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

PIMCO outlines the following best practices for Sovereign issuers of green, social, sustainability, or sustainability-linked bonds.

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**Outline:**



## I) Best practice guidance for green, social and sustainability bonds

1. **International Capital Market Association (ICMA) Principles and Guidelines:** Bond framework should be clearly aligned with ICMA Green and Social Bond Principles and Sustainability Bond Guidelines (e.g., setting out eligibility thresholds, and planned impact reporting) with specific projects details (e.g., example of potential projects being considered or alternatively a set of projects the sovereign has previously included).

2. **Sustainable Development Goals (SDGs)**: Use of proceeds should be clearly aligned with the targets underpinning the Sustainable Development Goals, with impact reporting referencing those specific targets or indicators. ICMA has provided a high level mapping to the SDGs and the United Nations Development Programme (UNDP) has developed SDG Impact Standards for Bond Issuers.

3. **Sustainability disclosure and connection with the Sovereign's long-term development strategy**: Bond framework should be aligned with the issuer's sustainability strategy and supported by tangible goals as well as targeted action plans and policies:

    a. Framework should provide an overview of the issuer's sustainable development priorities, environmental/social baselines, and public policies supporting the bond issuance. Where appropriate, the Sovereign should make reference to its Integrated National Financing Framework for the SDGs.

    b. Framework should target key sustainable development challenges facing the Sovereign, such as reducing income inequality, improving health outcomes, closing the infrastructure gap, access to energy concerns as well as the adaptation to the physical risks from climate change.

    c. Clear link between the framework and the issuer's climate change mitigation strategy (e.g., explain how the framework will contribute to achieve the Sovereign's commitments to the Paris Agreement and beyond).

d. For Oil & Gas Producing States: Frameworks may include allocation categories and KPIs related to the decarbonization of fossil-fuel infrastructure in line with the "Guidance on including Methane Abatement in Oil & Gas debt financing" by the Methane Finance Working Group.

4. **Use of proceeds (UOPs):** The issuer should communicate the expected UOP by type of activity (e.g., social vs green split, which categories under the framework will be prioritized and examples of expenditures under each category at project/initiative level) and type of spending (e.g., tax expenditures, investment expenditures, operating expenditures, including research and development expenses ahead of the new issue).

    a. Communication of expected UOP breakdown in the form of a pre-issuance allocation report, as done by Brazil, for example.

    b. UOP should finance/refinance eligible capital or operating expenses. Personnel salaries or non-domestic projects should be excluded.

    c. Eligible projects should have duration at least equal to the full life of the bond. Alternately, the issuer should commit repayments and maturing investments to be reinvested in additional eligible projects until the maturity of the bond.

    d. Eligible Expenditures should be mapped to the relevant UN Sustainable Development Goals (SDGs) with associated reporting metrics for proposed projects as per ICMA guidance.

    e. Eligible projects should be clearly earmarked and easily trackable (not part of general budget expenditure).

    f. Countries are encouraged to proactively communicate the estimated alignment of the Use of Proceeds with the best available taxonomy for sustainable activities.

5. **Lookback:** If using a lookback period, issuer should indicate how much of the use of proceeds (UOP) will be allocated to projects already funded (approximate estimate can be acceptable).

    a. Preference is for UOP to fund new investments.

    b. If UOP will be used to refinance or re-label prior spending, this should be disclosed.

    c. Strongest framework would be those with an explicit cap on refinancing and, with short lookback periods.

6. **Negative impacts and Exclusions:**

    a. Exclusionary policies should specify a comprehensive set of exclusions based on activities but also exclude projects that may create significant negative externalities, such as those that would affect local communities.
    b. Framework should outline safeguards to avoid (as much as possible) unintended negative externalities.
    c. For projects/programmes where substantial negative externalities are possible, the disclosure before the issuance of a strong social/environmental risk assessment from a reputable third party provider is recommended.
    d. Jurisdictions and investors have several definitions of "exclusionary policies". As such, there should be disclosure on how sensitive activities, such as fossil fuels, nuclear energy or defense spending, could be or not linked to the use of proceeds.

