

Active is: Sustainability Strategy and Disclosure for Small Caps

June 2018

Isabel Reuss, Senior Portfolio Manager
Allianz Global Investors

For fund distributors and professional
investors only

Value. Shared.



How material are ESG risks?



Analysis of relevant ESG factors which may impact risks, long-term performance and returns

ESG risks moving to the top of the agenda

Top 5 Global Risks in Terms of Impact according to World Economic Forum surveys 2008 – 2018

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1 st	Asset price collapse	Asset price collapse	Asset price collapse	Fiscal crisis	Major system-financial failure	Major system-financial failure	Fiscal crises	Water crises	Failure of climate change mitigation and adaptation	Weapons of mass destruction	Weapons of mass destruction
2 nd	Retrenchment from globalisation (developed)	Retrenchment from globalization (developed)	Retrenchment from globalization (developed)	Climate change	Water supply crises	Water supply crises	Climate change	Rapid and massive spread of infectious diseases	Weapons of mass destruction	Extreme weather events	Extreme weather events
3 rd	Slowing Chinese economy (<5%)	Oil and gas price spike	Oil and gas price spike	Geopolitical conflict	Food shortage crises	Chronic fiscal imbalances	Water crises	Weapons of mass destruction	Water crises	Water crises	Natural disasters
4 th	Oil and gas price spike	Chronic disease	Chronic disease	Fiscal crises	Chronic fiscal imbalances	Diffusion of weapons of mass destruction	Unemployment and under-employment	Interstate conflict with regional consequences	Large-scale involuntary migration	Major natural disasters	Failure of climate change mitigation and adaptation
5 th	Pandemics	Fiscal crises	Fiscal crises	Extreme energy price volatility	Extreme volatility in energy and agriculture prices	Failure of climate change adaptation	Critical information infrastructure breakdown	Failure of climate change adaptation	Severe energy price shock	Failure of climate change mitigation and adaptation	Water crises

Economic

Environmental

Geopolitical

Social

Technological

Source: World Economic Forum 2018, The Global Risks Report 2018, 13th edition, p.6. Global risks may not be strictly comparable across years, as definitions and the set of global risks have evolved with new issues emerging on the 10-year horizon. For example, cyberattacks, income disparity and unemployment entered the set of global risks in 2012. Some global risks were reclassified: water crises and rising income disparity were re-categorized first as societal risks and then as a trend in the 2015 and 2016 Global Risks Reports, respectively. The 2006 edition of the Global Risks Report did not have a risks landscape. Source: Allianz Global Investors, 2018. For illustrative purposes only.

The United Nations 2030 Agenda

Sustainable Development Goals (SDG 17)



Source: [Link to SDG 17](#)
Source: Allianz Global Investors, 2018. For illustrative purposes only.

Classification framework for ESG investment strategies



Integrated

Manage ESG tail risks in mainstream strategies



SRI

Identify investable companies based on assessment of ESG practices



Impact

Intend to create a positive social/ environmental impact alongside financial return



ESG risk management



Competitive returns



Active stewardship: Engagement and proxy voting



Sustainable footprint / Impact

Integrating ESG Research across the investment value chain



Why?

WITHIN COMPANY

VISION & STRATEGY

MANAGEMENT PROCESS

WARNING SIGNALS

EMPLOYEE MOTIVATION

OUTSIDE COMPANY

REPUTATION

CAPITAL

STAKEHOLDER INVOLVEMENT

COMPETITIVE ADVANTAGE

How ?

- Add sustainability discussions to board agenda
- Understand what sustainability means for you and how it affects the sector in which you operate
- Involve investor relations, legal, operations, and risk management
- Incorporate Sustainability in your company
- Determine which KPI's are relevant for you and measure them and publish them
- Communicate (website for instance)
- Incorporate sustainability in your annual reports

Where?

Global Reporting Initiative (GRI) Sustainability Reporting Guidelines

Reporting framework

Website

The Global Reporting Initiative

www.globalreporting.org

GRI Sustainability Disclosure Database

www.database.globalreporting.org

AccountAbility The AA1000 Series of Standards

Voluntary standards

Website

www.accountability.org

Carbon Disclosure Project (CDP) tool and framework

Report their environmental impacts.

