PIMCO

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# PIMCO's Best Practice Guidance for Corporate Sustainable Bond Issuance

PIMCO outlines the following best practices for issuers of labelled bonds[1].

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**Outline:**

I) Best practice guidance for labelled use-of-proceeds bonds
II) Sustainability-linked bonds
III) Background on PIMCO Sustainable bond and climate engagement frameworks
IV) Best Practice Guidance for conventional bond issuance
V) Other resources

## I) Best practice guidance for labelled use-of-proceeds bonds

- **International Capital Market Association (ICMA) Principles and Guidelines:** Bond framework should be clearly aligned with ICMA Green and Social Bond Principles and Sustainability Bond Guidelines with specific details where feasible (e.g., setting out eligibility thresholds, examples of investments linked to positive sustainability outcomes).
- **Sustainable Development Goals (SDGs)**: Use of proceeds should be clearly aligned with the Sustainable Development Goals (SDGs), with impact reporting referencing specific targets or indicators. ICMA has provided a high level mapping to the SDGs and the United Nations Development Programme (UNDP) has developed SDG Impact Standards for Bond Issuers.
- **Sustainability disclosure and connection with the issuer long-term strategy**: Bond framework should be aligned with sustainability objectives that are connected to the firm-wide business strategy and a robust disclosure, e.g.:
    a. Governance and disclosure aligned with standards and frameworks such as Task Force on Climate-related Financial Disclosures (TCFD), International Sustainability Standards Board (ISSB) or Greenhouse Gas (GHG) Protocol, including disclosure of Scope 1, Scope 2, and Scope 3 GHG emissions where material, and the related risks[2].
    b. Ambitious greenhouse gas emission reduction target recognized by standards or scenarios such as those developed by the Science-Based Target initiative (SBTi) and Science-Based Targets Network, or sector and activity-specific, consensus frameworks [3].
    c. Business and investment mix shift as per recognized standards or scenarios such as the International Energy Agency (IEA) and Intergovernmental Panel on Climate Change (IPCC)/Paris agreement-aligned pathways for Net Zero Transition Plans, including sector specific indicators, e.g., coal or internal combustion engine scale down and phase out for utilities and auto, respectively.
    d. Alignment with global norms, including social safeguards, such as the UN Global Compact, UN Guiding Principles on business and human rights, OECD Guidelines for multinational enterprises and ILO Conventions.
- **Use of proceeds (UOPs):** The issuer should communicate the expected UOP by type of activity (e.g., renewable energy by type, building by green certification level) and type of spending (e.g., capital expenditures versus operating expenditures) ahead of the new issue.

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[1] Labelled bonds refer to green, social, sustainability, and sustainability-linked bonds, as well as other labels and secondary designations such as blue, nature, and transition bonds.

[3] Including sector-specific standards and guidance which may emerge, such as the Methane Finance Working Group's "Guidance for Including Methane Abatement in Oil & Gas Debt Structuring"

a. UOP should finance/refinance eligible capital or operating expenses, not philanthropic efforts.

b. Potential project pipeline: UOP on projects should disclose the total expected cost of the possible project pipeline.

- **Lookback period:** If using a lookback period, issuer should indicate how much of the use of proceeds (UOP) will be allocated to projects already funded (approximate estimate can be acceptable).
  a. Preference is for UOP to fund new investments.
  b. If UOP will be used to refinance or re-label prior spending, this should be disclosed.
  c. Strongest framework would be those with an explicit cap on refinancing and with short lookback periods.
- **Negative impacts and Exclusions:**
  a. Exclusions should include relevant details (e.g., metrics and thresholds used where appropriate, value chain level, alignment with firm-wide policies).
  b. Framework should outline safeguards to avoid (as much as possible) unintended negative externalities. For projects where significant negative externalities are possible, the disclosure before the issuance of a strong social/environmental risk assessment from a reputable third-party provider is recommended. ICMA lists potential environmental and/or social risks associated with eligible project categories in the appendix of its Handbook – Harmonised Framework for Impact Reporting.

