

INTEGRATING ESG FACTORS IN PARTNERSHIP WITH AN NGO

NAME

Allianz Group in Austria

ORGANISATION TYPE

Financial Services (Insurance, Asset Management)

ASSETS UNDER MANAGEMENT

EUR 7 bln (in Austria)

HEADQUARTERS

Austria

Allianz Group in Austria is a financial services company and a subsidiary of Allianz SE. Allianz Austria is member of the WWF CLIMATE GROUP since 2008: In addition to its overall commitment to reduce direct CO₂ emissions, Allianz started a cooperation with WWF Austria to analyze its entire investment portfolio with regard to ESG factors and “scope 3” emissions. The aim of this partnership is to make sustainability of capital investments transparent (also to the public) in order to direct large capital flows towards more sustainable businesses. During a four year period, an innovative sustainability model for investments was developed by WWF Austria in cooperation with 70 experts from 40 organizations.

The PRI's Fixed Income Case Study series highlights examples of interesting and innovative approaches to responsible investment. Written by fixed income practitioners from around the world, the case studies cover topics such as integrating ESG, negative and positive screening, thematic investment and engagement.

Sharing these examples will enable investors to collectively build a concept of emerging good practice. The PRI aims to publish a set of these short pieces every quarter. If you would like to learn more or contribute your own case study please [contact us](#).

ABOUT

The Austrian partnership between WWF and Allianz Austria started with a mutual vision to enhance the transparency of Allianz Austria's investment behaviour and to consider how environmental, social and governance (ESG) factors can be integrated into a relevant part of a financial institution's core business, expanding Allianz Austria's ambition to act as a good corporate citizen from its insurance business to its investments.

Allianz Austria incorporated ESG factors through an ESG screening methodology because it believes that clients are increasingly demanding it and that the public perception of financial institutions is becoming more important. Allianz Austria has the ambition to be first mover to achieve both goals – alleviated ESG risks that could have potential negative impacts on investment performance, as well as on reputation. Allianz Austria chose to partner with WWF Austria to ensure credibility and an independent assessment.

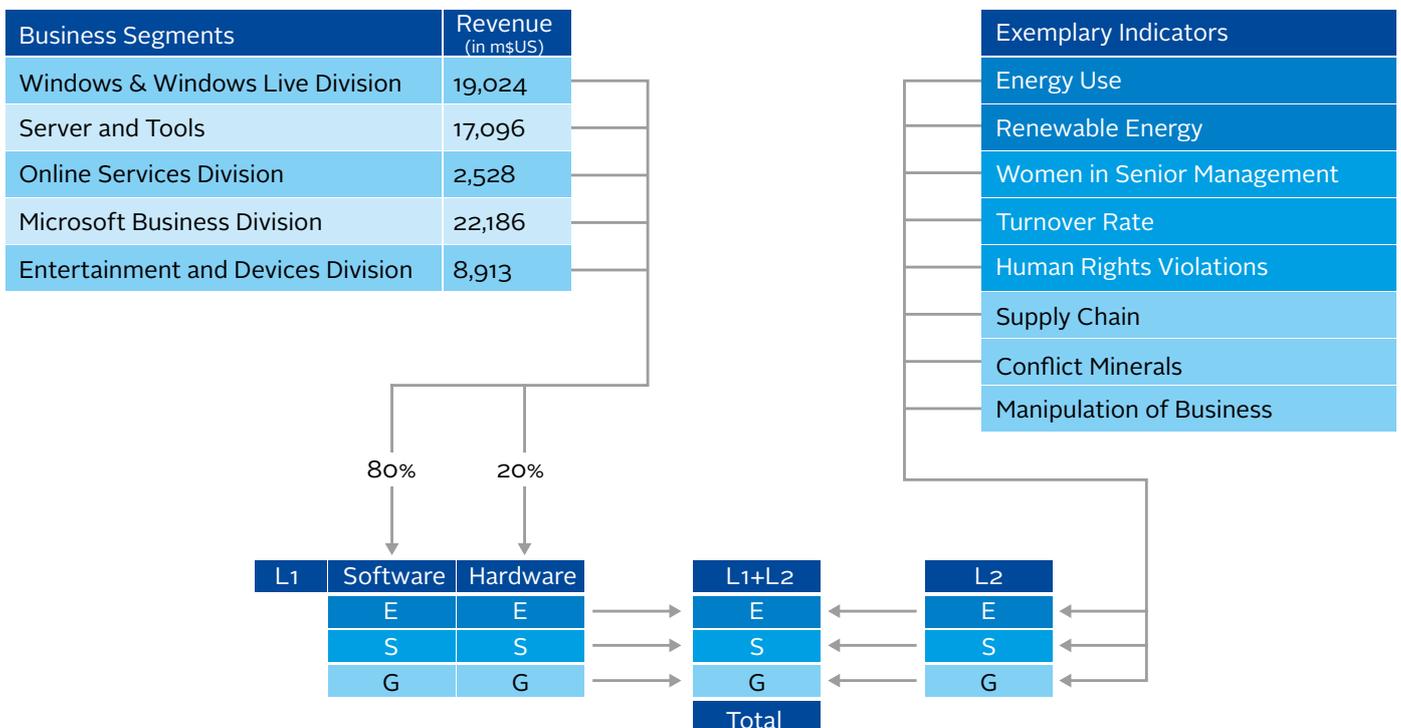
The ESG screen covers the majority of the assets under management of Allianz Austria¹, thereby creating a holistic picture of ESG performance