7. **Time Period Of Allocation:**

    a. It is best practice to hold bond proceeds in a segregated account before allocation.

b. Temporary use of proceeds: Issuers should avoid "temporary" Use of Proceeds. In cases where this is unavoidable, the issuer should transparently justify any temporary uses related to debt refinancing or investment (e.g., project timetable, detailed disclosure and appropriate timeline for full allocation), demonstrating that the delay in allocation to Eligible Projects is minimized. The debt repayment and investments concerned should not be related directly or indirectly to any activities misaligned with the green bond objectives or ESG exclusion criteria.

8. **Transparency and Verification:** Provide supporting documentation to investors in a timely fashion so they can make an informed underwriting decision, at least a full working day prior to issuance (for syndicates).

    a. **Bond framework** should be a standalone document (i.e., not only as a Use of Proceeds statement in the prospectus or pricing supplement) available publicly on the issuer's website. In jurisdictions where there are legal challenges to publishing a separate framework in advance of a new issuance, issuers should make the framework available on their website as soon as feasible after the deal is announced.

    b. **External review** (second party opinion, verification, or certification).Verification is currently not a requirement to achieve Green Bond Principles (GBP), Social Bond Principles (SBP) alignment, though this is recommended practice.

        - Climate Bonds Standards: more climate-science focused, this standard goes beyond the ICMA Green Bonds Principles to set forth more targeted eligibility criteria that are consistent with the 1.5 degrees Celsius target for containment of temperature increase.
        - We have preference for second-party opinion (SPO) providers that holistically assess the framework against best practices, including its sustainability impact, rather than just confirming alignment with ICMA Principles.

    c. **Previous green, social or sustainability bond reports** (allocation, impact report)

    d. Countries that perform in the lower tier of governance and human rights assessments (such as the World Bank Control of Corruption index, Transparency International or Freedom House), should aim to provide enhanced transparency, accountability, and third party involvement, to ease investors' due diligence related to the use of proceeds.

9. **Management and Allocation of Proceeds:** ICMA and Climate Bond Standards require an outline of how proceeds will be managed and allocated by the sovereign. This outline can include disclosure of the ministries or individuals involved, which stakeholder has the ultimate decision-making responsibilities for fund allocation, and the frequency at which the involved parties meet to decide on projects**.** We view as best practice:

    - The inclusion of a structured and comprehensive plan for managing proceeds allocation which should include the establishment of working groups involving various departments, with appropriate checks and balances. Brazil's Sustainability Framework provides a good example of this, where the government created a Sovereign Sustainable Finance Committee (CFSS) including representatives from various government sectors, seeking to ensure a diverse range of expertise and strategic alignment. The CFSS is responsible for planning, implementing, and monitoring the Framework for sustainable bond issues and identifying eligible expenses in line with criteria and exclusions established by the framework as well as other processes implemented to determine and manage environmental and/or social risks associated with the expenses.

- The involvement of affected communities/NGOs in the fund allocation process. As an example, Canada Green Bond framework includes the Crown-Indigenous Relations & Northern Affairs Canada in their Interdepartmental Green Bonds Committee, which is responsible for the Project selection and Evaluation.

10. **Reporting:** should be in line with ICMA/Climate Bond Initiative (CBI)/SDGs and provide details regarding the content and publishing frequency of allocation and impact reports.

    a. Issuers should commit to providing an updated impact report at least annually as long as each bond remains outstanding, allowing investors to track changes and progress. The first report should be published no later than one year after the initial bond issuance.

    b. Allocation reporting should detail actual proceeds allocation rather than the portfolio of eligible expenditures. Reporting should include how much of the proceeds are invested. Ideally, there would be disclosure available to be downloaded via Excel/spreadsheet, for further clarity. For example, Uzbekistan, working with the UNDP, has created robust and granular disclosure.

    c. Reporting should be outcomes-based, and link to the country's broader targets, outlined as previously stated in the framework (e.g., Nationally Determined Contributions (NDC) GHG reduction pledges, National Adaptation Plans (NAP), National Biodiversity Strategies and Action Plans (NBSAPs), etc.)

    d. Progress on funded initiatives/projects should be produced in conjunction with explicit commitments to reporting broad and internationally comparable metrics/frameworks (e.g., reporting in line with EU/ Local Taxonomies, SDGs, as well as having definition of relevant metrics benchmarked with international standards such as UN CBD, FAO, UN SDSN etc..)

