Technology costs	<b>Cyber Security</b>	<ul style="list-style-type: none"> <li>- Type of data held: personal, financial, others;</li> <li>- Voluntary erasure of data after X time;</li> <li>- Rights to their customers: access, modification, erasure;</li> <li>- Means: contact under demand / available on the site;</li> <li>- Price: customers do/don't need to pay for it;</li> <li>- External transfer: practices to ensure data processors handle data responsibly;</li> <li>- Number of data breaches experienced recently and most vulnerable areas to cyber attacks.</li> </ul>	<ol style="list-style-type: none"> <li>1) Exposure: what type of data do you collect on your customers? What's the biggest risk you have in the cyber space? What area of the GDPR is the most challenging for you and why?</li> <li>2) Limiting data: On the data you held internally on your customers, what rights do you give to individuals regarding the control of their data?</li> <li>3) Transfer: Do you transfer sensitive data to external parties? If so, can you elaborate on the extents of data protection of your privacy programs/policies: do they apply to external parties? How do you ensure the transfer and management of data is handled in a responsible way to avoid data breaches or data losses?</li> </ol>

# Thematic research for financials

## Complaints assessment among US banks



**Gaia Mazzucchelli**

Please see attached a comparison analysis between the 4 largest US banks on complaints and controversies. This was made to see how Wells performs compared to its peers for the Social and Governance Intrinsic Review that you can find the link below. Key takeaways:

**improves complaints management, but account opening/closing complaints and a spike of controversies in 2018 needs to be monitored**

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**US Big Banks C**

Download docx

Topics: BoA, Citi, Wells

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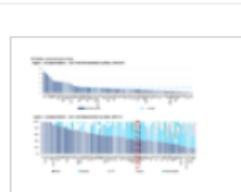
**Gaia Mazzucchelli**

**EU Banks remuneration trends**

**Quantum**

- Average total pay for CEO in 2018 was €3m in 2018 but with high dispersion: Swiss being still the highest (€7m average) and Irish the lowest. This is because the Irish Government capped CEO pay at €500k and banned bonuses. The maximum was € 13m for UBS CEO and the minimum for Liberbank CEO €0.4m

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**EU Banks remuneration trends - charts**

Download docx (528 KB) · More Actions

Comment · Like · Share · October 14, 2019 at 9:07 AM

Wilhelm Heinrichs, Carlos Suarez Duarte, Thierry Cherel, and 7 others like this.

## Regulatory scrutiny on cyber security



**Gaia Mazzucchelli**

With @Marie Rupp expert support – thank you for the substantial feedback on the content and structure of the report- , we have concluded a report to analyse regulatory scrutiny on privacy, technology and data security across markets. This report can be used to understand the trends and potential implications of regulatory actions against our investee companies, to engage with copmanies and as a support to continue the second part of the Cyber Engagement Project. The study analyse a database of 600 controversy cases recently closed or still ongoing, and

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**Cyber Security Thematic Report v4.0**

Download docx (386 KB) · More Actions

Topics: Cyber Engagement Project

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Kay Kang, Carlos Suarez Duarte, Mathilde Moulin, and 9 others like this.

## Remuneration trends among EU banks

## Examples of trades including ESG considerations

Exit	<i>I sold the position after the ESG downgrade, related to low board independence, lack of control measures related to ethical issues, and low remuneration policy</i>
New	<i>Mainly due to better quality, ESG profile and reflecting preferences (...). Asset quality continues to improve with significant excess capital.</i>
Exit	<i>Exit small position in the context of <b>difficult (...) environment and of recurring ESG corruption controversies</b></i>
Exit	<i>Selling the last position because a continuation of weakness. From an ESG point of view, the company has only a 2.8 rating on the Governance side.</i>
Exit	<i>Sold my position last week based on deteriorating global economic outlooks (...). I am also <b>not comfortable with the ESG profile of the company</b> (...).</i>
New	<i>Strong FCF, leading market share positions with sustainable competitive advantages across most product lines, culture of innovation, <b>positive ESG</b> especially in terms of (...).</i>

**Portfolio managers actively consider ESG risks in their final investment decisions**

# Disclaimer

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. Investing in fixed income instruments may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values of these instruments are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions. The volatility of fund unit/share prices may be increased or even strongly increased. Past performance is not a reliable indicator of future results. If the currency in which the past performance is displayed differs from the currency of the country in which the investor resides, then the investor should be aware that due to the exchange rate fluctuations the performance shown may be higher or lower if converted into the investor's local currency. This is for information only and not to be construed as a solicitation or an invitation to make an offer, to conclude a contract, or to buy or sell any securities. The products or securities described herein may not be available for sale in all jurisdictions or to certain categories of investors. This is for distribution only as permitted by applicable law and in particular not available to residents and/or nationals of the USA. The investment opportunities described herein do not take into account the specific investment objectives, financial situation, knowledge, experience or specific needs of any particular person and are not guaranteed. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer companies at the time of publication. The data used is derived from various sources, and assumed to be correct and reliable, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or wilful misconduct. The conditions of any underlying offer or contract that may have been, or will be, made or concluded, shall prevail. This is a marketing communication issued by Allianz Global Investors GmbH, [www.allianzgi.com](http://www.allianzgi.com), an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, 60323 Frankfurt/M, registered with the local court Frankfurt/M under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht ([www.bafin.de](http://www.bafin.de)). Allianz Global Investors GmbH has established branches in the United Kingdom, France, Italy, Spain, Luxembourg and the Netherlands. Contact details and information on the local regulation are available here ([www.allianzgi.com/Info](http://www.allianzgi.com/Info)). This communication has not been prepared in accordance with legal requirements designed to ensure the impartiality of investment (strategy) recommendations and is not subject to any prohibition on dealing before publication of such recommendations. The duplication, publication, or transmission of the contents, irrespective of the form, is not permitted; except for the case of explicit permission by Allianz Global Investors GmbH.

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