Bringing impact investing into private markets

Join Allianz Global Investors' journey in co-creating private market investments with meaningful impact.

Introduction

AUTHORS

Matt Christensen
Global Head of Sustainable and Impact Investing

Emmanuel Deblanc
Head of Private Markets

Diane Mak
Director of Impact Measurement and Management

Nadia Nikolova
Lead Portfolio Manager Sustainable Private Credit

The move from ESG to sustainability to impact is the trend of this decade.

We believe **ESG** being the foundation from which we must develop our long-term approach, is the base level of risk management that investors can expect in their sustainable investments, in terms of filtering out risks.

If we build on that, with **sustainability** we can enhance our view on risk management by developing potential solutions that are created to meet the needs of society, such as those highlighted by the United Nations' Sustainable Development Goals (SDGs). This requires a solution mindset that uses ESG intelligence to help address the key challenges.

Beyond sustainability considerations, **impact** goes further by targeting measurable social or environmental benefits as well as an investment return. This is the sweet spot that we want to move closer to as an industry.

Impact investing requires a portfolio manager to have a strong impact conviction, and the opportunities can span across both **public and private markets**.

For over **20 years**, Allianz Global Investors (AllianzGI) have brought investors closer to the Private Markets spectrum through a unique and strong sourcing platform, offering a broad range of **private equity** and **private debt** strategies as well as **private infrastructure** (debt and equity).

Our impact and portfolio management teams work side-by-side to continuously develop the internal approaches and frameworks to meet and pre-empt an emerging body of industry standards, as well as improve our decision making, quality of impact measurement and management in our impact investing strategies.

It is with pleasure that we bring to you this whitepaper introducing AllianzGI's impact framework and sustainability typologies for private market investing where we outline our perspective on some of the key components that we believe are needed for generating **positive, meaningful impact in private markets**.

Over time, we expect (and hope) to see an increasing number of portfolios being developed to meet a range of goals, which will be well-defined for investors from the outset. This greater clarity will be key to the continued rise of assets under management in impact and other private markets strategies.

We hope you find this useful and informative.

The importance of sustainability in Private Markets

With the rising frequency of major environmental events and social movements, the objective of making the world a better place has gone from personal choice to a global necessity. This has raised the awareness of the role capital can and should play to address these topics, where Private Markets are well placed to support them.

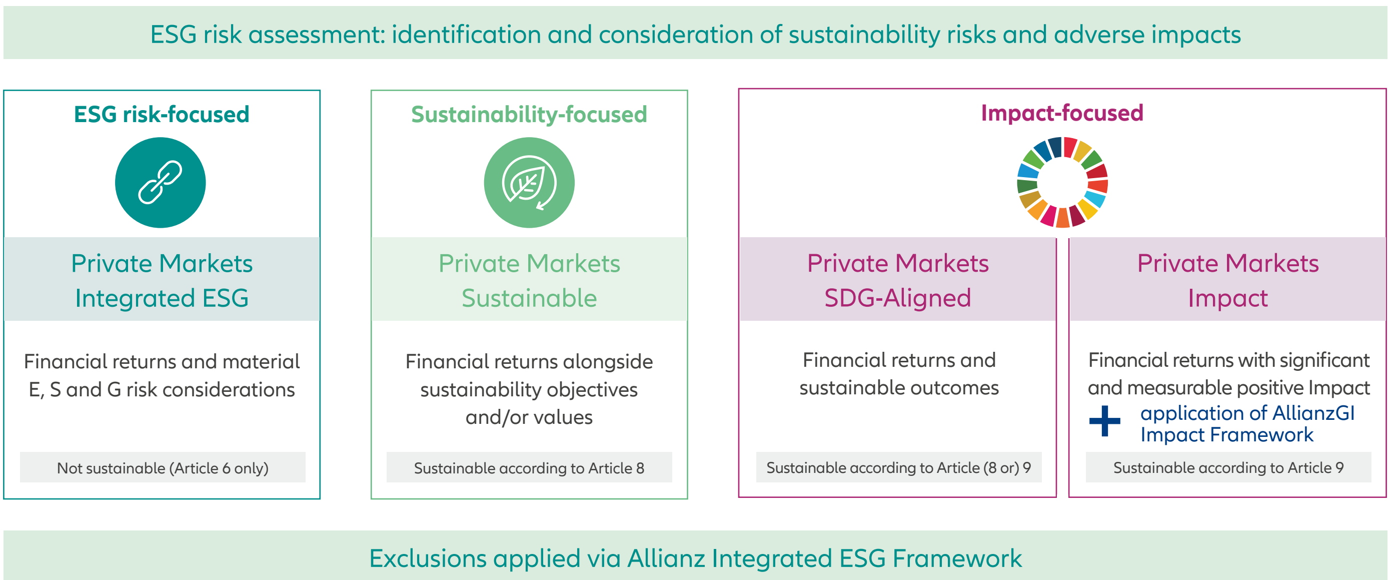
Private Markets' role in the world of tomorrow
At AllianzGI, we believe that Private Markets investing can act as an important lever in the transition towards a more sustainable world. These markets are well suited for the integration of the analysis of sustainability risks, given the detailed information received during due diligence phases, as well improving ESG practices. We act directly, or by leveraging our relationships with asset managers in our indirect strategies.

Private Markets investing also provides great value with the ability to focus on investing in real economies, identifying & incubating key future themes and playing a collaborative role in engaging with corporates on key sustainability targets.

The diversity of the investment objectives for our Private Markets investors and the depth of our strategies means that we provide sustainable investing at different levels of incorporation, such as through **Sustainable-focused strategies** (Renewables and Infrastructure), as well as **Impact** strategies. However, strongly embedded throughout all investment processes across the Private Markets platform is the integration of ESG. This recognises the potential implications that we believe sustainability risks can have on the performance of the investment.

Integration of sustainability risks
We take a systematic approach to integrating ESG across the entire investment process, from the sourcing

Sustainable approaches for AllianzGI's Private Markets platform



Source: Allianz Global Investors, 2023. ESG: Environmental, Social and Governance. SRI: Sustainable and Responsible Investing. KPI: Key Performance Indicator. FI: Fixed Income. MA: Multi Asset. For illustrative purposes only. Exclusions apply to direct investments. Sustainable or impact investing private markets strategies apply the Allianz ESG Integration Framework exclusions. Allianz Global Investors supports the UN Sustainable Development Goals (SDGs). *According to EU SFDR regulation.

and due diligence phases through to the monitoring and engagement activities. This ensures that sustainability risks are identified and considered, while further steps are taken for appropriate investment decisions and then monitored throughout the life of the asset.

As a Private Markets investor, we can engage and steward the assets and funds we invest in through the levers of influence, specific to each strategy. We take this role very seriously and endeavour to keep pushing the markets towards best standards, leveraging and inputting into industry initiatives that support this.

A history of sustainable investing

AllianzGI has over 10 years of history in delivering sustainable outcome-led investment offerings, having made its first third party Renewables investment in 2012. We are also one of the first movers in delivering blended finance vehicles where investment from both institutions and public funds are combined to create opportunities to create impact, especially in emerging markets, which are de-risked for commercial investors.

Delivering credible Impact

Investors don't have to trade financial returns for impact. The greater quantification of impact returns can help support financial returns. In fact, as non-financial returns become an increasingly important factor, they could provide a strong technical tailwind. The more the industry can quantify and qualify those non-financial returns, the more likely these will not only complement, but also support, the expected financial returns.

The future growth opportunity of impact investing depends on asset managers demonstrating how impact is integrated throughout the investment lifecycle, including how impact is measured and managed. With that in mind, AllianzGI created an **Impact Measurement and Management team** which works in partnership with portfolio management teams to co-create impact investing strategies, and which oversees the development and implementation of AllianzGI's impact framework for the due diligence, measurement and management of private markets impact investments.

As we look to the future, we expect to see an even greater growth in the Impact market and the opportunities available to our clients. Where investors previously thought only in terms of risk and reward, we expect they will begin to add a third dimension of oversight to their portfolios: **impact**.

