Allianz

Explaining Allianz Intermediate Climate Target Setting 2030 for Proprietary Investments

Setting climate targets for proprietary investments is not only a way to demonstrate to our stakeholders how we expect to meet our sustainability commitments – it is also a way to steer our investment and stewardship resources across our organization toward achieving a unified goal. Below we outline our updated climate targets that we have set to fulfill our business priorities and commitments.

Our new targets for asset classes that were previously covered build upon our existing 2025 targets[1] while broadening the coverage and detail. All targets are in line with the best-practice approach as defined by the UN-convened Net-Zero Asset Owner Alliance (NZAOA) and are guided by our understanding of current climate science of no-/low-overshoot 1.5°C scenarios.

This document intends to add further clarity to the interpretation of our climate targets. This document is best read in conjunction with the Allianz Sustainability report, our ESG Integration Framework, and our Engagement Approach.

1) Sector Targets

Decarbonization of high-emitting sectors is critical to limiting global temperature increase to 1.5°C. Therefore, Allianz sets sector targets for investee companies in the oil and gas, electric utilities, steel, and automobiles sector. These sector targets are in line with sector decarbonization pathways from the Net Zero Emissions by 2050 Scenario of the International Energy Agency (IEA).[2] In addition, the Allianz Statement on oil and gas business models[3] and the Allianz Statement on coal-based business models[4] are reflected in the targets. Via sector targets we also start inclusion of Scope 3 emissions of investee companies into our targets.

Our sector targets are set using productivity-based carbon intensity metrics. The target coverage is limited to companies included in the Transition Pathway Initiative (TPI) dataset[5] or those that fall under the classification included in our oil and gas policy as having the largest hydrocarbon production, defined by "above 60 million barrels of oil production in 2020." This addresses the potential problem of inconsistency or unavailability of the production and emission data required for the calculation of carbon intensities. TPI provides carbon intensity metrics for the covered companies and thus allows systematic monitoring. With the scope restricted as described above we still have very substantial coverage in each sector.

The Allianz sector targets are outlined in detail below. All quantitative figures apply to the average of covered companies to be reached in December 2030.

[1] See page 48 in the Allianz Group Sustainability Report 2022
[2] Net Zero Emissions by 2050 Scenario (NZE) – Global Energy and Climate Model – Analysis – IEA
[3] Allianz Statement on oil and gas business models
[4] Allianz Statement on coal-based business models
[5] Tool – Transition Pathway Initiative

Oil & Gas

- Scope 1, 2 & 3 (cat 11): 43.07 gCO_2e/MJ in line with IEA[6]
- 100% of AuM to set net-zero targets across all three emission scopes (target year: 2025)[7]

Electric Utilities

- Scope 1: 0.17 tCO_2e/MWh in line with IEA[5]
- Coal phase-out in line with 1.5°C pathway[8]

Steel

- Scope 1 & 2: 1.18 tCO_2e/t steel in line with IEA[5]

Automobiles

- Scope 3 (cat 11): 41.68 gCO_2e/km in line with IEA[5]

2) Climate Solutions Target

The transformation of the global economy to net-zero comes with high financing needs especially with regard to long-term infrastructure deployment. In its latest UN Emissions Gap Report[9] the UN estimates that at least US$4 trillion to US$6 trillion a year is needed for a global transformation from an economy dependent on heavy fossil fuel use and unsustainable land use to a low-carbon economy.

Allianz supports this requirement by setting a climate solutions target in line with the NZAOA definition[10]: "Climate solution investments are investments in economic activities considered to contribute to climate change mitigation (including transition enabling) and adaptation, in alignment with existing climate-related sustainability taxonomies and other generally acknowledged climate related frameworks."