Website

www.cdproject.net

International Integrated Reporting Council (IIRC) International Framework

Reporting framework

Website

<http://www.theiirc.org>

International Organization for Standardization ISO 26000

Standards

Website

www.iso.org/iso

OECD: Risk Awareness Tool

Governance Zones

Website

www.oecd.org

Sustainability Accounting Standards Board (SASB)

Accounting Standards

Website

www.sasb.org

United Nations Global Compact Ten Principles

Voluntary corporate responsibility initiative/framework

Website

www.unglobalcompact.org

WBCSD and World Resources Institute (WRI)

The Greenhouse Gas (GHG) Protocol Standards

Website

www.ghgprotocol.org

Human Rights Filter

The United Nations Global Compact definition

Respect of Human Rights

The Universal Declaration of Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: Make sure that they are not complicit in human rights abuses

These principles are derived from the ILO¹ Declaration on Fundamental Principles and Rights at Work

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation

¹ ILO : International Labour Organization
<https://www.unglobalcompact.org/what-is-gc/mission/principles>
Source: Allianz Global Investors, 2018. For illustrative purposes only.

ESG criteria adapted to asset class

	ESG analysis criteria				Filter
	Environment	Social	Business Behaviour	Governance	Human Rights
Corporate	Environmental strategy, direct impact of products and services on the environment (including CO2)	Management of employee relations, human capital management, working conditions, health and safety conditions	Product quality and safety, management of the relations with clients and suppliers, respect of market rules, prevention of corruption, community involvement	Governance standards, quality of management, respect of shareholders	Human and Labour Rights respect (non discrimination, child labour, forced labour...), Human Rights respect towards local communities, particular attention to companies operating in countries considered to be most at risk
Covered Bonds	Global environmental strategy, environmental criteria in the lending policy, innovative services	Management of employee relations, how social factors are taken into account in the lending policy, how is the offering adapted to the social situation of clients	Management of relations with stakeholders, notably clients, prevention and fight against corruption	Governance standards, quality of management, respect of shareholders	Human and Labour Rights respect (non discrimination, child labour, forced labour...), Human Rights respect towards local communities
Agencies and supranationals	Global environmental strategy, focus on the specific targets and projects of the entity analyzed	Management of employee relations, focus on the specific targets and projects of the entity analyzed	Management of relations with stakeholders, notably clients, focus on the specific targets and projects of the entity analyzed	Governance standards, quality of management, respect of shareholders	Human and Labour Rights respect (non discrimination, child labour, forced labour...), Human Rights respect towards local communities
Governments	International conventions on environmental matters, water management, impacts on the atmosphere, biodiversity, earth...	International labour conventions, working conditions, health, education...	NA	Political Rights, Civil liberties, regulatory quality, fights against anti-corruption, Rule of law...	Freedom House Index : Political Rights, Civil Liberties, Freedom of the Press



Stewardship: Collective Engagement Activities - Illustration

Sustainable Stock Exchange Investment Working Group (SSE IWG)



Description

Stock exchanges have a central role in promoting transparency, and ultimately performance, on ESG issues yet as of 2014 less than one-third of exchanges globally provided ESG reporting guidance for issuers. In October 2015, AllianzGI decided to engage with stock exchanges by leading the SSE Investor Working Group's Campaign to Close the Guidance Gap.

Action

AllianzGI wrote a collective letter signed by 100+ asset owners, managers and companies representing over USD 10 trillion in AuM to 70 exchanges. The campaign encouraged exchanges to take an active role in creating transparent and efficient capital markets by engaging with issuers on the need for incorporating investment grade ESG data into reporting. The engagement was targeted to coincide with the launch of the SSE Model Guidance on Reporting ESG Information to Investors, a voluntary tool for stock exchanges to guide issuers.

Result

At the close of the campaign, AllianzGI was successful in convincing 30 exchanges to commit to producing ESG guidance. As of December 2017, 18 exchanges have publically released their guidance including the London Stock Exchange Group, Nasdaq Nordics and Bolsas y Mercados Españoles and a further 12 have committed to producing a guidance including Nasdaq US.

Disclaimer

Investing involves risk. The value of an investment and the income from it could 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.

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.

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, 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). The duplication, publication, or transmission of the contents, irrespective of the form, is not permitted.

For fund distributors and professional investors use only.

Active is:

Allianz Global Investors