

Engagement Policy for Proprietary Assets



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Clarification note

This document contains the essentials of NN Group's Engagement Policy for Proprietary Assets.

This Policy is part of the Responsible Investment Framework policy of NN Group N.V. (NN Group). Last update: June 2022.

Important legal information

This document is for internal guidance purposes only and does not create any rights whatsoever to third parties. The Policy may be subject to change at any time.

1. Introduction

Engagement is an important part of our Responsible Investment and active ownership activities and our investment process. Engagement with the entities that we invest in or finance allows NN Group and its asset managers to better understand the risks and opportunities of each specific investment case. Furthermore, NN Group strongly believes in the use of engagement to create beneficial change by encouraging companies to improve their ESG practices and to mitigate adverse impact on sustainability factors.

Where engagements are conducted in relation to violations of NN Group's norms-based RI criteria, we only decide to restrict individual companies when engagement is not or is no longer considered feasible to change the conduct or involvement in the specific business activities of those companies. Such decisions are not taken lightly and only where we believe that restriction is a balanced and proportionate response, or where restrictions are demanded by law.

1.1 Objectives

The objective of this Policy is to set out the objectives, governance, and minimum requirements of engagement, which is an integral part of the investment process of NN Group's Proprietary Assets.

1.2 Scope

This Policy is part of NN Group's Responsible Investment Framework policy, and is aligned with our voting Policy for Proprietary Assets. The Voting Policy lays out the key principles of our proxy voting approach and our standpoints on relevant voting topics. Both documents can be downloaded [here](#).

1.3 Governance

This Policy falls under the NN Group RI Framework policy. NN Group's Corporate Citizenship department is the owner of this Policy. The Management Board of NN Group is the final decision-making body regarding changes to the Policy.

The operational execution and coordination related to the implementation of this Policy lies with the NN Group RI team. The RI Committee conducts the strategic oversight and provides recommendations to the Management Board of NN Group regarding changes to the Policy.

The RI Committee is composed of representatives from different NN Group functions and is chaired by NN Group's Chief Investment Officer. Members include the Chief Organisation & Corporate Relations and the Chief Risk Officer, who are both also members of the Management Board NN Group, and representatives of the Group Responsible Investment team and Investment Risk Management.

2. Engagement

NN Group considers engagement to be the direct interaction between investors and companies in a structured manner with the aim to reach pre-defined objectives. Through engagement, investors can better understand the risks and opportunities of investment cases. This means that not only financial performance, capital structure, and strategic matters are discussed with companies, but also environmental, social and governance (ESG) topics to get a full understanding of all the relevant business drivers. NN Group believes that engagement on ESG topics can also bring about positive change. It enables investors to use their influence to stimulate companies to improve their ESG practices, thereby ensuring long-term value that also benefits society at large. NN Group expects its asset managers to execute the engagement as part of their asset management activities, but NN Group can also engage directly with investee companies when considered needed and feasible.

2.1 Forms of engagement

Engagement can take place in the form of phone calls, formal letters, in-person meetings, and site visits. They can be conducted internally or externally, and individually or in collaboration with other investors. NN believes that collective engagement is a good way to increase investor influence and to share resources and expertise when engaging with companies. Examples of platforms within which this takes place are Eumedion, the Institutional Investors Group on Climate Change (IIGCC), and the United Nations Principles for Responsible Investment (UN PRI) working groups. Investors that participate in such collaborative engagements can engage with a company on NN's behalf and vice versa.

In addition to engagement with individual companies, engagement can also take place with:

- External asset managers who manage assets on NN's behalf in order to influence how they manage those assets with respect to ESG considerations
- Policy makers (either individually or in collaboration with others), in order to contribute to the development of sustainable government policies and a more sustainable global financial system

2.2 Engagement triggers

The following situations can trigger the start of an engagement process with an issuer:

- Directly related to the investment case (including Corporate Governance issues or related to internal guidelines of specific NN investment strategies)
- In case of (increased risk of) a violation of NN's norms-based RI criteria
- As part of NN Group's external asset manager(s)' thematic engagement programmes
- As part of NN Group's Paris Alignment Strategy, to engage with high emitters in our portfolio to accelerate their transition
- In case NN Group wants to engage on specific issues related to high reputational risk

The process and requirements with regard to norms-based RI criteria related engagements are described in chapter 3 and 4.

2.3 Different engagement levels

There are different levels of engagement that require different amounts of resources. The level of engagement will depend on the nature of the issue, what triggered the engagement, whether or not NN is invested in the company, and the intended outcome.

- **Basic Engagements** consist of multiple telephone or in-person conversations with companies and are often complemented with letter writing and additional follow-ups. Basic Engagements may have explicit milestones and targets.
- **Comprehensive Engagements** are longer-term, regular, substantive, and detailed conversations with companies with explicit milestones and targets (typically over a period of up to three years). Comprehensive Engagements are conducted in-person or via video call in combination with letter writing and phone calls.

