

UK TCFD ESG climate-related disclosures on product level "Allianz Gilt Yield Fund"

This document is the public product report for the "Allianz Gilt Yield Fund" (the "Product") for the fiscal year from 01.01.2023 to 31.12.2023 and has been produced by Allianz Global Investors UK Limited, in its role as management company pursuant to Section 2.3 of the Financial Conduct Authority's ("FCA") Environmental, Social and Governance Sourcebook (the "ESG Sourcebook").

Introduction

Allianz Global Investors UK Limited (herein referred to as "AllianzGI UK LTD") operates as an investment management firm. AllianzGI UK LTD is an affiliate of Allianz Global Investors GmbH and is part of the Allianz Global Investors group, which consists of Allianz Global Investors GmbH together with its subsidiaries, as well as Allianz Capital Partners GmbH and Allianz Global Investors UK LTD (the "AllianzGI Group"). References to "we", "our" or "us" are to AllianzGI UK LTD.

Sustainable investing is a core part of the strategy to seek shaping pathways that secure the future. Beginning with the financial year 2024, AllianzGI UK LTD publishes a separate entity report as well as product reports, where required, pursuant to the ESG Sourcebook. The ESG Sourcebook sets out rules and guidance regarding the disclosure of climate-related financial information consistent with the Task Force on Climate-related Financial Disclosures ("TCFD")¹ Recommendations and Recommended Disclosures. The following report presents the TCFD product report for the Product, prepared in accordance with Section 2.3 of the ESG Sourcebook. Unless otherwise disclosed in this report, AllianzGI UK LTD's approach to climate-related risks and opportunities in relation to the Product is materially the same, in all material respects, as AllianzGI UK LTD's general approach set out in its entity report. This report should be read in conjunction with AllianzGI UK LTD's entity report dated 30.06.2024, which is available here: [AllianzGI UK entity level TCFD Report 2023](#).

Climate-related metrics according to TCFD

A variety of indicators are used across different lines of business to monitor, assess and measure climate-related aspects of the economy. Investment-related carbon emissions metrics are measured based on the issuers' carbon emission data as provided by external data providers (e.g., MSCI and Refinitiv).

It should be noted that only listed equity and corporate bonds assets are in scope for this year's report. Due to the absence of these asset classes within the Product, the climate-related metrics and stress test results are not calculated. It is important to recognise that for certain asset classes (e.g., alternatives, sovereign bonds, fund of funds etc.) reporting has not been possible due to gaps in underlying data and methodological challenges. Such data gaps and methodological challenges are due to the lack of accuracy in the information currently available, the lack of climate data providers and the absence of common industry views and methodologies. In particular, carbon metrics for the Product's investments in sovereign bonds and fund of funds are not included in the report due to operational and methodological considerations which could potentially lead to the resulting disclosure being misleading. AllianzGI UK LTD aim to have these metrics available for next year's TCFD product reports as a result of these steps. AllianzGI UK LTD will seek to evaluate additional data, and to work on resolving operational and methodological challenges and methodologies to meet the regulatory requirements and industry standards. AllianzGI UK LTD are committed to providing greater transparency and disclosure to our investors and will continue to test methodologies to improve the transparency and accuracy of data quality in all asset classes.

¹Task Force on Climate-related Financial Disclosures – Implementing the Recommendations of the Tasks Force on Climate-related Financial Disclosures.

Climate-related scenario analysis

Climate-related scenarios

To assess the impact of climate risks on the Product, we have applied the Bank of England climate scenarios as published in 2019 (*Bank of England General Insurance Stress Test 2019*). Bank of England ("BoE") defined three hypothetical scenarios referring to the Paris Agreement² that has set out climate targets for the forthcoming decades. Meeting these targets will require significant structural changes in the economy over the coming years and decades.

The first two scenarios assume that the Paris Agreement targets are broadly achieved, although through different means (disorderly transition and orderly transition). In the third scenario (hothouse world), it is assumed that the targets are not met, resulting in a significant impact on the global climate.

To understand how each scenario could impact financial risks, BoE considers two primary channels: physical and transition (please see description in appendix). The severity of the impact in the transition risk will depend on whether the transition is orderly or disorderly.

