

P I M C O

*July 2018*

---

# Approaching the SDGs as a Fixed Income Investor



# Disclosures

---

This material contains the current opinions of the manager and such opinions are subject to change without notice. This material is distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this publication may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America L.P. in the United States and throughout the world. Pacific Investment Management Company LLC, 650 Newport Center Drive, Newport Beach, CA 92660, 949.720.6000. ©2018, PIMCO.

**For Institutional Investor Use Only**

# PIMCO's ESG Process

*Investing for performance and impact*

---

## Exclusions

*Objective: Restrict investment in issuers which do not engage in acceptable sustainability practices*

### Process

- Avoid issuers which are inconsistent with ESG objectives or which are not receptive to engagement efforts
- Based on a two-tiered process: Core (permanent) and Dynamic Exclusions
- Overseen by PIMCO's ESG Exclusions Group

## Evaluation

*Objective: Construct ESG-optimized portfolios based on PIMCO ESG scores and prime engagement candidates*

### Process

- Emphasize best-in-class issuers based on proprietary quantitative scoring
- Conducted by PIMCO's credit research team
- Augmented by insights from PIMCO's engagement activities

## Engagement

*Objective: Engage with and empower issuers to change ESG-related business practices*

### Process

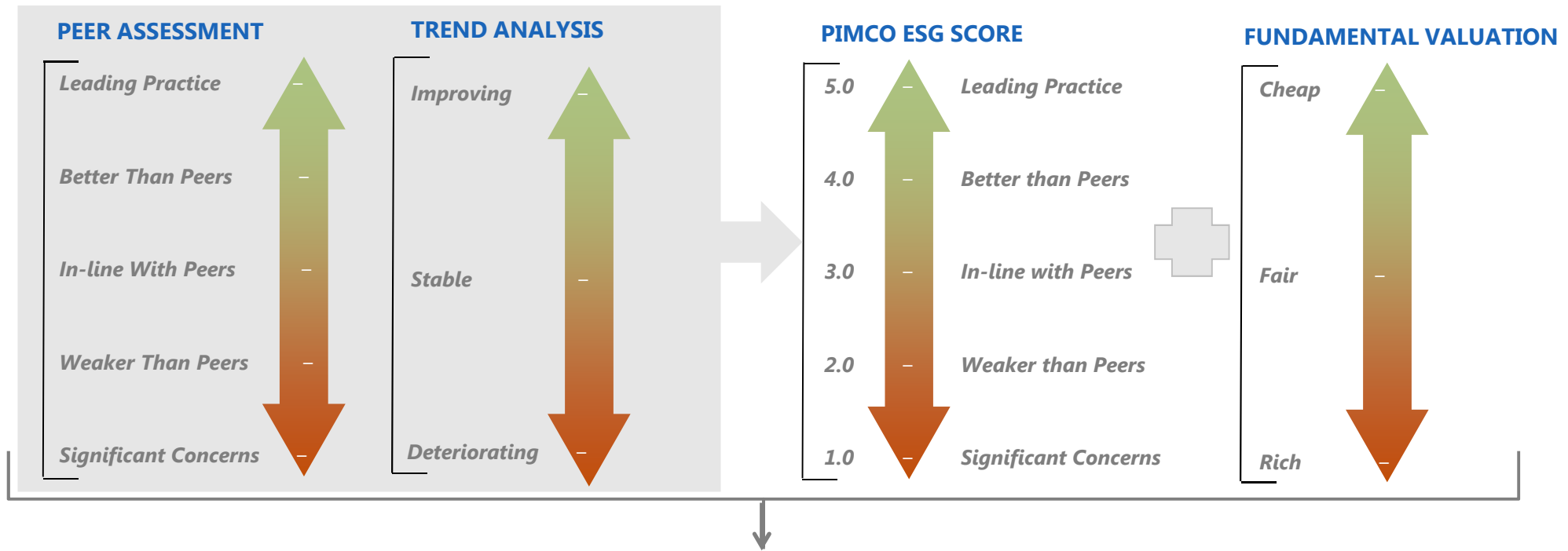
- Develop a set of core engagement objectives tailored to individual issuers
- Active engagement conducted on a collaborative and constructive basis
- Administered via in-person visits, tailored questionnaires and ongoing dialogue

---

Refer to Appendix for additional investment strategy and risk information.

