PIMCO

Sustainable Investing Report

2024

A company of Allianz

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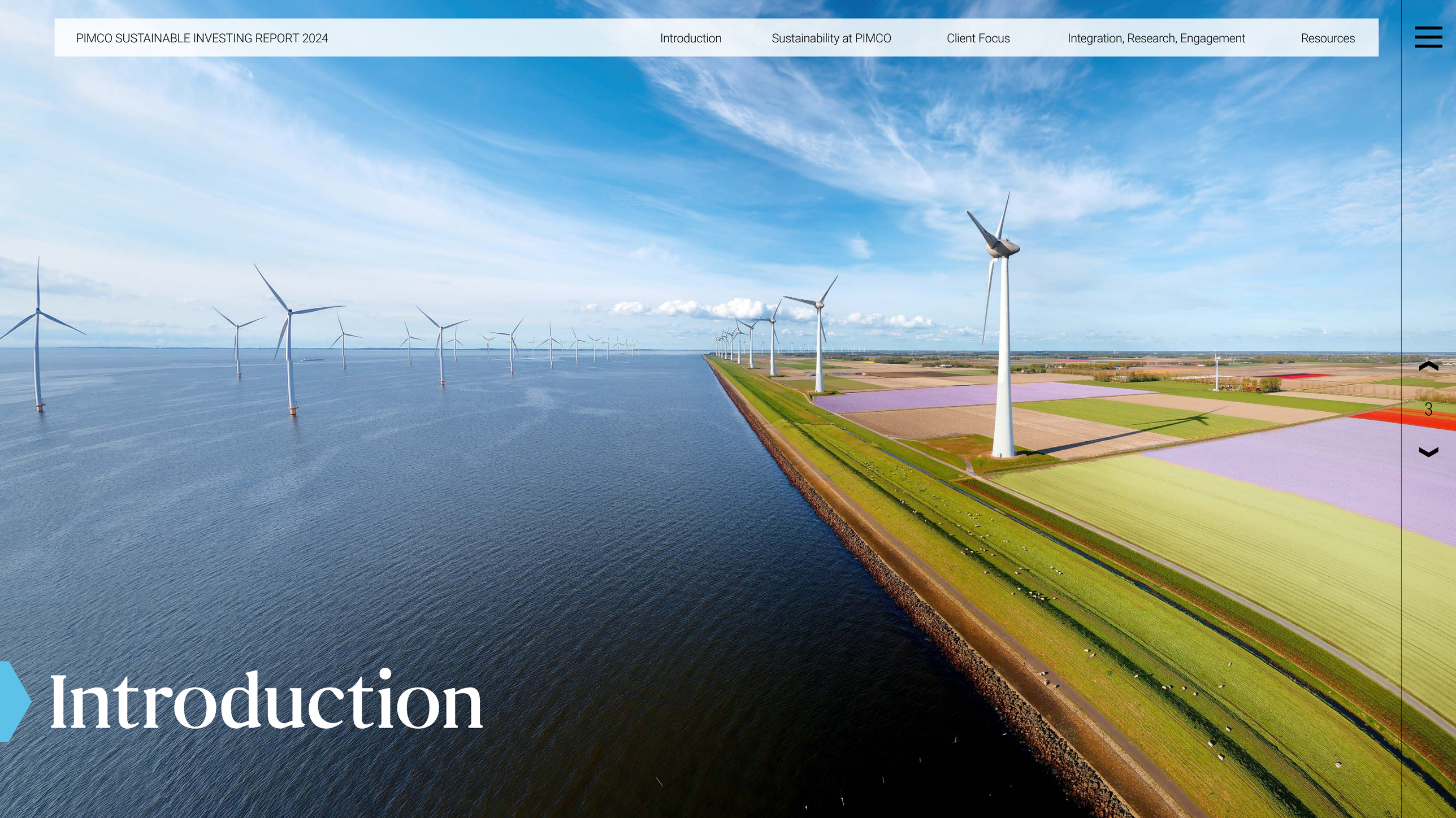


Introduction

Sustainability at PIMCO

A leading investment solutions provider

$585bn[1]

AUM in Sustainability Strategies[2]

Influencing change to benefit investment outcomes

Engagement

1500+
engagements[6]

75%+
of PIMCO's firmwide market value in corporate assets[7]

Proprietary frameworks

- PIMCO credit research and ESG analysts have scored **over 4000**[3] corporate issuers with a proprietary ESG score
- With **~85%** of the green, social, sustainable, and sustainability-linked (GSSS+)[4] bonds in the market index assessed[5]

Continued development of proprietary frameworks across multiple asset classes and themes, including:

- **Enhanced corporate sector frameworks for insurance, healthcare, banks, and telecoms**; expanded analysis of structured products including collateralized loan obligations (CLOs) for a broader range of ESG metrics, and residential mortgage-backed securities (RMBS) for loans backed by properties with attractive environmental or social characteristics.
- **Conducted in-depth climate risk analysis**, including an additional framework specifically for auto-asset backed securities (ABS), and new carbon measurement for commercial real estate.
- **Expanded analysis of relevant alternative asset classes**, where applicable, based on a proprietary taxonomy to determine an investment's alignment with sustainable economic activities.
- **Ongoing advancement of analytics to evaluate portfolios** and facilitate recommendations to portfolio managers, including a heatmap of exposure in our flagship accounts to carbon sensitive sectors and investment relative value opportunities.

[1] As of 31 December 2024; Source: PIMCO; The figure includes Third party and Allianz AUM with strategies that include (i) minimum standards that refine the investment opportunity set based on client directed exclusions criteria ("exclusionary" portfolios); (ii) a focus on enhancing the sustainable characteristics of the portfolio in comparison to its investment universe ("enhanced" portfolios) or (iii) a focus on achieving a specific environmental/ social objective in addition to a financial objective ("thematic" portfolios).

[2] Sustainable Strategies are strategies with client-driven sustainability requirements. For these strategies, PIMCO actively incorporates sustainability principles (i.e. excluding issuers fundamentally misaligned with sustainability factors, evaluating issuers using proprietary and independent ESG scoring) consistent with those strategies and guidelines. Further information is available in PIMCO's Sustainable Investment Policy Statement. For information about funds that follow sustainability strategies and guidelines, please refer to the fund's prospectus for more detailed information related to its investment objectives, investment strategies, and approach to sustainable investment.

[3] As of 31 December 2024 .

[4] Green Bonds: are a type of bond whose proceeds are used to finance or re-finance new and existing projects or activities with positive environmental impact. Eligible project categories include renewable energy, energy efficiency, clean transportation, green buildings, wastewater management and climate change adaptation.
Social Bonds: are a type of bond whose proceeds are used to finance or re-finance social projects or activities that aim to address or mitigate a specific social issue or seek to achieve positive social outcomes. Social project categories include providing and/or promoting: affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security, or socioeconomic advancement and empowerment.
Sustainability Bonds: are a type of bond whose proceeds are used to finance or re-finance a combination of green and social projects or activities. Sustainability bonds with strict accountability of the use of proceeds towards activities that advance the UN Sustainable Development Goals or SDGs may be labeled as SDG Bonds. Sustainability-linked Bonds: are bonds which are structurally linked to the issuer's achievement of certain sustainability goals, such as through a covenant linking the coupon of a bond to specific environmental and/or social goals. Progress, or lack thereof, toward the aforementioned goals or selected key performance indicators results in a decrease or increase in the instrument's coupon. In contrast to the green, social, and sustainability bonds described above, sustainability-linked bonds do not finance particular projects but rather finance the general functioning of an issuer that has explicit sustainability targets that are linked to the financing conditions of the bond.

[5] Market Index refers to the Bloomberg Global Aggregate Index. PIMCO maintains ESG scores for ~85% of the ESG labeled bonds in the Index. ESG labeled bond refers to green, social, sustainability or sustainability linked bonds based on issuer as classified by the issuer, 3rd parties or PIMCO through use of a framework and/or legal documentation.

[6] PIMCO firm-wide ESG engagement activities, 1 Jan. - 31 Dec. 2024 Over 1,500 corporate issuers engaged in 2024 refers to documented research reviews that include sustainability related topics. Engagement activities were performed by ESG research analysts (who focus on ESG related research) and credit research analysts (who focus on traditional credit research including, as applicable, sustainability factors including ESG).
Metrics describing engagement activities include certain estimates and assertions based on research activities and interactions with issuers. Due to the collaborative nature of our integrated (ESG) approach and practical challenges of measuring and recording attributable engagement outcomes, it may not always be feasible to retain granular levels of detail for each engagement activity performed. Differences in engagement practices and PIMCO internal systems used to maintain relevant records related to research activities result in varying levels of detail with respect to engagement activities conducted by ESG analysts versus credit research analysts.
While we strive for accuracy, users of this information should be aware that metrics/ data may not fully reflect the extent of our actual engagements and relationships with issuers. Interactions with issuers include both research-oriented engagement (e.g., asking questions on ESG topics) and in-depth or thematic engagement (e.g., sharing best practices and tracking progress).
We encourage stakeholders to consider this information when interpreting the data provided and to seek additional context where necessary.

[7] About 75% of PIMCO's firmwide market value of corporate issuers engaged on ESG topics from 1 Jan. - 31 Dec. 2024 Includes all engagements conducted by ESG and credit research analysts. Calculated as % AUM as of 31 December 2024. Corporate issuers are credits covered by PIMCO's corporate analyst teams.

Emmanuel Roman
CEO of PIMCO

Foreword

In last year's *Sustainable Investing Report*, we highlighted several secular and market drivers that we believed were reshaping the investment landscape – including new regulatory frameworks, the energy transition, and the emergence of new investment solutions and vehicles.

These same trends have continued in 2024 – and indeed, in many instances, are intensifying.

We observed that the energy transition stands as a topic of increasing priority in both global policy and sustainable investing. The urgency is clear: surface temperatures hit a record high in 2024 – exceeding on average 1.5 degrees Celsius compared to pre-industrial levels, according to the World Meteorological Organization (WMO). Business models across industries and regions must be proactive in considering implications for operations and performance.

Increasingly, our clients are seeking investment strategies to enhance their exposure to lower-carbon solutions. Their interests span clean energy; energy efficiency and industrial decarbonization; sustainable transportation; and adaptation and resilience to climate physical risks.

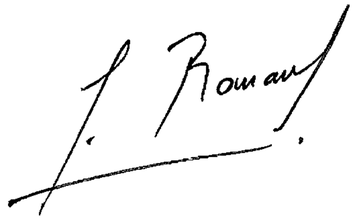
PIMCO's climate investing frameworks continue to assist our clients in navigating this transition even as we explore new areas of opportunity. Through regular engagement with investee companies – on climate change and other sustainability themes – we work to understand and influence their sustainability practices, fostering collaborative solutions with the aim of benefiting all stakeholders. In this report, you will find examples of our engagement activities related to the energy transition and from across the sustainability spectrum.

Amid a surge in global conflicts — over 50 according to the Global Peace Index, the highest number since World War II — the private sector's role in upholding human rights is essential for social, economic, and market stability. Our adherence to the UN Global Compact's human rights principles reflects this priority: we use these same principles when engaging with and evaluating both corporates and sovereigns to provide investment outcomes for clients.

This role, which includes the provision of good quality jobs and living wages, is increasingly relevant as workers and communities adjust to economic, political and energy transitions. As new challenges and opportunities emerge, we are helping our clients stay alert and respond to these dynamics in both developed and emerging economies.

In the following pages, we outline how the firm translates our commitment to sustainable investing into strategies and solutions that maximize risk-adjusted returns for all clients, including those seeking sustainable objectives, while fostering stable and resilient markets.

Thank you for your interest.



Sustainability at PIMCO

PIMCO's Sustainability Philosophy

Stewards of our clients' capital

PIMCO seeks to deliver compelling investment returns, solutions, and service to our clients. For over 50 years, our global presence, extensive resources, and time-tested investment process have helped clients meet their financial goals and investment objectives.

Client-centric sustainability approach

For clients who want to meet sustainability goals alongside financial targets, we offer a suite of dedicated investment solutions that incorporate our proprietary ESG optimization criteria. We understand that sustainable objectives vary by client, and we work closely to customize sustainability solutions.

Fiduciary duty to assess relevant risks

Consideration of sustainability factors is important for evaluating long-term investment opportunities and risks across asset classes in both public and private markets. We integrate sustainability into our investment process for actively managed assets as a key risk management strategy, where applicable. This integration may occur during both bottom-up analysis of issuers and the top-down analysis of cyclical and secular trends.

Engagement platform with issuers

As a leading fixed income manager, PIMCO has the scale to engage issuers on matters that we believe are essential to achieving strong risk-adjusted returns. We believe our size, history, and involvement in industry initiatives enables us to collaborate with issuers as they enhance their operational practices.

Walking the talk

At PIMCO, we take a comprehensive view of what it means to manage a sustainable business in an increasingly complex world. Environmental management and climate-related efforts within business operations are no doubt essential, but so too are workforce management issues – encompassing the workplace, employee wellness, and general human resources. These corporate sustainability priorities are reflected in our commitment to the UN Global Compact and its Ten Principles.

Shaping Market Convention

Transitioning to a sustainable economy with fixed income investing

Bond investors play a pivotal role in financing the transition to a sustainable economy with capital that can shape sustainable growth for generations.

At PIMCO, we integrate this view within our research, engagement, and investment activities, seeking compelling risk-adjusted investment outcomes for our clients and helping to foster a resilient global economy. This approach enhances investment insight, while promoting sustainable practices and contributing to long-term economic stability.