The scenarios provide some valuable insights as they allow us to see the potential negative financial impacts of both physical and transition risks on assets from at-risk sectors, such as fuel extraction, power generation, and agriculture, but also the potential positive financial impacts of the opportunities (e.g., electric vehicles, renewables).

Product exposure to High Carbon Intensive Sectors and impact of climate risks

"Orderly transition Scenario"

A long-term orderly transition scenario that is broadly in line with the Paris Agreement. This involves a maximum temperature increase being kept well below 2°C (relative to pre-industrial levels) with the economy transitioning in the next three decades to achieve carbon neutrality by 2050 and greenhouse-gas neutrality in the decades thereafter.

The Product has no material exposure to High Carbon Intensive Sectors³. Hence, transition risk impact is, in general, low under this scenario. Physical risk could have an impact given that the transition to carbon neutrality is long-term, thus some weather events might occur leading to some physical risk.

"Disorderly transition" Scenario

A sudden transition ensuing from rapid global action and policies and materializing over the medium-term business planning horizon that results in achieving a temperature increase being kept below 2°C (relative to pre-industrial levels) but only following a disorderly transition. In this scenario, transition risk is maximized.

The Product has no material exposure to High Carbon Intensive Sectors. Hence, transition risk impact is, in general, low under this scenario. Physical risk is not material under this scenario.

"Hothouse world" Scenario

A scenario with failed future improvements in climate policy, reaching a temperature increase in excess of 4°C (relative to pre-industrial levels) by 2100 assuming no transition and a continuation of current policy trends. Physical climate change is high under this scenario, with climate impacts for these emissions reflecting the riskier (high) end of current estimates.

The Product has no material exposure to High Carbon Intensive Sectors. Under this scenario, the product has no transition risk impact. However, physical risk impact could be high due to significant global warming as changes in extreme weather and climate lead to high physical risk.

²The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015. It entered into force on 4 November 2016.

³The exposure to High Carbon Intensive Sectors of a financial product is defined as significant when either an individual sector has at least 15% exposure or the total sum of all High Carbon Intensive Sectors is equal or greater than 15%.

Definition of climate risks

Risks related to climate change are potentially material, meaning that their impact may result in significant economic and financial losses, including to the Product, that their materiality is increasing and that they could have a negative impact on financial stability, which could have a significant negative impact on the Product. Severe climatic changes could impact the economy in various ways, whether it's affecting total economic activity, the productivity of the workforce or the smooth functioning of financial markets. Financial risks from climate change are typically classified as physical or transition risks by the investment and finance literature and practitioner community at large.

Physical risks from climate change arise from a number of factors and relate to specific weather events (such as heatwaves, floods, wildfires and storms) and longer-term shifts in the climate (such as changes in precipitation, extreme weather variability, sea level rise, and rising mean temperatures). Some examples of physical risks crystallizing include:

- increasing frequency, severity or volatility of extreme weather events leading to increased business disruption and losses, as well as potentially impacting the availability and cost of property and casualty insurance. This may lead to the value of investors' portfolios fluctuating substantially and insurance customers paying higher premiums or choosing not to take out coverage, leaving them or their lenders more exposed to potential future losses; and
- increasing frequency and severity of flooding leading to physical damage to assets held as collateral by asset owners and banks, such as residential and commercial property.

Physical risks may lead to increased credit risks, particularly for banks, or to underwriting risks for liability insurers if there are greater than anticipated insurance or legal claims to recover financial losses. A typical example would be a (higher) carbon price that cannot be passed through consumers and reduces profits of firms.

Transition risk refers to the negative impact that the introduction of climate policies to reduce GHG emissions could have on certain high-emitting firms. Policies aimed at curbing emissions and facilitating the transition to a greener economy could create significant risks to the most carbon-intensive industries. For example, industries that heavily rely on non-renewable or highly polluting resources, such as mining or fossil fuel extraction, could face a sharp fall in profits and higher production costs.

Transition risk could undermine the creditworthiness of bank counterparties as well as asset prices, with, potentially, detrimental consequences for bank solvency. Second, as climate change advances, the risk of abrupt financial losses in climate risk-sensitive geographical areas would increase, thereby leading to the erosion of collateral and asset values for a large number of financial institutions.

