

Oil and Gas Policy for Proprietary Assets



Contents

1.	Introduction	3
1.1	Road to net-zero	3
1.2	Objectives	3
1.3	Scope	3
1.4	Governance	3
2.	Oil and gas	4
2.1	Supply chain of the sector	4
3.	Comprehensive oil and gas policy	5
3.1	Unconventional oil and gas restrictions	5
3.2	Approach regarding conventional oil and gas	5
3.2.1	Corporate investments	5
3.2.2	Infrastructure investments	6
3.2.3	Existing investments and agreements	6
	Appx. 1: NN's categorisation framework Corporate Investments	7
	Appx. 2: Application of policy for Corporate Investments	8

Clarification note

This document contains the essentials of NN Group's Oil and gas policy for Proprietary Assets.

This Policy is part of the Responsible Investment Framework policy of NN Group N.V. (NN Group).
Version: May 2023

Important legal information

Nothing in this document expressed or implied, is intended to or shall create or grant any right of any cause of action to, by or for any person (other than NN Group N.V.).

1. Introduction

Climate change is one of the most pressing risks of our time. The world has experienced many negative changes due to global warming, including extreme weather and disruptions in livelihood. If, as a global community, we do not take rapid action, there will be lasting consequences for ecosystems, human health, and security. As a financial institution, NN Group has a key role to play in ensuring a sustainable future for all generations.

1.1 Road to net-zero

We analyse the effects of climate change on society, and as such are committed to science-based principles to secure a low carbon future that also meets the needs of generations to come.

In June 2020, NN announced it is taking new steps to address climate change by developing an ambitious climate change strategy for its proprietary investment portfolio. We commit to transition our investments to 'net-zero' greenhouse gas (GHG) emissions by 2050. This ambition is based on what science says is necessary to strive for a maximum temperature rise of 1.5°C above pre-industrial temperatures. Net-zero means that emissions in the real economy must be reduced as close to zero as possible and remaining emissions have to be absorbed using carbon removal technologies.

NN's strategy for transitioning our portfolio towards the global goal of net zero emissions by 2050 has two dimensions:

- Decarbonisation of the investment portfolio, and
- Increasing investment in climate solutions

We prefer approaches and/or methods which have the best chance to maximise impact in the real economy.

More information on our climate ambitions can be found in our Climate Action Plan, published on the NN Group website [here](#).

1.2 Objectives

The goal of this Policy is to set out the objectives, governance, and minimum requirements for investments in oil and gas activities, which is an integral part of the investment process of NN Group's Proprietary Assets.

1.3 Scope

This Policy is part of NN Group's Responsible Investment Framework policy (RI Framework policy) and is aligned with our Paris alignment standard for Proprietary Assets. The RI Framework policy is to support NN Group's Business Units, NN

Group Investment Office, and other relevant NN Group functions in the systematic incorporation of ESG risk and opportunities into the investment process. The Responsible Investment Framework policy can be found [here](#).

1.4 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 Responsible Investment (RI) team. The RI Committee conducts 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 (CIO). Members include the Chief People, Communication, and Sustainability Officer (CPCSO) and the Chief Risk Officer (CRO), who are both also members of the Management Board NN Group, and representatives of the Group Responsible Investment team and Investment Risk Management.

2. Oil and gas

Oil and natural gas are amongst the top contributors, responsible for the anthropogenic greenhouse gas (GHG) attributing to the acceleration of climate change. A global shift from societies dependency on fossil fuels to a low carbon renewable economy is necessary to limit average global temperatures.

Based on scientific reports and industry outlooks, urgent action is required to reduce GHG emissions, which includes amongst others; (i) immediate action to stay within emission budgets, (ii) a halt on exploration and development of greenfields approved after 2021, (iii) a rapid shift to renewables by 2035, and (iv) adoption of just transition plans and new business models in low carbon activities. Within the next two decades, there must be a rapid transition away from fossil fuels to low carbon business activities. The oil and gas supply chain are well positioned to lead the way in a low carbon economy if they effectively act and make the shift.

2.1 Supply chain of the sector

The negative impacts of GHG emissions caused by the oil and gas industry are relevant across the total supply chain. Upstream (exploration & production) activities are comparable in terms of emissions for both oil and gas activities, but they vary in midstream (transport and refining) and downstream (sales, trade, products), including supporting product/service activities (engineering, maintenance, etc).

Yet, some activities within the oil and gas supply chain play an important role in the energy transition. For instance, gas is viewed as a transitional fuel in the EU Taxonomy, if appropriately deployed, to support the energy shift until 2030. Supporting product/service companies can also provide the necessary data or equipment to develop the renewable sector, such as offshore wind. Conversely, oil is held under tighter scrutiny. Scientific reports stress that phase-out of oil prior to gas should be conducted, and that new investments in exploration and development of greenfields approved after 2021 should be halted, to avoid a carbon overshoot.