Our initial 2025 target, announced in 2020, entailed investments in 4–5 blended finance vehicles and first investments in forestry and hydrogen. To date, this target has been achieved. With its new climate solutions target, Allianz is raising the bar, now covering all asset classes in line with the NZAOA definition of climate solutions. Climate solutions are a subset of our sustainable investments.[11]

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[6] IEA Net Zero Emissions by 2050 Scenario as per May 2023 with TPI as data provider
[7] As outlined in the Allianz Statement on oil and gas business models
[8] As outlined in the Allianz Statement on coal-based business models
[9] Emissions Gap Report 2022 (unep.org)
[10] Target Setting Protocol Third Edition – United Nations Environment Programme – Finance Initiative (unepfi.org)
[11] Details of a sustainable investments approach be found in our latest Sustainability Report explanatory notes Non-Financial Reporting At Allianz Group - Explanatory Notes for Reporting Year 2022

We consider an investment to be a climate solution if:

- its activities are aligned with EU Taxonomy climate change mitigation and adaption activities, or
- if it meets our SFDR Article 2 (17)–aligned sustainable investments criteria as contributing to an environmental climate change objective and passing a "do no significant harm" (DNSH) and a good governance screening, e.g., green bonds, sustainable green buildings, sustainable forestry, renewables, impact, and blended finance funds.
- Sovereign or sub-sovereign debt investments are out of scope for climate solutions.

Our target is to **increase climate solution investments by at least €20bn by 2030**, subject to market environment and constraints. Internal, asset-class-specific targets will support the overall group target.

Our climate solutions investments will contribute toward decarbonizing of key economic sectors and will support the deployment of renewable energy infrastructure, while providing an attractive long-term business opportunity.

3) Sub-portfolio Targets – Corporates

Allianz sets a quantitative emission reduction target for all investments into corporates – meaning assets that have a balance sheet and where the carbon footprint can be measured in 2029. Specifically, we target **a reduction of the carbon intensity (scope 1 and scope 2) by 50%** compared with the 2019 baseline of 108.08 tCO_2e per €mn invested, in line with IPCC scenarios. This target also covers all private assets like private equity, private debt, or investments into infrastructure.

Additionally, for listed equity and corporate bonds, Allianz targets to **reduce our absolute owned emissions (scope 1 and scope 2) by 50%** compared with the 2019 baseline of 24.9 mn tCO_2e. This represents a continuation of the existing target for these assets, with an increased ambition level in line with IPCC scenarios.

4) Sub-portfolio Targets – Steel & Cement Climate List

Allianz aims to continue financing the transition of companies in the hard-to-abate cement and steel sectors that are aligned with a 1.5°C world and have well-defined decarbonization strategies. We believe such financing of leaders in the transition is essential to meet the needs of long-term real-world decarbonization.

To achieve this, and in accordance with the NZAOA's Target Setting Protocol, Allianz is creating a separate emissions bucket and adjusting the sub-portfolio target for listed equity and corporate bonds to reflect additional exposures in those transition leaders included in the new steel & cement climate list. The scope of eligible companies is limited to those in the two sectors that have been externally and favorably assessed by the TPI. To be included on the climate list, companies need to fulfil the following set of criteria based on external, third-party assessments:

1. Obtain a TPI Management Quality Score of 4
2. Produce positive answers in the Management Quality assessment on the further two questions:
   a. Does the company's remuneration for senior executives incorporate climate change performance?
   b. Does the company incorporate climate change risks and opportunities in their strategy?
3. Obtain a TPI Carbon Performance assessment on medium-term alignment 2035: Below 2°C
4. Obtain a TPI Carbon Performance assessment on long-term alignment 2050: 1.5°C
5. Possess a MSCI weighted average key issue score above Allianz's defined regional threshold
6. Pass a 'Do-no-significant-harm' screening
7. Pass a 'Good governance' screening

To assure that we apply this list only to true sector leaders, we restrict the maximum number of companies to ten in each sector.

For those companies on the climate list, only additional exposures – as defined by exposure in newly issued bonds after 01.01.2024 or an increase in number of shares held compared to 01.01.2024 (adjusted for corporate actions) – are not included in the owned carbon emissions or carbon footprint calculations for the sub-portfolio target achievement but are transparently calculated in a separate bucket.