DEVELOPING A MODEL TO INTEGRATE ESG

The development of the model started in early 2010 and involved more than 70 experts from 40 organisations² including NGOs, scientific bodies, corporations and the public sector. Four interdisciplinary workshops resulted in a WWF report³ listing more than 100 agreed-upon indicators to cover ESG aspects of corporations (for equity and bonds) and countries (for government bonds). After further development and testing, the completed model was presented to the public in December 2014 alongside the commitments of Allianz Austria.

The ESG model consists of three sub-models covering corporate bonds and equity (CORP), government bonds (GOV) and covered bonds (CVB). In each sub-model, individual E, S and G scores are combined into an overall total score ranging from 0 to 100 for each security. No exclusion criteria are applied in the assessment process to ensure objective measurement of the underlying portfolio. The assessment score relates to an absolute scale from 0 to 100 and therefore allows for comparisons across portfolios.

Figure 1: CORP sub-model combines sector assessment (L1) with best-in-class assessment (L2)



1 The minimum requirement for the project is a coverage of 90%; currently more than 95% of Allianz Austria's AuM are covered by the ESG model.

2 Amongst others UNIDO, Fairtrade, Austrian Society for Environment and Technology (ÖGUT), Caritas, CARE, Red Cross Austria, Austrian Ministry of Labour & Social Affairs, Austrian Economic Chamber, KPMG, Austrian National Bank, University of Vienna, University of Natural Resources & Life Sciences, University of Economics.

3 WWF Österreich 2011: Praxismodell Nachhaltiger Finanzmarkt – Indikatoren für die Bewertung von Investments (www.wwf.at/investment-bewertung).

CORPORATE

The corporate sub-model maps industry sectors according to their (mainly) negative impacts on environment and society and ranks companies within each sector according to material areas of their businesses (see example of Microsoft in figure 1). It distinguishes between more than 60 business segments and includes a pool of approximately 100 sector-specific indicators. The weighting of the ESG indicators derives from the specific impact level of the underlying sector(s). Data are collected from company reports, the CDP (Carbon Disclosure Project) and RepRisk (covering media and NGOs).

GOVERNMENT

The government sub-model ranks the 28 EU countries⁴ based on approximately 60 quantitative indicators covering topics such as climate change, biodiversity and land-use, mobility, democratic processes, social justice, education and

employment, health, public expenditures as well as tax- and debt-policies (see figure 2)⁵. The main data sources are EUROSTAT, UN Statistics, the World Bank and WHO (World Health Organisation). The ESG dimensions have equal weightings in the final score. The indicators were selected from various experts on the grounds of materiality and data availability. The scoring represents a benchmarking against a fixed best-in-class baseline year (2009).

COVERED BONDS

The covered bonds sub-model combines elements of the CORP and GOV sub-models (see figure 3), connecting the score of the issuer (usually a bank) with the score of the covered pool of assets, such as the real estate industry or the public sector. Indicators used to assess the cover pool depend on the type of collateralization. The “Real Estate Sector Rating” consists of approximately 20 indicators covering the three ESG dimensions.⁶

Figure 2: GOV sub-model consists of approximately 60 quantitative indicators

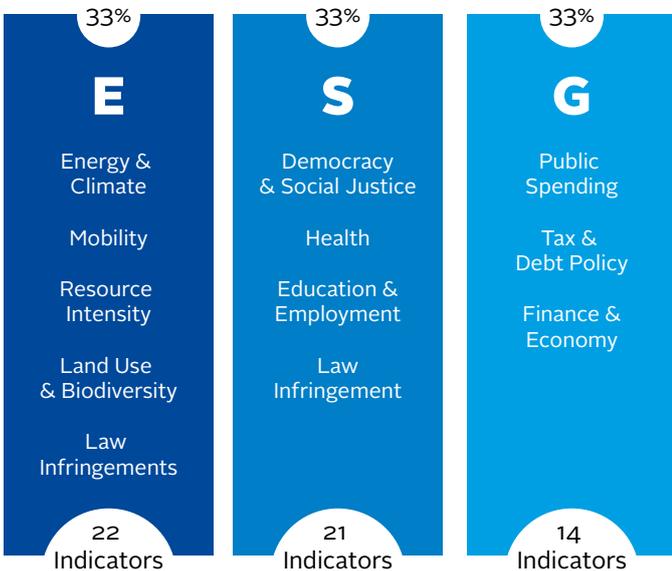
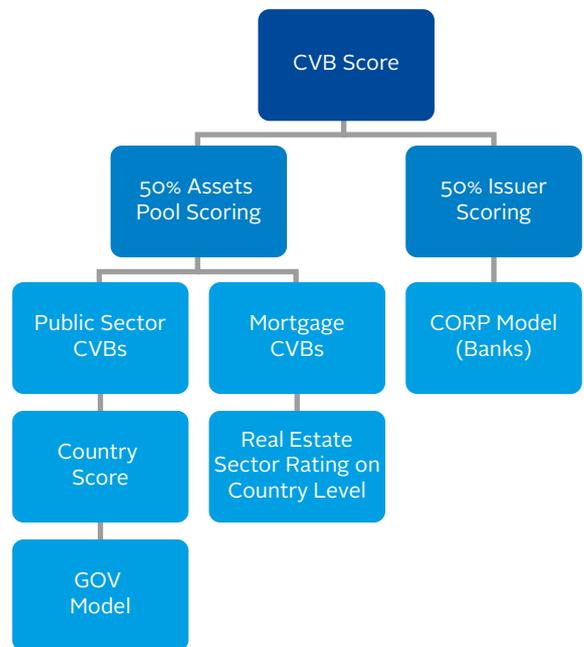