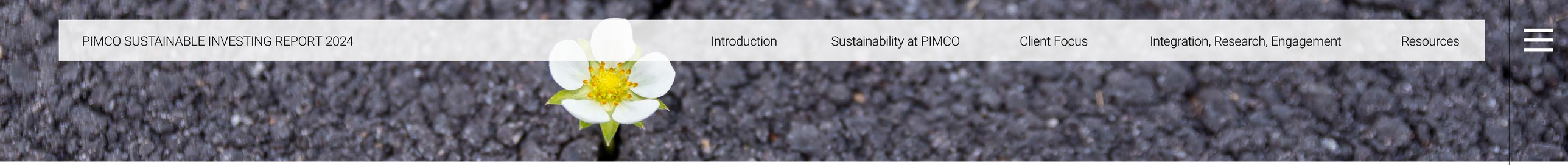
PIMCO's active influence in shaping the primary market

PIMCO's size and experience across markets enables us to play a vital role in creating economically resilient opportunities within public markets (corporate bonds, structured credit, sovereigns, municipals), and alternative investments where applicable. PIMCO's advice has been sought after by regulators, sovereigns, and central banks on sustainability-related policies and macroeconomic considerations. More broadly, PIMCO CIOs and investment leadership team serve as members on various advisory committees and industry boards across the global financial sector[8]. Additionally, The PIMCO Global Advisory Board is a team of world-renowned experts on economic and political issues. The Board members contribute their insights to the firm on global economic, political, and strategic developments and their relevance for financial markets. Our leadership in various finance and sustainable finance industry groups underscores our commitment to shaping a resilient future.

As one of the largest investors in GSSS+ bonds, PIMCO has a significant and measurable impact on the market. We leverage our position to promote market adoption and facilitate the creation of high-quality frameworks for all investors seeking GSSS+ transactions. As a member of the ICMA Principles Executive Committee since 2019, PIMCO has helped shape industry guidance through this pivotal role in collaborative efforts to develop standard guidelines of practice for capital seekers and capital providers[9]. For over a decade, we have been a leading supporter of the GSSS+ bond market and are committed to developing both primary and secondary markets for these labeled bonds.

[8] Source: PIMCO, https://www.pimco.com/gb/en/about-us/experts

[9] In 2024, ICMA and the Executive Committee of the Principle published an update of the Sustainability-Linked Bond Principles with clarifications to support Key Performance Indicator (KPI) selection and a new SLB disclosure data checklist. PIMCO led the sub working group that led to the development of this checklist that aims to enhance the disclosure of SLBs.



For GSSS+ bonds to succeed, it is essential to create a market environment that benefits all stakeholders while effectively managing ESG risks and identifying opportunities.

Creating sustainable supply

We see tremendous value in the GSSS+ bond market, which facilitates capital flow as issuers transition to more efficient and resilient operations. These transactions also promote greater transparency and accountability in how issuers deploy capital to achieve their goals.

For successful GSSS+ bond issuance and effective ESG risk management, global standard-setting is essential. Our portfolio managers and analysts actively engage with peers, clients, capital seekers, and major banking syndicates to advocate for robust bond frameworks and meaningful targets[10].

We are committed to broadening the market through activity in growing areas for GSSS+ issuance, such as asset-backed securities (notably in autos), and transition finance. We continually seek fundamentally attractive investment opportunities for clients looking to finance environmental and social improvements across sectors and markets at the frontier of sustainability.

Encouraging GSSS+ supply through engagement

Our credit research and ESG analysts regularly engage with corporate, sovereign, and quasi-sovereign entities to discuss bond issuance and encourage effective balance sheet management. This engagement provides valuable insights into management quality and governance.

In cases where sustainability topics are material, our ESG and credit research analysts collaborate to advise issuers on the types of financing they should seek, optimal structures, and our recommended criteria for CapEx/OpEx expenditures that deliver on long-term investor value and sustainable investment outcomes. We offer candid feedback, helping issuers align with best market practices. These discussions provide feedback on GSSS+ bonds, advising on how to strengthen issuer commitments and align them with global standards. Our teams conduct due diligence throughout the issuance process, actively questioning issuers and their advisors on the objectives and structure of their frameworks.

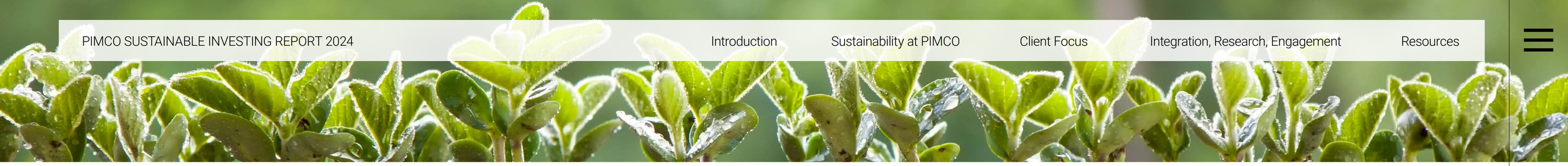
PIMCO's size, scale, and collaborative approach enable us to anchor deals for both GSSS+ and general corporate purpose (GCP) bonds, potentially benefiting our clients through favorable allocations and pricing. Our long-term relationships have influenced corporate strategies, such as encouraging green bonds from utilities to support renewable energy generation.

Financing improved sustainability and resilience

As a fiduciary, our goal is to encourage our portfolio companies to execute their growth to the benefit of our clients. This includes improvements to sustainability practices which may both save on spending and prepare the issuer to increase its competitive advantage relative to emerging secular, consumer, and regulatory trends. We believe this creates meaningful outcomes and long-term value for our clients. Our robust research process guides our integration and determination of engagement targets, executed through discussions with companies and subsequent investment decisions. Our analysts and portfolio managers maintain consistent communication with senior leadership across our investee entities, guiding the development of the sustainable bond market.

In addition to identifying specific engagement targets, we engage issuers on various elements of their sustainability strategies to support the ambition of the GSSS+ bonds they issue. These long-term relationships often include reverse inquiries for new issuance, providing investment insights and mobilizing finance for progress.

[10] For more detail, please turn to page 44 for links to our best practices documents for issuers of ESG-labeled bonds: PIMCO's Best Practice Guidance for Corporate Sustainable Bond Issuance, PIMCO's Best Practice Guidance for Sovereign Sustainable Bond Issuance, and PIMCO's Best Practice Guidance for Municipal Sustainable Bond Issuance



Engagement Approach

Engagement

As one of the world's leading bondholders, we engage with issuers on matters we believe are essential to risk and return considerations. Our goal is to uncover investment insights, mitigate risk, and capitalize on prospective opportunities that can influence investment outcomes.

We believe that collaborating with issuers to enhance their operational practices can significantly affect those with higher exposure to ESG-related risks. By engaging with companies at various stages of their sustainability journey, particularly in historically hard-to-abate sectors, we aim to create value and drive momentum forward. Our engagement practices, spanning diverse asset classes and types of issuers, are designed to promote efficiencies that may benefit additional stakeholders. Ultimately, our engagements are structured to help create investment value for our clients.

Purpose

We engage to gain investment insights, mitigate risks, and potentially contribute to investment outcomes. We believe that working with issuers can enhance their operational practices.

Consistent issuer engagement is essential, in our view, for a thorough understanding of an investment's risk-reward composition, which is critical to making informed buy or sell decisions. Thus, we believe consistent engagement enhances active investment management.

Our goal is to provide value for clients, and that goal informs how we structure engagement.

Structure

We pursue two types of engagement: bilateral and collaborative.

Our bilateral engagements are direct interactions with issuers conducted by our global team of credit research analysts, portfolio managers, and ESG analysts. We follow three principles: thinking like a treasurer, engaging like a partner, and managing risk as a lender. These principles help us identify issuers that may benefit from engagement, develop tailored engagement objectives, foster productive dialogue, and measure progress against pre-defined internal benchmarks.

By offering best practices for issuers to consider, we aim to enhance their risk management strategies, strengthen their credibility through increased transparency, and mitigate potential controversies. We prioritize issuers where we have meaningful financial and ESG risk exposure, focusing on what we believe are material topics.

In our collaborative engagement, we actively participate in a wide range of industry initiatives and working groups. These efforts seek to advance sustainability efforts, help define global standards, encourage greater disclosure from issuers, and promote a more resilient marketplace.

Setting objectives, tracking progress

PIMCO views stewardship as a long-term and dynamic process. Stewardship typically begins with setting engagement priorities and objectives that build on recognized industry benchmarks and are customized to issuers where appropriate. Our framework to track the progress of our engagement activities encompasses key milestones that correspond to different stages of interaction with the issuer and subsequent progress.

Please see Engagement at PIMCO for further information.

Key engagement milestones and examples

1

Milestone: Recommend action(s) to address a sustainability issue

Example: PIMCO recommended the issuer get its greenhouse gas emission reduction target externally verified by the Science-Based Target initiative (SBTi) and communicate a transition plan to achieve the target.

2

Milestone: Discuss status and check outstanding actions toward meeting the expectation

Example: One year after the initial interaction, the issuer published their annual sustainability report, and it did not reference the SBTi.

3

Milestone: Discuss action(s) being taken towards partially meeting the expectation

Example: The issuer sent a letter to the SBTi to verify its target and communicated publicly that it is working toward alignment.

4

Milestone: Acknowledge that action(s) have been implemented and the expectation has been fully met

Example: The SBTi validated the issuer's target, and the issuer published a transition plan.

Source: PIMCO. **For illustrative purposes only.** The timeline above is provided as an illustrative example of PIMCO's ESG research and engagement capabilities and are not intended to represent any specific portfolio's performance or how a portfolio will be invested or allocated at any particular time. PIMCO's ESG processes may yield different results than other investment managers' and a company's ESG rankings and factors may change over time

Select PIMCO Partnerships

As a leading global investment manager, we partner with a number of key industry groups, including those listed, to help drive a coordinated global approach.

Industry Affiliations	Overview
Access to Nutrition Initiative (ATNI) Signatory	• Collaborating with investors, academics, non-profits, and foundations across the globe, ATNI establishes partnerships with organizations committed to solving the world's nutrition challenge, specifically working with food and beverage companies to improve their business practices.
Bank of England Climate Financial Risk Forum (CFRF) Member	• CFRF works to build capacity and share best practice across industry and financial regulators to advance the sector's responses to the financial risks from climate change. • Brings together senior representatives from across the financial sector, including banks, insurers, and asset managers and includes observers from trade bodies to represent a broader range of firms to ensure the output of the CFRF is communicated to their members.
Carbon Disclosure Project (CDP) Signatory	• Backed by approximately 680 investors totaling over $130 trillion in assets, CDP runs the disclosure system for stakeholders across the globe to manage the environmental impact of greenhouse gas emissions.
Climate Bonds Initiative (CBI) Partner	• A leading organization focused on fixed income and climate change solutions, CBI has been instrumental in supporting more robust data and standards to propel the green bond market and remains heavily involved in shaping new green bond-related regulations.
The ESG Integrated Disclosure Project (ESG IDP) Executive Committee Member	• The ESG Integrated Disclosure Project (ESG IDP) template provides borrowers with a harmonized and standardized means to report ESG information to their lenders. • The Executive Committee oversees the use and development of the ESG IDP template, to support the consistent collection of data from sponsored and non-sponsored borrowers across the private and broadly syndicated credit markets.
Farm Animal Investment Risk and Return (FAIRR) Member	• A global network of investors addressing ESG issuers in protein supply chains, FAIRR has over $23 trillion in member AUM. • The aim of the initiative is to build a network of investors who are aware of the issues linked to intensive animal production and who seek to minimize the risks within the broader food system.
Global Investor Commission on Mining 2030 Investor Supporter	• Initiative led by investors, recognizing the mining industry's critical contribution to society and the transition to a low carbon economy. • Seeks to build consensus on the role of finance in achieving a socially and environmentally responsible mining sector by 2030. • By addressing key systemic risks in a holistic manner, the Commission aims to ensure that the mining sector leaves a positive legacy for future generations.
Global Investors for Sustainable Development Alliance (GISD) Member	• PIMCO is one of only 30 members of the UN Secretary-General's GISD Alliance, which focuses on accelerating investment into sustainable development. In partnership with investors, governments, and multilateral institutions, GISD will drive investment towards achieving the UN Sustainable Development Goals.

Select PIMCO Partnerships *(continued)*

Supporting industry standards

We believe it is important to foster an ecosystem to demonstrate the efficacy of these initiatives by improving the data quality of sustainable themes for the broader market. Through our participation in the Core Team of the Partnership for Carbon Accounting Financials (PCAF), and the Integrated Disclosure Project, we address the demand for consistent data on greenhouse gas emissions across sectors and asset classes. Additionally, PIMCO supports international climate-related disclosure standards and guidance, like the IIGCC and TCFD[11], to enhance transparency and management of climate risks.

