

Engagement Report 2016



Active Ownership: Engagement Activities

At Allianz Global Investors, we take our responsibility to be an active steward of our clients' assets very seriously.

Consistent with our investment philosophy and approach, we routinely engage in dialogue with investee companies and seek to proactively present a viewpoint, seek change where necessary, and monitor the results of our engagement. Our investment views are influenced by the outcomes of these engagements and are linked to the proxy voting process, forming a consistent stewardship approach. The Stewardship Statement summarizes our approach to proxy voting and company engagement and explains how we manage conflicts of interests that may arise in relation to our stewardship activities among others. Our engagement activities include: monitoring, providing feedback, challenging corporate practices and seeking change, and, in rare circumstances, public interventions.

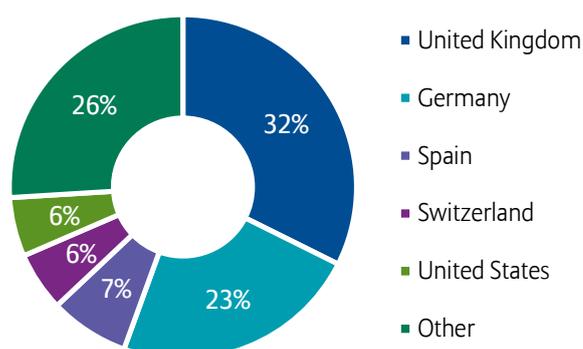
The most common engagements are around strategy, operational and financial performance, capital management, corporate governance and proxy voting issues, and environmental and social impacts of investee companies. Although we prefer to engage investee companies on a confidential basis, if a company does not constructively respond we may escalate our engagement activities in a more public way.

In addition to direct company engagements, we participate in collaborative engagement initiatives aimed at improving corporate practices and disclosure of information at an industry or market level.

Engagement activities around the globe

In 2016, Allianz Global Investors started to record all engagement activities in a more structured way in order to enhance our ability to report on engagement activities. We have 108 engagement records for 2016, covering 19 markets, including the United Kingdom, Germany, Spain, Switzerland and United States (see Figure 1).

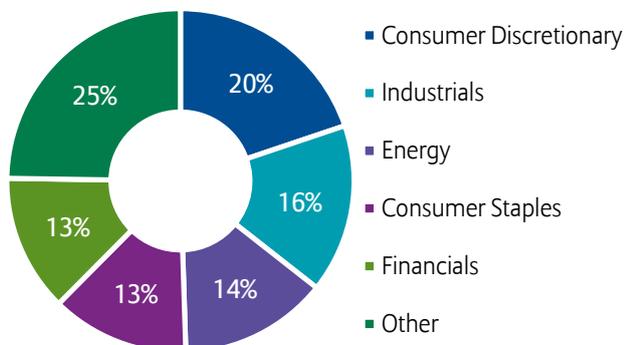
Figure 1: Engagement per country



Source: Allianz Global Investors, as at 31 December 2016. For illustrative purposes only.

Our 2016 engagement activities covered 11 industries whereby Consumer Discretionary, Consumer Staples, Financials, Industrials and Energy were accounting for 75% of our engagements (see Figure 2).

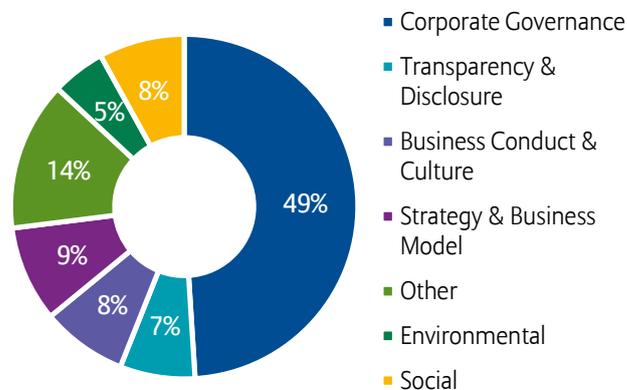
Figure 2: Engagement per industry



Source: Allianz Global Investors, as at 31 December 2016. For illustrative purposes only. The classification “Others” in Figure 2 includes Technology, Health Care, Materials, Utilities, Telecommunications and Real Estate. Eleven industries were covered in total.