Impact investing has risen in the past few years to over USD 1 trillion of assets under management, with significant growth potential going forward.[1]

[1] Source: Global Impact Investing Network (GIIN), 2023

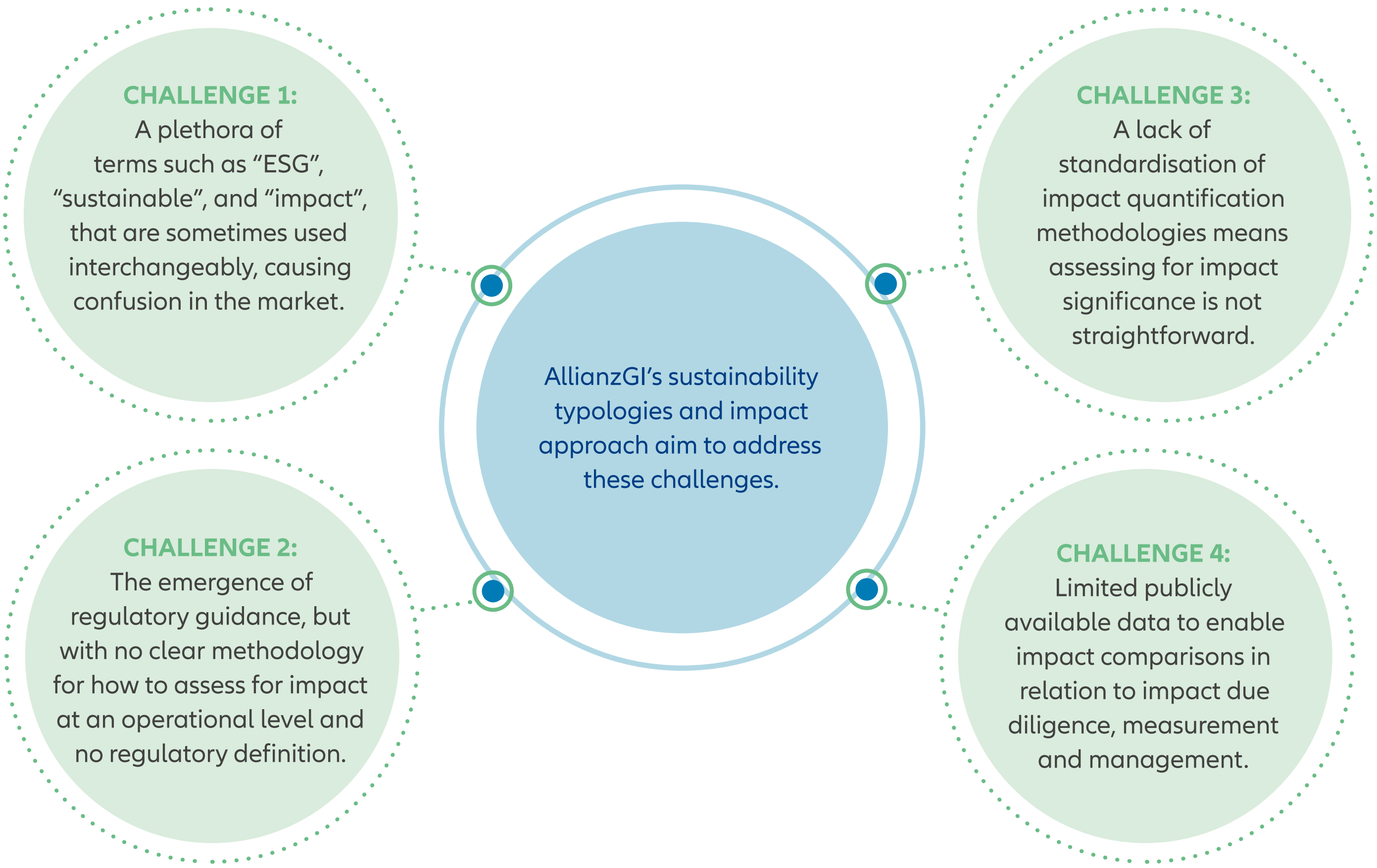
In this paper, we outline our expectations for the outcomes that impact investments could deliver, with a focus on private markets where the impact market and application of regulation is less mature, and impact investing has been most innovative.

We also intend to work with other investors and regulators where possible, to push for more clarity in the industry across jurisdictions. That way, investors can better understand what it means to have an impact-related investment in their portfolios. Ultimately, we believe that greater precision in private markets around impact investing will also help create guiding principles for public market investments in due course.

In Exhibit 1, we summarise the challenges that are consistently raised by investors and a key reason for writing this paper. The challenges cited across investor segments and geographies emphasise the obstacles to overcome in seeking to create greater understanding on the topic.

While early iterations of regulation have shone a light on the overall field of ESG, this has resulted in a complex environment for all market actors. We outline in the following pages three sustainability typologies, which are underpinned by our overall impact approach. These typologies are applied, where relevant, to classify and communicate our private market impact investments more consistently. Our aim is to ensure an improved understanding of impact investing across private markets.

Exhibit 1: Industry challenges in defining, managing and measuring impact



How we define impact: our three sustainability typologies

We have developed three typologies (see below) to clarify and define the impact of investments, and we connect these to a set of characteristics that enables continuous implementation.

What do we mean by "typologies"? These are the types of impact that these investments could deliver, and by defining them on a proprietary basis we aim to better determine how impactful an investment could be.

Our **three** sustainability typologies are:

1 Significant Positive Impact

These companies aim to generate substantial, and measurable positive outcomes, by providing products or services that solve key social and environmental challenges as a core part of their business models. This is our most advanced level of impact and is the primary focus of our private market impact strategies. Very often the solutions offered have the objective of targeting underserved populations or markets, or addressing observed market failures that are inadequately addressed. In addition to the positive impact contribution they aim to deliver, these companies continuously seek to avoid unintended negative outcomes.

2 Positive Benefits

These companies also aim to generate positive outcomes because of their product or service offering, however the significance of the potential impact delivered is lower. For example, the company may not be specifically focused on underserved populations, or the specific offering may lack impact scale or "depth" (ie, products may generate incremental, rather than significant impact). This category also includes companies which we see as having the potential to deliver high positive impact, but where it may currently be challenging to measure the significance of that impact. In addition to the positive benefits they deliver, these companies continuously seek to avoid unintended negative environmental and social impacts. We also selectively include companies seen as leaders in their field due to a deliberate focus on outperformance in their operations and conduct, as measured by, for example, their performance against independently generated benchmarks.[1] This applies where their outperformance is the primary pathway through which they positively contribute towards environmental and social outcomes. Note, however, that for this set of companies, it is critical that the goods and services they provide do not generate negative outcomes, which would require their exclusion from this category.

Positive Benefits companies may form the minority of investments in our private market impact strategies, as a part of the overall portfolio for which the primary pathway for positive outcome generation is via their product or service offering (rather than their conduct and operations). However, we would then expect to spend more time on active engagement (if this is a direct investment) or expect more time to be spent by the fund manager on active engagement (if investing indirectly) to help the specific companies increase and substantiate their positive impact over time. Companies that contribute to positive outcomes via their operations and conduct can be found within our broader private market sustainability strategies, but are not the focus of our impact strategies.

3 Sustainability Improvers

These are companies that would not currently be considered environmentally or socially sustainable according to our internal proprietary methodology. However, they do, in our view, have credible[2] approaches towards delivering measurable sustainability improvements aligned with pre-defined targets,[3] such that they are meaningfully reducing negative environmental and social impacts over time. These types of investments will not be included in our private market impact strategies, but we expect them to be found increasingly within other private market strategies, for example in an energy transition strategy.

Achieving significant positive impact in our private market strategies

While the typologies clarify and define types of impact, it is also important that the management and measurement of our impact investments is applied with a consistent and transparent approach. That way we can determine the designation of each investment's expected impact contribution. As part of our impact due diligence, we assess for impact contribution both at the portfolio company level (enterprise impact) and at the investor level (investor contribution):

- **Enterprise impact** refers to the impact generated by the enterprise or specific project that the AllianzGI financial product invests in through the goods and services that the enterprise provides.
- **Investor contribution** is the impact value the financial product seeks to generate through its investments, through active engagement (where possible) or through a financial contribution.[4]

The following characteristics underpinning our impact approach form part of our overall investment process.[5]

Key characteristic 1: Focusing on the "what" and not just the "how"

A key focus of our impact investments is on the "what". We focus on ensuring that companies make a significant positive contribution through the goods and services that are core to their business models, while seeking to generate attractive financial return.

This is distinct from an ESG integration lens, which focuses predominantly on the "how" – namely, the way in which a company operates or is managed in a responsible way. Considering only ESG factors does not help us understand a company's positive or negative impacts on society. For example, an ESG strategy may assign a relatively low ESG risk score to a meat producer that seeks to decrease energy and water consumption, and puts in place processes to reduce waste and pollution. However, focusing on what the company does – eg, a significant proportion of revenue generated through beef products – highlights the negative environmental impact of the company, given the associated high greenhouse gas (GHG) emissions and the fact that beef production is the most resource-inefficient animal protein. From an impact perspective, this is more critical than the consideration of how ESG risks may be financially material for the company or its transition strategy.

We believe that companies with impact at their core could benefit from market demand for goods and services which seek to address climate crisis challenges or reduce the stark inequalities in areas such as health, education and financial inclusion. These include technology firms that support climate solutions or enterprises that address the growing skills gap.

Key characteristic 2: Building an evidence-based approach – enterprise impact

In 2021, we introduced the AllianzGI impact framework[6] – an impact measurement and management approach aligned with industry standards such as the Impact Management Project's five dimensions of impact[7] and the Operating Principles for Impact Management.[8] We apply this framework consistently across the investment lifecycle of our private market impact equity and debt strategies, while incorporating the flexibility to adapt the assessment process to different private market asset classes and strategies.[9]

Our due diligence process for impact investing strategies includes an internal impact scoring system that considers both enterprise impact and investor contribution (see Exhibit 2 and key characteristic 3 for more detail on the investor contribution component). Beyond identifying investments that deliver impactful solutions, our scoring process assesses an investment's impact significance in terms of both degree (how much impact it makes) and additionality (contribution to desired outcomes which might not otherwise have occurred), acknowledging that additionality is sometimes challenging to evidence.[10]

This scoring process[11] feeds directly into how we classify investments into the respective sustainability typologies. Investments with a high enterprise impact score qualify for the Significant Positive Impact category. Investments with a lower enterprise impact score – where impact contribution is positive but not as significant – qualify for the Positive Benefits category. To consider a company as an impact investment under Positive Benefits we need to understand the potential for investors to contribute towards more substantive impact generation – captured by the investor contribution score.

