# INTERVIEW

## TRANSITION ASSESSMENT METHODS IN THEIR INFANCY BUT ALREADY CRUCIAL

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**Julien** holds a Master in management from Skema Business School (2006). After working for 4 years as financial controller at Allianz Global Investors (AllianzGI), Julien became an SRI fixed income analyst for 5 years. In this role, he was specifically covering the banking sector as well as non-corporate issuers (sovereigns, supranationals and agencies). In 2014, he joined the fixed income investment team as SRI portfolio manager on credit strategies. Alongside, he participated in the development of the AllianzGI approach regarding the Green Bond asset class, which ended up with the launch of a Green Bond fund in November 2015. Julien is co-manager of the Green Bond strategy, including mandates and mutual funds at AllianzGI.

**AllianzGI presentation**

At AllianzGI, we started our sustainable investing journey 20 years ago and were early to sign the United Nations Principles for Responsible Investment (UN PRI) in 2007. We believe that sustainable investing can generate positive performance not just for our clients, but for the community at large.

We aim to integrate environmental, social and governance (ESG) factors throughout our entire investment value chain to better manage risk and generate sustainable, long-term returns. Given the diversity of investors' objectives and requirements we provide sustainable investing processes with a broad range of approaches, adaptable to different levels of ESG incorporation and client preferences. These enhance our clients' investment decisions while helping create benefits for society as a whole.

Our three ranges of sustainable investing approaches are as follows:

- **Integrated ESG** corresponds to active ESG risk management aimed at better financial returns. Within this approach we integrate financially material E, S & G factors into investment analysis and decision making in a systematic and disciplined way, without constraining the investment universe.
- **Our SRI strategies** aim to create a sustainable portfolio by combining financial and sustainability assessments in investment analysis and portfolio construction. The offering appeals to clients that want their investments to not only generate financial value but also to reflect their own values.
- **Impact investing**, generating intentional and identifiable environmental and social outcomes alongside financial returns, is an area in which AllianzGI has been active since 2012. Demand from clients who want their investments to pursue an extra-financial mission is growing significantly.

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**Q1. Climate finance is at a crossroads, we need to onboard brown industries without undermining market integrity. If companies from the cement, aluminum, steel and petrochemicals were to issue green bonds, would they be eligible in Allianz GI strategy?**

For the SRI funds management, we do not have exclusion filter on those sectors.
For our Green Bonds Funds, the concept of transition is thoroughly considered and is at the core of the investment decision. So, to answer, the sectors mentioned could be eligible but so far, no bond from those industries revealed to meet our requirements.

**Q2. What are Allianz Global Investors' requirements for your Green Bond Portfolios?**

We have three pillars for green bonds screening: i) alignment of the Framework with the Green Bond Principles; ii) the content and features of the underlying projects or assets (on the basis of an internal taxonomy, largely derived from CBI with slight adjustments) and iii) the ambition and credibility of the issuer's climate-change and decarbonization strategy.

**Q3. How would you consider a green or transition bond from an oil company? Would you praise diversification efforts? What would be your red lines?**

For oil companies, Allianz GI decided in 2015 to keep open the room for renewable energy UoP provided that they would be part of the issuer's overall transition strategy. Depending on the strategy provided by the issuer, an additional criterion would be to halt exploration activities. Especially deep offshore and non-conventional fossil-fuels exploration, knowing a share of the discovered reserves are stranded and will have to remain in the soil if we want to reduce $CO_2$ emissions enough. Such a criterion would strengthen the credibility of the issuance candidate.

**Q4. What weight is given to the transition strategy in your selection methodology?**

It is one of the three steps in the analysis of Green Bonds aside from the alignment with the GBP and the characteristics of the projects. And we are not keen to invest in Green Bonds if we are not presented a clear transition strategy with ambitious targets. As PMs we are also quite involved in gauging the ambition and credibility of issuers climate strategies and in discussions with the issuers. And we can also rely our internal ESG research.

**Q5. For your Green Bonds Funds, do you prefer forerunners or are you ready to let some room for "laggards" that try to catch-up?**

We do have geographical criteria to take into account local circumstances and different baselines. However, we have the willingness not to focus only on the best players but to encourage progress approach and we even think that it is the best way to really generate an impact in the context of this investment solution.

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**Q6. How do you assess if the proceeds earmarked through a green or so-called transition bond are consistent with the issuer's decarbonization strategy? If the expected climate benefits are ambitious enough?**

It is necessary for us that the company has a medium-term transition plan. We cannot require Science Based Targets (see SBTi) because for the moment, it would reduce too drastically the universe. That being said, we pay high attention to this question of credibility and ambition. To do so, we scrutinize if the management is supportive and involved in such a green bond program and whether it is likely to be a "one-off". We have a strong preference for repeat issuers. All in all, criteria cannot be applied uniformly. Regarding % of GHG emission reductions against current baseline, it always depends on the issuer track record and on its current position. The assessment needs to be done individually. There is no such thing as a "one-threshold fits all".

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**Q7. Have you noticed advanced practices in terms of climate-science alignment?**

There is a few indeed. The aluminum producer Norsk Hydro presented us interesting climate approach with an attempt of science alignment.

**Q8. Regarding company's mix of activities transition and shift, do you consider M&A or workers retraining expenditures as eligible?**

For high-emitting power companies, the external growth through the acquisition of green pure players brings little additionality benefits but it can be a transition lever for the mother company. Regarding retraining programs, it is a crucial topic but related expenditures seem hard to identify, little is disclosed. The topic of skills and jobs becoming redundant is unfortunately not systematically addressed although it should. Allianz GI intends to increasingly discuss the social aspect of transition in its engagement and shareholder dialogue. To give an example, for the decommissioning of Fessenheim nuclear power plant, the question of the workforce and skills needed to dismantle the plant are of the utmost importance.

**Q9. Do you look only at green finance instruments with earmarked proceeds? Or would you be interested in decarbonization KPI-linked instruments? For instance a transition bond with a step up coupon if the issuer failed its GHG emissions reduction target?**

For the moment, we do not have a particular view on such ESG-linked instrument because they are not so developed but we find them potentially interesting. The main hurdle is the sound selection of indicators – I personally don't think that ESG score is the best indicator –, and how transparent and robustly calibrated indicators would be. There is so much heterogeneity in ESG scores and they are easily skewed. So audit is critical to provide reliability and to really hold the company accountable. Apart from the accuracy of data, there is also a challenge about assessing the transition pathways, and establish a view on whether targets are ambitious or easily reachable by the company.

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