PIMCO Europe GmbH

INTEGRATION OF SUSTAINABILITY RISKS

Background

This information is provided in accordance with Article 3 of Regulation 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (“SFDR”).

As a premier fixed income manager, PIMCO’s[1] mission is to deliver superior investment returns, solutions and service to our clients. For nearly 50 years, we have worked relentlessly to help millions of investors pursue their objectives – regardless of shifting market conditions. Leadership in ESG investing is essential to deliver on our clients’ financial objectives, to maintain our high performance culture by engaging top talent and to support long-term, sustainable economic growth globally.

This statement details PIMCO’s commitments to: the integration of ESG factors into our broad research process, sustainable investment solutions offered to our clients, our engagement with issuers on sustainability factors and our climate change investment analysis. This statement is designed to apply broadly to our firm’s long-term investment process and to our dedicated ESG investment solutions.

ESG INTEGRATION

At PIMCO, we define ESG Integration as the consistent consideration of material ESG factors into our investment research process to enhance our clients’ risk-adjusted returns. Material ESG factors may include but are not limited to: climate change risks, social inequality, shifting consumer preferences, regulatory risks, talent management or misconduct at an issuer, among others. We believe incorporating relevant ESG factors should be part of a robust investment process.

We recognize that ESG factors are increasingly essential inputs when evaluating global economies, markets, industries and business models. Material ESG factors are important considerations when evaluating long-term investment opportunities and risks for all asset classes in both public and private markets. Our commitment to ESG Integration was one of the

[1] Unless the context requires, the statements in this document apply to PIMCO Europe GmbH.

main drivers that led PIMCO to become a signatory to the UN Principles of Responsible Investment (PRI) in September 2011.

Integrating ESG factors into the evaluation process does not mean that ESG information is the sole or primary consideration for an investment decision; instead, PIMCO's portfolio managers and analyst teams evaluate and weigh a variety of financial and non-financial factors, which can include ESG considerations, to make investment decisions. The relevance of ESG considerations to investment decisions varies across asset classes and strategies. By increasing and diversifying the information assessed by the portfolio management team where relevant we believe that we are able to generate a more holistic view of an investment, which we believe will generate opportunities to enhance returns for our clients.

ENGAGEMENT PHILOSOPHY

As one of the world's largest bondholders on behalf of our clients, PIMCO has a large and important platform with which to engage issuers to drive meaningful change on sustainability dimensions. Engagement is an essential tool for delivering impact in ESG investing. We believe that ESG investing is not only about partnering with issuers that already demonstrate a deeply unified approach to ESG, but also about engaging with those with less advanced sustainability practices. This can be a direct way for PIMCO to influence positive changes that may benefit all stakeholders, including investors, employees, society and the environment.

We aim to have an industry leading engagement program among fixed income asset managers. By investing across a diverse asset class and group of issuers – including corporates, municipalities, sovereigns and others – we believe PIMCO is ideally positioned to drive greater change than through exclusions or evaluations alone. In our experience we have found that our collaborative engagement approach has the potential to result in tangible, positive changes in certain companies given the strength and history of our platform.

PIMCO's credit research analysts engage regularly with the issuers that they cover, for example in the corporate space discussing topics with company management teams related to corporate strategy, leverage, and balance sheet management, as well as ESG-related topics such as climate change targets and environmental plans, human capital management, and board qualifications and composition.

CLIMATE CHANGE PRACTICE

PIMCO recognizes that climate change will likely have a profound impact on the global economy, financial markets and issuers. We have developed tools and methods that seek to incorporate over time material climate risk evaluations in our investment research processes.

Details on PIMCO's broad climate research approach:

- When evaluating climate-related risks and opportunities within specific sectors and issuers, we typically begin with two broad categories: 1) transition risks (e.g., tighter regulations on carbon emissions) and 2) physical risks (e.g., how the rising intensity and frequency of extreme weather events affects critical assets and natural resources used or relied upon by the issuer);
- In ESG portfolio solutions, the insights these tools provide are designed to provide material information to portfolio managers to better manage and mitigate climate- related credit risks and assess a portfolio's alignment with the Paris Agreement targets[2];
- We explore climate change in the context of broader sustainability risk and are supportive of the SDGs as the reference framework to assess these wide-ranging risks, e.g. biodiversity, water scarcity, human and labor rights; and
- We also seek to engage with issuers on innovative debt issuance opportunities to advance the Paris Agreement and the SDGs.

In sum, we support the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and engage with issuers – across corporates, sovereigns and others – to encourage enhanced disclosure on climate change, biodiversity, and the SDGs, including their efforts to advance underlying goals, such as those of the Paris Agreement. We will continue to devote PIMCO resources to build climate investment solutions for our clients globally.

REMUNERATION

PIMCO Europe remuneration policy requires that risk and compliance with appropriate and relevant non-financial factors (such as individual compliance with policies and procedures) are included in employees' performance objectives. Individual compliance with relevant policies on sustainability risks will therefore be taken into account when considering

[2] The Paris Agreement is the global accord to limit the global temperature rise by year 2100 to 1.5°C-2.0°C above pre-industrial levels

an individual’s performance and remuneration (including variable remuneration).