- **Time Period Of Allocation and Duration of activities:**
  a. Operating expenses should be supported by a compelling case (e.g., maintenance costs related to green assets, or research and development spending into breakthrough low-carbon technologies) or kept to a minimum. If an issuer includes operating expenses (e.g., spending on suppliers based on sustainability criteria), it is the issuer's responsibility to provide justification on how such operating expenses translate into consistent spending in the long term, and align with an ambitious long-term sustainability strategy for the underlying themes (e.g., responsible sourcing, also see 7.b).
  b. Eligible projects should have duration at least equal to the full life of the bond**:** Or the issuer should commit that repayments and maturing investments will be reinvested in additional eligible projects until the maturity of the bond.
     1. For example, proceeds used to purchase goods for sale or make loans should be renewed over the expected life of the issue or longer.
     2. The reinvestment commitment aligns the "flow" UOP for the purchase of sustainable cost of goods sold (COGS) with a "stock" UOP that funds long-term capital investments (e.g., solar and wind generation).
- **Transparency and Verification:** Provide supporting documentation to investors in a timely fashion so they can make an informed underwriting decision, at least a full working day prior to issuance (for syndicates).
  **a.** **Bond framework** should ideally be a standalone document (i.e., not only as a Use of Proceeds statement in the prospectus or pricing supplement) available publicly on the issuer's website. In jurisdictions where there are legal challenges to publishing a separate framework in advance of a new issuance, issuers should ideally make the framework available on their website as soon as feasible after the deal is announced.
  **b.** **External review** (second party opinion, verification, or certification). Verification is currently not a requirement to achieve Green Bond Principles (GBP), Social Bond Principles (SBP) alignment, though this is recommended practice.
     - Climate Bonds Standards: more climate-science focused, this standard goes beyond the ICMA Green Bonds Principles to set forth more targeted eligibility criteria and broader requirements.
     - We have preference for second-party opinion (SPO) providers that holistically assess the framework against best practices, including its sustainability impact and references to the relevant sections of the complete ICMA's guidance (e.g., Q&A), rather than just confirming alignment with ICMA Principles. This involves addressing both the strengths and weaknesses of each framework and evaluating the alignment with global norms both before and after the issuance.
  **c.** **Sustainability report or update** for the issuer and/or parent company.
  **d.** **Previous labelled bond reports** (allocation, impact).

- **Management and Allocation of Proceeds, including temporary use of proceeds**: Issuers should avoid "temporary" Use of Proceeds. In cases where this is unavoidable, the issuer should transparently justify any temporary uses related to debt refinancing or investment (e.g., project timetable, detailed disclosure and appropriate timeline for full allocation), demonstrating that the delay in allocation to Eligible Projects is minimized. The debt repayment and investments concerned should not be related directly or indirectly to any activities misaligned with the green bond objectives or ESG exclusion criteria (e.g., General Corporate Purpose assets that may be linked to certain fossil fuel projects or dividends to shareholders of companies involved in such activities).
- **Impact Reporting:** Should be In line with ICMA principles, for impact reporting (including its Excel template), and the SDGs:
    a. Issuers should commit to providing an updated impact report including outcome metrics annually as long as each bond remains outstanding and there are material updates, allowing investors to track changes and progress. The first report should be published no later than one year after the initial bond issuance. Any delay on the reporting should be proactively communicated and clearly justified. Best practice is to report on the expected impact of the projects ahead of the issuance where relevant (e.g., if a Life Cycle Assessment (LCA) of the potential impact of the project or products linked to the expenses has been undertaken).
    b. Impact reporting should link to firm-wide targets (e.g., if the company is targeting a 30% reduction in carbon intensity by 2025, they should present this in the framework document alongside metrics that the company reports related to the bond).
    c. Standardized format should enable aggregation from an investor's perspective and automation by third party services (e.g., Bloomberg), with outcome metrics attributable to the specific investments funded by the UOP and each bond (i.e., reporting 'per security'). Investors need to be able to calculate their impact per unit of investment in the bond and need to be able to aggregate impacts at a portfolio level across multiple bonds. Example of good practice: Nordic Investment Bank (NIB)'s impact tables.
    d. Regarding carbon emissions, issuers should include both avoided emissions and aggregate absolute (scope 1, 2, and, where material, scope 3) emissions, as well as carbon intensity based on relevant output-based metrics where applicable (e.g., megawatt hour (MWh) for energy or square meter for real estate), to allow comparison with firm-wide carbon performance and peers in a portfolio context, and in line with the Greenhouse Gas (GHG) Protocol that indicates 'Companies should not make claims about positive impacts without being transparent about whether their Scope 1, 2, and 3 emissions are increasing or decreasing', and Partnership for Carbon Accounting Financials (PCAF) that includes UoP structures in its financed emissions standard. Example of good practice: Castellum. The Greenhouse Gas Protocol defines Scope 3 emissions as all indirect emissions in the value chain of a company not captured in Scope 2, indirect emissions from the generation of purchased energy, or Scope 1, direct emissions from owned or controlled sources. The identification of real-economy GHG emissions reductions is also encouraged (i.e., distinction between projects that result in GHG emissions reductions versus those showing GHG emissions benefits based on other factors, such as a change in the ownership of the project).
    e. Provide specific guidance about output-based metrics (buildings per exact certification level, e.g., Leadership in Energy and Environmental Design (LEED) Silver or above, and energy performance improvements for retrofits, e.g., two notch increase in Energy Performance Certificate (EPC) label). Example of good practice: ARE.
    f. Include the geographic location of each project. Example of good practice: Avangrid
    g. Provide 'ownership' impact metric, total and project specific data. Example of good practice: MUFG. Investors need to attribute outcome metrics relative to the amount invested in the bond. Issuers should report the [Outcome Metric] volume that can be attributed specifically to the investment funded by the bond and all firm-wide numbers need to be on a bond-by-bond basis. In cases where the bond only partially funds a larger project, the portion funded by the bond needs to be disclosed on a project-by-project level.
    h. Include details on the methodology and calculation for the metrics reported including emission factors, including independent verification. Example of good practice: BBVA .