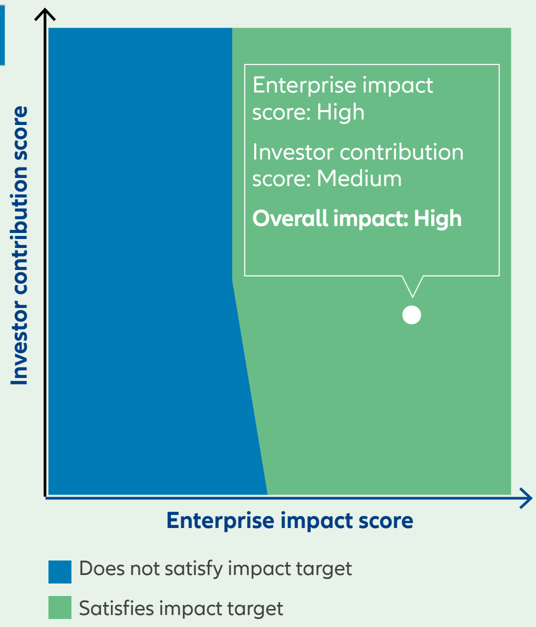
We assess for impact by using the best available data to understand a company's potential impact contribution. Depending on the investment, this might include, for example, estimated tons of CO_2 emissions avoided,[12] anticipated number of underserved customers reached, and anticipated net income gain to those customers over the investment period versus a "business as usual" approach. In doing so, we draw on company data and third-party independent research where possible.

Exhibit 2: AllianzGI's impact scoring system

Components of the impact scoring system

Enterprise impact	Investor contribution
This is the impact generated by the enterprise/project that AllianzGI invests in – through the products and services the enterprise provides. Our assessment of enterprise impact is based on the Impact Management Project's **five dimensions of impact**: – Who – What – How much – Contribution – Likelihood	This is the impact value we generate as an investor, alongside our partners, through: – **Active engagement** in supporting investees' impact generation; and – **Financial contribution** by enabling, eg, increased investments in under-supplied financial markets/sectors, or underrepresented impact entrepreneurs or fund managers

Overall impact contribution score



Applying this assessment consistently across our range of impact strategies helps us select investments making the most significant impacts. For example, as we increase the number of investments made in sustainable packaging solutions, such as providers that help displace fossil-derived packaging materials, we accumulate data such as tons of CO_2 emissions avoided[13] or tons of single-use plastic packaging displaced. This enables us to gain further insight into the types of sustainable packaging solutions that generate the most impact due to factors such as scalability, the technical and sustainability attributes relative to the available alternatives for specific use cases. This assessment also allows us to understand impact efficiency: the impact generated relative to the amount of investment required.

Impact measurement and comparison

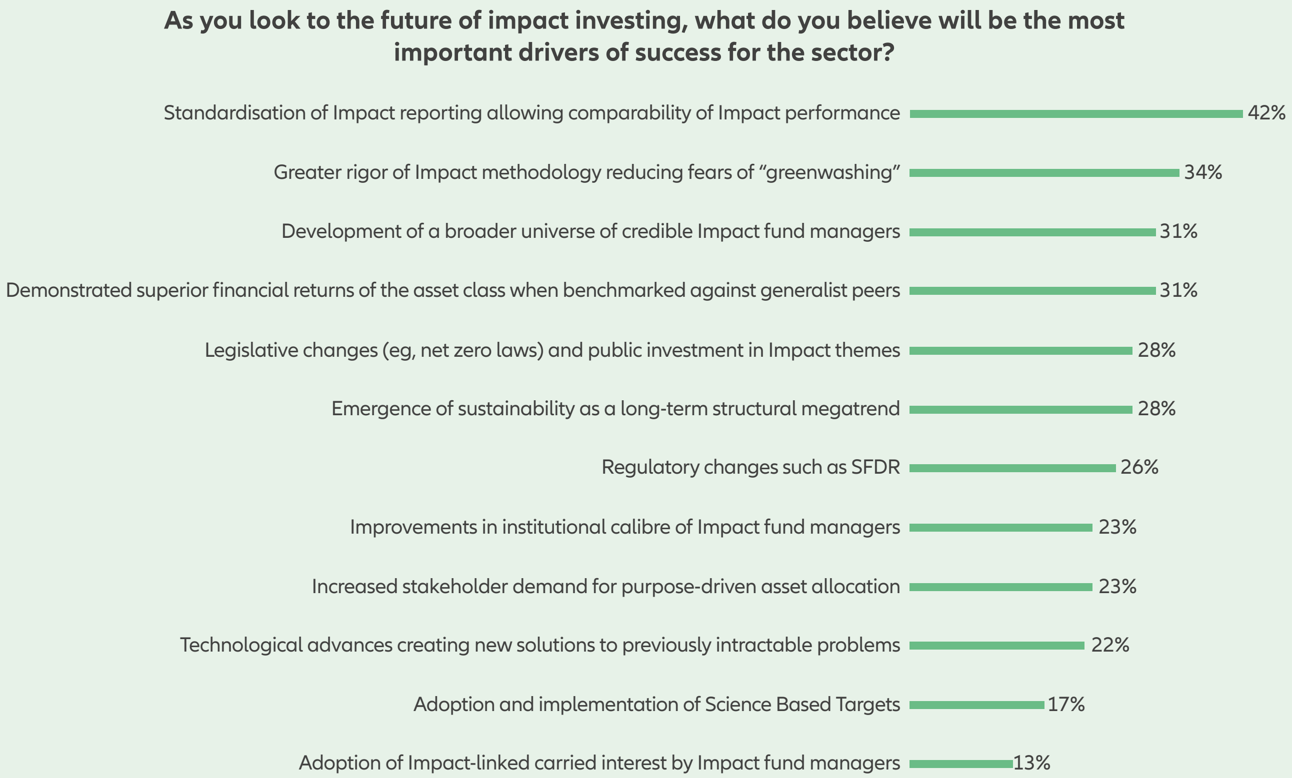
An important component of our impact framework is to identify – in partnership with our investees – impact key performance indicators (KPIs). We measure and report against these, where the KPIs are meaningful to the impact thesis of the specific investee. Where possible, we align the selected KPIs with the UN SDGs and the GIIN.[14]

At this early phase of the market evolution, we rely heavily on proven expertise in judging the information and data to assess enterprise impact. Establishing credible impact comparisons in private markets will take time, particularly since detailed impact data and calculation methodologies often reside in data rooms and are made available only to those invested in a company or fund. As with the evolution of ESG data, we expect to see a growing number of technologies and providers emerge that will enable impact data from alternative sources (such as independent academic studies and industry reports, and data from research or government institutions) to be more efficiently captured, analysed and aggregated.

Given the limited standardisation of impact datasets in private markets, increased collaboration between investors is likely to be critical. The sharing of impact data and best practices in calculation methodologies will be important for streamlining impact assessments and enabling better impact comparability. This will enhance the industry's ability to drive capital allocation towards those investments capable of achieving the highest positive impact.

In a recent survey, 42% of institutional limited partners (LPs) cited the standardisation of impact reporting as a top driver of the long-term success of impact investing, because it allows the impact performance of different companies to be more easily compared. Meanwhile, more than a third of respondents saw the greater rigour of impact methodology as a top driver to reduce fears of greenwashing (see Exhibit 4).

Exhibit 3: LPs' feedback on top drivers for the future success of impact investing



Source: Rede Partners, Private Markets Sustainability and Impact Report

Connecting impact contribution with our typologies

While investments across all three sustainability typologies are required to foster a more sustainable economy and society, our private markets impact strategies specifically target companies with Significant Positive Impact where we can.

We might also invest in firms or projects in the Positive Benefits category. In these cases, we expect to spend more time on active engagement (either by ourselves or our external fund managers if it is an indirect investment) to seek to help the firm increase and substantiate its positive impact. This could be through expansion of product lines or geographic reach. As companies/projects evolve, the sustainability typology with which they are aligned can also change, and they may shift from delivering Positive Benefits to Significant Positive Impact, which we will keep under review.

To demonstrate the type of investments we consider to be generating Significant Positive Impact, we have detailed specific use cases to help the market better understand the real-life application across different sectors – see Exhibit 4.