Industry Affiliations	Overview
International Capital Markets Association (ICMA) Principles Executive Committee Member	• ICMA promotes the development of appropriate, broadly accepted guidelines, rules, recommendations, and standard documentation to maintain and enhance the framework of cross-border issuing, trading, and investing in debt securities. • The executive committee is responsible for the management and administration, which includes addressing all matters relating to the ICMA's Principles: The Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG), and Sustainability-Linked Bond Principles (SLBP).
Investor Group on Climate Change (IGCC) Member	• Collaboration of Australian and New Zealand investors focused on the impact of climate change on investments. • Represents investors with total AUM of over $3 trillion in Australia and New Zealand and $30 trillion around the world. IGCC members represent over 7.5 million people in Australia and New Zealand.
ISSB Investor Advisory Group (IIAG) Founding Member	• Under the umbrella of the Value Reporting Framework, IIAG comprises asset owners and managers who recognize the need for consistent, comparable, and reliable disclosure of ESG information. The group participates in the ongoing standards development process and encourages companies to participate in the development process.
Institutional Investors Group on Climate Change (IIGCC) Member	• IIGCC is a leading investor coalition on climate change, with more than 350 members across 23 countries, and over €50 trillion in assets. • The group drives investor collaboration on climate change and takes action for a prosperous, low carbon future.
One Planet Asset Management (OPAM) Initiative Member	• Initiative created following the 2015 Paris Agreement to mitigate the effects of climate change. • Aims to help sovereign wealth funds foster a shared understanding of key principles, methodologies, and indicators related to climate change; identify climate-related risks and opportunities in their investments, and enhance decision-making frameworks to better inform their priorities as investors and financial market participants.
The Partnership for Carbon Accounting Financials (PCAF) Core Team Member	• PCAF is a global partnership of financial institutions working together to develop and implement a harmonized approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments. • The Core Team of PCAF governs the Global GHG Accounting and Reporting Standard for the Financial Industry, including updates and expansions, with the ultimate goal of harmonizing GHG accounting and reporting across the financial industry.

[11] As of 4Q 2023 the TCFD was disbanded, and the FSB appointed the IFRS Foundation to take over the monitoring of companies' climate-related disclosures. Please refer to the PIMCO Global Task Force on Climate Related Financial Disclosures (TCFD) Report.

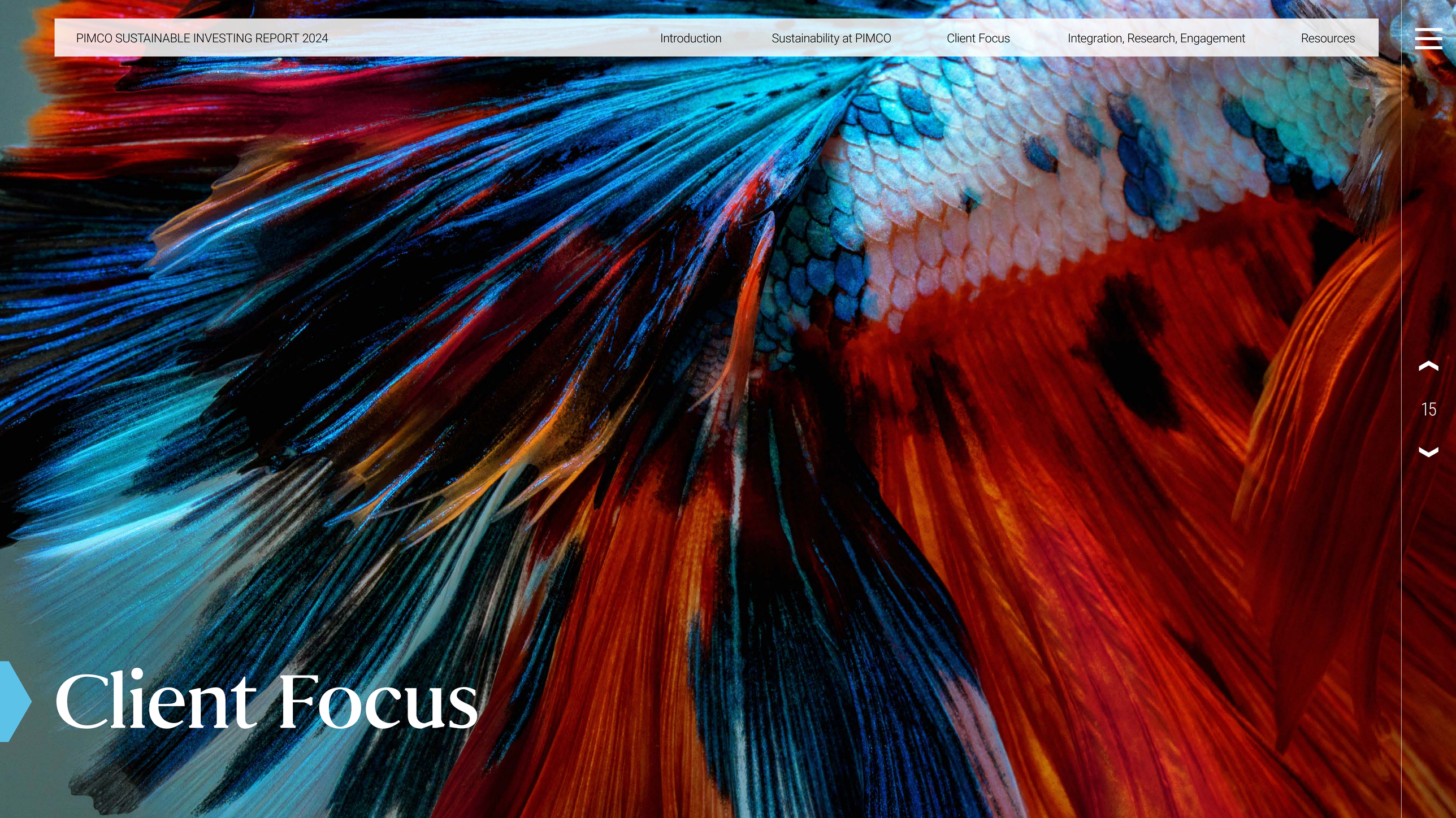
Select PIMCO Partnerships

(continued)

Industry Affiliations	Overview

Principles for Responsible Investment (PRI)
Signatory
	• The UN-supported Principles for Responsible Investment (PRI) is the world's largest investor initiative focusing on integrating sustainability factors into the investment processes.
	• PIMCO is an active signatory of the PRI and engages in several work streams, including:
	  • Chair of the PRI Sustainable Development Goals Advisory Committee (SDG).
	  • Member of the Advance Initiative's Advisory Committee, engaging companies to strengthen commitment, due diligence, and remediation of human rights issues.
	  • Member of the Securitised Products Advisory Committee.

Taskforce on Nature-related Financial Disclosures (TNFD) Forum Member	• Forum members receive regular updates from the Taskforce on new developments, have opportunities to inform the design of future guidance and join learning and capacity building sessions to grow their understanding.
Transition Pathway Initiative (TPI) Supporter	• A global asset owner-led initiative (including clients and investment consultants), TPI assesses companies' preparedness for the transition to a low-carbon economy. • TPI data and tools help inform our assessment of climate risks and engagement with bond issuers.
UN Global Compact (UNGC), and CFO Coalition Member	• UNGC is a principles-based framework for businesses aimed at advancing sustainable and responsible policies and practices. • PIMCO supports the Ten Principles of the UN Global Compact with respect to human rights, labor, environment, and anti-corruption – and is committed to incorporating these principles into our strategy, culture, and day-to-day operations. • PIMCO holds a leadership role in the UN Global Compact's CFO Coalition – an effort to create a movement of chief financial officers to address SDG investment and financing.



Client Focus

Sustainable Investment Solutions

PIMCO recognizes that clients worldwide have diverse sustainability objectives and require tailored solutions to meet these objectives. We provide a range of fixed income strategies for clients seeking risk-adjusted returns while incorporating sustainability factors into their investment selection process.

These strategies[12] use PIMCO's sustainability portfolio construction process, which involves limiting exposure to sectors and issuers with high ESG risks while prioritizing those with strong or improving sustainability practices, especially in GSSS+ bonds. In addition to seeking risk-adjusted returns, these portfolios may also manage carbon footprints, actively engage with issuers, and allocate to green or social bonds, favoring issuers with higher quality or improving sustainability characteristics.

We also partner with clients to explore custom mandates with sustainable investment guidelines and restrictions tailored to their needs and risk-return profiles. We aim to find solutions that best fit their investment objectives, which may include negative screening; proactive asset selection based on favorable ESG factors (e.g., positive screening); and, in some cases, selecting investments that support broader goals like the Paris Agreement, the Sustainable Development Goals (SDGs), or overall societal contributions, while maintaining our fiduciary responsibility.

[12] Sustainable Strategies are those with client-driven sustainability requirements. PIMCO actively incorporates sustainability principles in these strategies, such as excluding issuers that are fundamentally misaligned with sustainability factors and using proprietary ESG scoring to evaluate issuers. For more details, see PIMCO's Sustainable Investment Policy Statement. For information about funds that follow these strategies, please refer to the fund prospectus for details on investment objectives, investment strategies, and sustainable investment approaches.

Integrating sustainability across the investment and portfolio implementation process

For clients with mandates that incorporate explicit sustainability objectives, we have added sustainability metrics across key portfolio analysis and risk management systems. For example, PIMCO's internal solution to support the portfolio optimization and implementation process allows the investment team to integrate sustainability objectives and constraints, alongside relative value and risk-return targets.

PIMCO's portfolio optimization employs bottom-up screens and signals to drive more efficient portfolios.

Optimization capabilities supplement fundamental portfolio construction

Source: PIMCO. **For illustrative purposes only.**

Climate Analysis Capabilities

We remain committed to enhancing and expanding our capabilities for managing climate risks, and collaborating with clients to meet their climate-related investment goals and objectives. This includes deepening our analytical tools and reporting capabilities to assess impacts and progress at the portfolio level. PIMCO's proprietary tools can analyze climate exposures for both climate solutions and client portfolios with specific climate objectives, such as managing carbon intensity or applying carbon reduction targets.

Key advancements were further utilized in 2024 including a portfolio carbon projection tool, a carbon footprint attribution tool, climate scenario analysis and stress testing, and the reporting of metrics aligned with TCFD and PCAF standards. Additionally, we are focused on refining our engagement tracking and milestones process, seeking to confirm effective monitoring and accountability.

The carbon projection tool enables us to evaluate potential future carbon emissions associated with a portfolio, allowing us to work with clients to customize assumptions and explore possible pathways that meet their objectives. Complementing this, the carbon footprint attribution tool measures and reports the contributions of different factors to emissions within a bond portfolio over time, helping us distinguish between fundamental sustainability performance and other factors. These analytical capabilities, combined with PIMCO's industry-leading ESG evaluation best practices, empower us to provide clients with in-depth insights into the risks and opportunities in their portfolios, in addition to climate-related objectives.

CASE STUDY

Climate-related portfolio targets

Last year, PIMCO worked with a UK based institutional client to explore the potential implementation of a range of climate-related portfolio targets, primarily aimed at aligning their portfolio with their GHG emissions goal. The client was open to discussing implementation options, including timeframes, emissions intensity targets, and various pathways to reach their committed goals.

PIMCO's approach to creating a portfolio aligned with the client's emissions reductions objective structured around three key pillars:

1. **Allocating to climate leaders:** The first pillar focused on investing in companies at the forefront of sustainable practices and that demonstrate ambitious decarbonization strategies. PIMCO assessed how well issuers aligned with the Paris Agreement targets using a structured framework, which considered a step-by-step process that incorporated various data sources, including the Transition Pathway Initiative Institutional Investors Group on Climate Change (IIGCC), Science Based Targets initiative (SBTi), and other criteria. We also assess and categorize issuers based on the Institutional Investors Group on Climate Change (IIGCC) Net Zero Investment framework (see Exhibit 1).
Using PIMCO's technology systems, we were able to track exposure to SBTi-verified issuers, determine whether this exposure was higher or lower than the benchmark, and observe trends over time.

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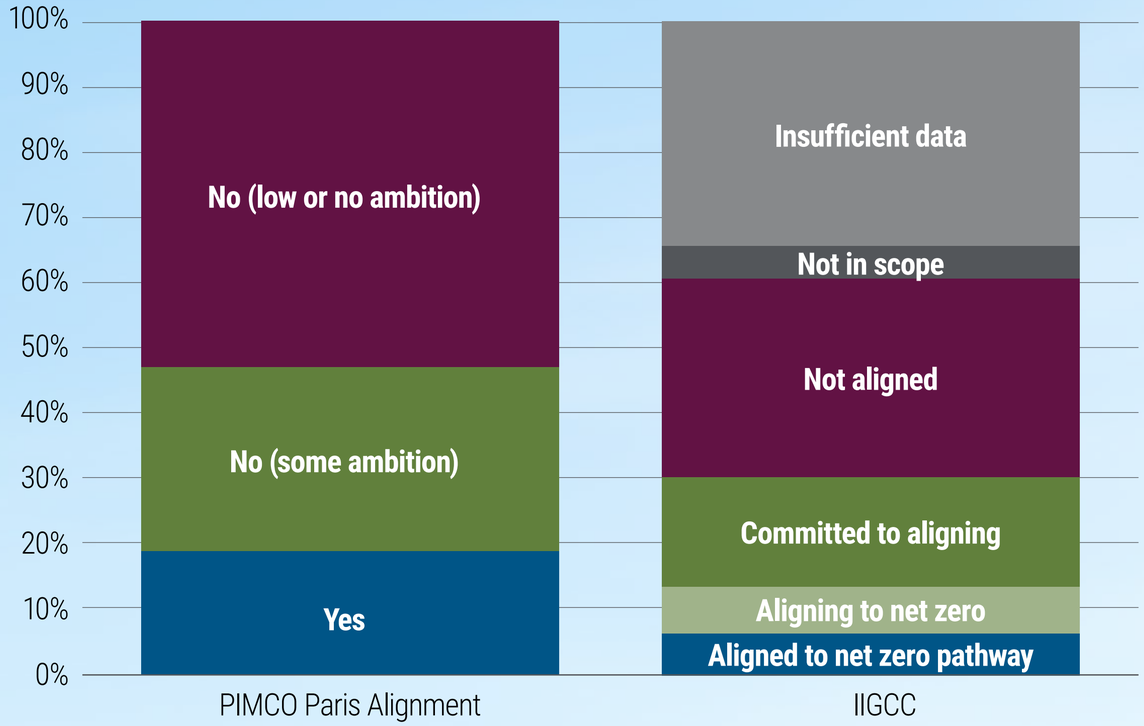
Exhibit 1: Net zero categorization – illustrative portfolio



As of 3Q 2024. Source: Companies, PIMCO, SBTi, TPI, CDP, S&P, MSCI. PIMCO's Paris alignment field estimates whether issuers' current and future carbon emissions are consistent with the Paris Agreement (the global accord to limit the global temperature rise by year 2100 to 1.5°C – 2°C above pre-industrial levels), notably based on their targets. The field leverages data from various external data providers. The field has 3 possible values: 1) 'Yes': issuer's target/pathway is aligned with the goal of the Paris Agreement (1.5°C – 2°C i.e. broad interpretation); 2) 'No (some ambition)': issuer's target/pathway is misaligned with the goal of the Paris Agreement (but the issuer has shown evidence of efforts to increase its ambition (e.g., by committing to set a target that leads to a material reduction in GHG emissions); 3) 'No (low or no ambition)': issuer's target/pathway is misaligned with the goal of the Paris Agreement and the issuer lacks ambition or has not shown any ambition (e.g., by setting a target that leads to a modest reduction or by not having any robust target). Our assessment of issuers' alignment with the IIGCC Net Zero Investment framework (e.g., 'aligned to a net zero pathway', 'aligning to net zero') has been created on a best effort basis given the interpretation of the guidance documents and data availability. In some instances, data stem from sources that act as proxies or are subject to methodology limitations. Future developments in terms of data, methodology or guidance regarding the calculation of these figures could lead to a material change in the value.