    e. Include the geographic location of each project and details on target population and beneficiaries of stated project as well as details on the methodology and calculation for the metrics reported. Example of good practice is Mexico SDG bond.

    f. Disclose whether the country has used climate, green, or environmental budget tagging to determine the expenditure and projects related to the use of proceeds. For example, Austria uses its "Green Budgeting Methodology" to screen for Green Expenditure. *(note the ASCOR project references Green and Sustainability bond impact reporting to assess level of "Transparency in climate spending" at the country level)*

## II) Sustainability-linked bonds (SLBs)

In general, we encourage countries to issue SLB given the flexibility that the instrument allows to reach targets. There are additional investments that a country must make to meet its sustainable development initiatives beyond what an ESG labeled use of proceeds bond can fund. SLBs allow the Sovereign to support sectors of the economy that may lack adequate eligible assets and support regular government activity, while working to achieve their sustainability targets in a context of higher government accountability.

- The Sustainability-Linked Bond Principles (SLBP) provide a framework for issuers to connect financing needs with the achievement of country-wide sustainability performance and targets that advance the United Nations (UN) Sustainable Development Goals (SDGs). PIMCO sees bonds linked to the SDGs as an emerging best practice for issuers seeking to demonstrate positive sustainability outcomes. We encourage issuers to come to the market with frameworks that align with these voluntary process guidelines (including the Q&A that is part of the ICMA Guidance Handbook).SLBs allow the Sovereign to support sectors of the economy that may lack adequate eligible assets and support regular government activity, while working to achieve their sustainability targets in a context of higher government accountability.

- The table below provides examples of robust KPIs according to the criteria identified by ICMA and the World Bank. ICMA's Illustrative KPIs Registry includes high-level recommendations as well as illustrative examples for the selection of Key Performance Indicators (KPIs) for Sustainability-Linked Bonds (SLBs). We encourage issuers to build on resources such as ICMA's KPI table and materiality map to incorporate several relevant and material KPIs that are not restricted to greenhouse gas emissions (e.g. access and affordability, biodiversity, water, electricity or healthcare).The World Bank has released a set of recommendations "Key Performance Indicators for Sovereign Sustainability-Linked Bonds" that is aimed at providing constructive thoughts around the uptake of SLBs by sovereign issuers. Although the report focuses on the environmental Key Performance Indicators (KPIs),the World Bank has also made publically available a wide range of ESG data through their Sovereign ESG Data portal, which can be used as a helpful reference for Sovereigns as they think about developing their own SLB framework.

**Considerations for robust and Material KPIs**

| KPI criteria | ICMA | World Bank | Chile as an example |
|---|---|---|---|
| Relevance | Relevant, core and material to the issuer's overall business and high strategic significance to the issuer's current and future operations | Data are plausibly associated with sovereign interventions (for example, nationallevel investment, national laws, and national regulations). | Absolute GHG Emissions (KPI 1) and Share of Non-Conventional Renewable Energy Generation in the National Electric System (KPI2), both material and tied to the country's Nationally Determined Contribution (NDC). Inclusion of percentage of women in board member positions at companies that report to the local Chilean markets regulator CMF) as social KPI3 |

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| Current | Measurable or quantifiable on a consistent methodological basis | Data are current and produced with enough frequency (that is, at least once a year) so they can be adequately linked with financial incentives to promote sustainable performance. | KPI1 methodology in line with IPCC guidelines, data sourced from Chile's latest National Greenhouse Gases Inventory (NGHGI) with enough data coverage (1190-2018) to assess performance from baseline (2018). KPI2 covers Chile's entire energy grid and it is measured through the Gross Monthly Generation SEN (Chilean Main System)(MWh) published by the National Energy Commission (CNE). KPI3 will be published in the annual Gender Indicator of Chilean Companies Report (Reporte de Indicadores de Género de las Empresas en Chile), which includes the participation of the International Labour Organization and the non-governmental organization Chile Mujeres to support the integrity of the provided data and to avoid errors through the collection and reporting process. The information is provided by individual companies and reviewed by the Chilean Financial Market Commission, with any incorrect information delivery being subject to legal penalties. |
| Benchmarkable | Benchmarkable using external reference or definition to facilitate the assessment of SPT's level of ambition | Data are available across most countries. Data within datasets are consistent and comparable (for example, reported using the same methods) across countries | KPI1 methodology in line with IPCC guidelines, data sourced from Chile's latest National Greenhouse Gases Inventory (NGHGI) with enough data coverage (1990-2018) to assess performance from baseline (2018). KPI2 covers Chile's entire energy grid and it is measured through the Gross Monthly Generation SEN (MWh) published by the National Energy Commission (CNE) and for KPI3 companies in scope are mainly securities issuing companies that report to the local Chilean markets regulator ( CMF). |