Exhibit 4: Company sustainability profiles mapped to our three sustainability typologies

				Focus of AllianzGI's impact investing
		Reducing negative outcomes	Contributing to positive outcomes	
Sector Examples	**Investments that do not consider sustainability objectives**	**Sustainability Improver**	**Positive Benefits**	**Significant Positive Impact**
Energy		Supplier of fossil fuel-based liquefied natural gas to marine shipping customers which has begun to rapidly diversify into the supply of clean fuel solutions with a clear strategic goal to decarbonise the shipping industry. This has seen the company make large capital expenditures on the construction or retrofitting of liquefied biomethane plants (sourcing solely from sustainable feedstocks) and additional infrastructure to enable the supply of other renewable fuels such as hydrogen-derived methane. It has committed itself to no further investments in its fossil fuel-based operations and to material reductions in these operations. Scope 1, 2 and 3 emissions.[6] As a result, an increasing proportion of revenues (fast becoming a majority) are generated from these low and zero carbon fuels.	A small, specialised supplier of specialty transformer and magnetic component products, which are key electrical parts enabling the expansion of electric distribution networks and the high levels of electrification needed to decarbonise the economy. The company supplies transformer products to wind and solar farms, and also to utilities, industrial, and commercial clients more broadly. The company has strong commitments around reducing its own carbon footprint.	A company focused on the construction and operation of large-scale anaerobic digestion plants, producing carbon-negative Renewable Natural Gas through the upgrading of biogas to biomethane, utilising dairy manure as the major waste stream. Primary customers are served in the transportation sector where decarbonisation is the most challenging (ie, maritime/ shipping). A renewables platform enabling the greenfield development, construction and operation of solar and wind projects in sub-Saharan Africa, contributing to renewable energy access in underserved markets.
Mobility		Automobile company that is pursuing an accelerated transition to zero-emission vehicles relative to peers, as well as leading on progress towards decarbonising its manufacturing process. More broadly, the company also has a focus on aspects such as vehicle safety, diversity and transparency in reporting.	Premium electric vehicle (EV) manufacturer and charging solutions provider, targeted at high-income customers in Asian markets, where they have a first-mover advantage. Whilst the company generates positive environmental benefits via enabling the transition to EVs, the scale of its impact is currently limited by the lack of affordability of its product. The company has a comprehensive sustainability strategy, including robust targets around carbon footprint reduction and minimising virgin materials used.	Producer of high-performance and cost-effective green batteries for use in electric vehicles, power electric machinery and industrial applications, enabling electrification and carbon emissions reductions across multiple sectors. The carbon footprint for the company's battery production is significantly less than peers, due to usage of clean energy for almost all its energy needs and state-of-the-art recycling facilities that recycles materials from old batteries and significantly reduces the use of virgin materials.

Continued overleaf...

Exhibit 4: Company sustainability profiles mapped to our three sustainability typologies (cont'd.)

				Focus of AllianzGI's impact investing
	Investments that do not consider sustainability objectives	Reducing negative outcomes	Contributing to positive outcomes	
Sector Examples		**Sustainability Improver**	**Positive Benefits**	**Significant Positive Impact**
Technology		Geospatial mapping and analysis company that has historically focused on providing data solutions to the mining industry to enable optimal extraction and the reduction of operational costs. The company's offering has since expanded and an increasing share of revenue is driven by the company's agriculture ecosystems solutions, which enable farmers to plan and optimise cultivation, helping reduce resource use whilst improving yields.	Data solutions company serving a diverse range of industries. Inclusion is a core component of the company's mission – its delivery centres are situated in areas with limited technology employment opportunities, and the company focuses on employing women and youth from underserved backgrounds, which make up the majority of its workforce. The primary route via which the company contributes to positive outcomes is therefore via its operations and conduct.	SaaS platform for forest management and restoration, using AI applications to support users in for example, determining fire risk, managing water quality, preserving endangered species, with potential significant positive outcomes around climate change mitigation and natural resource preservation.
Education		Provider of generic marketing and business operations services (eg, accounting) for universities and colleges that are not specifically targeting underserved populations. Since the company is not supporting improved access to education services, is relatively easily substituted for by competitors, and is not sufficiently critical to learning impact generation, we would see this as a company with minimal positive impact generation via its goods and services. The company has however recently started focusing on improving its sustainability practices, including strong progress in enhancing workplace diversity and reducing its office buildings' carbon footprint.	Maths learning game that is fun for users, and which has positive but minor benefits for student maths learning outcomes, serving students from a mix of household income backgrounds, alongside seeking to avoid unintended negative social or environmental impact.	Personalised and affordable maths learning product with robust evidence base (including high-quality independent third-party research) around its positive impact on student learning outcomes, serving schools with a medium to high proportion of students from low-income households. Commitment to high quality ESG standards, eg, robust data protection systems, to avoid unintended negative impacts.
Health		Chain of private nursing homes that has had complaints around poor quality care provision which, under new management is demonstrating material progress in addressing skilled staff shortages and in the implementation of higher levels of quality control. This, in turn, is leading to measurable improvements in client wellbeing and health outcomes.	Provider of genetic analysis software targeted for use in pathology labs, with the potential to lower preventative screening test costs and eventually facilitate targeted therapeutics to help improve patient health outcomes. However it is too early to reliably prove the link between genetic profile generation and improved outcomes. Company has strong safeguards around data privacy and use case.	Biotechnology company delivering affordable therapies for diseases that currently lack effective treatments to meaningfully improve health outcomes of patients. Strong commitment to high quality ESG practices, such as robust monitoring of product quality and efficacy.

1 For example, via B Corp's B assessment, which assesses companies for high standards of social and environmental performance, transparency and accountability.

2 Credible approaches to target-setting may for example refer to societal or ecological thresholds as identified through scientific research (eg, Science-Based Targets initiative).

3 Targets could be set by different persons, eg, the company itself or the company in conjunction with engaged investors. These could be in relation to, eg, science-based emissions reduction and net-zero targets. We provide no assurance, representation or warranty or otherwise whatsoever that a target will achieve a certain outcome.

4 See Exhibit 3 for further detail.

5 For example, how we select investments for impact, incorporation of impact requirements into legal documentation, measurement of impact, monitoring and engagement post-investment to support on impact aspects, where feasible.

6 See Greenhouse Gas Protocol for definitions for Scopes 1, 2 and 3.

Key characteristic 3: Engaging to support impact outcomes

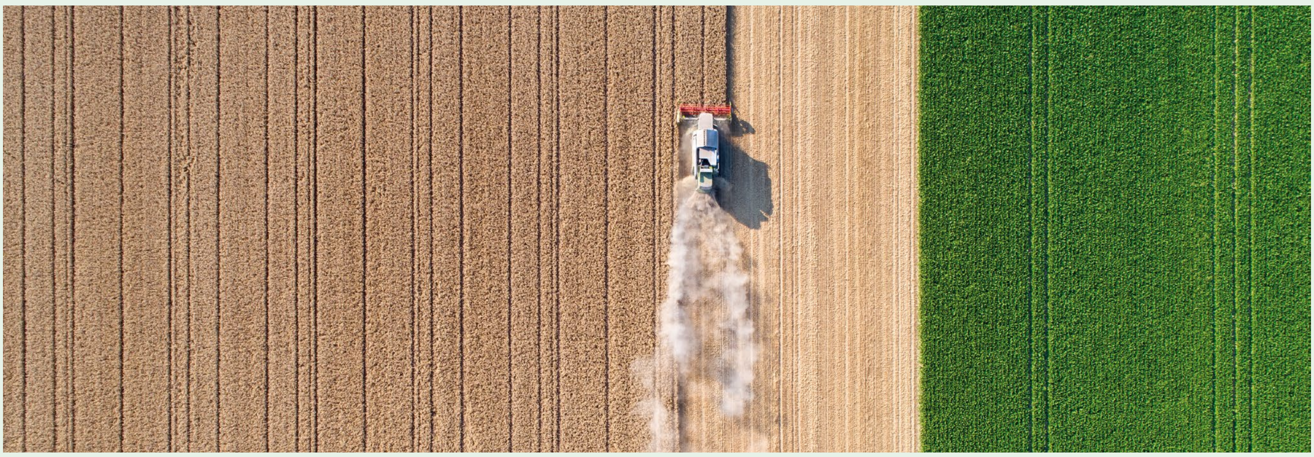
Depending on the relevant asset class and investment strategy, investors may contribute to impact generation in several different ways. This can be through active engagement or financial contribution (see Exhibit 3).

When we invest directly in companies via impact credit strategies, we actively negotiate[7] on areas such as use of proceeds,[8] compliance with sustainability standards, and impact reporting requirements to the extent we can. We also use, where possible and sensible, sustainability-linked or impact-linked margin ratchets,[9] which reduce the loan interest margin as a company's performance improves against defined non-financial metrics.[10] These components could then be embedded within the loan agreement to safeguard the use of funding and incentivise and accelerate impact.

From a financial contribution perspective, the companies we lend to may in some cases be early-stage businesses unable to secure growth capital from finance providers focused on more traditional business segments. Alternatively, they may be companies seeking to raise credit for the first time to fund specific impact-related goals. Our investment therefore supports enterprises in raising more capital to expand operations than they otherwise would have found possible.

For indirect investments (eg, via a private equity impact fund) the investor, through its due diligence of the general partner/sponsor, could seek to understand the quality of the manager's or sponsor's impact management and its ability to increase the impacts of its holdings. Depending on this assessment, the investor may contribute via engagement with the manager/sponsor in conversations around potential enhancements in impact measurement[11] and management practices, or set out certain impact-related requirements within the investment documentation. For example, we might require impact and ESG to be included as a standing agenda item in limited partners advisory committee (LPAC) meetings.