Exposure to High Carbon Intensive Sectors

Definition of High Carbon Intensive Sectors

The High Carbon Intensive Sectors set out below and used in this report are defined based on the European Union sustainable finance taxonomy (respectively, the "High Carbon Intensive Sectors" and the "EU Taxonomy")*. According to the EU Taxonomy, these are the sectors which contributed the most to total GHG emissions in the European Union in 2017 and are defined as below. For a detailed definition of the below sectors, please refer to the NACE code description.

DEFINITION OF CARBON INTENSIVE SECTORS		
NACE SECTOR CODE	NACE SECTOR NAME	GHG EMISSIONS**
A	AGRICULTURE, FORRESTRY AND FISHING	14.70 %
B	MINING AND QUARRYING	2.30 %
C	MANUFACTURING	23.90 %
D	ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	30.30 %
E	WATER SUPPLY, SEWERAGE, WASTE MANAGEMENT AND REMEDIAN ACTIVITIES	4.60 %
F	CONSTRUCTION	1.70 %
H	TRANSPORT AND STORAGE	15.20 %

*Data source: OECD website

**Total GHG emissions in the EU in 2017

CODE	DESCRIPTION	THIS ITEM INCLUDES
A	AGRICULTURE, FORRESTRY AND FISHING	THIS SECTION INCLUDES THE EXPLOITATION OF VEGETAL AND ANIMAL NATURAL RESOURCES, COMPRISING THE ACTIVITIES OF GROWING OF CROPS, RAISING AND BREEDING OF ANIMALS, HARVESTING OF TIMBER AND OTHER PLANTS, ANIMALS OR ANIMAL PRODUCTS FROM A FARM OR THEIR NATURAL HABITATS.
B	MINING AND QUARRYING	MINING AND QUARRYING INCLUDE THE EXTRACTION OF MINERALS OCCURRING NATURALLY AS SOLIDS (COAL AND ORES), LIQUIDS (PETROLEUM) OR GASES (NATURAL GAS). EXTRACTION CAN BE ACHIEVED BY DIFFERENT METHODS SUCH AS UNDERGROUND OR SURFACE MINING, WELL OPERATION, SEABED MINING ETC. THIS SECTION INCLUDES SUPPLEMENTARY ACTIVITIES AIMED AT PREPARING THE CRUDE MATERIALS FOR MARKETING, FOR EXAMPLE, CRUSHING, GRINDING, CLEANING, DRYING, SORTING, CONCENTRATING ORES, LIQUEFACTION OF NATURAL GAS AND AGGLOMERATION OF SOLID FUELS. THESE OPERATIONS ARE OFTEN ACCOMPLISHED BY THE UNITS THAT EXTRACTED THE RESOURCE AND/OR OTHERS LOCATED NEARBY.
C	MANUFACTURING	THIS SECTION INCLUDES THE PHYSICAL OR CHEMICAL TRANSFORMATION OF MATERIALS, SUBSTANCES, OR COMPONENTS INTO NEW PRODUCTS, ALTHOUGH THIS CANNOT BE USED AS THE SINGLE UNIVERSAL CRITERION FOR DEFINING MANUFACTURING (SEE REMARK ON PROCESSING OF WASTE BELOW). THE MATERIALS, SUBSTANCES, OR COMPONENTS TRANSFORMED ARE RAW MATERIALS THAT ARE PRODUCTS OF AGRICULTURE, FORESTRY, FISHING, MINING OR QUARRYING AS WELL AS PRODUCTS OF OTHER MANUFACTURING ACTIVITIES. SUBSTANTIAL ALTERATION, RENOVATION OR RECONSTRUCTION OF GOODS IS GENERALLY CONSIDERED TO BE MANUFACTURING.
D	ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	THIS SECTION INCLUDES THE ACTIVITY OF PROVIDING ELECTRIC POWER, NATURAL GAS, STEAM, HOT WATER AND THE LIKE THROUGH A PERMANENT INFRASTRUCTURE (NETWORK) OF LINES, MAINS AND PIPES. THE DIMENSION OF THE NETWORK IS NOT DECISIVE; ALSO INCLUDED ARE THE DISTRIBUTION OF ELECTRICITY, GAS, STEAM, HOT WATER AND THE LIKE IN INDUSTRIAL PARKS OR RESIDENTIAL BUILDINGS. THIS SECTION THEREFORE INCLUDES THE OPERATION OF ELECTRIC AND GAS UTILITIES, WHICH GENERATE, CONTROL AND DISTRIBUTE ELECTRIC POWER OR GAS.
E	WATER SUPPLY, SEWERAGE, WASTE MANAGEMENT AND REMEDIAN ACTIVITIES	THIS SECTION INCLUDES ACTIVITIES RELATED TO THE MANAGEMENT (INCLUDING COLLECTION, TREATMENT AND DISPOSAL) OF VARIOUS FORMS OF WASTE, SUCH AS SOLID OR NON-SOLID INDUSTRIAL OR HOUSEHOLD WASTE, AS WELL AS CONTAMINATED SITES. THE OUTPUT OF THE WASTE OR SEWAGE TREATMENT PROCESS CAN EITHER BE DISPOSED OF OR BECOME AN INPUT INTO OTHER PRODUCTION PROCESSES.
F	CONSTRUCTION	THIS SECTION INCLUDES GENERAL CONSTRUCTION AND SPECIALISED CONSTRUCTION ACTIVITIES FOR BUILDINGS AND CIVIL ENGINEERING WORKS. IT INCLUDES NEW WORK, REPAIR, ADDITIONS AND ALTERATIONS, THE ERECTION OF PREFABRICATED BUILDINGS OR STRUCTURES ON THE SITE AND ALSO CONSTRUCTION OF A TEMPORARY NATURE. GENERAL CONSTRUCTION IS THE CONSTRUCTION OF ENTIRE DWELLINGS, OFFICE BUILDINGS, STORES AND OTHER PUBLIC AND UTILITY BUILDINGS, FARM BUILDINGS ETC., OR THE CONSTRUCTION OF CIVIL ENGINEERING WORKS SUCH AS MOTORWAYS, STREETS, BRIDGES, TUNNELS, RAILWAYS, AIRFIELDS, HARBOURS AND OTHER WATER PROJECTS, IRRIGATION SYSTEMS, SEWERAGE SYSTEMS, INDUSTRIAL FACILITIES, PIPELINES AND ELECTRIC LINES, SPORTS FACILITIES ETC.
H	TRANSPORT AND STORAGE	THIS SECTION INCLUDES THE PROVISION OF PASSENGER OR FREIGHT TRANSPORT, WHETHER SCHEDULED OR NOT, BY RAIL, PIPELINE, ROAD, WATER OR AIR AND ASSOCIATED ACTIVITIES SUCH AS TERMINAL AND PARKING FACILITIES, CARGO HANDLING, STORAGE ETC. INCLUDED IN THIS SECTION IS THE RENTAL OF TRANSPORT EQUIPMENT WITH DRIVER OR OPERATOR. ALSO INCLUDED ARE POSTAL AND COURIER ACTIVITIES.