3. Engagement process and requirements

Since NN's norms-based RI criteria are considered to be a minimum requirement for managing all Proprietary Assets, NN has developed explicit rules and guidelines around how to deal with (potential) violations of these criteria. NN expects any violations of the norms-based RI criteria to be addressed via a formal engagement process when engagement is considered feasible. This chapter describes the minimum requirements of NN's engagement identification and execution process for engagements related to violations of NN's norms-based RI criteria.

The RI Committee has strategic oversight of these engagements. The execution lies with the NN Group RI team, external asset manager(s), and service providers, whereby the coordination between the relevant involved stakeholders is done by the NN Group RI team.

3.1 Screening of investment universe

Our investment universe is screened on a quarterly basis with a view to identify issuers that are violating (or at risk of violating) NN's norms-based RI criteria. The set of issuers for which potential violations are structurally monitored is based on the investment universe of NN Group. This screening is applied to the extent that data is available, on the basis of input provided by external data and research providers. A specialised external engagement provider may provide additional advice.

3.2 Violations of NN's norms-based RI criteria

When there are strong indications that an issuer may be in violation of any of NN's norms-based RI criteria, a decision needs to be made as to whether NN considers this a violation. Examples of such indications can be research from NN's external ESG research or engagement provider(s), inputs from NN Group's external asset managers, input from NN's own (investment) staff or information from NGOs or media sources.

Violations can currently occur in relation to the following areas:

- Governance
- Human Rights
- Labour Rights
- Environment
- Bribery and Corruption

3.3 Decision-making related to violations, engagements and restrictions

Once there are indications of potential violations, an assessment is required to determine whether or not issuers are in violation of NN's norms-based RI criteria.

The four key decisions to be made in relation to the application of NN's norms-based RI criteria are:

1. Whether or not an issuer is considered in violation of NN's norms-based RI criteria
2. Whether or not engagement to address the violation is considered feasible
3. Whether or not to formally include the issuer in NN's engagement program
4. If the issuer is in violation and not included in NN's engagement program, whether to recommend restricting the issuer

3.4 Assessment of engagement feasibility

When a company is considered to be in violation of NN's norms-based RI criteria, and engagement to address the violation is considered to be feasible, the company can be formally included in NN's engagement program.

When an issuer is in violation of NN's norms-based RI criteria and engagement is not considered feasible, the issuer will be considered ineligible for investment and the RI Committee will therefore recommend the Management Board of NN Group to put the issuer on the Restricted List.

3.5 Measurement and reporting of progress during the engagement

Each engagement has to be supported by an engagement plan that outlines the objectives, milestones, timeframes, and engagement activities to be carried out. The executors of the engagement will maintain an archive of these reports. Furthermore, where external asset managers or service providers are conducting the engagement, NN Group expects to receive detailed periodic reporting that includes the activities that have taken place and updates and analysis of the progress and achievements.

3.6 Engagement execution

NN Group has delegated the main execution of the engagement for its proprietary assets to NN IP. The potential executors (or coordinators) of the engagements, depending on the context, type of engagement, and available capacity, are:

- Analysts
- Portfolio Managers
- ESG or RI specialists
- Through collaborative engagements other institutional investors can engage on behalf of NN
- External engagement provider(s)

In addition, where relevant and feasible the NN Group RI team is closely involved in the execution, monitoring and strategic decision-making around engagements.

3.7 Engagement term

The time period for engagement with a company is typically up to three years, unless within that period major events occur that lead to the engagement feasibility having changed materially, or if the company is no longer in violation of NN's norms-based RI criteria.

3.8 End-evaluation and potential outcomes

Progress is monitored closely during the duration of the engagement process, whereby for each company there can be three potential outcomes :

1. The company is no longer in violation of NN's norms-based RI criteria
2. The company is still in violation of NN's norms-based RI criteria, but the NN Group RI Committee decides to extend the engagement period, based on the assessment that engagement is still feasible
3. The company is still in violation and will be recommended for restriction

In case of outcome 3., the NN Group Management Board will be recommended to place the company on the Restricted List.

Dependent upon the size of our holdings, we intend to sell all issuer exposures (equity, bonds) within three months after the Restricted List has been approved. For some assets (e.g. loans) this can be more complicated due to illiquidity and therefore will be decided on a case-by-case basis. Periodic compliance checks are conducted to ensure that the Restricted List is implemented for all relevant portfolios.

The practices of restricted companies are reviewed on a regular basis. The RI Committee may propose to remove a company from the Restricted List when the company has sufficiently improved their practices.

3.9 Shareholder engagement and escalation

To maximize the effectiveness of our activities, NN Group strives to align its engagement and voting efforts. This means that we monitor engagements and keep track of how responsive companies are to our engagement asks and how well companies are progressing on the identified change objectives. NN Group may decide to vote against routine items as a form of escalation when engagement response or progress is lacking. Further, NN Group may consider to file or co-file a shareholder resolution as a way to flag inaction and accelerate progress on ESG topics.