Across asset classes and strategies, we seek to engage with fund managers and portfolio companies to support the implementation of impact measurement efforts with underlying portfolio companies. Being aware of when the measured impact post-investment differs substantially from the estimated impact pre-investment – or where there are challenges collecting impact data – prompts us to ask better questions to understand the reasons why. This can in turn help us provide better support to the firms we invest in as they seek to achieve their impact goals; and it can also inform our future impact decision-making. Where feasible, we encourage fund managers and portfolio companies to incorporate input from the stakeholders we expect our investments to positively impact. For example, they may work with research organisations to commission surveys to better understand what outcomes their goods or services are delivering for customers, and what improvements could be made to seek to enhance those outcomes.



Key characteristic 4: Performance management and incentives

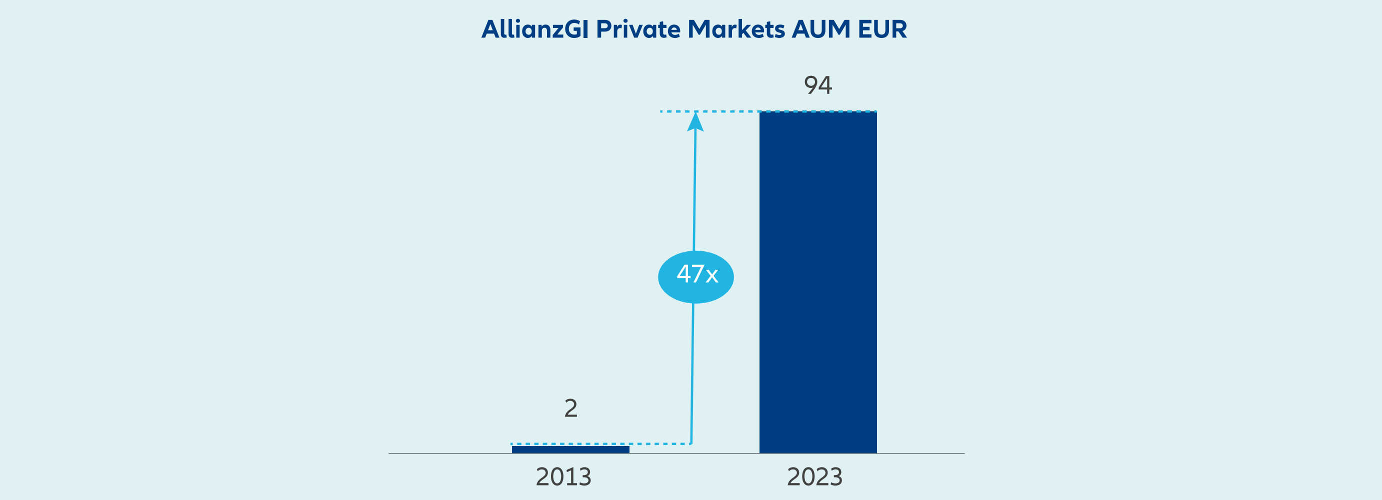
We believe in appropriate alignment of employee performance management and/or incentive systems with impact outcomes. This is an emerging practice in the impact investing market. According to impact verification firm BlueMark, 38% of impact management systems explicitly integrate impact considerations into employee performance management and incentives.[13] Methods include integration through employee performance development and review processes and direct financial accountability mechanisms (eg, annual bonuses or carried interest linked to impact achievement).

At AllianzGI, we increasingly discuss the potential for independently verifiable,[14] impact-linked performance incentive structures with our investees in both direct and indirect impact investments. This topic is in the development phase, but its roll-out will be critical in the coming years. While impact investing market participants are in learning mode as to best-practice approaches in the implementation of impact-linked incentives, we believe that the process of designing the impact incentive structure and setting impact targets with the relevant stakeholders[15] is itself a valuable exercise. We see this practice will accelerate over time once impact comparisons become more feasible and disclosures become standardised.

7 For example, with the agent, sponsor or lender.
8 For any sustainability-linked or other securities, any impact related consideration, if any, will be subject to the loan documentation.
9 The EU regulatory and voluntary framework for sustainability linked loans/sustainability linked securities is currently under development. Any ESG/impact nexus will exclusively be subject to the facility agreement's specific provisions.
10 This will depend on the facility agreement's specific provisions.
11 It is well known that measurement of impact is difficult and lacks standardisation, so comparability between investments and products is difficult. Our impact framework provides further detail on how we measure impact vis-à-vis contributing to the social or environmental outcome intended to be supported, amongst other considerations.
12 Source: https://www.allianzgi.com/en/capability-landing/development-finance/blended-finance.
13 Source: bluemarktideline.com/wp-content/uploads/2022/07/BlueMark_Making-the-Mark_Spotlighting-Leadership-in-Impact-Management.pdf.
14 Verification could be undertaken by specialist independent third-party assurance firms.
15 For example, this could involve a consultative process with the investor in designing an impact-linked performance fee structure, and/or impact KPI target setting with the management team of underlying portfolio companies.

Co-creating impact and private market strategies

AllianzGI has built a strong private markets platform, aiming to be a one-stop for private market solutions for investors globally. Our private markets platform represents EUR 94bn of the EUR 520bn of assets managed by AllianzGI.



Through these strategies, our clients gain access to investment solutions which bring them diversification and value-add in comparison to public markets. The strategic priority given by AllianzGI to Private Markets and can be further demonstrated by the increasing resources dedicated both to our investment teams and the support functions dedicated to the strategies.

AllianzGI's Private Credit & Infrastructure debt platform stands out of the crowd: experienced and well-connected credit teams, development of innovative strategies and solutions over time, successful track record with c. €35bn of AUM (more than 250 assets financed in Europe, Americas).

AllianzGI started to invest in corporate private credit and infrastructure debt in 2013, as one of the first institutional investors to make a significant commitment to investing in direct infrastructure debt and the Private Placement markets in Europe. Since then, we have expanded geographically – into the United States and selected Latin America countries, Asia Pacific and Emerging Markets, and in terms of credit rating – to cover the entire credit spectrum from AAA into single B.

The private credit and infra debt platform employs more than 60 investment professionals with extensive experience and successful track records of sourcing, originating, and structuring private infrastructure and corporate debt transactions. The platform has sourced more than 250 assets in Europe, America and Asia and manages c. EUR 35bn of private credit and infrastructure debt assets to date.

AllianzGI, which has the ambition to be a sustainability shaper, has established an Impact Management & Measurement team with strong backgrounds in impact investing and in the research and measurement of environmental and social outcomes.

Source: AllianzGI Private Markets AUM as at 30 June 2023

AllianzGI has moved beyond ESG to think holistically about sustainability across investment portfolios and is shifting the foundation of our strategic journey from ESG to sustainability to impact by 2030.

The team is responsible for developing AllianzGI's impact due diligence approach for impact investing strategies and leading on impact value creation across the lifecycle of impact investments. The team is involved throughout the investment process:

(i) Undertaking the impact due diligence on investment opportunities

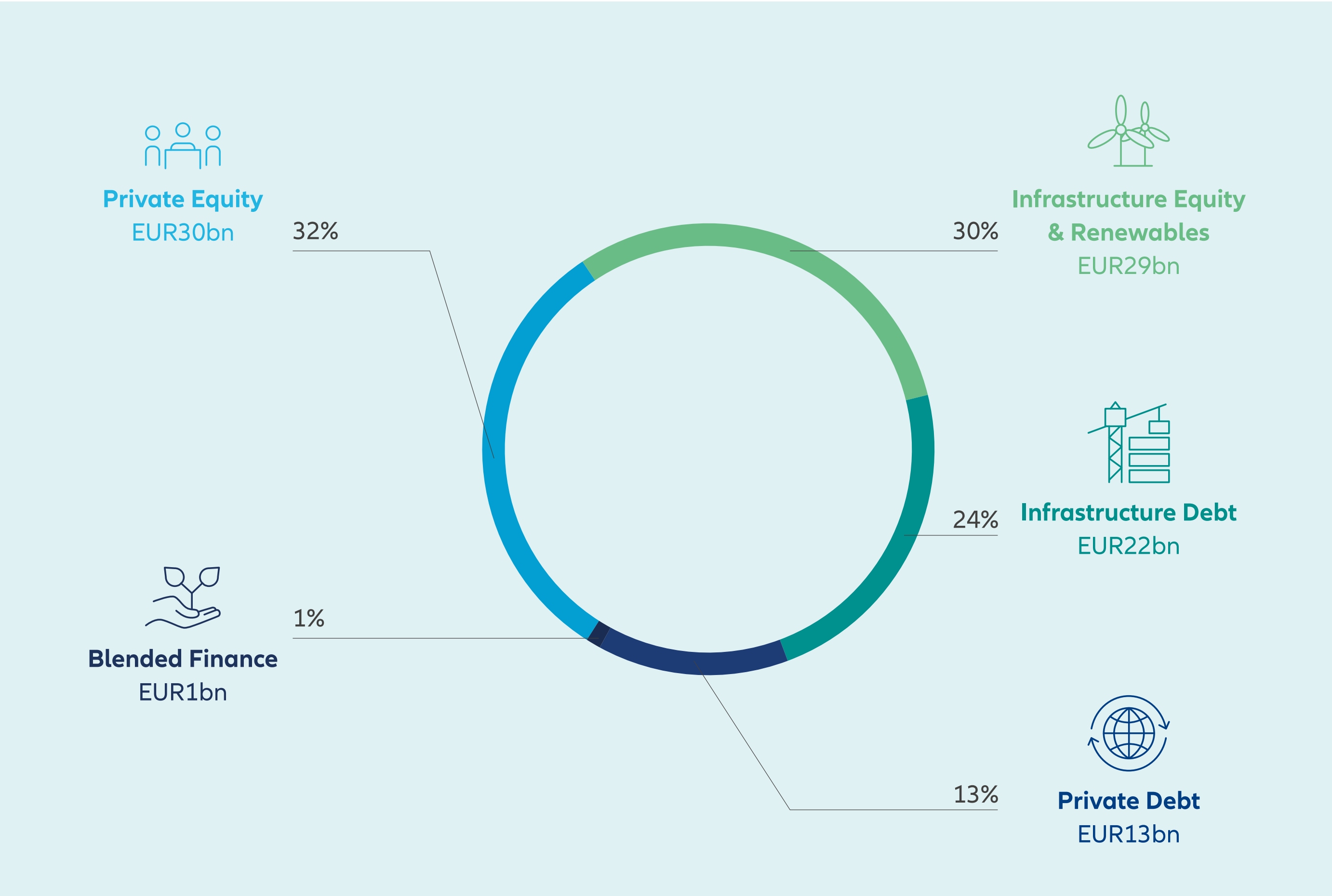
(ii) Having an active role in the decision process with a veto right in the investment committee