Recap of noteworthy practices structured per sector, including additional examples:

| Sector | Example | Good Practice for disclosing… | Source |
|---|---|---|---|
| Banks | **KBC Groep NV** | Methodology to calculate avoided emissions, including independent verification | Link |
| Banks | **ING** | Methodology to calculate avoided emissions, including consultant input and publication of both pre and post issuance impact reports | Link |
| Banks | **Bank of America** | Details on projects financed in a dedicated webpage including key bond documents | Link |
| REIT | **Globalworth** | Detailed environmental data on the portfolio's carbon and energy intensity and performance over time including like for like | Link |
| REIT | **Citycon** | Providing the BREEAM or LEED Certification level for each project, accessibility by low-carbon transportation | Link |
| Utilities | **Orsted** | Granular and comprehensive green bond impact reporting, including connections with firm-wide strategy and targets | Link |
| Utilities | **Iberdrola** | Granular and comprehensive green bond impact reporting | Link |
| Utilities | **Xcel** | Holistic approach that includes social indicators mapped to the SDGs | Link |
| Telecom | **Nippon Telegraph and Telephone** | Allocation and impact report overall and per bond | Link |
| Telecom | **Telefonica** | Audited impact measurement including detailed allocation, impact methodology and several Key Performance Indicators (KPIs). | Link |
| Government-related | **NIB** | In a user friendly and standardized format that enables aggregation from an investor's perspective and to produce annual data (impact tables in Excel) | Link |
| Government-related | **SNCF** | Detailed methodology for avoided emissions on a lifecycle basis | Link |

EXAMPLES PROVIDED FOR ILLUSTRATIVE PURPOSES ONLY

- **Regional frameworks (e.g., Taxonomy, Green Bond Standard, ESMA Guidelines on funds' names and Paris-Aligned Benchmark or PAB's exclusions)**: Proactively communicate the estimated alignment with the applicable framework, the allocation and the issuer's itself where appropriate. For example, for the EU:
    a. Including data such as the Use of Proceeds' alignment with the EU taxonomy for sustainable activities, in conjunction with firm-wide numbers (share of turnover, capex, opex), as well as the funding of fossil fuels, and specifically activities ineligible based on the EU PAB exclusions. It is recommended that issuers explicitly clarify their alignment with the EU PAB rules as part of their bond marketing.
    b. Wherever possible and appropriate, issuers should ensure that the Use of Proceeds is aligned with the latest technical screening criteria (e.g., <Xg CO2 /kWh for electricity generation, etc.) and that the bond is more broadly aligned with the other proposed core components of EU Green Bond Standard.
    c. Issuers of bonds that adhere to the EU Green Bond Standard are encouraged to clarify in their bond documents – and demonstrate - that they also adhere to the ICMA Principles.
    d. This guidance, especially as it relates to EU's taxonomy disclosure and the exposure to activities excluded based on PAB, is relevant for issuers based outside of the EU as well to expand the set of investors that may be able to invest in the bond.
- **Ambition.**
    a. **Eligibility thresholds:** Meaningful improvements versus business as usual and the ambition to be increased over time, hence eligibility criteria to be tightened, not loosened (e.g., at least a 30% improvement for buildings retrofits and if possible higher). This will likely vary based on an individual issuer's baseline and capex plan within the context of its growth and balance sheet stability.
    b. **Types of expenses:** Emphasize investments that are the most pressing and critical to advance the Paris Agreement on climate change (e.g., Capital Expenditures and Research & Development expenditures into areas identified as priorities and leading to meaningful carbon savings for issuers' core business and assets, e.g., renewable energy generation and infrastructure, energy storage, electrification of energy end-use, green hydrogen, energy storage,