During our engagement activities we covered 11 content categories. ESG related topics accounted for nearly two thirds of our engagement activities dominated by corporate governance issues (see Figure 3).

Figure 3: Engagement per category



Source: Allianz Global Investors, as at 31 December 2016. For illustrative purposes only. The classification “Others” in Figure 3 includes capital management, risk management, financial/operational performance, audit/ accounting. There were in total 108 engagements: 148 topics were covered, incl. 92 ESG topics. The percentages are calculated as a share of total topics covered.

Company Engagement

Case 1: Oil Major – Corporate Governance Engagement

Following to the suspension from the Controls and Risk Committee of an independent director at an Oil Major, AllianzGI joined an investor group asking for better clarity on the issue with the objective to guarantee good governance principles and to make sure that the Company offers its independent directors elected by minority shareholders under the “vota di lista” system the same level of support as offered to other board members. After two constructive meetings and a follow-up letter to the Board Chairman, this active stewardship led to a positive outcome with the reinstatement of the Director to the Controls & Risk Committee.

Case 2: Oil Major – Corporate Governance Engagement

AllianzGI engaged with the Chairman of the Remuneration Committee of an Oil Major to discuss the Executive Compensation Proposition for the upcoming AGM. We conveyed our views on management incentive plans, e.g. asking for the inclusion of return-based performance metrics as well as our preference for per share targets. This active stewardship led to positive developments as the Remuneration Policy and the Remuneration Report contained notable improvements and were better aligned with performance. However, we regret that the Company did not take into consideration our preference for “per share” metrics that incentivize optimal capital allocation rather than growth at any cost.

Case 3: Pharmaceutical Company – Corporate Governance Engagement

AllianzGI engaged a pharmaceutical company on the alignment between the management’s new strategy for the business and their incentive KPIs. We are concerned that under the current remuneration structure, the management are largely unexposed to the downside of failing to deliver against the strategy, which poses a material risk for shareholders. We had several constructive meetings with the Board and expect the company to undertake a full review of its executive remuneration policy and create a better alignment between investors and management to assure the long-term continued success of the company.

Collaborative Engagement

Case 4: Supporting ESG Disclosure through Sustainable Stock Exchanges

In October 2015, Allianz Global Investors became the project lead for the Sustainable Stock Exchanges Initiative (SSE) which is asking stock exchanges to produce voluntary guidance for issuers on reporting ESG information. Since 2004, less than one-third of stock exchanges globally have provided any form of guidance to issuers on reporting this information. We have written a collective letter with other asset owners, managers and companies to 70 exchanges, encouraging them to create more transparent and efficient capital markets. It is increasingly clear that ESG data is in high demand and a targeted campaign to introduce voluntary guidance was a logical starting point and specifically timed to coincide with the launch of the SSE Model Guidance on Reporting ESG Information, a voluntary tool for stock exchanges to guide issuers. We were successful in collecting 100+ signatures representing over \$10 trillion in AuM to join our campaign (hosted by the PRI Clearinghouse) on the basis that globally stock exchanges promote sound financial reporting and corporate governance standards. Our results as of April 2017 are that 23 exchanges committed to producing a guidance by the end of 2016 and 8 exchanges have released a guidance, e.g. London Stock Exchange Group and Borsa Italiana among others.

Case 5: Reducing supply chain risks in Bangladesh's garment sector

In 2013, AllianzGI signed the first investor statement calling on retailers to collectively pledge to implement the internationally recognized core labor standards of the International Labor Organization (ILO) and join the "Accord on Fire and Building Safety" or "Alliance for Bangladesh Worker Safety" in order to tackle supply chain risks in the Bangladesh garment sector. In 2014 and 2016, we renewed our appeal by co-signing the second and third investor statements urging companies sourcing in Bangladesh to address the persistent systemic issues to avoid a repetition of the Rana Plaza factory disaster. Positive changes have been made, driven by increased supply chain transparency with international brands agreeing on a common standard for auditing suppliers and sharing findings. In parallel, AllianzGI continues to engage and assess retail and apparel brands on supply chain management practices. Over the course of the last year, we were in dialogue with numerous companies sourcing in Bangladesh and Asia more broadly. We had the chance to visit factories and an independent auditor in China to assess and discuss sourcing strategy and related risk mitigation.

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