(iii) Monitoring and engaging investments to ensure they generate positive social and/or environmental outcomes aligned with client impact objectives, alongside financial returns.

The Private Credit team together with the Impact Management & Measurement team are co-creating a collection of impact credit strategies.

Within private markets, we are developing Impact credit strategies as a joint venture between our Private Credit & Infrastructure Debt investment teams and Impact Management and Measurement team.

In a nutshell, the teams are co-creating strategies that aim to deliver positive environmental and social outcomes. These include strategies supporting climate solutions that foster the transition towards a low-carbon economy as well as supporting solutions allowing access to education, to quality health, to improve financial inclusion, develop social housing, and more.



Source: AllianzGI Private Markets AUM as at 30 June 2023

DEVELOPED MARKETS

Impact Credit Solutions strategy

Impact Credit Solutions ("ICS") Fund offers attractive risk-adjusted returns coupled with an ambitious Impact Investing value proposition. No trade-off of return.

It offers direct lending solutions to European small to mid-cap companies ("SMEs") with strong downside protection to investors[1]. It aims to select and finance only companies which provide solutions, products or services that address key environmental and social concerns.

Describing the market opportunity

Addressing a funding gap in the SME segment

The European private credit market has experienced strong growth over the last decade, leading to an increase of dry powder and more pressure on fund managers to deploy the capital raised. As a result, direct lending managers are naturally shifting toward larger companies, creating a funding gap in the lower mid-market space.

Benefiting from the accelerated growth of Impact Private Equity in a market with limited pure play impact private debt funds players

Lower mid-market companies are thought to be an important source of innovation and employment, with a good number of these businesses focusing on resolving challenges of our modern societies (from food and water security to inequality and healthcare and education access) .

There has been a growing number of private equity funds focusing exclusively on these companies. The Impact Private Equity market has raised EUR 161 billion globally in 2022 and is expected to grow further. This growth should lead to a larger opportunity set for Impact Private Debt to provide credit solutions.

Seizing the growing opportunity set in the impact market

Climate change is one of our planet's most pressing challenges in the coming decades. As the world largest institutions are committing to reducing their carbon footprint, we expect to see attractive opportunities across sectors such as sustainable transport, low GHG alternative materials, etc.

Beyond climate change, as humanity is increasingly exceeding **planetary boundaries**, we need solutions that help regulate the stability and resilience of the planet we live on.[2] That leads to opportunities in the circular economy and resource efficiency segments, as well as in the water and pollution management segments.

Finally, "**inclusion**" will become the next big wave after climate change and require innovative thinking and solutions meeting the education and health demands of current and future generations.

Why invest in ICS?

Attractive risk-adjusted returns

- **Mostly senior secured debt** investments, with a subordinated debt bucket to capture value creation on selected opportunities
- Targeting profitable businesses with robust, resilient and cash generative credit fundamentals
- ICS aims to generate Euribor+[6%-8%]+fees, leading to a **11%-12%[1] gross yield**, mostly cash-pay (market conditions as of 30/06/2023)
- Managed risk with max c.**[4x] closing net leverage** on average and **min. [50]% equity cushion**

Strong downside protection

- First lien senior secured debt has proven resilience through fewer credit cycles with low default and loss rates
- Structuring deals with negotiated and bespoke terms and conditions to protect capital: opening net leverage, maintenance covenants, cap/baskets, etc.
- Partnering with top tier sponsors able to further reinject equity to support the business if needed to be, and to align financial interests with strong equity cushion
- The vast majority of investments are floating rate based, protecting from inflation, with a short effective duration expected

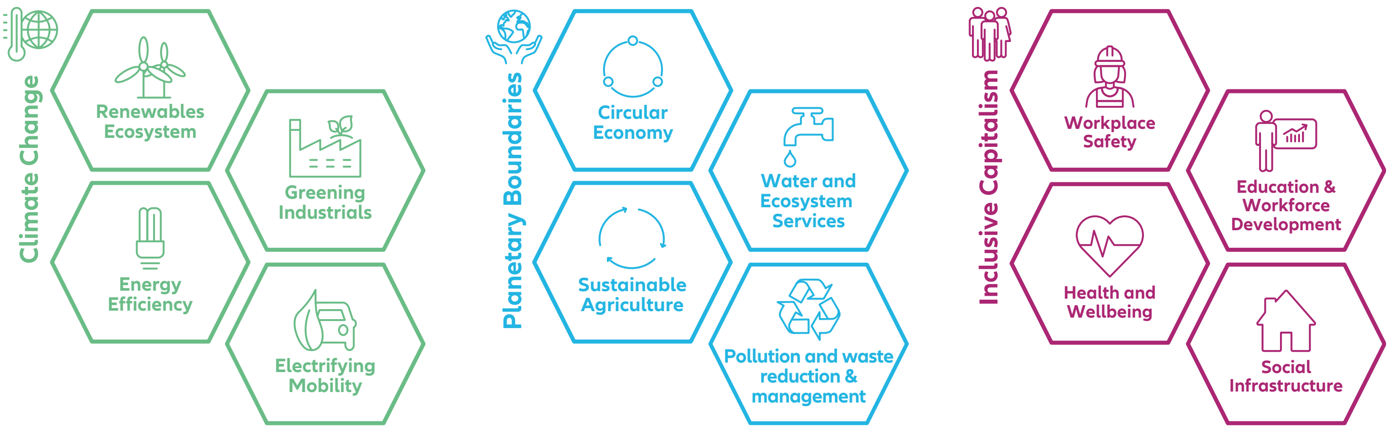
A strong impact investing value proposition

- Focus on companies which intentionally provide solutions to a proven need in society or create a clear environmental benefit to our planet
- Benefiting from the alignment of interests with impact private equity sponsors
- Dedicated Impact experts work independently from the investment team ensuring no conflict of interests
- 100% sustainable investments with SFDR Article 9 classification
- Transparent Impact and Sustainability reporting

Diversification

- ICS addresses the SMEs which is currently an underserved segment of private debt
- Focus on Europe including the UK, to enlarge the investment universe, with the ability to provide major European currencies (fully hedged)
- Access to proprietary deals with no overlap with other asset managers' portfolios as we aim to be sole lender in transactions
- Diversification and complementary value-add vs. public markets comes from a major focus expected on primary transactions, with bespoke financing where we drive negotiations and economics

Examples of impact investment themes



Examples of KPIs

Greenhouse gas emissions avoided	Hazardous and non-hazardous waste reduced	Natural habitat restored	Individuals with improved health/wellbeing etc.

For illustrative purposes only.

Preliminary fund terms

FUND CHARACTERISTICS

Fund name	Allianz Impact Credit Solutions Fund
Fund type	Luxembourg SCSp-RAIF
Target strategy size	EUR 1bn
Fund term	8 years after final close (with 3x1 one-year extensions), including a 3 years investment period (with 1 one-year extension)
Target return[3]	Euribor+[600-800]bps+ upfront fees, leading to a 11-12% gross return (market conditions as of 30/06/2023)
Fund leverage	None
Reporting	i) Quarterly investor reporting, annual regulatory reporting; ii) Solvency II reporting, VAG reporting if applicable; iii) Consolidated income and cash-flow statements; iv) Annual Sustainability report; v) Annual Impact reporting: KPIs to be included as part of information undertakings (KPIs to be determined based on borrowers' key E&S impact considerations)
SDFR[4]	Article 9

SUMMARY INVESTMENT GUIDELINES

Investments	Loans or bonds
Currency	Euro or other major currencies (incl. USD / GBP / SEK / NOK / AUD) fully hedged
Ranking	Senior debt (incl. unitranche), with a [25%] bucket for subordinated / mezzanine debt ; mostly secured debt
Yield basis	Mostly variable rates on Euribor with a 0 floor
Rating	Mostly unrated (Implicit internal AllianzGI credit assessment from B- to BB)
Tenor of investments	Buy and Hold strategy, from 3 to 8 years
Borrower size	Lower to Mid-Cap companies
Structure	• c.[4x] net leverage at closing on average • Min. [50]% equity cushion on average • Majority of maintenance financial covenants (80%+)
Diversification (sectors)	• Sectors: well diversified • Single name: c. [15-20] transactions, no single name >10% of overall portfolio
Geography	Europe (> 80%)
Impact	100% application of AllianzGI impact framework. ICS will select companies which core business provide solutions to one of society's or our planet's concerns

Impact Credit Solutions: Why invest?