sustainable bioenergy, alternative proteins, instead of Corporate Renewable PPAs and operational expenditures linked to modest energy efficiency improvements).

c. **Clear case for additionality** (where applicable, notably for forward-looking expenditures): The framework should include a clear rationale for how the issuance of the specific bond is enabling:
   1. Additional scale of the investments.
   2. A faster pace of implementation
   3. The inclusion of projects or activities which would not have occurred otherwise. This is particularly relevant for issuers in high-emitting sectors.

- **Transition finance.**
  a. ICMA's Climate Transition Bond Guidelines and Finance Handbook provide guidance for issuers in 'hard to abate' sectors and fossil fuels to demonstrate their credentials, and a registry of tools to support this evaluation.
  b. PIMCO encourages bond issuers related to the energy sector to utilize the "Guidance for Including Methane Abatement in Oil & Gas Debt Structuring", as a reference for UoP categories where methane and flaring reductions are a focus.

- **Labels and secondary designations:** In light of emerging labels and secondary designations such as blue, nature, and workforce housing bonds we encourage market participants to categorize issuances as green, social, transition, sustainability, or sustainability-linked bonds, and use other terms as secondary designation.

- **Green Bank Additional Tier 1 / Preferred Capital**: Use of proceeds perpetual capital instruments are not favored. The AT1 structure is capital for regulatory purposes, which means that its Use of Proceeds cannot be used directly to fund Green lending (loss absorbing equity capital; perpetual maturity; bail-in eligible; regulatory call dates; etc.). Our view is that Green, Social and Sustainability bonds that are intended to support lending for Eligible Projects should be limited to Senior and Subordinated instruments.

## II) Sustainability-linked bonds

1. **ICMA's Sustainability-Linked Bond Principles (SLBP)** provide a framework for issuers to connect financing needs with the achievement of firm-wide sustainability performance and targets that advance global objectives such as the Paris Agreement or United Nations (UN) Sustainable Development Goals (SDGs). PIMCO sees bonds linked to the global net zero goal and the SDGs as an emerging best practice for issuers seeking to demonstrate positive sustainability outcomes. We encourage issuers to come to the market with frameworks that align with these voluntary process guidelines (including the Q&A that is part of the ICMA Guidance Handbook), particularly for issuers in carbon intensive industries looking to make progress.
2. The table below identifies potential themes, SDGs, metrics and benchmarks that could inform the two first components of the SLBP, namely: **1) The selection of key performance indicators (KPIs); and 2) Calibration of sustainability performance targets (SPTs).**
   a. ICMA's Illustrative KPIs Registry includes high-level recommendations as well as illustrative examples for the selection of Key Performance Indicators (KPIs) for Sustainability-Linked Bonds (SLBs). We advise against the use of ESG ratings as KPIs or ESG KPIs that do not pass the materiality test (e.g., only including scope 1 and 2 emissions even if scope 3 represents 40% or more of overall emissions), and encourage issuers to build on resources such as ICMA's KPI table and materiality map to incorporate several relevant and material KPIs that are not restricted to greenhouse gas emissions (e.g., food and beverages companies have an opportunity to include metrics related to the circular economy, water and nutrition, in addition to scope 3 emissions).
   b. The EU's resources on the taxonomy provide another useful resource that issuers may leverage when issuing a Sustainability-linked bond. For example, issuers may contemplate targets that would include an increase in the share of revenues, loans or investment that is associated with activities compatible with the eligibility criteria.