3. Comprehensive oil and gas policy

In this chapter NN's comprehensive oil and gas policy is described focussing on both unconventional and conventional oil and gas activities. For unconventional oil and gas activities, we apply an exclusionary approach, whilst for conventional activities, we focus on engagement with existing investments in our portfolio and applying strict criteria for new investments. The policy includes conventional activities across the industry's supply chain (upstream, midstream, and downstream; including supporting products/services, but excluding utilities for corporate investments¹). The combination of the unconventional and conventional oil and gas policies results in NN's first comprehensive oil and gas policy that will be continuously monitored and adapted if or when necessary.

3.1 Unconventional Oil and Gas restrictions

Effective November 2022, NN Group has strengthened and broadened our restrictions policy on unconventional oil and gas exploration. In addition to already existing restrictions related to Oil sands production, NN has defined restrictions for other unconventional oil and gas areas: Arctic drilling and Shale oil & gas, which apply to NN's Proprietary Assets.

Oil sands production

Oil sands, also known as tar sands or crude bitumen, is a form of heavy oil found in sand and rock. NN recognises that oil sands development poses serious environmental and social challenges. This is because the GHG emissions associated with producing fuels from oil sands are higher than conventional crude oil. Furthermore, the production of oil sands and its transport via pipelines generates significant human rights concerns and is a serious cause of local environmental pollution.

We therefore restrict companies that are directly involved in oil sands extraction, deriving more than 5% of their revenues thereof. In addition, we restrict pipeline operators when involved in oil sands transportation projects that are in dispute, and when engagement is not (or no longer) expected to achieve the desired results.

Arctic drilling

Exploring for oil and natural gas in the Arctic is controversial in the context of global climate change as well as because of higher environmental and social risks. The region's remote location, extreme weather conditions, and vast size present great challenges. Arctic drilling poses a higher risk of oil spills, having the potential to affect biodiversity and local

communities. For these reasons, NN Group will restrict companies that are directly involved in offshore oil and gas exploration and production in the Arctic region, deriving more than 5% of their revenues thereof.

Shale oil & gas

Shale energy refers to the natural gas and oil within shale formations. The combination of horizontal drilling and hydraulic fracturing allows access to large volumes of shale gas. The drilling and fracturing of wells require substantial amounts of water. In some areas, significant use of water for shale gas production may affect the availability of water for other uses and can affect biodiversity and local communities. Because of the quantities of water used and complexities of the chemicals added in the hydraulic fracturing fluids, treatment and disposal of wastewater is an important and challenging issue. For these reasons, NN Group will restrict companies that are directly involved in shale oil and gas, deriving more than 30% of their revenues thereof.

Furthermore, new investment in companies that derive between 5 and 30% of their revenues from shale energy is only allowed if the company has a credible transition plan. This will be reviewed following the same approach as for conventional oil and gas (see section 3.2.1).

3.2. Approach regarding conventional oil and gas

We believe that conventional oil and gas producers are an important part of our current economy and can play a key role in the transition to a low carbon economy. However, these companies need to urgently implement ambitious transition plans. As such, effective June 2023, we have sharpened our approach with respect to the oil and gas sector by applying stricter rules on new investments. This approach also provides clarity on our position on oil and gas investments.

The strengthening of the policy aims to sharpen our approach with respect to the conventional oil and gas sector, by implementing restrictions on new investments and engaging with our investee companies. With the new strategy, we aim to minimise long-term oil and gas exposure and its associated risks. It also helps to provide clarity, focus on new investments in companies that have made the commitment to net-zero by 2050, with credible plans aligned with the Paris 1.5°C pathway.

To contribute to the goal to transition our portfolio to achieve net-zero by 2050, the policy builds further upon our Paris alignment categorisation approach that classifies issuers

¹ Note that for the utility sector, the coal-phase out policy is applicable. Please refer to the NN Group RI Framework policy for more information on this policy.

involved in the conventional oil and gas supply chain (upstream, midstream, and downstream; including supporting products/services, but excluding utilities) on their alignment with the Paris Agreement. We apply this approach to new corporate and infrastructure investments to help improve clarity of our position and guidance on how to invest in the oil and gas industry.

3.2.1 New corporate investments

For new corporate investments (equity, bonds, and loans) we apply the following guidelines:

- NN no longer allows new investments in companies active in the oil and gas supply chain that are “not aligned” under our Paris Alignment categorisation framework (refer to Appendix 1 for more details);
- NN no longer allows new investment in companies (including state owned companies) with more than 30% of revenues from oil and gas upstream, midstream, and/or downstream activities (excluding supportive products/service companies), and no credible transition plans categorised as “committed to aligning”;
- For supporting product/service companies, we will no longer invest in companies in the “not aligned” category. For companies that are categorised as “committed to aligning”, we expect them to demonstrate evidence of diversifying their portfolio away from oil and gas products and services to low-carbon solutions.