1. Attractive risk-adjusted returns

Being key lender in the transaction allows us to capture better economics and risk mitigants for clients, targeting a **gross yield of 11%-12%**[1] in current markets

2. State-of-the-art impact value proposition

The fund will be classified Article 9 SFDR and will select only companies developing products or services that solve a key environmental or social concern, without sacrificing investor's return

3. Opportunity to create the private credit market and benefit from first mover advantages

ICS bridges the gap in the current European private debt market offering, benefiting from the accelerated growth of Impact Private Equity in a market with limited pure play impact private debt funds players

1 Performance of the strategy is not guaranteed. A fund is not yet in existence and any fund-related documents are far from being yet in final form and will be finalized following negotiations with investors . There can be no assurance the fund will be able to implement its investment strategy or achieve its investment objectives or that investors will receive a return on their capital. This is no guarantee that the strategy terms represented will be attained. Once available, please refer to Fund legal documentation for a full description of General and Specific Risk Factors. Private debt investments are highly illiquid and designed for long term professional investors pursuing a long-term investment strategy only.

2 Due to various risks and uncertainties, including those that will be described in detail in the Disclosure Memorandum, actual events or results or the actual performance may differ materially from those reflected or contemplated in such forward-looking statements. No representation or warranty is made as to future performance or such forward-looking statements. Since only a limited number of investments will be made and since the investments generally will involve a high degree of risk, poor performance by a few of the investments could severely affect the total returns to investors.

3 Gross return, in market conditions as of 31/05/2023. This is no guarantee of expected results.

4 The strategy aims to integrate the article 9 under SFDR: EU Sustainable Finance Disclosure Regulation.

EMERGING MARKETS

Blended Finance

Blended finance provides a new way for institutional investors to generate impact in Emerging Markets while earning an attractive risk-adjusted target return.

Blended finance strategies bring together public and private capital into a risk-tiered structure, investing in projects aligned with the UN Sustainable Development Goals (SDGs) in Emerging Markets. Given the large annual funding gap of USD 4.2 trillion to 2030, the investments are needed to create that positive impact.

The strategy consists of a senior and a junior capital tier, where private capital ranks senior to the publicly funded junior tier, which absorbs the first losses in the fund.

The concentration limits ensure a sufficiently granular portfolio for the junior capital to serve as adequate cushion, thus reducing volatility of returns for senior investors.

We work closely with Development Finance Institutions (DFI) and benefit from their local presence, strong track record, expertise in sourcing high impact projects and knowledge of ESG risk mitigation, impact measuring

and monitoring. DFIs' privileges and conservative structuring of loans have underpinned the robust performance of their own portfolios through economic cycles.

The strong alignment with DFIs and the presence of the first loss structure is key to de-risk the investment for institutional investors to achieve an investment grade credit profile.

Key highlights

- Establishment of a new asset class to finance high impact Emerging Markets projects – in support of the UN Sustainable Development Goals (SDGs)
- Diversified portfolio across markets, projects and sectors
- Downside protection on return and capital against expected losses in the portfolio
- Attractive yield pick-up versus comparable securities
- A scalable investment opportunity

Blended finance approach: de-risking via blending

Local impact by co-investing with Development Finance Institutions in projects

Source: Allianz Global Investor, 2023.
For illustrative purposes only. A performance of the strategy is not guaranteed and losses remain possible.

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Emerging asset class with a potential to scale

In Emerging Markets, demand for funding is particularly high due to a shortage in funding supply. Development capital is insufficient to address the development needs in Emerging Markets, and public capital markets, such as EM bond indices, do not invest in the countries with the greatest funding needs.

DFIs and donors are focused on partnering for solutions to mobilise more private capital into Emerging Markets for the Sustainable Development Goals. Blended finance strategies are one of these solutions that helps to create untapped investment opportunities for institutional investors.

Attractive returns with downside protection

Financing of SDGs in Emerging countries does not mean compromising returns – blended finance strategies can offer investors de-risked investment opportunities with investment grade characteristics. The first loss or credit enhancement structures often incorporated to blended finance strategies, allow investments made by senior investors to reach an investment grade profile. This, in turn, results in lower capital charges and allows large scale investments. Applied within a diversified portfolio of EM loans, the first loss coverage from public sources also reduces the idiosyncratic project risk.

Blended finance can also provide an attractive yield pick-up compared to equivalent government bonds, reflecting the relative illiquidity. AllianzGI's blended finance strategies target a USD gross return of SOFR + [3]% with an upside if portfolio spreads widen for senior investors that is uncorrelated to publicly listed securities with a tenor of the investment of ~15 years.1 The senior return volatility is limited via a combination of low return volatility of the underlying project and capital loss absorption by the junior investors.

Benefitting from the DFIs' expertise

Partnerships with DFIs are key to creating development finance solutions as they leverage these institutions' track record, expertise and knowledge of Emerging Markets.

As the key investors in these markets, DFIs are highly experienced and have good relationships with central banks, governments and regulators and are therefore beneficial in sourcing investment opportunities. These partnerships provide investments with a "halo effect" that can effectively reduce the risk of investments and improve recovery rates in the case of loan defaults.

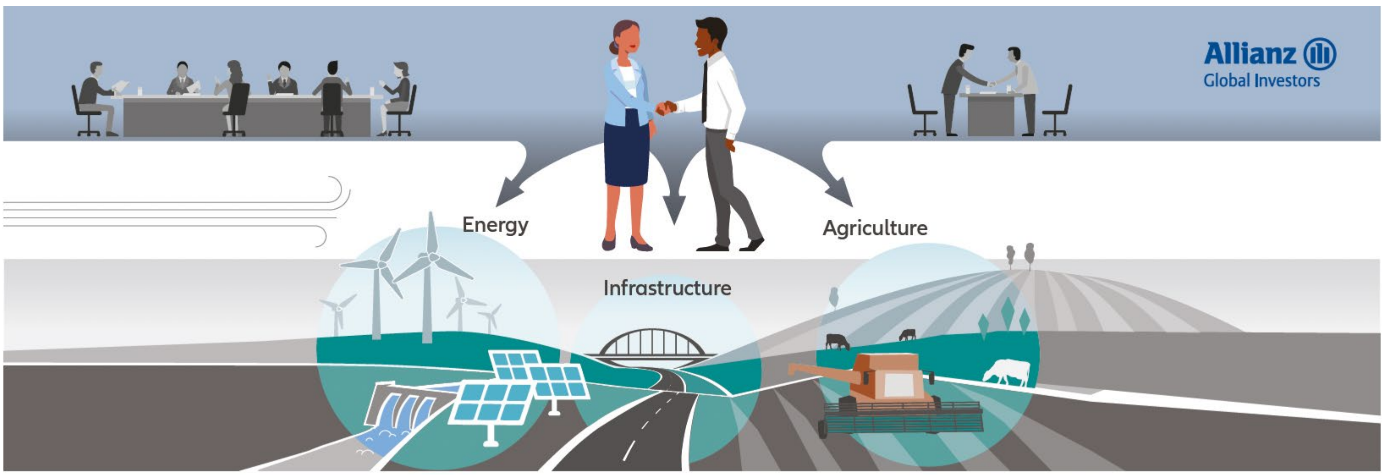
DFI partners also keep a portion of the loans on their balance sheet to ensure alignment of interest. In addition, DFIs continue to monitor and manage the underlying loans, for example in case of amendments or waivers.

Targeting sustainable impact

The idea behind blended finance is to blend public and private capital to create investment strategies that provide a sustainable and attractive market for institutional investors. With these strategies, we can specifically target the relevant countries and sectors to bring the capital where it is most needed and, thus, to reduce the large funding gap in Emerging Markets.

Co-investing alongside the DFIs is key to achieving this sustainable impact, as DFIs have a strong focus on ESG safeguarding and strict impact and mobilization targets. By co-investing alongside DFIs, Blended Finance funds are able to achieve significant private capital mobilization, thus helping to meet their targets. The partnership also helps the funds to focus on sectors with the highest impact on social and economic growth such as infrastructure, energy and agribusiness. In addition, in depth ESG analysis is performed on individual projects with appropriate risk mitigation.

Investing in blended finance strategies that are aligned with SDGs help to promote a more sustainable future for all in the long run.



Partnership with Allianz – targeting profitability and sustainability

Our parent Allianz, one of the world's largest insurance companies, has acted as anchor investor in our blended finance strategies thereby strengthening our partnership ethos and enabling other investors with smaller allocations to participate in these high impact projects. Increasing investor interest allows for sizable vehicles, which are more capital efficient than single direct loans. We also leverage Allianz's thought leading investment expertise in supporting the economic development of Emerging Markets, providing further benefit to our clients.