PRINCIPAL ADVERSE IMPACTS OF INVESTMENT DECISIONS

PIMCO voluntarily considers the principal adverse impacts of our investment decisions on sustainability factors. PIMCO is required to make a “comply or explain” decision under SFDR, and has decided to comply. This document summarises our investment research policy in respect of those decisions, and we will update it from time to time.

This section is divided into four parts:

1. Information about our due diligence policy on the identification and prioritisation of principal adverse sustainability impacts and indicators;
2. A description of the principal adverse sustainability impacts and of any actions taken or planned;
3. A brief summary of our shareholder engagement approach; and
4. A reference to our adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting.

1. Information about the Firm’s PAI Policy

PIMCO has implemented a principal adverse impact policy (“PAI Policy”) as from 30 June 2021, to set out how we identify and take into consideration adverse sustainability impacts and indicators, in our investment research processes, and apply these to our sustainable investment offerings. This section of the document summarises certain key provisions of the PAI Policy.

The PAI Policy approaches sustainability from the perspective of the harm that investment positions might do externally to “sustainability factors”, defined in the SFDR as meaning environmental, social and employee matters, respect of human rights, and corruption and anti-bribery matters, and the steps that PIMCO may take to mitigate any such harm.

At the firm level, as part of our ESG Integration, we incorporate consistent consideration of material ESG factors into our investment research process to enhance our clients’ risk-adjusted returns. Material ESG factors may include but are not limited to: climate change risks, social inequality, shifting consumer preferences, regulatory risks, talent management or misconduct at an issuer, among others.

This framework will provide the basis of a wider PAI process to be utilised across our wider product and service ranges.

2. Description of the principal adverse impacts and action taken or planned

SFDR requires us to disclose information on the principal adverse impacts which have been encountered by PIMCO, and a description of the action which we plan to take in respect of those identified impacts. From 2023, it is expected that this disclosure will follow a format set out in Regulatory Technical Standards issued pursuant to SFDR. The exact details of the scope and timing of these quantitative reports are yet to be finalised, but it is expected that our first report will be issued from 2023 onwards where we will report on the impact and actions taken during 2022.

With respect to 2021, PIMCO has focused on sourcing appropriate data to allow it to systematically consider PAIs and integrating this into its systems. The availability of relevant data is improving, allowing for enhanced analysis. However, it is not complete so consideration of PAIs is done on a reasonable efforts basis.

Certain accounts managed by PIMCO are targeting lower greenhouse gas emissions than their benchmarks. Many accounts and funds advised by PIMCO exclude investment in controversial weapons.

PIMCO must take its investment decisions in accordance with the mandates given to it by its clients. In general, these will permit PIMCO to consider adverse impacts to the extent that they create financial risks for a particular investment. Where PIMCO identifies an adverse impact (or impacts) which it considers likely to create material risks, PIMCO may take the following actions:

1. Decline to invest
2. Where it already holds investments in the relevant issuer, sell the investments
3. Engage with the issuer with a view to mitigating such risks

We believe that collaborating with and allocating capital toward issuers willing to improve the sustainability of their practices can generate a greater impact than simply excluding issuers with poor ESG metrics. Our approach seeks to be more inclusive and active, and we are conscious that change does not always come easily or smoothly. That is why, for us, an active hands-on engagement program is key to driving change.

PIMCO global team of 75+ credit analysts engaged 1,585 corporate bond issuers in 2021 across a range of industries and regions. More than 650 of those 1,585 issuers were engaged in depth, meaning that PIMCO held repeated discussions with the issuer on ESG topics and provided specific recommendations on ESG performance.

PIMCO prioritizes its in-depth engagement efforts on issuers where our financial exposure, influence and thematic exposure are the greatest. While climate change and ESG bonds continue to be our ongoing primary engagement targets, we expanded our bilateral and collaborative engagement to several new themes and initiatives in 2021, which will continue to be our thematic focus in the coming years:

- **Net Zero: Portfolio Emissions and Alignment with the Paris Agreement for Banks**

  PIMCO has been engaging with more than 20 global banks on implementing their carbon emission strategy and alignment with the Paris Agreement. We shared our view and recommendations on committing to net zero, setting time-bound expectations in lending policy in line with the Paris Agreement, timeline and scope of interim targets, linking targets to compensation, and so on. By partnering with investors affiliated with the Institutional Investors Group on Climate Change (IIGCC), we reinforced our expectations on climate strategy with some of these banks. Several banks have already made progress in line with our expectations on setting or implementing climate strategy. We expect more announcements from banks on interim progress in 2022.

- **Deforestation: Commitment, Traceability and Disclosure on Forest Risks**

  Halting and reversing land degradation is crucial to limiting global warming and mitigating a wide variety of risks, such as biodiversity loss and human rights violations. While our direct exposure to forest-risk commodities is limited, we engaged more than 20 companies, including food manufacturers, retailers, and banks, about their commitment to eliminating deforestation in their value chain. We emphasized the importance of supply chain traceability, independent verification and grievance mechanisms to form a robust due diligence process. We found some companies moving gradually towards physical certification and full traceability of commodities while the link between zero deforestation and net-zero commitment could be further solidified in banks' climate strategy.