**Potential KPIs for Sustainability-Linked Bonds**

| Topic | SDG | Firm-wide target | Initiative or benchmarks |
|---|---|---|---|
| **Carbon emissions** | 13 | Paris-alignment or net zero carbon emissions based on absolute greenhouse gas emissions and carbon intensity where applicable (e.g., CO2/MWh or square meter) | Science Based Target initiative, Climate Action 100+ Net Zero Benchmark |
| **Circular economy** | 12 14 | Phasing out single-use plastics, % of recyclable, reusable or compostable plastic packaging, % of bio-based materials | New Plastic Economy Global Commitment |
| **Deforestation** | 12 15 | 'No Deforestation, No Peat, No Exploitation' (NDPE, including full traceability across supply chain (e.g., % of supply chain being traceable) and % of certified products, ideally moving from mass balance to segregated / identity preserved | CDP, Forest 500 |
| **Electric vehicle** | 11 | Share of battery electric vehicle in the fleet and lifecycle GHG emissions of the fleet (intensity and absolute) | EV100 |
| **Health and Nutrition** | 2 3 12 | Increased/decreased exposure to products associated with positive/negative nutrients and health outcomes (sodium, sugar, bad fats vs protein, fiber), affordability and health outcomes | Access to Nutrition Index, nutrient profile systems, WHO guidelines |
| **Renewable energy** | 7 | Share of renewable electricity consumption / production | RE100 |
| **Water** | 6 | Water intensity reduction, water withdrawals monitoring and reduction (context-based), supplier engagement, Water, Sanitation & Hygiene (WASH)) | CDP, CEO Water Mandate, Science Based Targets Network |
| **Oil & Gas Value Chain** | 12 9 | Intensity & Absolute Methane & Flaring reduction targets, Activities to prevent routine flaring and venting across the asset base | Methane Finance Working Group |

EXAMPLES PROVIDED FOR ILLUSTRATIVE PURPOSES ONLY

In relation to, or in addition to the guidelines outlined by the SLBP and its Q&A:

3. To be compelling, **SLBs should include an interim SPT to reflect the issuer's commitment to make consistent progress and the importance of clear intermediary targets** (i.e., coupon step-up instead of variable redemption amount at maturity or coupon step-down). We do not regard SLBs with long maturities (>5yrs) that do not have an interim step as a sensible option and see an opportunity for issuers to include shorter dated trigger dates.

4. PIMCO encourages issuers to incorporate **progressive milestones into their SPTs to ensure that issuers demonstrate progress throughout the life of the bond**. For example, a ten-year bond with a KPI measuring the issuer's share of renewable electricity generation could include multiple SPTs over the life of the bond (e.g., 40% by year 3, 50% by year 5, and 60% by year 7, etc). Alternatively, we recommend issuers to include a clause in the prospectus stating that the most recent and ambitious target of the issuer on a selected KPI and SPT will automatically apply on all outstanding bonds using the same KPI and SPT definition.

5. **External verification of the historical performance for the KPI is recommended to be provided prior to the issuance, including for the baseline,** and the issuer is encouraged to disclose relevant details regarding the methodology for the KPI calculation and data quality based on recognized standards (e.g., Partnership for Carbon Accounting Financials (PCAF) for financed emissions, the Oil and Gas Methane Partnership for methane).

6. **PIMCO recommends practices in line with typical covenants for bonds that are not labelled as 'sustainable'** to facilitate the mainstreaming of the instrument and its connection with credible and ambitious targets, i.e., changes in the financing conditions including cash payments to investors rather than charitable donations, higher coupon step-ups for HY than IG issuers.

7. **Combining the use of proceeds approach (green bond) with the Sustainability-linked bond format** into one framework and issuance is encouraged for sectors with sizeable direct capital expenditures that would qualify as green expenses directly linked to the advancement of a climate target incorporated into the SLB, e.g., notably among hard to abate sectors. The connection between a SLB and issuer's expenses can also be achieved via the incorporation of a taxonomy capex and/or opex target into the bond.