2 **Investing in climate solutions:** The second pillar involved investing in high-quality GSSS+ bonds. Our assessment of corporate issuers and industry leaders or laggards has been refined over time to be sector-specific and highly granular, enabling us to allocate to credible and robust labeled bonds (see exhibit 2 for an example of our peer comparison for one sector).

Exhibit 2: Case study – evaluating the environmental profile of water utilities

Issuer	PIMCO ESG Issuer Score	PIMCO ESG Bond Score	PIMCO Environmental Score	Last update of its framework	Use of proceeds (stringency of the criteria)	Use of proceeds (transparency pre-issuance)	Use of proceeds (allocation and impact report)	Science-based decarbonisation target	Environmental performance assessment (UK Environment Agency)	Ofwat performance report	Pollution incidents performance
Water utility A				2024	Specific	Good	Good	No	6.0	Lagging behind	Poor
Water utility B				2022	Specific	Average	Average	Targets set	12.0	Average	Top performer
Water utility C				2021	Broad	Average	Poor	No	6.0	Lagging behind	Poor
Water utility D				2020	Broad	Poor	Good	Targets set	11.0	Average	Top performer
Water utility E				2022	Specific	Average	Good	No	8.0	Average	Poor
Water utility F				2023	Broad	Poor	Poor	No	7.0	Lagging behind	Good

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3 **Reducing exposure to carbon intensive issuers:** The third pillar focused on minimizing exposure to laggards in companies and sectors that had high carbon emissions, which enabled a decrease in the overall carbon footprint of the portfolio.

This example illustrates PIMCO's capability in conducting customized analysis across various ways to potentially implement a client's targets, aiming to align with net zero while minimizing the impact on the portfolio, including transaction costs and limitations on the investment universe (see exhibit 3).

Exhibit 3: Case study – sample portfolio for illustrative purposes

Pillar	Main metric (corporates only)	Sample portfolio	Market average*	Improvement vs. market average	Net Zero pathway 2025	Net Zero pathway 2030
Reduce carbon intensity	Weighted Average Carbon Intensity (MCO2/USD mm sales)	79	175	-55%	75-186	39-96
	Carbon Footprint (MCO2/USD mm invested)	42	76	-45%	20-112	12-73
Identify climate leaders	Issuers with Set Science-Based Emissions Reduction Targets (% CorpMV)	48	31	55%	38	53
Invest in climate solutions	Green Bonds (%M)	74	7	11.1x	>50%	>50%
	Unlabelled Green Bonds (%MV)	1.4	0.3	4.7x		

As of 30 September 2024. Source: NZAOA, IIGCC, IPCC, MSCI, SBTi, Bloomberg. **For illustrative purposes only.**

* Market Average refers to Bloomberg Global Aggregate 3-10Y Credit Index. WACI data coverage is 88% of the sample portfolio's corporate holdings and 95% of the Bloomberg Global Aggregate 3-10Y Credit Index's corporate holdings. Carbon footprint data coverage is 87% of the sample portfolio's corporate holdings and 94% of the Bloomberg Global Aggregate 3-10Y Credit Index's corporate holdings. Corporate holdings are ~62% of the sample portfolio's MV.

The case study reflects a hypothetical projection of the future carbon emissions profile of the sample portfolio that would align with scenarios for net zero pathways, as well as other metrics linked to the guidance produced by net zero industry initiatives and is based on various assumptions. These are not forecasts, predictions or targets. There can be no guarantee as to the actual results that will be achieved. Refer to appendix for description of metrics.

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Client Reporting Capabilities

PIMCO combines robust analytics with industry-leading sustainability best practices to provide in-depth insights on portfolios' sustainability objectives and guidelines. Our systems provide a range of sustainability metrics at the portfolio level, with the option to analyze these metrics by sector and issuer.

Key elements of PIMCO's sustainability reporting capabilities include comprehensive statistics, climate-themed reporting, and engagement information. Depending on clients' needs and goals, this may encompass portfolio-level ESG scores, allocations to GSSS+ bonds, portfolio carbon footprint and intensity, avoided emissions, and engagement metrics that track progress versus expectations across the portfolio.

In addition to PIMCO's standard capabilities, we can provide tailored insights and metrics to ensure reporting is relevant, transparent, and aligned with the specific needs and priorities of our clients.

As PIMCO's sustainability efforts evolve, we will continue investing in our infrastructure and high-quality reporting capabilities. We will work closely with clients to identify opportunities where we can add value and enhance servicing.

Integration, Research, Engagement: Our Active Edge

Frameworks Across Asset Classes

PIMCO continues to deepen and strengthen its proprietary ESG frameworks and tools to support investment decisions, including:

- Refined methodologies for specific asset classes and sectors, incorporating additional metrics to assess the impact of sustainability factors on the credit quality and pricing of securities.
- Tools that empower portfolio managers across the firm to incorporate sustainability factors into the investment process, based on credit recommendations and relative valuations.

Enhancements across asset classes

Asset class	Enhancement	Description	Research benefits and potential investment outcome
Corporate credit	Enhanced sector frameworks	**Changes to our ESG sector framework** for Property & Casualty (P&C) insurers' catastrophe exposure. Historically, our ESG framework for P&C insurance viewed exposure to property catastrophe risk negatively. We updated this criterion to consider the positive externalities for insured clients created when insurers provide coverage of catastrophe risk. **Expanded frameworks** for healthcare and telecoms with an extended set of KPIs and sources to benchmark companies. **Revised weights to our banks sector framework** to reflect the increased materiality of environmental factors and to incorporate new industry-specific databases to evaluate banks' transition risk exposure and readiness.	Refined ESG scores that better reflect the potential impact of sustainability factors on issuers' financials and credit quality.
	ESG sensitive flag	**Standardized classification of corporate issuers as "ESG sensitive"** based on widely used criteria among sustainability strategies and industry frameworks.	Extended consideration of sustainability factors that may affect the eligibility or pricing of securities.
	Sustainable investments relative value tool	**Heatmap of PIMCO flagship accounts' exposure to carbon-sensitive sectors and recommendations of switches** from climate laggards to climate leaders based on PIMCO's credit recommendations and relative valuations.	Improved efficiency of internal communication of opportunities to manage exposure to transition risks.
CLOs	ESG metrics availability	**Mapping of additional ESG metrics to CLOs** (e.g., pillar scores, carbon metrics, industry exposure).	Expanded coverage of potential sustainability risks and supported optimizations or negative screenings for accounts subject to sustainability exclusions.
Agency RMBS	ESG metrics availability	**New environmental and social metrics focused on green and social-labeled pool.**	Enhanced measurement of potentially positive sustainability outcomes associated with securities.
ABS	Enhanced sector frameworks	**Formalization of the scoring methodology specifically for auto ABS**, including specific weights per pillar and KPIs (e.g., vehicle average tailpipe CO2 emissions, share of electric vehicles as part of the pool).	Refined ESG scores that better reflect the potential impact of sustainability factors on securities.
Alternative investments	ESG metrics availability	**Development of carbon reporting capabilities for commercial real estate.**	Expanded coverage of potential carbon risks and the ability to support carbon optimizations when appropriate.
	Sustainable economic activity taxonomy	**Development of a common taxonomy** to determine an investment's alignment with sustainable economic activities according to external and internal frameworks.	Aligned the definitions of sustainable activities across asset classes to identify investment objectives.

Climate Research

Many of these enhancements relate to climate factors, given the relative degree of advancement of data availability and quality, as well as their materiality. These can be categorized into two groups:

1. Climate risk methodology (transition and physical risk scoring) that is part of the integration of sustainability risks into our investment process.
2. Climate measurement and reporting capabilities that support both ESG integration and sustainable investment solutions. For the latter, this includes a focus on mitigating the climate impact of portfolios via greenhouse gas emissions reductions.

Climate evaluation across key metrics

The table below expands on these specific developments, highlighting their breadth and depth.

Main perspective	Asset class	Description
Climate risk evaluation	Corporate credit	Banks: Incorporated new industry-specific databases as part of our sector framework and net-zero alignment[13] evaluation, including metrics that assess their transition plan quality, sectoral policies, and relative loan exposure to high versus low carbon sectors. Increased the weight of the environmental pillar to reflect the perceived increased materiality of climate transition risk.
	Corporate credit	Insurance: Updated our ESG sector framework for P&C insurance to recognize the positive environmental benefits enabled by property insurers and reinsurers when they offer well-underwritten coverage at a price level that incentivizes clients to actively manage their climate and catastrophe risk.
Climate reporting and optimization	ABS	Autos: Incorporated specific metrics such as vehicle average tailpipe CO2 emissions, electric vehicles (percent of total pool balance), and EU taxonomy alignment (in Europe) to inform environmental scores and expanded analysis for the U.S. and Europe.
	Real estate	Operationalized and piloted carbon footprint measurement for private real estate.
Both	CLO	Mapped corporate climate metrics to CLOs (e.g., alignment, transition, and physical risk scores, as well as GHG emissions across different scopes).

[13] Reference to the alignment with a net zero emissions pathway and the global 1.5°C temperature rise scenario compared to pre-industrial levels.

Relationship with external initiatives

CASE STUDY

Carbon data and frameworks

PIMCO is committed to actively engaging with external initiatives and market participants to enhance the data that underpins these frameworks and methodologies. In this section, we outline key considerations for corporate credit and structured products, representing assets at both ends of the spectrum, concerning data availability and quality.

Corporate: Access to credible ESG data, particularly high-quality carbon data, has historically posed challenges in sustainable investing. However, in recent years, the quality and quantity of climate data have rapidly improved as stakeholders worldwide push companies to disclose more climate information, aiding investment decision-making. This trend is especially evident in investment grade corporate credit and, to a lesser extent, in broader corporate sectors, including high yield. Sustainability disclosure requirements, based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB), have been, or are set to be, introduced in many jurisdictions worldwide.

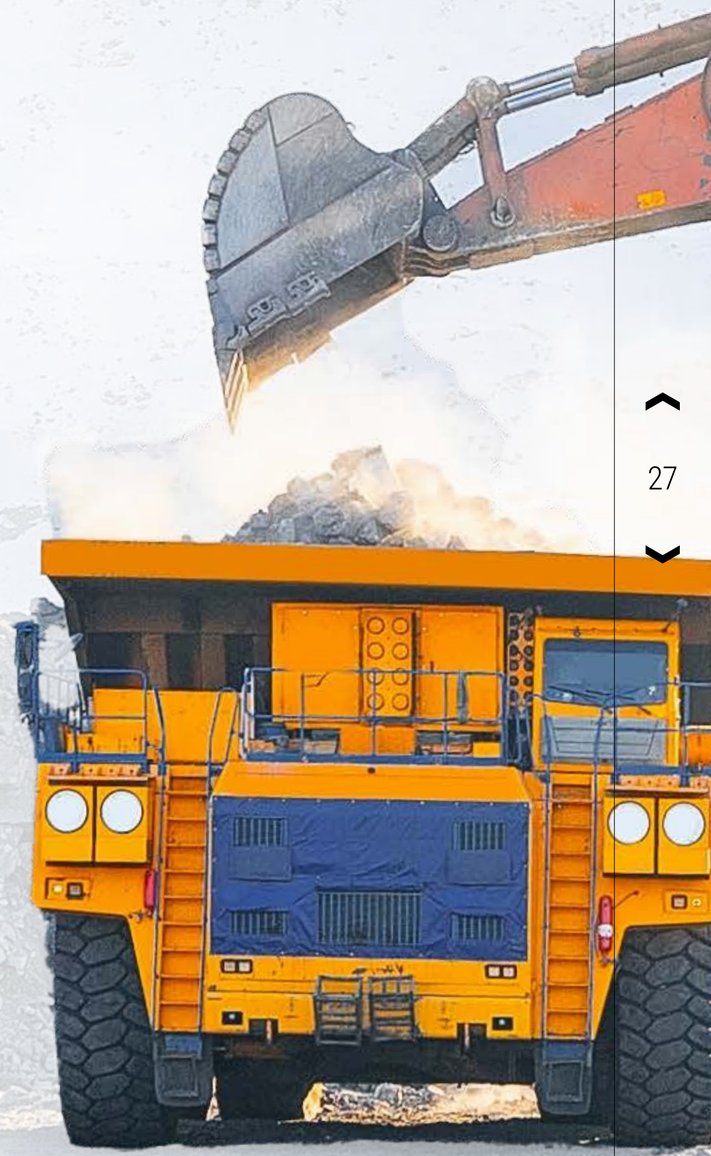
These requirements are key drivers that will likely enhance the availability and quality of carbon data for corporates in the coming years. Additionally, industry harmonization regarding the treatment of use of proceeds bonds (specifically green and sustainability bonds) in carbon reporting is another anticipated development. PIMCO, as co-chair of the PCAF working group, is actively engaged in this area.