Figure 3: CVB sub-model combines elements of CORP and GOV sub-models as well as aspects specific to covered bonds.



4 Note: 98% of Allianz Austria's country investments are EU-based.

5 As an exemplary selection of climate change related E-indicators: carbon emissions per capita, share of renewable energy in gross final energy consumption, implementation level of energy efficiency policy recommendations of IEA.

6 As an exemplary selection of indicators: Loan to value (general), Overcollateralization rate (general), Final energy consumption/residential (E), Waste generated by households by year (E), Share of housing costs in disposable household income (S), Inability to keep home adequately warm (S), House price index (G), Arrears/mortgage or rent, utility bills or hire purchase (G).

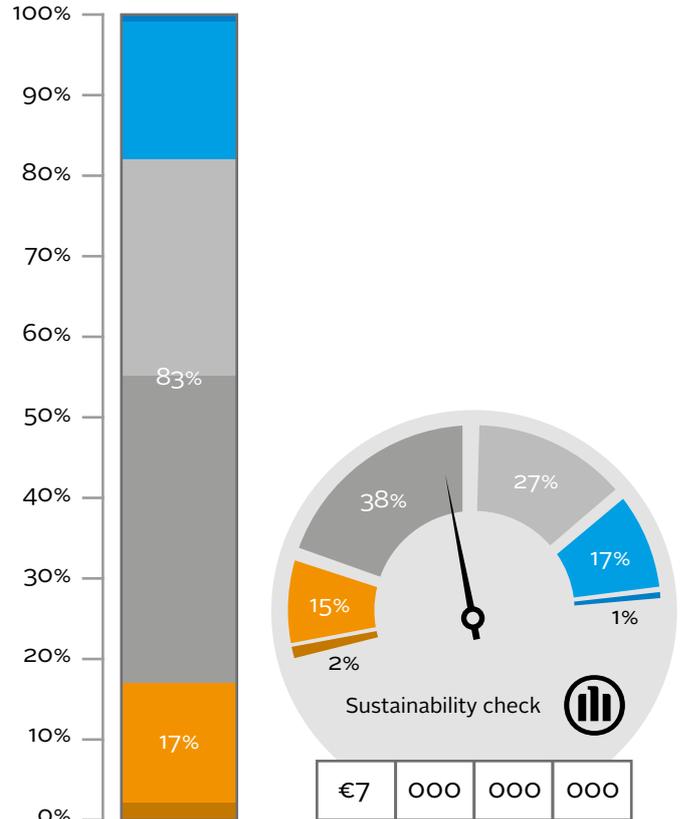
EFFECT OF ESG MODEL ON INVESTMENT OUTCOMES

The model is used to screen the ESG performance of approximately 95% of Allianz Austria's €7 billion of assets under management. At the launch of the model, Allianz Austria committed to improving its portfolio's overall ESG score by 5 percentage points between 2015 and 2020, amounting to a gradual shift of approximately €350 million from "orange" investments scoring below 40/100 to "blue" investments scoring above 60/100 (see figure 4). Allianz Austria's aim is to reduce the current 17% of sub-40/100 scored ("orange") investments to 12% by 2020 and to 5% by 2030.

Apart from a general ESG commitment Allianz Austria also made climate change-specific commitments towards WWF Austria and the public, including permanently divesting from coal mining companies by the end of 2015, helping to avoid 600 thousand tons of CO₂ emissions in its portfolio.⁷ The amount divested will be re-invested in renewable energy: Allianz Austria is aiming to double the amount of renewable energy production in its corporate energy portfolio from 11.75% in 2015 to 24% by 2020. This is part of Allianz Austria's commitment to contribute to the goal of international negotiations to avoid the most dangerous consequences of Climate Change.

The ESG scores are updated annually. Commitments can be monitored in real-time as the scores and goals are implemented directly in Allianz Austria's portfolio management system, meaning deviations are immediately highlighted. Every investment decision shows its impact on the average ESG score of the portfolio, boosting fund managers' understanding of how to meet longer-term sustainability goals alongside the financial parameters of daily business.

Figure 4: ESG score distribution of Allianz Austria's AuM.



⁷ This is the outcome of an internal assessment of Allianz Austria's investments in coal mining companies based on coal reserves and invested volume.