8. **The reporting should provide relevant data to help assess the issuer's strategy to meet the target.** This involves ideally a quantification of the different levers expected to advance the target prior to the issuance and, post issuance, historical performance disclosure including attribution (respective contribution of the different factors to the overall change in emissions).
For example, in the context of greenhouse gas emissions reduction targets, we suggest to distinguish on a best effort basis the following factors (building on the GHG Protocol):
    1) Changes in the reporting scope due to acquisitions, divestments, and mergers
    2) Estimation methodology or data quality e.g. based on errors corrected
    3) Aggregation methodology (e.g. equity share versus control/operational)
    4) Real-economy reductions based on targeted measures (e.g. efficiency improvement, material or fuel substitution)
    5) Others e.g.
        a. Closure
        b. Production level

    For broader SLB reporting guidance, see ICMA's SLB disclosure data checklist.

9. We recommend issuers who have several targets and SLBs outstanding to produce a **consistent aggregated dashboard** including key information mapped to the different data specific to each SLB (e.g., observation date, Sustainability Performance Target, reporting date, step-up date (start accruing), first stepped up coupon date (payment date):
    - Emission (or other ESG KPI) reduction scope/perimeter (e.g. all business activities and subsidiaries)
    - Targeted reduction level.
    - Timeline (year – short to long-term).
    - Progress achieved to date (e.g., % reached).
    - Levers to advance the target.
    - Note on the methodology
    - Any external benchmark used or validation e.g. SBTi

    Similarly, if the methodologies or values in their SLB bond documents and marketing documents differ from the latest issuer-level sustainability disclosure (e.g., sustainability reports), the issuer should proactively disclose and explain these differences where relevant.

    Note that we also see the disclosure of such dashboard as relevant for use of proceeds bonds for targets that are related to the project(s) funded.

10. **Call dates:** best practice would include a clause whereby the step-up is triggered assuming the target is missed if the bond is called prior to the observation date, or a similar mechanism whereby the status based on the latest reported year is used if it is a reasonable alternative (e.g., if it is called close to the observation date and the proportional rate of change ensuring the same level of ambition is checked).

11. **Coupon step-up date:** the timing of the coupon step-up should be as close as possible to – and ideally align - the date of the payment to investors with the date at which the company actually fails the SPT.

## III) Background on PIMCO green bond and climate engagement frameworks

### PIMCO green bond framework

Our framework (outlined in our Sustainable Investing Report) assesses these instruments both prior to and after issuance, mapping them across a spectrum based on three criteria:

1. Strategic fit: Alignment of the issuers' climate / environmental / social strategies with the bond's objectives and use of proceeds.

2. Impact assessment: Evidence of significant positive outcomes compared to "business as usual" by the issuer.
3. Red flags and reporting: Screening for "red flags" and controversies and analysis of reporting and process (misalignments to market standards (e.g., Green Bond Principles)).

The same approach is being taken for other ESG labelled bonds and results in a score and ESG recommendation regarding the suitability of these bonds for PIMCO's portfolios.

**PIMCO expectations towards issuers on climate change**

We evaluate the evidence of issuer's best effort and performance in relation to the following points, acknowledging issuers are at various stages, and the importance of the direction of travel and momentum. These expectations build on several frameworks, including the Task Force on Climate-related Financial Disclosures, International Sustainability Standards Board (ISSB) and Science-Based Target initiative.

Issuer's response to these questions inform: 1) Our green bond framework criteria (strategic fit) for our green bond score at the issuance level and; 2) PIMCO's environmental assessment and score at the issuer level.

Both scores are integrated into PIMCO's credit research notes.