A figure that illustrates the steps to determine eligibility of an investment is shown in Appendix 2.

3.2.2 New infrastructure investments

For new investments in infrastructure projects we will apply the following guidelines:

- No new investments in oil and gas exploration or production (upstream) projects;
- No new infrastructure projects (pipelines, oil and gas storage facilities and others) primarily focused on oil and gas (including liquid natural gas (LNG));
- No new investments in infrastructure using gas as a fuel to produce hydrogen (blue or grey hydrogen).

To avoid limiting transitional opportunities, from oil and gas to renewables, which are critical to achieve real economy impact within infrastructure investments the following exemptions can be made for:

- Gas to renewable conversion projects that will be

completed by 2030, which demonstrate credible plans that align with the EU Taxonomy but do not replace the use of renewables, if feasible to achieve the same or better capacity;

- Where EU Taxonomy does not apply, oil and/or gas infrastructure transitional investments to sustainably produced low carbon/renewable alternative infrastructure investments, only if at the time of investment credible transition plans are available that are sufficient to align with 1.5°C low/no overshoot pathways. The final transition of these investments is targeted for 2030.

For infrastructure investments we have taken a broader scope in our policy by including restrictions on oil and gas-fired power generation:

- No investments in oil-fired power generation infrastructure;
- No investments in baseload gas-fired power generation. With an exemption for transitional gas-fired power generation infrastructure to low carbon/renewable generation that is designed with carbon reduction measures sufficient aligned with 1.5°C low/no overshoot pathways, and where alternatives for affordable and reliable energy are not yet viable.

3.2.3 Existing investments and agreements

For existing investments and agreements we will apply the following guidelines:

- For all existing investments, we will keep the assets until maturity and focus on dialogue with companies through direct and collaborative engagement initiatives. The engagement will focus on topics such as Paris alignment progress, alignment of capital expenditures with climate ambitions, lobby activities, and a just transition. If we see insufficient progress, or a lack of willingness or perspective in terms of transition, we will consider divestment;
- With regards to discretionary mandates, we will adjust the asset management agreements to make necessary changes where applicable;
- When it concerns fund investments for which commitments have been made, we cannot change the conditions to incorporate stricter criteria as described in this policy. We will however have an active dialogue with the fund managers to encourage them to align with NN’s policy where possible.

Appendix 1: NN's categorisation framework Corporate Investments

For the corporate investment portfolio, NN Group developed a methodology, using the six alignment criteria based on the IIGCC Net-zero Investment Framework. These alignment criteria are:

1. **Ambition:** A long term goal consistent with achieving global net-zero by 2050 or sooner
2. **Targets:** Short- and medium-term emissions reduction target (scope 1, 2 and material scope 3)
3. **Emissions performance:** Current emissions intensity performance
4. **Disclosure:** Reports on scope 1, 2 and material scope 3 emissions
5. **Decarbonisation strategy:** A quantified plan setting out the measures that will be deployed to deliver GHG emissions targets, proportions of revenues that are green and where relevant increases in green revenues
6. **Capital allocation alignment:** A clear demonstration that the capital expenditures of the company are consistent with achieving net-zero emissions by 2050

Using these six criteria, we categorise the companies in the portfolio according to their alignment or potential to align to a net-zero pathway. The categorisations are as follows:

- **Achieving net-zero:** Companies that have current emissions intensity performance at, or close to, net-zero emissions with an investment plan or business model expected to continue to achieve that goal over time
- **Aligned to a net-zero pathway:** High impact companies – meeting criteria 1-6. Low impact companies – meeting criteria 2-4
- **Aligning:** High impact companies – meeting 2, 4, and full or partial 5. Low impact companies – meeting criteria 2 and 4, or 3 and 4
- **Committing to aligning:** meeting criteria 1 by setting clear goal to achieve net-zero emissions by 2050
- **Not aligned:** no commitment to net-zero or when data is not available

Note: High impact companies are defined as those companies on the Climate Action 100+ focus list or covered via the TPI company assessment.

NN Group developed a data hierarchy to identify the current and forward-looking data sources that best fit each alignment criteria. However, data can be limited within these data sources. To bridge the data gaps, NN's external asset manager utilises research to enhance their understanding and assessment of a corporate's alignment status. NN Group expects that the methodology may change over time as data quality, coverage, and sources evolve. More information on the data hierarchy is published in the Climate Action Plan 2022, published in December 2022 on the NN Group website.

Appendix 2: Application of policy for Corporate Investments