# Evaluation

*PIMCO's Global Corporate Research Team assesses each credit for ESG performance based on a proprietary scoring system*



## Portfolio overweights

- **Best-in-class PIMCO ESG scores:** PIMCO credit analysts have rated over 2,200 issuers as of 4Q 2017
- Companies with business models and/or key products likely to produce a positive social impact

## Engagement candidates

- Average to below-average ESG scores relative to peers
- Issuers interested in sustainability and receptive to engagement
- Potential for ESG score improvement over time

## Companies to avoid

- **Below average ESG scores**
- Issuers involved in controversies
- Significant concerns in certain key ESG-related areas
- Non-receptive to engagement efforts

SOURCE: PIMCO. **For illustrative purposes only**  
Refer to Appendix for additional investment strategy and risk information

# The UN's Sustainable Development Goals

## *"A Gift to Investors"*

---

- A natural extension of an ESG investing framework by providing **clarity of purpose**
- Supported by internationally agreed goals and targets, a **"global framework"**
- Help to focus investment strategies for return *and* **measurable impact**

*Healthy markets and healthy societies go hand-in-hand over the long term*

# Engagement in Fixed Income

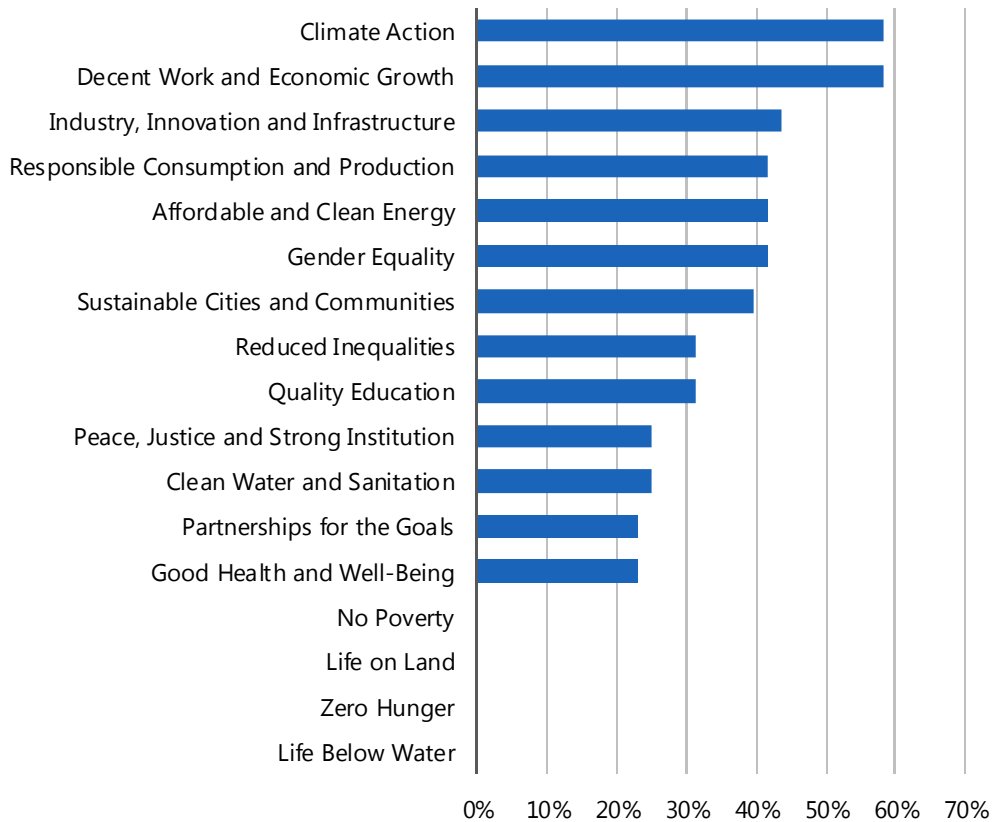
*SDGs are a tool for dialogue, focus and accountability*

E.g. Assess Portfolio exposure to advancing the SDGs

E.g. Talking point for industry-specific action

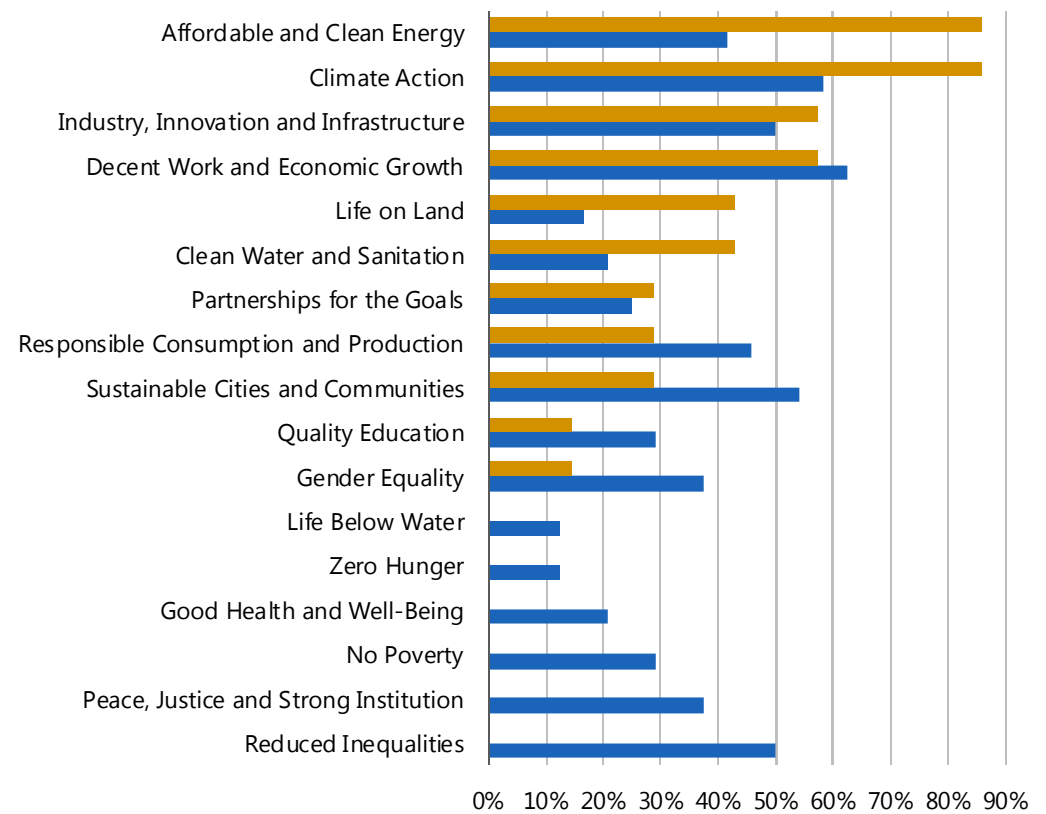
Frequency of SDG focus across all sectors