| | | | |
|---|---|---|---|
| **Climate Awareness** | ***Recognition*** | i | Does the issuer recognize climate change as a significant issue and has it developed a policy? |
| **Climate Readiness** | ***Reporting*** | i | Does the issuer report both its absolute and relative greenhouse gas (GHG) emissions across the entire value chain (including material scope 3 categories), including carbon intensity based on relevant production metrics if appropriate (e.g., MWh for Utilities, km for Auto) and both current and historical performance? |
| | ***Target*** | ii | Has the issuer set a GHG emissions reductions target? |
| **Climate Alignment** | ***Scenarios*** | i | Does the issuer carry out and disclose a comprehensive and quantitative scenario analysis, including conclusions regarding the financial impact and with reference to transition risk, e.g., policy shift towards 1.5-2°C temperature rise scenario, and physical risks, e.g., rise in frequency of extreme weather events? |
| | | ii | Does the issuer use an internal price of carbon consistent with the transition to net zero emissions by 2050 for its most relevant value chain impact (e.g., scope 3 for oil and gas, and auto) and factor it in to business planning and investment decisions? |
| | ***Strategy*** | i | Has the issuer set a net zero commitment and Paris Agreement-aligned (1.5°C science-based) GHG emissions reductions targets (including interim targets across all relevant scopes) and had it verified by the Science-Based Target initiative (SBTi)? |
| | | ii | Does the issuer report a detailed transition plan including the respective contribution of all the levers to the total GHG emissions reductions and the investments associated with those (quantified plan setting out the measures)? |
| | | iii | Does the issuer report evidence that its business plan and broader actions are fully aligned with the Paris Agreement (e.g., capex, R&D, technology, revenues, profit exposure outlook, climate policy engagement) and potential climate adaptation needs (resilience to physical risks)? |
| | | iv | If the company has set a net zero target, 1) which share of lifecycle emissions does it cover; 2) does it plan to absorb and offset emissions in line with the mitigation hierarchy (reducing emissions as a first order priority); and 3) does the company disclose the absorption and offset mechanism details (including alignment with science and certified methods of GHG removal and offsetting)? |

**FOR ILLUSTRATIVE PURPOSES ONLY**

**Contact: ESG_Analyst_Inquiries@pimco.com**

## IV) PIMCO's Best Practice Sustainability Guidance for Corporate Conventional Bond Issuance

PIMCO outlines the following best practices for issuers to communicate sustainability information when issuing conventional bonds* seeking interest from sustainability minded investors.

1. **Sustainability target dashboard**
    a. Presented in a clear table showing progress towards key targets and the drivers behind them (e.g., baseline, % change since then, historical values, target value, end date)
2. **Greenhouse gas emissions target**
    a. **Expected alignment with the Paris Agreement**
        - Science-based target set / validated:
        - Another framework or benchmark:
    b. **Not aligned, but substantial expected GHG emissions reduction:**
3. **Activity exposure**
    a. **Sensitive sectors**
        - ESMA excluded sectors** (% of sales):
        - Others, if material, e.g., gambling, conventional weapons, adult entertainment, alcoholic beverages (% of sales):
    b. **Sustainable activities*****
        - EU taxonomy**** (%)
            - Capex:
            - Sales:
            - Opex:
        - Other taxonomy or definition (specify):
            - Capex:
            - Sales:
        - Any notable relationship between the bond's use of proceeds and these sustainable activities***** and ESMA excluded sectors**:
            - % of public bond proceeds expected to be associated with sustainable activities:
            - % of public bond proceeds expected to be associated with ESMA excluded sectors:
4. **Resources**
    - Link to the latest Sustainability/Integrated report:
    - Where can information be found on the PAI (specific page or document if distinct from the Sustainability report)****:
5. **Alignment with voluntary disclosure, international norms or target setting frameworks**
    - ISSB/TCFD:
    - TNFD:
    - CDP:
        - Carbon
        - Water
        - Forest
    - SBTn:
    - UN Global Compact:
    - UN Guiding Principles on businesses and human rights:
    - OECD Guidelines for multinational enterprises:
    - ILO Conventions:

* Conventional bonds refer to bonds without a sustainable or ESG label, i.e., excluding Green, Social, Sustainability and Sustainability-Linked Bonds (SLBs) as defined by the ICMA, as well as other labels and secondary designations such as blue, nature and transition bonds.
** Exploration, mining, extraction, distribution or refining of hard coal and lignite; exploration, extraction, distribution or refining of oil fuels; exploration, extraction, manufacturing or distribution of gaseous fuels; revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh
*** Sustainable activities defined as products and services with material sustainability benefits related to the advancement of global goals such as the Sustainable Development Goals (SDGs) and the Paris Agreement. Specific SDG mapping is recommended where relevant.
**** Primarily relevant for European issuers but welcomed from non-European issuers as well where appropriate