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| Availability | When possible, chosen KPIs should be ready available and included in relevant past publications in order to be able to evaluate historical performance. In situations where the KPIs selected have not been previously disclosed, to the extent possible, the issuer should provide historical externally verified KPIs values covering at least the previous 3 years | Data are available across most countries. Data within datasets are consistent and comparable (for example, reported using the same methods) across countries | KPI1 has coverage available from 1990 to 2018 (baseline), KPI2 has data available from 2018-2021(baseline) and KPI3 has coverage available from 2019 to 2022(baseline). |
| Regularity | When possible, chosen KPIs should be ready available and included in relevant past publications in order to be able to evaluate historical performance. In situations where the KPIs selected have not been previously disclosed, to the extent possible, the issuer should provide historical externally verified KPIs values covering at least the previous 3 years | Data are provided in sequence with equal intervals between them over a long period of time | KPI1 produced biennially, consistent with current NDC protocol while information on KPI2 and KPI3 will be produced annually |

**Sources: ICMA, World Bank, Government of Chile. FOR ILLUSTRATIVE PURPOSES ONLY.**

In addition to the guidelines outlined by ICMA and the guidance provided by the World Bank:

1. We advise against the use of ESG ratings as KPIs, and encourage issuers to build on resources such as the ones suggested above.
2. To be compelling, Sustainability-linked bonds should include interim sustainability performance targets to reflect the issuer's commitment to make consistent progress and the importance of clear intermediary targets. Signaling/incentive mechanisms we prefer are step-up in coupons as opposed to step-down, additive in size with a maximum cap.
3. An issuer is encouraged to update its ambition (calibration of the target) linked to the SLB if it is ratcheted up ahead of the trigger date, and disclose details (a timeline and roadmap) of this plan to increase the ambition as appropriate.
4. External verification of the historical performance for the KPI is recommended to be provided prior to the issuance and the issuer is encouraged to disclose relevant details regarding the methodology for the KPI calculation and data quality based on recognized standards (e.g., Partnership for Carbon Accounting Financials (PCAF) for financed emissions, the Oil and Gas Methane Partnership for methane).
5. PIMCO recommends practices in line with typical covenants for bonds that are not labelled as 'sustainable' to facilitate the mainstreaming of the instrument and its connection with credible and ambitious targets, i.e. changes in the financing conditions including cash payments to investors rather than charitable donations.

6. **Combining the use of proceeds approach (green bond) with the Sustainability-linked bond** combining use of proceeds/investments features with KPIs in order to take advantage of both instruments features. In general, the SLB format gives a country more flexibility to reach targets given that there are additional investments that a country will likely make to meet its sustainable development initiatives beyond what an ESG labeled use of proceeds bond can fund. SLBs allow the Sovereign to support sectors of the economy that may lack adequate eligible assets and support regular government activity, while working to achieve their sustainability targets in a context of higher government accountability. Therefore, combining both format features into one framework (i.e. clear and ambitious targets as well as high quality expenses and projects that help advance this target, supported by robust evidence) could send a strong message to investors, offering complementary lenses of analysis as well as higher transparency and more holistic alignment with a county's sustainability ambition (e.g. Senegal has published a framework combining UoPs and KPIs features).
7. We recommend issuers who have several targets and SLBs/SLLs outstanding to produce a **consistent aggregated dashboard** including key information mapped to the different data specific to each SLB/SLL (e.g., observation date, Sustainability Performance Target, reporting date, step-up date [start accruing], first stepped up coupon date [payment date]):
   - Emission (or other ESG KPI) reduction scope
   - Targeted reduction level
   - Timeline (year – short to long-term).
   - Progress achieved to date (e.g., % reached).
   - Levers to advance the target.
   - Note on the methodology/third party verification (e.g. UNDP assurance report or WB's KPI's ambition/progress assessment report as committed by Senegal or done by Uruguay)