- **Nutrition: Encouraging Transparency, Ambition and Accessibility of Healthy Diets**

  Food companies play a key role in mitigating the long-term economic and social risks of malnutrition and many have signed the Access to Nutrition Initiative (ATNI). PIMCO engaged with at least eight global food and beverages companies. We met with nutrition and sustainability specialists of these companies and discussed investors' expectations on their nutrition strategy and disclosure. We are delighted to see some companies actively investigate our recommendations and will continue to engage with them on progress and challenges.

- **Methane Emissions: Engaging Extensively with Energy Companies to Drive Reduction**

  Methane is the second-largest cause of global warming.[3] The energy sector is the second-largest source of methane emissions after agriculture. 4 Existing technology could cut methane emissions in half by 2030, slow global warming by 30%, and avoid a quarter of a degree Celsius in global warming by 2050.[5] PIMCO has been engaging extensively with more than 50 energy companies on reducing methane emissions. We shared our view and recommendations on measurement-based emissions reporting, best practices in target setting, and adopting industry standards for disclosure. Various companies acknowledged the importance and benefits of better methane management and are assessing the next steps based on our discussions. We have also engaged with the US EPA by endorsing robust regulatory support for methane emissions abatement.

- **National Oil Companies (NOCs): Enhancing Climate Disclosure and Strategy**

[3] https://www.iea.org/reports/methane-emissions-from-oil-and-gas
[4] https://www.iea.org/reports/methane-emissions-from-oil-and-gas
[5] https://iopscience.iop.org/article/10.1088/1748-9326/abf9c8/pdf

NOCs are responsible for approximately half of global oil production,[6] yet often lag International Oil Companies (IOCs) regarding sustainability performance. NOCs also tend to be more challenging for investors to engage given their state-owned nature. Leveraging our unique position as a major investor in sovereign debt, PIMCO has been engaging with NOCs and sovereign counterparts to discuss how their climate strategies, methane emissions reduction and measurement, health & safety, biodiversity, disclosure and transparency at both the company and national level. PIMCO also participates in collaborative engagement with NOCs to amplify our suggestions in parallel. In 2021, we have seen some NOCs making progress in climate commitments, transparency on climate risks, transition strategy and investment, with increasing openness for dialogues with investors.

3. Summary of shareholder engagement policies

PIMCO has implemented a shareholder engagement policy, for the purposes of SRD II. Our engagement policy sets out how we integrate shareholder engagement in our investment strategy.

Where we manage accounts which include shares with a listing on an EEA market or on a comparable market outside the EEA, the level of shareholder engagement will depend on a number of factors. While we may, in certain limited circumstances, actively engage with management on strategy, financial and non-financial performance and risk, capital structure, corporate governance or other issues, typically the level of our shareholder engagement is limited to the responsible exercise of voting rights in accordance with PIMCO's Global Proxy Voting Policy.

SEPARATELY MANAGED ACCOUNTS

PIMCO offers separately managed accounts ("SMAs") which may be "financial products" for the purposes of Article 2(12) of SFDR. Portfolios managed under SMAs are tailored to meet each client's unique guidelines and objectives and may be capable of qualifying as a financial product referred to in Articles 8 or 9 of SFDR.

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[6] https://www.iea.org/reports/the-oil-and-gas-industry-in-energy-transitions

Investment Objective; Promotion of Environmental or Social Characteristics

The content of each SMA (including investment objectives and guidelines agreed with the client) is confidential to each client. However PIMCO may agree a range of approaches to promoting environmental or social characteristics or incorporating these as an investment objective. These may include investing by reference to ratings provided by external vendors or targeting particular characteristics more specifically.

Investment Strategy

Investment strategy will be agreed on a case by case basis. However, PIMCO is a signatory of the United Nations Principles for Responsible Investment (PRI) since 2011 and integrates relevant Environmental, Social and Governance (ESG) factors into its firm-wide investment research process to enhance clients' risk-adjusted returns. Material ESG factors may include but are not limited to: climate change risks, social inequality, shifting consumer preferences, regulatory risks, talent management or misconduct at an issuer, among others.

Where appropriate and/or where agreed with the client, PIMCO applies our proprietary ESG Exclusions and Evaluation processes. Companies with business practices that are misaligned with sustainability principles – both by their governing terms and in practice – are excluded from the SMA. Companies are also evaluated on their ESG credentials and those with best-in-class ESG practices are favored, as the portfolio seeks to promote positive environmental and social characteristics. Critically, the team engages collaboratively with companies, encouraging them to improve their ESG practices and influence long term change.

Methodologies and Data Sources

PIMCO relies primarily on internal research for decision-making; however, PIMCO also screens substantial amounts of external research. The research and analysis provided by external data providers is one of many factors in PIMCO's ESG analysis of issuers, the outcome of which is a proprietary ESG assessment and score which may differ significantly from that of other providers.