***** For example, M&A activities that allow to increase the exposure to sustainable solutions, or proceeds used to finance increased capex into these solutions

| Acronym | Full form |
|---|---|
| **CDP** | Carbon Disclosure Project |
| **ESMA** | European Securities and Markets Authority |
| **ICMA** | International Capital Market Association |
| **ILO** | International Labor Organization Conventions |
| **ISSB** | International Sustainability Standards Board |
| **OECD** | Organization for Economic Co-operation and Development Guidelines for Multinational Enterprises |
| **PAI** | Principal Adverse Impacts |
| **SBTN** | Science-Based Targets Network |
| **SDGs** | Sustainable Development Goals |
| **SLBs** | Sustainability-Linked Bonds |
| **TCFD** | Task Force on Climate-related Financial Disclosures |
| **TNFD** | Taskforce on Nature-related Financial Disclosures |

v) **Other resources**

UNGC CFO Primer on Sustainable Bonds

ICMA Principles and related guidance

Guidance for Including Methane Abatement in Oil & Gas Debt Structuring

**IMPORTANT INFORMATION**
Please note that these best practices contain the opinions of the manager as of the date noted, and may not have been updated to reflect real time market developments. All opinions are subject to change without notice.

Environmental ("E") factors can include matters such as climate change, pollution, waste, and how an issuer protects and/or conserves natural resources. Social ("S") factors can include how an issuer manages its relationships with individuals, such as its employees, stakeholders, customers and its community. Governance ("G") factors can include how an issuer operates, such as its leadership, pay and incentive structures, internal controls, and the rights of equity and debt holders.

PIMCO is committed to the integration of Environmental, Social and Governance ("ESG") factors into our broad research process and engaging with issuers on sustainability factors and our climate change investment analysis. At PIMCO, we define ESG integration as the consistent consideration of material ESG factors into our investment research process with the goal of enhancing our clients' risk-adjusted returns. Relevant factors may include, but are not limited to: climate change risks, resource efficiency, natural capital, human capital management, human rights, regulatory risks, and reputation risk at an issuer. Further information is available in PIMCO's Sustainable Investment Policy Statement.

With respect to comingled funds with sustainability strategies and guidelines ("funds that follow sustainability strategies and guidelines"), we have built on PIMCO's over 50-year core investment processes, while actively incorporating sustainability principles. Through these guiding principles—excluding issuers fundamentally misaligned with sustainability factors, evaluating issuers using proprietary and independent ESG scoring (in addition to externally sourced and internally developed criteria), and engaging with issuers on ESG-related topics with the objective of improving investment outcomes - funds that follow sustainability strategies and guidelines seek to deliver attractive returns while also pursing to provide a vehicle through which investors can meet their sustainability preferences. Please see each fund that follows sustainability strategies and guidelines prospectus for more detailed information related to its investment objectives, investment strategies and approach to ESG.
There is no assurance that the socially responsible investing strategy and techniques employed will be successful.

**A word about risk: All investments** contain risk and may lose value. 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 low interest rate environments increase this risk. 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. **REITs** are subject to risk, such as poor performance by the manager, adverse changes to tax laws or failure to qualify for tax-free pass-through of income. **ESG investing is qualitative and subjective by nature**, and there is no guarantee that the factors utilized by PIMCO or any judgment exercised by PIMCO will reflect the opinions of any particular investor, and the factors utilized by PIMCO may differ from the factors that any particular investor considers relevant in evaluating an issuer's ESG practices. In evaluating an issuer, PIMCO is dependent upon information and data obtained through voluntary or third-party reporting that may be incomplete, inaccurate or unavailable, or present conflicting information and data with respect to an issuer, which in each case could cause PIMCO to incorrectly assess an issuer's business practices with respect to its ESG practices. Socially responsible norms differ by region, and an issuer's ESG practices or PIMCO's assessment of an issuer's ESG practices may change over time. There is no standardized industry definition or certification for certain ESG categories, for example "green bonds"; as such, the inclusion of securities in these statistics involves PIMCO's subjectivity and discretion. There is no assurance that the ESG investing strategy or techniques employed will be successful. Past performance is not a guarantee or reliable indicator of future results.

**ESG-labeled instruments** are defined as green, social, and sustainable bonds and sustainability-linked bonds. **Green Bonds** are those issues with proceeds specifically earmarked to be used for climate and environmental projects. **Social Bonds** are use-of-proceeds bonds earmarked to finance new and existing projects or activities with positive social impacts. **Sustainability Bonds** are use-of-proceeds bonds earmarked to finance new and existing projects or activities with positive environmental and social impacts. **Sustainability-Linked Bonds (SLBs)** are bonds that include sustainability-linked covenants, as explained by the issuer through use of a framework and/or legal documentation.

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