## III) SDG Bonds

**Sustainable Development Goals (SDG)**: Use of proceeds should be clearly aligned with the Sustainable Development Goals, with impact reporting referencing specific SDG targets or SDG indicators. ICMA has provided a high level mapping to the SDGs and the UNDP has developed SDG Impact Standards for Bond Issuers.

a. Materiality and Performance Alignment: Use of Proceeds from SDG Labelled Sovereign bonds should be material to the key risks faced by the country and critical for continued sustainable development.
b. The issuer is encouraged to set up a strong system for expenditure evaluation and tag relevant budget expenditure to each project and respective SDG.
c. Post-issuance allocation reporting and impact reporting should provide an overview of programme implementation with quantitative targets (impact indicators) for eligible projects and clearly outline consistency with main SDG gaps. Methodology supporting the indicators chosen and historical performance should also be provided.
d. Third party verification of impact metrics and SDG alignment is strongly recommended.

## IV) Background on PIMCO's Sovereign Assessment

At PIMCO, when reviewing GSSS-labeled bonds we conduct our own internal analysis, mapping the bonds across a spectrum based on three criteria:

1. Strategic fit: Alignment of the issuer's climate/environmental/social strategies and SDG goals with the bond's objectives and use of proceeds.
2. Impact assessment: Evidence of significant positive outcomes compared to "business as usual" by the issuer.
3. Red flags and reporting: Screening for "red flags" and controversies and analysis of reporting and process

This internal review results in a bond-level score (including a framework score) and ESG recommendation regarding the suitability of these bonds for PIMCO's ESG portfolios.

As a global fixed income manager, and depending on the country, we support diversification of ESG label instruments, as such, we encourage issuance across external and local debt, as well as nominal and inflation linked instruments.

Some examples of good practices below:

| Issuer | Use of Proceeds | Details |
|---|---|---|
| **Green Bonds** | | |
| FRANCE GOVT | The Green Bond framework includes six eligible categories of projects clustered around four themes. With most of the proceeds dedicated to climate change mitigation, followed by adaptation, biodiversity and pollution reduction. | • Short look-back period (1y)<br>• Explicit Cap on re-financing (50%)<br>• Alignment with ICMA and EU taxonomy<br>(partial disclosure of EU taxonomy alignment)<br>• Comprehensive exclusions<br>• Annual allocation and impact reports (both third party verified)<br>• Despite limited coverage of the impact indicators, the chosen ones are relevant and supported by applicable methodology<br>• Allocation disclosure at the bond/project level |
| **Sustainability Bonds** | | |
| PERU GOVT | Majority of proceeds focused on social categories such as Support for vulnerable groups and people in vulnerable situations, access to affordable housing, education and essential health services and support for medium, small and micro-enterprises (MSMEs) and social programs to alleviate and/ or prevent unemployment. Framework also includes eight green categories: (i)Green Buildings,(ii)Renewable Energy,(iii)<br>Energy Efficiency (iv) Low Carbon<br>Transport,(v) Resilient and Efficient<br>Water and Wastewater Management | • Clear link with the country's sustainability strategy and UoPs linked to key sustainable development challenges facing the Sovereign.<br>• Alignment with ICMA's standards<br>• Commitment to annual allocation and impact report to be third party verified<br>• Framework clearly identifies low-income and vulnerable people through the use of the Household Targeting System which employs a series of socioeconomic, geographical, and intervention-specific criteria to identify people and households in situations of vulnerability or exclusion. |