Unless explicitly stated in the Product's prospectus (or in the case of an investment trust, the latest annual financial report and key information document), this Product does not have a particular climate or sustainability-related objective and does not promote any climate or sustainability-related characteristics or seek to achieve any climate or sustainability-related targets. Any decision to invest in the Product must be made on the basis of the Product's investment objective, policy and strategy which are set out in the Product's prospectus (or in the case of an investment trust, the latest annual financial report and key information document).

This report may contain forward-looking statements with respect to the financial condition, performance and position, strategy, results of operations and businesses of the Allianz Group. Such statements and forecasts are based on current expectations and assumptions but relate to events and depend upon circumstances in the future and you should not place reliance on them. Forward-looking statements involve risk and uncertainty. Without limitation, any statements preceded or followed by or that include the words 'target', 'plan', 'sees', 'believe', 'expects', 'aim', 'confident', 'will have', 'will be', 'will ensure', 'likely', 'foresee', 'estimate' or 'anticipate' or the negative of these terms or other similar terms are intended to identify such forward-looking statements. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by such forward-looking statements and forecasts. Nothing in this report should be construed as a forecast, estimate or projection of future financial performance.

This report includes data sourced from third parties which we believe to be reliable; however, neither AllianzGI UK LTD nor the wider AllianzGI Group has verified such data.

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested. Past performance is not indicative of future performance.

This communication is intended for use by professional investors.

This document is intended to satisfy AllianzGI UK LTD's regulatory obligations in relation to climate-related financial disclosures for this Product.

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