Structured products: The asset class at the earliest stage of carbon accounting is structured products, where carbon data is limited. This includes asset-backed securities (ABS), residential mortgage-backed securities (RMBS), agency mortgages, commercial mortgage-backed securities (CMBS), collateralized loan obligations (CLOs), and covered bonds. Currently, only mortgages originated by banks (not explicitly securitized) are included in Partnership for Carbon Accounting Financials (PCAF) reporting. However, PIMCO, as a sponsor of the PCAF Core team for the securitized products and covered bond working group, is actively developing guidance for securitizations. Residential mortgages and private debt are addressed by the Science Based Targets Initiative (SBTI) as optional.

PIMCO's mortgage analytics team has contributed to the estimate emissions figures for RMBS and have established emissions data for CLOs. The market is still evolving, with goals to 1) agree on methodology, 2) calculate issuers' GHG emissions, and 3) incorporate these into their broader ESG frameworks.

Regarding broader ESG disclosure within structured products, the Structured Finance Association (SFA) published its Best Practice Guidance on Structured Products ESG Disclosure in 2023.

Although not explicitly focused on climate reporting, this guidance encourages greater transparency and consistency in climate-related and broader sustainability disclosures across various sub-asset classes, including RMBS and auto ABS, which were the primary focus of the publication. PIMCO collaborated with the SFA on this initiative and views it as a positive step forward for ESG integration in these sub-asset classes and as a foundation for further enhancements. In future iterations, we expect inclusion of additional sustainability factors and a wider range of sub-asset classes.



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Integration, Research, Engagement

The table below summarizes the status of various asset classes and instruments in relation to coverage by external frameworks and disclosures on carbon optimization.

Asset class or instrument type	Release date of carbon accounting guidance (PCAF)	Paris/Net Zero alignment guidance (NZAO, IIGCC, and/or SBTi)	Data availability	Data quality
Corporate credit	2020	Covered in detail	🟢	🟢
Investment grade	2020	Covered in detail	🟢	🟢
High yield	2020	Covered in detail	🟢	🟡
Emerging market	2020	Covered in detail	🟢	🟡
Use of proceeds bonds	Consultation launched in November 2023	Not directly covered in detail although linked to climate solutions	🔴	🔴
Sovereign	2022	Covered	🟢	🟢
Municipals and SSA	Consultation launched in November 2024 for sub-sovereigns	Not covered	🔴	🔴
Asset-backed securities (ABS)	Under development (auto loans originated by banks not covered since 2020)	Not covered	🔴	🔴
Residential mortgage-backed securities (RMBS)	No (mortgages originated by banks not covered since 2020)	Not covered	🔴	🔴
Agency mortgage	Consultation launched in November 2024	Not covered	🔴	🔴
Commercial mortgage-backed securities (CMBS)	Consultation launched in November 2024	Not covered	🔴	🔴
Collateralized loan obligation (CLO)	Consultation launched in November 2024	Not covered	🔴	🔴
Covered bonds	Consultation launched in November 2024	Not covered	🔴	🔴
Derivatives	No	Partially covered	🔴	🔴
Private credit	Partial since 2020	Partially covered	🟡	🟡
Real estate	Yes (CRE since 2020)	Partially covered	🟢	🟢

Data availability and data quality guide

🟢 Widely available and of highest quality via reported data	🟡 More limited availability and a reliance on estimation	🔴 Not available and would require estimation
🟢 Largely available and of good quality with some estimation	🔴 Very little availability and extensive reliance on estimation	

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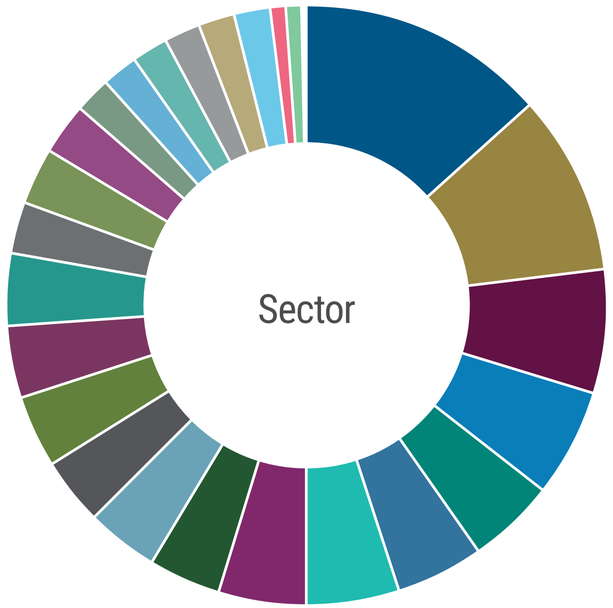
Source: PIMCO, PCAF, NZAOA, IIGCC, and SBTi as of 31 December 2024. Data availability and quality based on PIMCO assessments and may be subject to change.

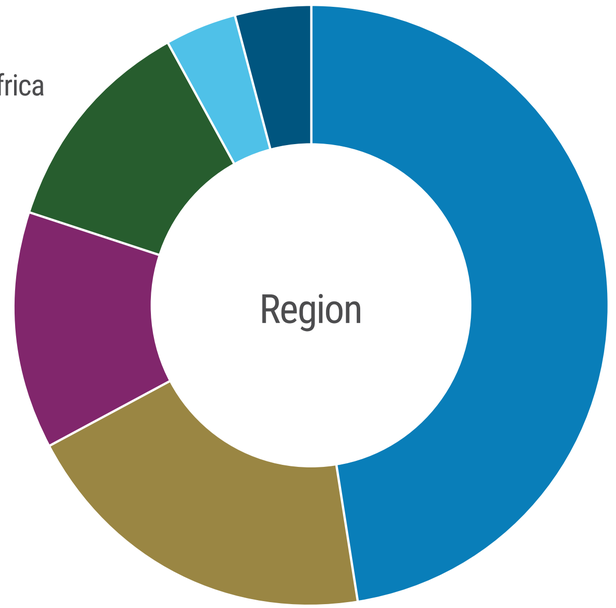
Activities and Action

Corporate engagement data

- **14%** Utilities
- **10%** Banking
- **7%** Energy
- **6%** Brokerage
- **5%** Technology
- **5%** Healthcare
- **5%** Finance companies
- **5%** Raw materials
- **4%** Other
- **4%** REITs
- **4%** Telecom
- **4%** Transportation
- **4%** Insurance
- **4%** Food
- **3%** Pipelines
- **3%** Automotive
- **3%** Construction
- **2%** Media
- **2%** Retail
- **2%** Entertainment
- **2%** Industrial services
- **2%** Consumer products
- **2%** Manufacturing
- **1%** Consumer services
- **1%** EM sovereigns



- **48%** North America
- **20%** Europe (EMU)
- **13%** Europe Non-EMU / Africa
- **12%** Asia
- **4%** Australia
- **4%** South America



For illustrative purposes only. Source: ESG engagement activities by PIMCO analysts. Jan 1-Dec 31, 2024. Percentage of all ESG engagement interactions per sector and geography.

Engagements were conducted by ESG and/or credit research analysts. Not all ESG analysts are 100% ESG-dedicated, some split their time between ESG engagement and traditional credit research.

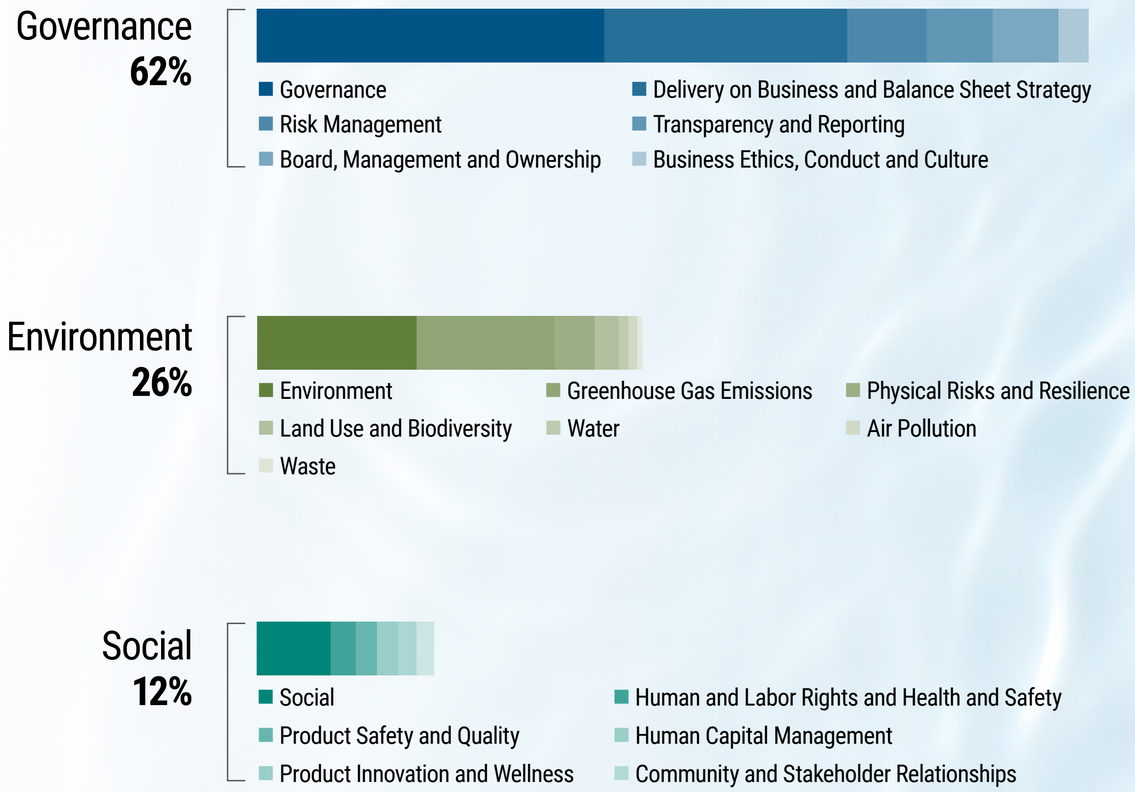
Due to PIMCO internal system mapping of issuers, engagement figures, including interaction data by pillar and topic as of 2024 can vary and are subject to change.

Engagement metrics include certain estimates and assertions based on research activities and interactions with issuers. Due to the collaborative nature of our integrated approach and practical challenges of measuring and recording attributable engagement outcomes, it may not always be feasible to retain comprehensive accompanying evidence for all underlying data.

While we strive for accuracy, users of this report should be aware that figures may not fully reflect the depth or breadth of our actual engagements and relationships with Issuers. Interactions include both research-oriented engagement (e.g., asking questions on ESG topics) and in-depth or thematic engagement (e.g., sharing best practices and tracking progress). Engagement statistics combine two types of data: 1) entered directly into our Company Engagement Tracking system (typically by ESG analysts); 2) entered by credit research analysts through a periodic data gathering exercise.

We encourage stakeholders to consider this limitation when interpreting the information provided and to seek additional context where necessary.

Corporate engagement data: % of engagements by topic



For illustrative purposes only. Source: ESG engagement activities by PIMCO analysts, 1 Jan. - 31 Dec. 2024. Environment, Social and Governance within each pillar refer to engagements that address a combination of topics. Engagements were conducted by ESG and/or credit research analysts. Not all ESG analysts are 100% ESG-dedicated, some split their time between ESG engagement and traditional credit research.

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CASE STUDY

European real estate company: GHG emissions and climate risks disclosure

Background

- The company is a central European retail real estate firm focused on Poland and Romania, recognized as a repeat issuer of green bonds.
- PIMCO engaged with the company to understand how they are managing risks and capturing opportunities arising from the increasing expectations of favorable sustainability characteristics in European commercial real estate.
- Several years ago, PIMCO provided recommendations to enhance transparency and accountability in ESG reporting. These included providing third-party assurance for sustainability data, aligning decarbonization targets with the most ambitious science-based pathways, fully adhering to recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD), and clearly communicating the scope of their planned responsible sourcing policy, along with relevant verification and remediation measures.

Engagement

- The company provided an interim update in 2023, and their head of sustainability contacted us in the first half of 2024 to request additional feedback via a workshop focused on the topic of double materiality.
- PIMCO shared its views on the materiality levels of various sustainability topics, based on our internal mapping.

Progress on milestones and future outlook

- The issuer took concrete steps to address our suggestions, including setting a target in 2024 that is externally verified as aligned with the 1.5°C pathway, and publishing its inaugural TCFD report.
- We plan to follow up this year on the details and implementation of the company's transition plan.

