Stewardship Principles

Achieving best practice through engagement

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Engagement with portfolio companies is a central tenet of our active investment approach. A new series – Stewardship Principles – will outline the way we work with the companies we invest in to promote best corporate governance practice and collectively work towards environmental and social transformation.

At Allianz Global Investors, we invest for the long term across a range of different investment strategies and are committed to an active stewardship approach. In 2020 we engaged 224 companies on more than 490 topics and voted at more than 10,000 shareholder meetings.

Our new publication series – "Stewardship Principles" – aims at providing insights into our approach to engagement and voting using several select principles and positions that guide us. These will help highlight what we consider best practice in corporate governance or executive board remuneration, for example. The series will also suggest the introduction of new governance concepts for certain markets or industries, and analyse changing market trends, such as linking climate strategy to voting. We think that such a series of publications is a timely response to increasing demands from our clients and regulators alike, relating to all aspects of governance as well as environmental and social issues.

We routinely engage in dialogue with investee companies and seek to proactively present a viewpoint, in particular where we have larger holdings and see issues. We seek change where necessary and monitor the results of our engagements. With this new series, we will also highlight positions we have taken in engagements with our portfolio companies and share selected results of those engagement activities. Our investment views are influenced by the outcomes of these engagements and inform our voting decisions at the companies' general meetings, as we apply a consistent stewardship approach.

Key takeaways

- Strong governance is vital to investment performance, and enables boards and management to address environmental and social issues
- Best practice in governance can differ between sectors and geographies, reflecting distinct regulatory frameworks or market and sectoral specifics
- When evaluating environmental resolutions investors should consider how ambitious a company's climate pledges are, how they compare with their peers', and the accountability of the board in fulfilling them
- Climate change has been a long-standing theme in our engagement work, in particular the promotion of transparency around companies' climate transition strategies

Value. Shared.

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Highlighting best practice in corporate governance

We think that strong governance practices are critical enablers of investment performance. With these practices in place, boards and management can better address other highly relevant issues, including environmental and social transformation and risks. We engage with companies on a variety of corporate governance topics. Examples include:

- Board composition
- Succession planning for directors and senior management
- Structures and levels of executive remuneration
- Issues relating to shareholder rights (for example, in the context of takeover-related matters)

We apply our proxy-voting policy globally based on a consistent set of rules. However, we sometimes observe that governance practice differs from market to market, reflecting distinct regulatory frameworks or diverging governance standards. In our new publication series, we highlight best practice in certain markets to inform our engagement dialogue in others. For example, in several countries the concept of a lead independent director (LID) is widespread to counterbalance the combined role of chair and CEO. We believe that greater use of LIDs could help to support the corporate governance framework in Germany, where it is not prevalent today. The "Stewardship Principles" will explain more on this topic.

Encouraging improved governance practice for founder-led or small companies

In this series, we will also examine governance issues that apply to certain sectors, and smaller or founder-led companies. For example, listed US technology companies often continue to be run by their founders, who also retain large or majority shareholdings. This situation can lead to questions over their compensation policies that require active investors to engage directly with the board – a topic we will elaborate on in a future edition.

Extending stewardship practices into fixed income

While equity investors can use voting to exert influence on managements, there is no equivalent in fixed income. And in fact central bank purchases of bonds have weakened the ability of investors to push back against weak stakeholder provisions. Historically, fixed-income investors have been able to achieve leverage on topics like covenants and reporting only in volatile markets where issuers face a greater challenge to access capital markets. However, we believe traction can be achieved through bilateral discussions with companies and industry bodies to strengthen terms. To some extent, rising regulatory demands on sustainability disclosures may facilitate this. We will discuss this further in a future publication.

Focusing on the inherent link between E, S and G issues

Governance practices are evolving continuously. Investors have been focusing more and more on linking sustainability-related issues with voting decisions and are thus recognising an inherent link between the individual strands of an ESG (environmental, social and governance) approach. The 2021 voting season saw an unprecedented rise in attention around climate-related resolutions. The so-called "Say on Climate" – which asks management to seek an investor vote on a company's climate strategy, targets and achievements – brought a new angle to the discussion.

A number of companies tabled such a resolution, mostly in Europe. After initial considerations this year, investors may need to focus on the ambition level of the pledges undertaken, comparability of the pathways companies embark on, and – crucially – responsibility and commitment of the board going forward. Incentivising the board for the long-term plays an important role in this context. Thus, principles for the incorporation of sustainability-related KPIs into management board compensation are an important feature of this debate – another topic to discuss in our new series.

Sharing results from our themed engagements

In addition to direct engagement with boards and management of key holdings, we lead targeted, themed engagement projects. These are guided by our three major themes: Climate, Planetary Boundaries and Inclusive Capitalism.

Climate change has been a long-time focus topic of our engagement work. Our engagement professionals discuss our expectations related to the disclosure of a climate-transition strategy with our portfolio companies and question their role in transition. We also want to understand whether companies follow internationally accepted climate reporting formats in their disclosure. Frequently, we observe that our portfolio companies would appreciate more guidance on the topics we engage on, and clients ask us to provide more detail on our engagement activities. In this series, we would therefore like to clarify our engagement stance and report back on important stewardship outcomes in this context.

We will kick off the "Stewardship Principles" with a piece on our engagement approach with oil majors. We believe that these companies can play a constructive role in the energy transition, but they must first provide evidence of their commitment to a low-carbon transition. We will explain our view that divestment from oil majors will have unintended consequences and is unlikely to help decarbonise the economy; it will instead simply displace the problem.

Allianz Global Investors is a leading active asset manager with over 690 investment professionals in 24 offices worldwide and managing EUR 633 billion in assets for individuals, families and institutions.

We invest for the long term and seek to generate value for clients every step of the way. We do this by being active – in how we partner with clients and anticipate their changing needs, and build solutions based on capabilities across public and private markets. Our focus on protecting and enhancing our clients' assets leads naturally to a commitment to sustainability to drive positive change. Our goal is to elevate the investment experience for clients, whatever their location or objectives.

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