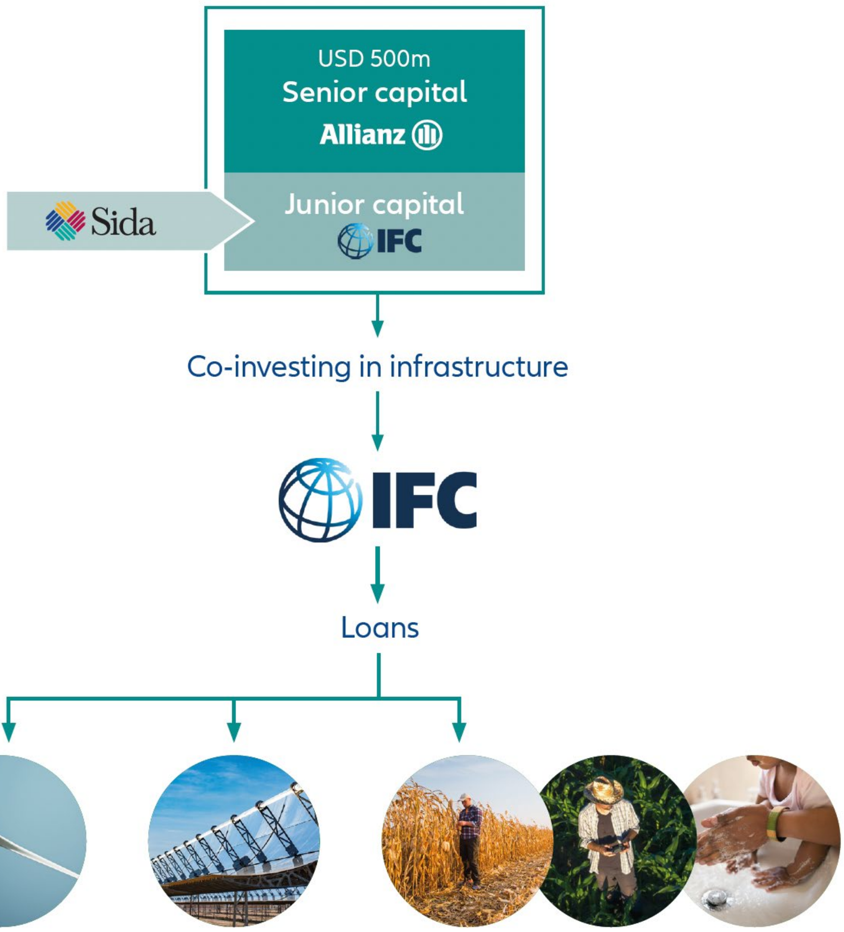
Although the underlying loans would be non-investment grade (given the target jurisdictions), for insurers the fund level de-risking with the first loss provision allows for a more favourable treatment under Solvency II capital requirements.

Case study

International Finance Corporation
In 2017, Allianz Group and the International Finance Corporation (IFC), a member of the World Bank Group, launched a partnership under the Managed Co-Lending Portfolio Program (MCPP).

Allianz insurance companies committed USD 500 million in a vehicle, managed by Allianz Global Investors, to co-invest alongside the IFC in infrastructure projects in Emerging Markets worldwide. The vehicle has preferred access to invest in all IFC loans which fulfil a strict set of eligibility criteria.

The vehicle is risk-tiered and, as such, Allianz investors have a preferred return and IFC takes the first loss on investments up to their committed capital. Furthermore, the Swedish Development Agency (SIDA) provides a guarantee to IFC for part of the first loss funding.



Investment opportunity: Allianz Climate Solutions Emerging Markets Debt

The Allianz Climate Solutions Emerging Markets Debt (ACSEM) is a blended finance strategy focusing on investments that are aligned with the Paris Agreement goals of creating a more sustainable future by addressing climate change. ACSEM focuses on investments that contribute to climate mitigation and resiliency across sectors in Emerging Markets.

The strategy is set up as a risk-tiered vehicle with a senior capital tier and a junior capital tier. The junior investors absorb the first losses in the portfolio, offering investors of the senior tier capital loss protection. It targets a USD gross return of SOFR + [3]% with an upside if portfolio spreads widen for senior investors.[1]

Investors will co-invest with Allianz, who is looking to commit about USD 350 million as a senior investor. A regional DFI is looking to become the anchor investor in the junior tier.

ACSEM has a strong ESG & Impact focus and will target compliance with Article 8 of the Sustainable Finance Disclosure Regulation (SFDR).[2] Every fund investment will also be subject to the IFC Principles and the AllianzGI Private Markets ESG Policy.

Since 2016, Allianz Global Investors has raised more than USD 2bn of commitments towards blended vehicles and credit enhanced structures that focus on sustainable investments in Emerging Markets.

INDICATIVVE KEY TERMS

Target size	USD 1,000 million
Instruments	Mainly senior debt, also subordinated debt or mezzanine capital | loan or note format
Sector diversification	Paris aligned sectors, no single sub sector (e.g. solar energy) > 30% of overall portfolio
Single name diversification	Approx. 30-50 deals depending on total fund / allocation size, no single name > 5% of overall portfolio
Investment period	4+1+1 years (deployment will take place over 4 years with the possibility to extend for two additional one-year periods)
Term	15-year term for senior investors 25-year term for junior investors to accommodate for longer investments in infrastructure/energy, tail is born by junior capital
Currency	USD
Distribution	Semi-annually
Vehicle type	Luxembourg SICAV-RAIF; subject to client profile, tax and financial considerations
SFDR	Article 8
Target gross return	Senior noteholders: USD target return of SOFR + higher of gross [3]% and [70-80]%[1] of portfolio spread
Minimum commitment	USD [20] million

1 Performance of the strategy is not guaranteed and losses remain possible. Ultimate allocation will depend on the ultimate split between funded and unfunded junior amounts.

2 The strategy aims to integrate the article 8 under SFDR: EU Sustainable Finance Disclosure Regulation. This is no guarantee that the strategy terms represented will be attained.

Source: Allianz Global Investors, 2023.

The above are target preliminary characteristics of the Allianz Climate Solutions Emerging Markets Debt Fund and are provided for illustrative purposes only. A fund is not yet in existence and any fund-related documents are far from being yet in final form and will be finalized following negotiations with investors. There can be no assurance the fund will be able to implement its investment strategy or achieve its investment objectives or that investors will receive a return on their capital. This is no guarantee that the strategy terms represented will be attained.

Target return assumptions may be based on the investment team's experience with predecessor funds, market participants and other stakeholders of the industry. Actual returns from an investment in the portfolio over any given time horizon may vary significantly from the target return assumptions.

Our Private Markets Impact Investing platform

How do we differentiate ourselves?

1 Impact across asset classes

Unique and complementary impact offering in Equity and Debt, across developed markets (DM) and emerging markets (EM), serving a range of client needs

2 Sourcing

Leveraging Private Markets platform sourcing capabilities, as well as in-house impact experts sourcing networks

3 Impact expertise

Built for purpose impact investing platform combining deep investment and impact expertise

4 Engagement

Engagement focus enhancing impact additionality and value creation

Source: Allianz Global Investors, 2023. Our strategies aim to integrate the article 8 or 9 under the SFDR: EU Sustainable Finance Disclosure Regulation.

Looking ahead

With the rapid growth of investor allocations to impact strategies over the past few years reaching over USD 1 trillion of assets under management, the opportunity to generate impact at scale has never been greater.

It has also become imperative to clearly provide transparency, substantiate product features and define expectations around what impact investments should deliver for society.

We believe that the sustainability typologies and four key characteristics outlined in this whitepaper are critical steps towards ensuring that investments are strongly placed to seek to generate significant positive impact over the coming years.

We have built a strong foundation of integration within our impact and private markets platforms to **co-create strategies that aim to deliver positive environmental and social outcomes**. These include strategies supporting climate solutions that foster the transition towards a low-carbon economy as well as supporting solutions allowing access to education, to quality health, to improve financial inclusion, develop social housing, and more.

If you have any questions about how our teams work together, our **blended finance** or **impact credit** strategies, or any other private market capabilities, please contact us.

We hope you enjoyed reading this whitepaper.

For more information, you can visit https://nl.allianzgi.com/nl-nl/pro/focus-strategies/private-markets or scan the QR code below.

Sjoerd Angenent

Director

Institutional Business Development

Belgium & Netherlands

+31 88 577 6706

+31 610 1372 22 (Mobile)

sjoerd.angenent@allianzgi.com

Contact (allianzgi.com)

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The Sustainable Finance Regulation Disclosure (**SFDR**) seeks to enhance sustainability-related disclosures by imposing requirements on financial market participants (e.g. asset managers and investment advisers) and financial products (e.g. Funds). The regulation is part of the European Commissions' Action Plan on Sustainable Finance and applies to products domiciled in the European Union (EU) or sold to EU investors. The regulation will require 1) the integration of sustainability risks in financial market participants' investment decision-making processes, and transparency with respect to products which target sustainable investment, and 2) updates to product documentation including prospectuses, websites and ad hoc marketing material.

Sustainability risks include environmental, social or governance events or conditions that, should they occur, could cause an actual or a potential material negative impact on the value of your investments.

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