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CASE STUDY

Asian sovereign: GSSS+ bond issuance

Background

- PIMCO has previously engaged with an Asian government to discuss best practices for labeled bond issuances, with a focus on green bonds.
- The government issued its inaugural climate transition bond in 2024.

Engagement

- PIMCO provided recommendations for making disclosures in the issuer's impact report that encouraged transparency about expected avoided emissions from selected R&D projects and broader Life Cycle Assessment (LCA) considerations.
- PIMCO also expressed support for publishing an impact and allocation report one year after the bond issuance date, rather than after two years.
- PIMCO engaged with the issuer and index providers, ensuring the instrument aligns with both the ICMA Green Bond Principles and the guidance outlined in the Climate Transition Finance Handbook.

Progress on milestones and future outlook

- PIMCO inquired about the issuer's plans to continue obtaining Climate Bonds Initiative (CBI) certification for future labeled bond issuances. The government explained that while CBI was crucial for the credibility of their initial transaction, factors such as costs and uncertainties associated with some projects have led them to forgo pursuing CBI certification for subsequent transactions.
- The issuer has now adopted PIMCO's recommendation, consistent with ICMA guidance, by stating that transition labels are a subset of green labels, provided the issuer explicitly demonstrates alignment with both ICMA's Green Bond Principles and the Climate Transition Finance Handbook guidance.
- We plan to follow up this year on its subsequent issuances, gathering details on both allocation and impact.

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CASE STUDY

European energy company: Climate strategy, enhanced disclosures

Background

- PIMCO has engaged with the company over several years on a range of topics, including climate strategy, readiness to navigate the energy transition, and the need for transparency.

Engagement

- We recommended that the company set up an absolute scope 3 emissions target and consider setting an interim target for these emissions to align with industry peers.
- We encouraged the company to include non-operational assets using the equity logic in their scope 1 and 2 decarbonization targets.
- We advised the company to clarify how its future production and exploration investments align with its net zero commitments.

Progress on milestones and future outlook

- As an initial step, the issuer established an absolute scope 3 emissions target for their oil products.
- The company has announced that it will not pursue new frontier exploration entries after 2025 and has published a chart illustrating the alignment of its scope 3 net carbon intensity target with the Net Zero Scenario from the International Energy Agency.

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CASE STUDY

U.S. government-sponsored enterprise (GSE): Affordable housing

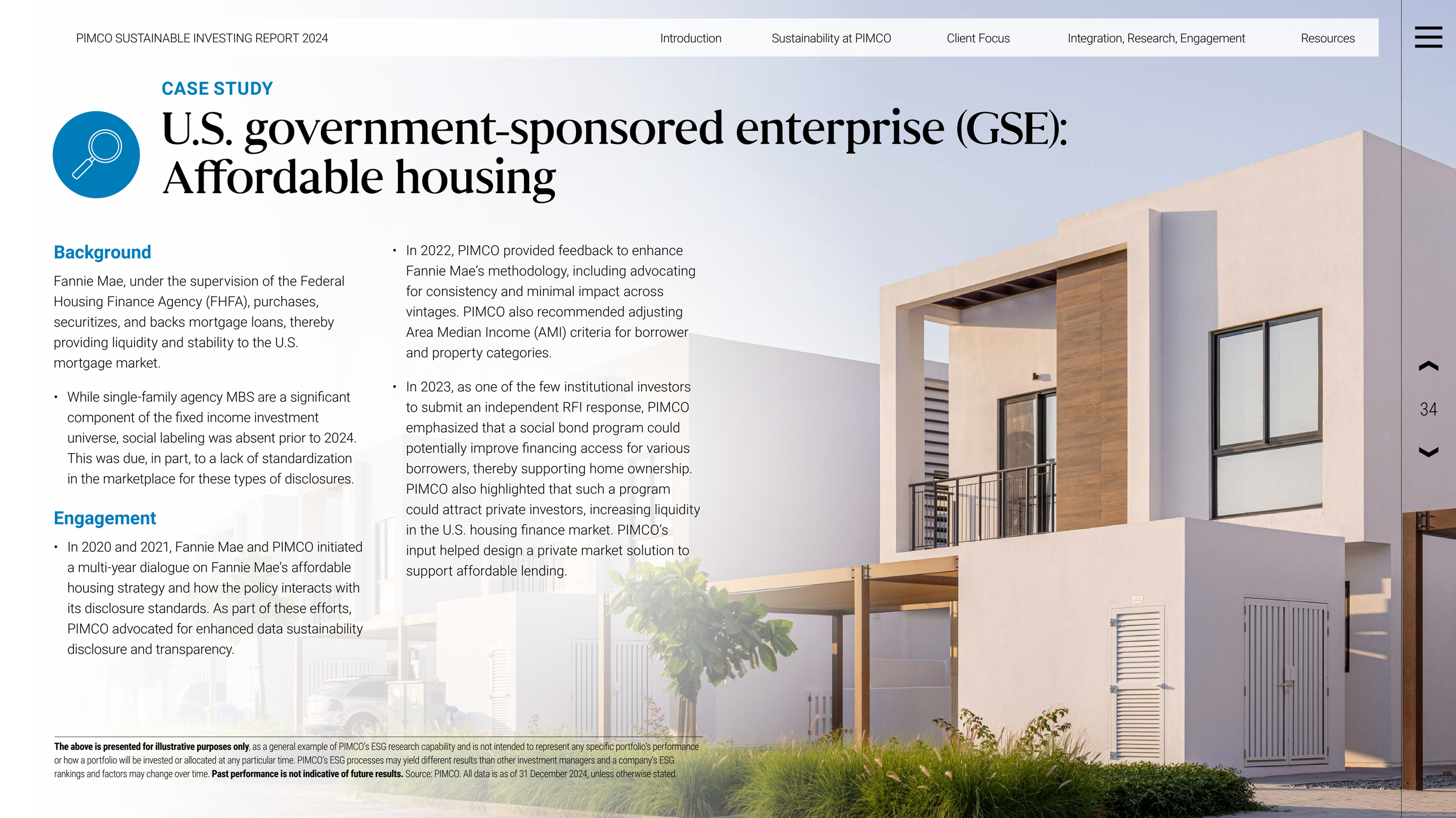
Background

Fannie Mae, under the supervision of the Federal Housing Finance Agency (FHFA), purchases, securitizes, and backs mortgage loans, thereby providing liquidity and stability to the U.S. mortgage market.

- While single-family agency MBS are a significant component of the fixed income investment universe, social labeling was absent prior to 2024. This was due, in part, to a lack of standardization in the marketplace for these types of disclosures.

Engagement

- In 2020 and 2021, Fannie Mae and PIMCO initiated a multi-year dialogue on Fannie Mae's affordable housing strategy and how the policy interacts with its disclosure standards. As part of these efforts, PIMCO advocated for enhanced data sustainability disclosure and transparency.
- In 2022, PIMCO provided feedback to enhance Fannie Mae's methodology, including advocating for consistency and minimal impact across vintages. PIMCO also recommended adjusting Area Median Income (AMI) criteria for borrower and property categories.
- In 2023, as one of the few institutional investors to submit an independent RFI response, PIMCO emphasized that a social bond program could potentially improve financing access for various borrowers, thereby supporting home ownership. PIMCO also highlighted that such a program could attract private investors, increasing liquidity in the U.S. housing finance market. PIMCO's input helped design a private market solution to support affordable lending.



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Progress on milestones and future outlook

2022

In 2022, Fannie Mae and Freddie Mac (the GSEs) published their inaugural Mission Index disclosure methodology, which captures certain characteristics of single-family MBS across income, borrower, and property.

2023

In 2023, the FHFA issued a Request for Input (RFI) regarding an Enterprise Single-Family Social Bond Program.

2024

In 2024, Fannie Mae and Freddie Mac revised their Mission Index methodology and published their inaugural single-family social bond frameworks, incorporating PIMCO's suggestions. In March, Fannie Mae launched single-family social bonds, with issuance of $14.5 billion as of 31 December 2024.

Going forward, PIMCO will encourage Fannie Mae to carefully monitor the impact of methodology changes on the Mission Index, enhance security-level impact reporting, and seek economic benefits to the ultimate borrower related to market activity.

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CASE STUDY

European supranational: GSSS+ bond issuance

Background

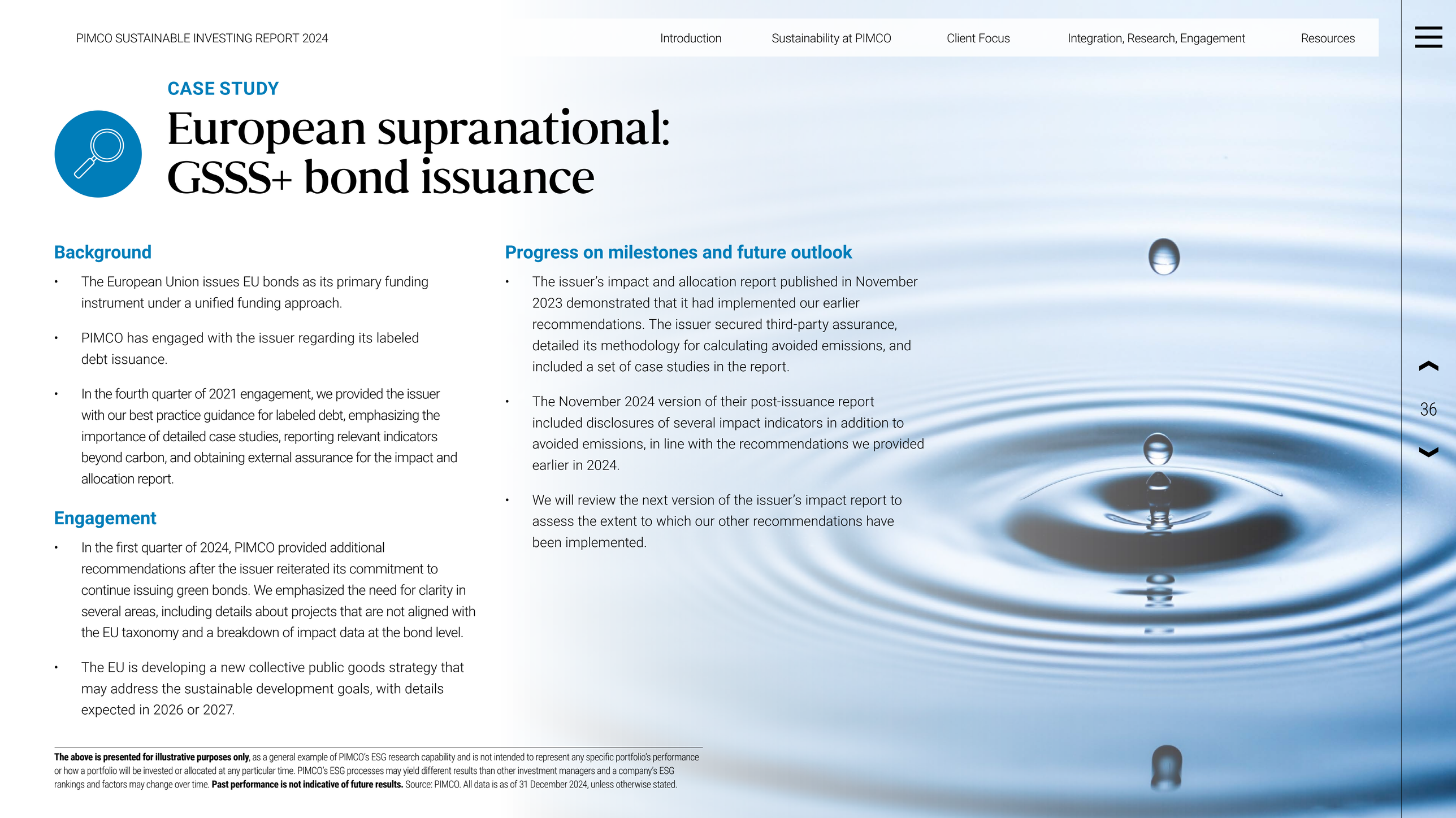
- The European Union issues EU bonds as its primary funding instrument under a unified funding approach.
- PIMCO has engaged with the issuer regarding its labeled debt issuance.
- In the fourth quarter of 2021 engagement, we provided the issuer with our best practice guidance for labeled debt, emphasizing the importance of detailed case studies, reporting relevant indicators beyond carbon, and obtaining external assurance for the impact and allocation report.

Engagement

- In the first quarter of 2024, PIMCO provided additional recommendations after the issuer reiterated its commitment to continue issuing green bonds. We emphasized the need for clarity in several areas, including details about projects that are not aligned with the EU taxonomy and a breakdown of impact data at the bond level.
- The EU is developing a new collective public goods strategy that may address the sustainable development goals, with details expected in 2026 or 2027.

Progress on milestones and future outlook

- The issuer's impact and allocation report published in November 2023 demonstrated that it had implemented our earlier recommendations. The issuer secured third-party assurance, detailed its methodology for calculating avoided emissions, and included a set of case studies in the report.
- The November 2024 version of their post-issuance report included disclosures of several impact indicators in addition to avoided emissions, in line with the recommendations we provided earlier in 2024.
- We will review the next version of the issuer's impact report to assess the extent to which our other recommendations have been implemented.



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CASE STUDY

Asian bank: GSSS+ bonds, physical risks, environmental disclosures

Background

- PIMCO evaluates the ESG profile of covered bonds and engages with issuers, particularly emphasizing standardization of environmental-related KPIs, such as energy efficiency of buildings, given a lack of data availability and quality.