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|---|---|---|
| | (vi)Sustainable Management of Natural<br>Resources, Land Use and Marine<br>Protected Areas,<br>(vii)Sustainable Agriculture<br>(viii)Sustainable Waste Management. | |
| **Social Bonds** | | |
| ECUADOR GOVT | Proceeds to support mortgage loans to be offered at a preferential interest rate of 4.99%, through the Ecuadorian financial system and a securitization scheme. | • Governance framework includes IDB acting as a guarantor for up to $300 million.<br>• Clear eligibility criteria with comprehensive thresholds<br>• Coherent with the country's strategic priorities of sustainable development with clear positive social impact. |
| **SDG Bonds** | | |
| MEXICO GOVT | So far investments have been primarily focused on social categories prioritizing SDG 2, (Zero Hunger), 3 (Good Health And Wellbeing), 4 (Quality Education), 8 (Decent work and Economic growth) and 9 (Industry Innovation and Infrastructure) have been prioritized. From 2023, the government has also started to include expenditures to green categories and specifically include SDG 6 (clean water and sanitation) SDG 7 (affordable and clean energy), and SDG 13 (climate action). | • Development of innovative 'social gap index' for targeting allocation which prioritizes landlocked and vulnerable population groups, including indigenous people and those in extreme poverty.<br>• No refinancing<br>• Strong system for expenditure evaluation and selection that is "observed" by the UNDP. • The budget is mapped to each SDG and screened and refined by the SHCP and the Committee of Inclusive and Sustainable Economy (CISE) to confirm that projects available are eligible for allocation.<br>•Impact report is third party verified and includes geographic details.<br>• Framework is aligned with SDGs, SBP and GBP |

**EXAMPLES PROVIDED FOR ILLUSTRATIVE PURPOSES ONLY**

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**Contact:** ESG_Analyst_Inquiries@pimco.com

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

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

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, unitholders, customers and its community. Governance ("G") factors can include how an issuer operates, such as its leadership, pay and incentive structures, internal controls, and the rights of equity and debt holders.

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

With respect to comingled funds with sustainability strategies and guidelines ("funds that follow sustainability strategies and guidelines"), we have built on PIMCO's over 50-year core investment processes, while actively incorporating sustainability principles. Through these guiding principles—excluding issuers fundamentally misaligned with sustainability factors, evaluating issuers using proprietary and independent ESG scoring (in addition to externally sourced and internally developed criteria), and engaging with issuers on ESGrelated topics with the objective of improving investment outcomes - funds that follow sustainability strategies and guidelines seek to deliver attractive returns while also pursing to provide a vehicle through which investors can meet their sustainability preferences. Please see each fund that follows sustainability strategies and guidelines prospectus for more detailed information related to its investment objectives, investment strategies and approach to ESG.

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

**A word about risk: All investments** contain risk and may lose value. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **Sovereign securities** are generally backed by the issuing government. Obligations of U.S. government agencies and authorities are supported by varying degrees, but are generally not backed by the full faith of the U.S. government. Portfolios that invest in such securities are not guaranteed and will fluctuate in value. Investing in **foreign-denominated and/or domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **ESG investing is qualitative and subjective by nature**, and there is no guarantee that the factors utilized by PIMCO or any judgment exercised by PIMCO will reflect the opinions of any particular investor, and the factors utilized by PIMCO may differ from the factors that any particular investor considers relevant in evaluating an issuer's ESG practices. In evaluating an issuer, PIMCO is dependent upon information and data obtained through voluntary or third-party reporting that may be incomplete, inaccurate or unavailable, or present conflicting information and data with respect to an issuer, which in each case could cause PIMCO to incorrectly assess an issuer's business practices with respect to its ESG practices. Socially responsible norms differ by region, and an issuer's ESG practices or PIMCO's assessment of an issuer's ESG practices may change over time. There is no standardized industry definition or certification for certain ESG categories, for example "green bonds"; as such, the inclusion of securities in these statistics involves PIMCO's subjectivity and discretion. There is no assurance that the ESG investing strategy or techniques employed will be successful. Past performance is not a guarantee or reliable indicator of future results.

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

The issuers referenced are examples of issuers PIMCO considers to be well known and that may fall into the stated sectors. References to specific issuers are not intended and should not be interpreted as recommendations to purchase, sell or hold securities of those issuers. PIMCO products and strategies may or may not include the securities of the issuers referenced and, if such securities are included, no representation is being made that such securities will continue to be included.

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