In case an assessment of a company on the climate list reveals that it no longer meets all criteria, an exposure freeze is initiated, and the company is given a period of one year to remedy the criterion. To support this, an engagement process on this topic will be initiated with the company. Should the company still not fulfil all criteria after the defined period, the company will be removed from the climate list.

Reporting on both the general emissions as well as the emissions from the companies on the climate list will be transparently included in the sustainability report.

To ensure that the climate list delivers the desired impact, the overall process will be regularly reviewed.

5) Sub-portfolio Targets – Real Estate

For all real-estate-related assets inside our proprietary investments, we apply external carbon emission benchmarks in line with best practice. We use the region- and sector-specific benchmarks provided by CRREM[12]. Our first set of targets covered direct equity investments and joint ventures (equity). In our updated targets, we expand the scope to direct equity, joint ventures equity, equity funds (50%), and direct commercial real estate loans (CREL; mortgages) (60%).

These coverage percentages mean that we will require that the best 50% of the funds and 60% of the CREL portfolio covered by carbon footprint reporting to be, on average, in line with CRREM pathways. This is necessary due to the legacy assets in our portfolio; however, this serves as a first step toward an increase of these figures toward 100% in the next target-setting cycle.

For the time being, debt funds related to real estate financing and our retail mortgages are excluded from these targets.

6) Additional Requirements

- We will predominantly invest only in Article 8 or Article 9 funds (or equivalent) as defined by the EU Sustainable Finance Disclosure Regulation (SFDR).[13]
- We will require all not listed direct investment with a carbon intensity above 100 tCO_2e per mn € invested to have a credible transition plan.

7) Engagement Targets

Engagement is one of the cornerstones of our active ownership approach at Allianz Investment Management (AIM). It is embedded in our commitment to the Principles of Responsible Investment: to be "active owners and incorporate ESG (Environment, Social, Governance) issues into our ownership policies and practices."[14] Engagement is an important way that we can directly represent the long-term interests of Allianz to both portfolio companies and asset managers on behalf of Allianz's clients and beneficiaries. We engage both bilaterally and multilaterally, where suitable.

The benefits and limits of investor engagement, including how multilateral engagements can help address some of them, are further detailed in the NZAOA discussion paper titled, *"The Future of Investor Engagement: A call for systematic stewardship to address systemic climate risk."*[15]

[12] The Carbon Risk Real Estate Monitor (CRREM) is an EU-funded research project that aims to guide real estate investments so as to avoid carbon-risk factors related to changing market expectations and legal regulations. More information can be found at: CRREM Project
[13] EU SFDR
[14] What Are the Principles For Responsible Investment? – PRI
[15] The Future of Investor Engagement: A call for systematic stewardship to address systemic climate risk

To help guide our engagement efforts across multiple opportunities and in alignment with our long-term interests, we split our engagement targets into the following three categories. These also support a clear demarcation and communication of our efforts to different stakeholders.

Asset manager engagement	
Explanation	Asset manager engagement covers managers operating in both private and public markets. As critical stakeholders to our investment activities, asset managers often have longstanding relationships with the companies that they invest in, dedicated stewardship teams, and deep analytical competencies to assess companies. Therefore, the way in which they execute and represent investment activities is critical to meeting our expectations and to aligning with our long-term interests on sustainability and climate topics.
Target	Systematic assessment of all external asset managers on sustainability and climate expectations, with mandatory engagement for all those scoring "below expectations."
Multilateral engagements	
Explanation	Multilateral engagements allow investors and companies to pool resources around a common topic and develop a deeper and more meaningful exchange than what would occur if all investors approached the company individually.
Target	Be a lead or support engager on 30 multilateral engagements on sustainability topics, with at least half being focused on climate themes.
Bilateral corporate engagement	
Explanation	All companies in which Allianz is invested via equity and fixed-income holdings are in scope of our bilateral corporate engagement program. We focus on companies identified as facing acute sustainability or thematic concerns related to more systemic sustainability issues.
Target	Engage 15 companies on achieving net-zero emissions with a focus on our top emitters that are not yet covered by multilateral initiatives (e.g., CA100+) and are not already engaged by AllianzGI or PIMCO on climate themes.