■ % of companies focused



SDG priorities in the banking and utilities sectors

■ Utilities ■ Banks



SOURCE: PIMCO

# Appendix

---

## **Past performance is not a guarantee or a reliable indicator of future results.**

### **ESG**

Socially responsible investing is qualitative and subjective by nature, and there is no guarantee that the criteria utilized, or judgment exercised, by PIMCO will reflect the beliefs or values of any one particular investor. Information regarding responsible practices is obtained through voluntary or third-party reporting, which may not be accurate or complete, and PIMCO is dependent on such information to evaluate a company's commitment to, or implementation of, responsible practices. Socially responsible norms differ by region. There is no assurance that the socially responsible investing strategy and techniques employed will be successful. Past performance is not a guarantee or reliable indicator of future results.

### **INVESTMENT STRATEGY**

There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market.

### **RISK**

Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and the current low interest rate environment increases this risk. Current reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Investing in **foreign denominated and/or domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **Diversification** does not ensure against loss.

### **VALUATION**

The terms "cheap" and "rich" as used herein generally refer to a security or asset class that is deemed to be substantially under- or overpriced compared to both its historical average as well as to the investment manager's future expectations. There is no guarantee of future results or that a security's valuation will ensure a profit or protect against a loss.

### IMPORTANT INFORMATION

These materials are being provided on the express basis that they and any related communications (whether written or oral) will not cause Pacific Investment Management Company LLC (or any affiliate) (collectively, "PIMCO") to become an investment advice fiduciary under ERISA or the Internal Revenue Code, as the recipients are fully aware that PIMCO (i) is not undertaking to provide impartial investment advice, make a recommendation regarding the acquisition, holding or disposal of an investment, act as an impartial adviser, or give advice in a fiduciary capacity, and (ii) has a financial interest in the offering and sale of one or more products and services, which may depend on a number of factors relating to PIMCO (and its affiliates') internal business objectives, and which has been disclosed to the recipient. These materials are also being provided on PIMCO's understanding that the recipients they are directed to are all financially sophisticated, capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies. If this is not the case, we ask that you inform us immediately. You should consult your own separate advisors before making any investment decisions.

These materials are also being provided on the express basis that they and any related communications will not cause PIMCO (or any affiliate) to become an investment advice fiduciary under ERISA or the Internal Revenue Code with respect to any recipient or any employee benefit plan or IRA because: (i) all recipients are acting as or on behalf of a U.S. registered investment adviser, a U.S. registered broker-dealer, a bank regulated by the United States or any State, an insurance company licensed by more than one State to manage the assets of employee benefit plans subject to ERISA (and together with plans subject to Section 4975 of the Internal Revenue Code, "Plans"), or a fiduciary with respect to such Plan(s) with at least \$50 million of client assets under management and control, (ii) the recipients are all independent of PIMCO and its affiliates, (iii) upon review of all relevant facts and circumstances, the recipients have concluded that they have no financial interest, ownership interest, or other relationship, agreement or understanding with PIMCO or any affiliate that would limit any fiduciary responsibility that any recipient may have with respect to any Plan on behalf of which this information may be utilized, and (iv) the recipient is, or is represented by, an independent fiduciary that satisfies the criteria set forth in 29 C.F.R. § 2510.3-21(c)(1), including but not limited to paragraphs (c)(1)(i), (ii), and (iv). If this is not the case, or if there is any relationship with any recipient of which you are aware that would call into question the recipient's ability to independently fulfill its responsibilities to any such Plan, we ask that you let us know immediately.

The information provided herein is intended to be used solely by the recipient in considering the products or services described herein and may not be used for any other reason, personal or otherwise.