Engagement

- We engaged with the issuer's head of treasury in the first quarter of 2024 during meetings for the bank's inaugural green covered bond.
- We recommended they align their disclosure with the HTT (Harmonized Transparency Template) of the ECBL (European Covered Bond Label) to obtain standardized ESG metrics for benchmarking against other covered bonds.

Progress on milestones and future outlook

- Pre-issuance, the bank aligned disclosure of its covered bond program with the HTT.
- Post-issuance, PIMCO emphasized that best practice involves publishing the templates on the ECBL website on a quarterly basis.
- PIMCO also provided broader feedback on the green covered bond issuance, highlighting best practices in the market. This included assessing alignment with the EU taxonomy, or equivalent country certification schemes such as G-SEED, and assessing physical climate change risk at the loan pool level.

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CASE STUDY

U.S. exploration and production company: Emissions reduction, transparency and reporting

Background

- Natural gas consists of as much as 90% methane (CH4). In its unburned form, methane can be up to 80 times more effective than carbon dioxide at trapping heat in the atmosphere. Researchers have estimated that containing methane released during oil and gas production could help reduce global warming by approximately 0.15 degrees C by 2050.[14]
- Oil & Gas companies do not report their methane emissions with high data quality, leaving these emissions open to regulatory scrutiny by the EU, Japan, and other major Liquified Natural Gas (LNG) import markets.
- PIMCO has engaged many issuers in the oil and gas value chain on the importance of disclosing high quality emissions data along the Oil & Gas Methane Partnership (OGMP) 2.0 guidelines since 2021. High quality data may improve an issuer's competitive advantage as the EU and other import markets seek to regulate emissions profiles as part of their carbon border adjustment mechanisms and criteria for future LNG cargo contracts.

Engagement

- In 2024, this issuer became the first company to report its methane emissions along the OGMP 2.0 guidelines, and to achieve "Level 5" status for data and reporting quality.
- Our subsequent conversations have focused on how the company plans to implement its emissions reductions targets in light of a completely new set of current and historical emissions data.

Progress on milestones and future outlook

- Since our dialogues began, the company has met the following milestones:
  - Joined OGMP in 2022.
  - Shared more details of emissions measurement program in 2022 and 2023 engagements and reporting, including its partnerships with non-operated assets.
  - 2024: Disclosed data accuracy in accordance with "Level 5" of the OGMP guidelines, becoming the first company in the sector to do so. This has significantly raised the bar for all other oil and gas producers globally.
- Looking forward:
  - OGMP methodology revealed that the company's emissions were meaningfully higher than previously disclosed.
  - Now that the company has an accurate picture of its emissions profile, it can deepen its already robust approach to emissions reductions.
  - Engagements have and will continue to focus on how/if financing by an external partner can facilitate quicker reductions for assets the company operates as well as assets operated by partners and non-operated joint ventures.

[14] Source: https://iopscience.iop.org/article/10.1088/1748-9326/abf9c8

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Engagement with external data providers on biodiversity and natural capital

Data is crucial for natural capital analysis. It enables informed decision-making by identifying sustainable practices, mitigating environmental risks, and enhancing conservation efforts. Data supports the integration of natural capital into our investment process, allowing for a comprehensive evaluation of the impacts and dependencies between business and the environment. PIMCO believes that providing feedback and supporting development of new data and tools is essential for incorporating environmental risks and opportunities in financial portfolios. Engaging with data and tool providers is particularly important, as nature-related issues are still evolving compared to more established topics like climate change.

For example, in 2023 we provided feedback to the UN Environment Programme World Conservation Monitoring Centre (UNEP-WCMC) related to ENCORE (a web-based tool, known as Exploring Natural Capital Opportunities, Risks and Exposure, developed by Global Canopy, the UNEP Finance Initiative and UNEP-WCMC). Finalized in 2024, the new version of ENCORE incorporated essential sections that detail the upstream and downstream value chain, link to natural capital accounting, and provide additional granularity on location and biomes.

In the lead-up to the COP16 in Cali, Colombia, we participated in a pilot program with NatureFinance focused on NatureAlign, a suite of analytical tools designed to help financial stakeholders align their financial activities with nature-positive outcomes. The initial module is a free web application, now in beta, designed for financial institutions. By using existing biophysical, spatial, and financial datasets, the application offers a baseline analysis of investments and loans in relation to nature. This equips institutions with the knowledge and tools to understand their environmental impacts and dependencies.

Lastly, we participated in a financial data provider's "biodiversity beta testing program", where we tested and provided feedback on methodology, data, and aggregation methods for integrating natural capital data into the assessment of risks and opportunities related to environmental themes. We subsequently provided feedback about tools for assessing corporate issuers, which can facilitate analysis at the time of trade.

We are exploring ways to use these new tools in our research and assessment of portfolio risk exposure and impacts related to biodiversity.

Global Integration Highlights

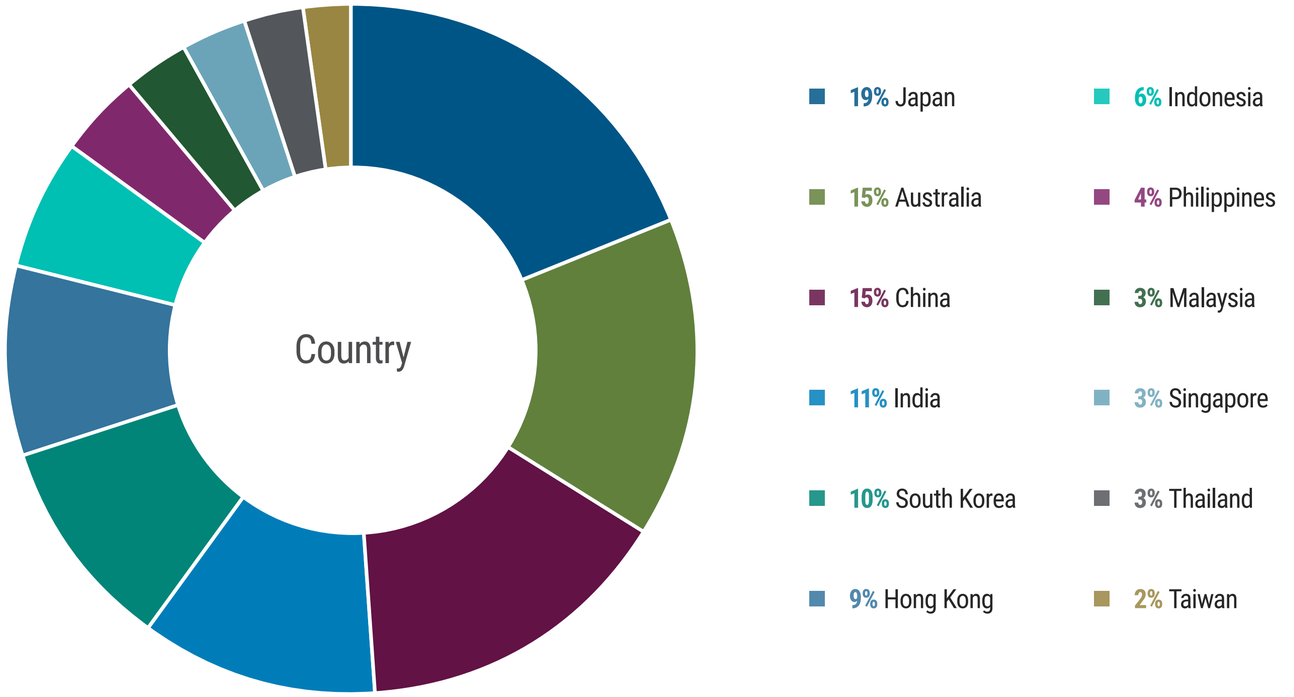
Global collaboration

ESG analysts collaborate globally to develop tailored integration and engagement strategies for the markets PIMCO invests in. Given PIMCO's worldwide footprint, local ESG and credit teams frequently meet in person with management and sustainability teams to foster a shared understanding of our partnership in long-term, sustainable growth. While ESG risks and opportunities may manifest in idiosyncratic ways across different geographies, it is essential for analysts to exchange thematic and sector expertise across regions. As we expand our global engagement efforts, it is critical to delve deeper into the unique challenges and opportunities presented in different regions, where our strategies can be tailored to meet specific local climate and investment dynamics.

Regional example: Asia-Pacific

In 2024, the global team concentrated its APAC issuer engagement on energy transition and corporate governance themes. Given that the materiality of ESG risks varies by market, context-driven engagements are critical for enhancing investment insights.

APAC engagements by region



Key APAC developed market (DM) engagement highlights

1 **Australian financial services sector:** Analysts met in person with the major Australian commercial and retail banks to discuss recent regulatory compliance controversies and fossil fuel lending strategies.

Engagement targets discussed:

- **Enhancing internal controls:** We emphasized the importance of improving internal controls related to KYC, AML, and AFC procedures to maintain public and investor trust and safeguard the integrity of the financial system.
- **Lending for decarbonization:** We discussed structuring loans that encourage fossil fuel industry borrowers to decarbonize their production and manage transition risks. Understanding that fossil fuel producers will continue to seek capital, incorporating provisions around scope 1 and 2 emissions reductions may have a more direct impact on real economy emissions reductions compared to outright divestment. Further, local banks may be able to exert additional influence as oil and gas producers are critical to the Australian economy, and can play a constructive role in remaining important credit providers to the sector.

2 **Japanese car makers:** Analysts met in person to discuss the impact of overseas EV demand on the workforce.

Key takeaways:

Contrasting strategies among original equipment manufacturers (OEMs): Two prominent Japanese OEMs showcased different strategies for labor force retention amid challenging economic conditions. We emphasized balancing short-term financial performance with strategic goals, particularly in the context of labor relations and long-term growth.

Concerns over share repurchase plans: One OEM announced plans for substantial share repurchases and increased dividends while reducing its labor force, raising concerns about the company's long-term strategy and the impact of the workforce reduction on institutional knowledge, innovation, and employee morale.

Commitment to workforce stability: In stark contrast, the second OEM, despite facing a more distressed balance sheet, committed to retaining its labor force, particularly in its U.S. operations. This strategy resonated with our perspective as long-term investors, highlighting the importance of workforce stability and the potential benefits of investing in a dedicated employee base.

These engagements offer an example of our integration strategy and philosophy, since a key outcome of these discussions is to gain insight into management quality. These differing approaches to retained earnings management may impact the view of the credit profiles across maturities.

Increasing influence of Japanese climate ambitions

Between April 2023 and May 2024, PIMCO analysts and portfolio managers met with the Japanese Ministry of Finance six times to discuss Japan's inaugural "Transition Bonds," the first sovereign issuance of its kind. The Transition Framework facilitates investments in technologies and practices essential for reducing emissions, even if on the surface they do not meet the current criteria of "green investments."

Japan faces unique challenges in scaling renewable energy due to its geography, topography, and increasing energy demand compared to the EU and U.S. However, investing in energy efficiency and decarbonizing traditional fuel sources could meaningfully reduce real economy emissions.

Our analysts continue to engage with sovereign and energy-intensive Japanese issuers on strategies to increase investments in energy efficiency and decarbonization. For example, as Japan becomes one of the largest LNG importers, it can concentrate on importing cargoes with lower embedded lifecycle emissions. This focus guides our engagements with power companies, rail companies, and other fossil-fuel importers.

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APAC emerging market (EM) engagement philosophy and highlights

Despite being vital enablers of improving development indicators, EM issuers are often perceived as laggards in sustainability compared to their counterparts in developed markets.

The interconnectedness of the global economy means that DM have, in many cases, offshored their negative environmental and social externalities to EM countries. This reality underscores the importance of engaging with EM issuers, since they have the capacity to drive meaningful change and avoid the pitfalls of DM economic growth across a range of sustainability themes. Despite EM issuers lacking regulatory support and access to capital relative to their DM peers, many have shown increasing ambition and progress across the issues which materially affect their business models.

Indian banking and infrastructure: Our engagements with Indian issuers focus on encouraging the prioritization of what is material for their stakeholders – both local and international.

Engagement themes discussed:

- **Infrastructure projects:** Often have substantial environmental impacts yet are crucial for basic social need, including access to health and education services, as well as greater access to markets. We encourage the continued integration of sustainability criteria into construction and operations that not only create jobs but also protect the natural resources that are essential for long-term economic viability.
- **Import-export banks:** Play a pivotal role in facilitating international trade. By engaging in sustainability practices, they can promote responsible sourcing and production, which may, in turn, increase India's competitive advantage in export markets.
- **Consumer finance in India:** The growth of consumer finance in India is inextricably tied to financial inclusion and microfinance initiatives. By providing services to populations previously excluded from the formal economy, the value proposition is strengthened. This helps fortify the country's growing banking system, which is essential for improving quality of life indicators.

2024 focus on EM energy: In 2024, we engaged substantially with EM national oil companies (NOCs) - please see following section on 'Global methane emissions focus'. These entities are not only vital for generating tax revenues that support public services and infrastructure, but they also have a unique opportunity to improve asset quality and reduce emissions. By investing in the decarbonization of their current asset base, NOCs can enhance their operational efficiency while mitigating impacts on water, land, and air quality. This dual focus on economic and environmental health can lead to expanded access to capital, increased balance sheet stability, and quality of life benefits for adjacent communities.

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Global methane emissions focus

Initially chosen for its materiality to the energy sector, analysts have identified investment and emissions reduction gaps where PIMCO lends its voice to global dialogues.

Natural gas is composed of up to 90% methane (CH4). In its gaseous, unburned state, methane is a greenhouse gas 80 times more potent than carbon dioxide in trapping heat in the atmosphere. Capturing methane from oil and gas production for practical use could mitigate about 0.25 degrees Celsius of warming by 2050[15]. Given methane's global warming potential, regulatory risks and additional scrutiny have begun to materialize in various LNG import markets. To mitigate these risks to both the climate and our clients' invested capital, PIMCO has pursued various strategies aimed at reducing methane emissions through engagement and investment.

PIMCO has routinely engaged issuers across the oil and gas industry to reduce their production emissions, conducting about 1,500 engagements in the sector since 2020. During this time, we have seen dozens of companies commit to improved data quality through OGMP 2.0 and pledge to meaningfully reduce these emissions.

In our 2023 Sustainable Investing Report, we wrote about our experience at COP 28 in Dubai, where 50 companies responsible for 40% of global oil production announced their commitment to significantly reduce methane pollution through the Oil & Gas Decarbonization Agenda and Charter. Among the signatories were 29 national oil companies (NOCs). While these commitments are laudable, it is crucial to consider how capital, and whose capital, will be deployed to bring these emissions down.

Despite producing more than half of global oil and gas production, NOCs have been notably absent from the emission reduction initiatives of their international oil company (IOC) counterparts, which are also not reducing methane emissions at the required pace. While only some companies in the oil and gas value chain are publicly traded, most, regardless of size or country, routinely seek financing from global debt markets. This presents an opportunity for global capital providers, like PIMCO, to engage this hard-to-abate sector from the debt side.

Based on our position in the market, we have held discussions with issuers, financial intermediaries, sovereign representatives, technical experts, and climate scientists to discuss how debt capital markets can address methane emissions abatement through dedicated structures and provisions. In 2024, PIMCO presented these ideas through working groups, conference presentations, and global roundtables at high-profile conferences and events.

Key takeaways

- **Inclusion of hard-to-abate sectors:** The transition and decarbonization finance discussions must actively include hard-to-abate sectors globally to have a meaningful impact on real economy emissions reductions.
- **Role of oil-producing states:** GCC Countries, North African, South American, and APAC oil-producing and LNG-importing states have a substantial role to play in decarbonization and are looking for ways to efficiently deploy capital for this purpose.
- **Investor appetite:** There is strong appetite among global investors for opportunities to finance emissions reductions in the real economy, as opposed to blanket divestments and exclusions. However, guardrails should be established at the transaction level to guard against greenwashing.
- **Evaluating the suitability of sustainable and transition finance:** To capture the full climate benefits of reducing methane emissions, global investors should consider the potential for financing emissions mitigation – even from issuers whose past performance is lagging from hard to abate sectors.

[15] https://www.edf.org/media/study-cutting-methane-emissions-quickly-could-slow-climate-warming-rate-30

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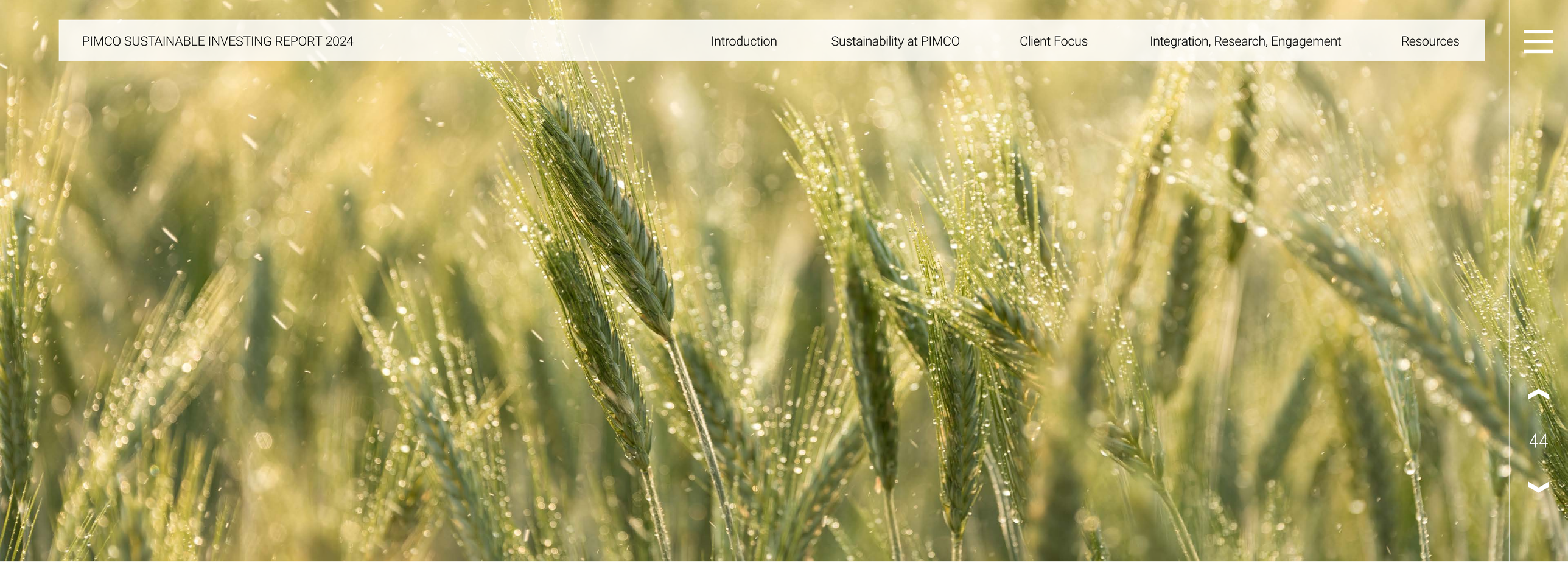

Resources

- Engagement at PIMCO
- Global TCFD Report
- Sustainable Investment Policy Statement
- PIMCO Guidance for Corporate Sustainable Bond Issuance
- PIMCO Guidance for Sovereign Sustainable Bond Issuance
- PIMCO Guidance for Municipal Sustainable Bond Issuance
- Corporate Sustainability Report
- Statement on Human Rights

The information contained herein is as of December 31, 2024 unless otherwise noted.

This material contains examples of the firm's internal ESG engagement and research capabilities. The data contained within the report may be stale and should not be relied upon as investment advice or a recommendation of any particular security, strategy or investment product. In selecting case studies, PIMCO considers multiple factors, including, but not limited to, whether the example illustrates the particular investment strategy being featured and processes applied by PIMCO to making investment decisions. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

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.

Sustainable Strategies are strategies with client-driven sustainability requirements. For these strategies, PIMCO actively incorporates sustainability principles (i.e. excluding issuers fundamentally misaligned with sustainability factors, evaluating issuers using proprietary and independent ESG scoring) consistent with those strategies and guidelines. Further information is available in PIMCO's Sustainable Investment Policy Statement. For information about funds that follow sustainability strategies and guidelines, please refer to the fund's prospectus for more detailed information related to its investment objectives, investment strategies, and approach to sustainable investment.

There is no assurance that the socially responsible investing strategy and techniques employed will be successful.

PIMCO's credit research analysts assess the Environmental, Social, and Governance ("ESG") profile of corporate, municipal, and sovereign issuers relative to peer issuers with a goal of separating leaders from laggards. Using industry-specific ESG frameworks, analysts review issuers' ESG performance based on information available in public filings, recent ESG news and controversies, as well as through engagement with company management teams. Analysts assign three separate numerical scores from 1 to 5 (with 5 being the highest) to their environmental, social and governance-based business practices. The score in each category is related to an issuer's rank relative to industry peers, and the relative weights of the E, S, and G scores in the composite score vary based on industries, as each industry is assigned a different factor weight. For example, the environmental category has the greatest weight for issuers in extractive industries (e.g., oil, gas, and mining), the social category has the greatest weight for pharmaceutical issuers, and the governance category has the greatest weight for financial issuers. Analysts also include a forward-looking ESG trend assessment, which recognizes companies whose ESG performance is significantly improving or deteriorating. These factors are combined to create a proprietary composite ESG issuer score. PIMCO's credit research analysts also assess green, social, sustainability, and sustainability-linked bonds (collectively "ESG bonds") at an issuance level, including prior to and after issuance. Utilizing PIMCO's proprietary ESG Bond Framework assessment, credit research analysts evaluate such instruments starting with the strategic fit, assessing the alignment of the issuers' ESG-related strategies with the bond's objectives and use of proceeds, key performance indicators (KPIs), and the evidence of significant positive impact of the activities compared to "business as usual". We continuously screen for "red flags" and controversies through this process and also assess the degree of reporting by the issuer to analyze misalignment with key market standards, such as the Green Bond Principles. These factors result in a proprietary ESG bond score ranging from 1 to 5 (with 5 being the highest). PIMCO does not score all ESG bonds. Unassessed ESG bonds receive a default score of 3. ESG bonds holdings in PIMCO portfolios are then assigned a score that combines the issuer's ESG score and the ESG bond score. Specifically, an ESG bond holding receives the ESG issuer score plus an adjustment ranging from 0 up to 1.0 point, depending on the type of ESG bond (use of proceeds or sustainability-linked) and the quality of the ESG bond according to PIMCO's proprietary assessment. Holdings of securitized ESG bond issuances (asset-backed securities, collateralized loan obligations, collateralized mortgage obligations, collateralized debt obligations, and mortgage pass through securities) receive the ESG issuer score and are not adjusted.

We use MSCI and other third-party ratings for reference but make our own assessment based on our own, independent analysis of the industry and relevant ESG factors. PIMCO's resulting assessments are proprietary and distinct from those provided by ESG rating providers. Inclusion of a proprietary PIMCO ESG rating creates a conflict of interest because PIMCO and its affiliates benefit when PIMCO assigns a particular security a high score, or assigns a benchmark index or security a low score.

All investments contain risk and may lose value. 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.**

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

Scope 1 emissions are direct GHG emissions that occur from sources owned or controlled by a company (for example, company vehicles and facilities), Scope 2 emissions are indirect GHG emissions from the purchase of electricity, steam, heating or cooling, and Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly affects in its value chain.

While PIMCO has not made a firm wide **net zero** commitment, at PIMCO we are committed to providing industry leading advice and solutions for clients on a range of sustainability and ESG issues, including climate change and reducing greenhouse gas emissions to net zero.

ESG-labeled Bonds 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. The sustainability objectives and exclusions of any particular portfolio that follows sustainability strategies and guidelines will be set out in the respective governing documents. For detailed information related to our PIMCO sponsored funds that follow sustainability strategies and guidelines, please refer to the fund's prospectus. Green/ social/sustainability bonds of issuers involved in coal and fossil fuel-related sectors may be permitted.

Weighted Average Carbon Intensity (WACI) is intended to reflect how an issuer's greenhouse gas (GHG) emissions (expressed as tonnes of CO2 equivalent (tCO2e)) compares to its overall revenues. The carbon intensity of the securities portfolio is defined as the weighted average carbon emissions (Scope 1 + Scope 2 emissions tCO2e))/ Revenues in USD of corporate bond holdings only in the portfolio (for issuers with available data). Absolute carbon emission analysis takes the total emission per issuer into consideration. PIMCO applies emissions values of the parent to subsidiaries where MSCI data is not available. As defined by the U.S. Environmental Protection Agency (EPA), Scope 1 emissions are direct GHG emissions that occur from sources owned or controlled by a company (for example, company vehicles and facilities), and Scope 2 emissions are indirect GHG emissions from the purchase of electricity, steam, heating or cooling. Data used by PIMCO to calculate carbon intensity is (i) sourced from MSCI based on data reported by companies, a company specific model, or an industry specific model (MSCI's methodology is available here: https://www.msci.com/index-carbon-footprint-metrics), or (ii) estimated by PIMCO for "use of proceeds" bonds not covered by MSCI(green and sustainability bonds). PIMCO's estimates generally apply absolute emissions of the issuer's parent company/companies to its subsidiaries.

Carbon Discounting Methodology: In its calculation of carbon metrics for GSSS+ bonds, PIMCO applies a proprietary carbon discounting methodology which generally can include the consideration of: i) publicly available information disclosed by an issuer/ company, ii) third-party data sources, and/ or iii) internal proprietary assessments, as applicable. Green bonds and sustainability bonds issued by select electric utility companies adjust a company's carbon metrics by subtracting at a proportion equal to the contribution of eligible renewable energy projects to the proceeds allocation (i.e. the portion allocated to renewable energy projects are treated as having zero carbon emissions and, therefore, zero carbon intensity). For green or sustainability bonds where proceeds are allocated to eligible green or social projects other than renewable energy or are issued by companies in nonelectric utility sectors,

carbon metrics are directly passed through from the company level to these bonds with no adjustments. To the extent possible, PIMCO utilizes an issuer's public disclosure, such as post-issuance allocation report, when calculating the allocation of proceeds to renewable energy projects. In some cases, PIMCO may leverage thirdparty data to source such information. In the case of absent or incomplete disclosure, PIMCO uses several assumptions to estimate the allocation of proceeds to renewable energy projects for the respective utility sector, such as the potential allocation split across eligible green projects communicated by the issuer or the average allocation to renewable energy for the industry. PIMCO climate and carbon metrics and methodologies may change over time and may not be comparable to prior period metrics reported. The firm's proprietary methodologies are not verified by a third-party and may vary from other independent carbon methodologies

Carbon Footprint refers to the calculation of the total GHG emissions (scope 1 and scope 2) of corporates in the portfolio normalized by the bond exposure of corporates in the portfolio and expressed as a carbon dioxide equivalent.

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