

Responsible Investing Report 2019

Because it matters. And it works.



NN investment
partners



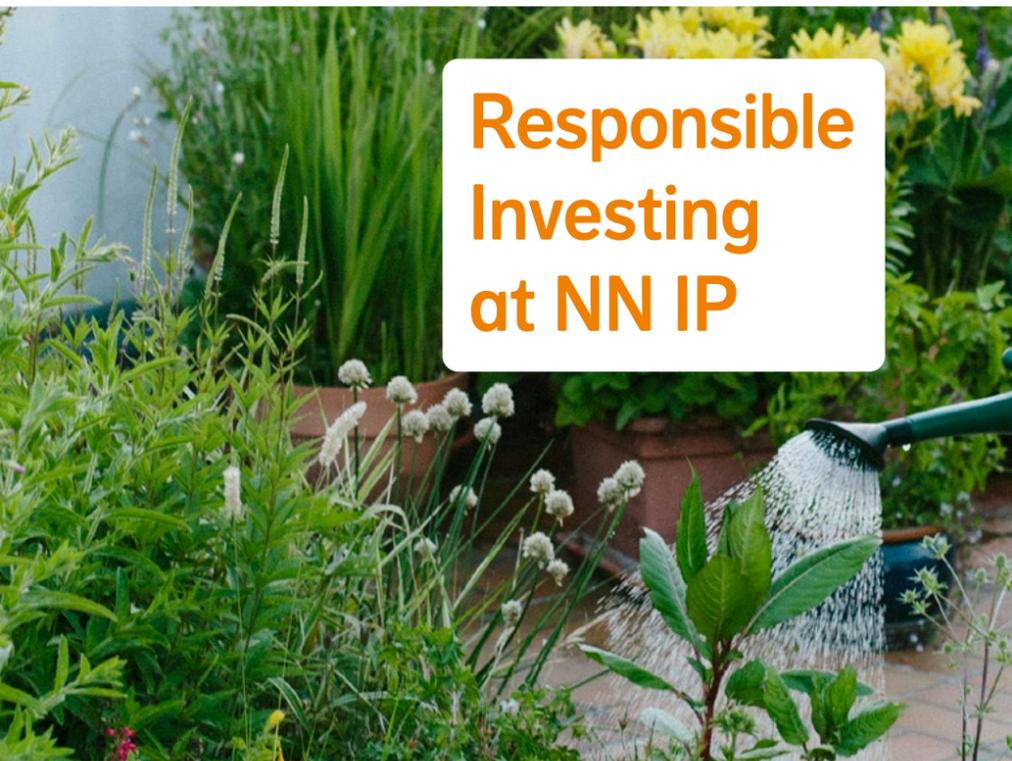
Introduction



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About NN IP

Foreword

More and more investors look beyond financial performance. They want their investments to contribute to a better world in addition to offering attractive risk-adjusted returns. And they reach out to us to manage both.

Investors require evidence. They need to see how their money can make a difference; how it is used to tackle environmental, social and governance issues. Reporting is a crucial step in this process. It shows how and why we invest and proves that we ensure the assets entrusted to us make a difference. This is why this annual responsible investing report is so important. It not only shows the results of what we do; it also reveals the philosophy behind our approach.

We hope you enjoy reading about how we actively help our clients realise their responsible investing ambitions.

Hester Borrie
Chief Client Officer
NN Investment Partners



NN Investment Partners in numbers

As at 31 December 2019, we manage EUR 276 billion (USD 310 billion) of assets for institutions and individuals worldwide, employ around 1,000 staff and have offices in 15 countries across Europe, North America, Latin America, Asia and the Middle East.

Any company names used in this report are for illustration purposes only. Company name, explanation, and arguments are given as an example and do not represent any recommendation to buy, hold or sell the stock. The security may have been removed from the portfolio at any time without any pre-notice.



2019 Highlights

Responsible investing achievements



NN Investment Partners strengthened its responsible investing framework to include a **stringent** definition of ESG integration and assessed all strategies according to these new standards. We published figures on our assets under management where we systematically integrate ESG criteria.

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EUR **189** bln

At the end of 2019, ESG criteria were integrated for **68%** of NN IP's assets under management, representing **EUR 189 billion AuM.**

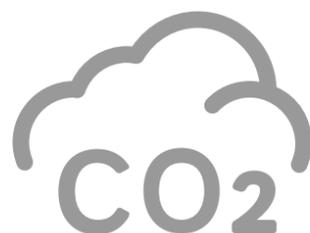


In 2019 our **NN (L) European Sustainable Equity** fund outperformed its benchmark (MSCI Europe Net Index) by **10%** gross. It also became one of Climetrics' top ten funds based on its climate performance.

Signatory of:



We received the **highest score of A+ from the PRI** for strategy and governance. This demonstrates our ambition to promote responsible investing and corporate governance for the benefit of society as a whole.



The NN (L) Green Bond fund passed the EUR 1 billion AuM threshold in

July, three years after inception. The fund saves 657,689 tonnes of CO₂ annually. The total strategy AuM including mandates reached EUR 1.8 billion at the end of 2019. We launched a **short-duration variant of the NN (L) Green Bond fund**, with a duration of two years, making it an ideal product for investors who want to invest in green bonds while protecting their portfolios from rising interest rates.



In 2019, **as lead for the workgroup for the food and agriculture sector**, we played a leading role in developing the **Platform Living Wage Financials (PLWF)** methodology that will be used for all company assessments in this sector and which is now being rolled out.



NN Group signed the financial sector commitment to the **Dutch Klimaat-akkoord**. This climate agreement aims to reduce greenhouse gas emissions by 49% by 2030 (compared to 1990).



Assets under management in our **Sustainable and Impact strategies** increased by EUR 6 billion to EUR 22.7 billion in 2019.



Together with NN Group, we made the decision to place **investment restrictions on companies involved in thermal coal mining**. We will further enhance our focus on engaging with electric utilities companies that need to transition to lower-carbon alternatives.

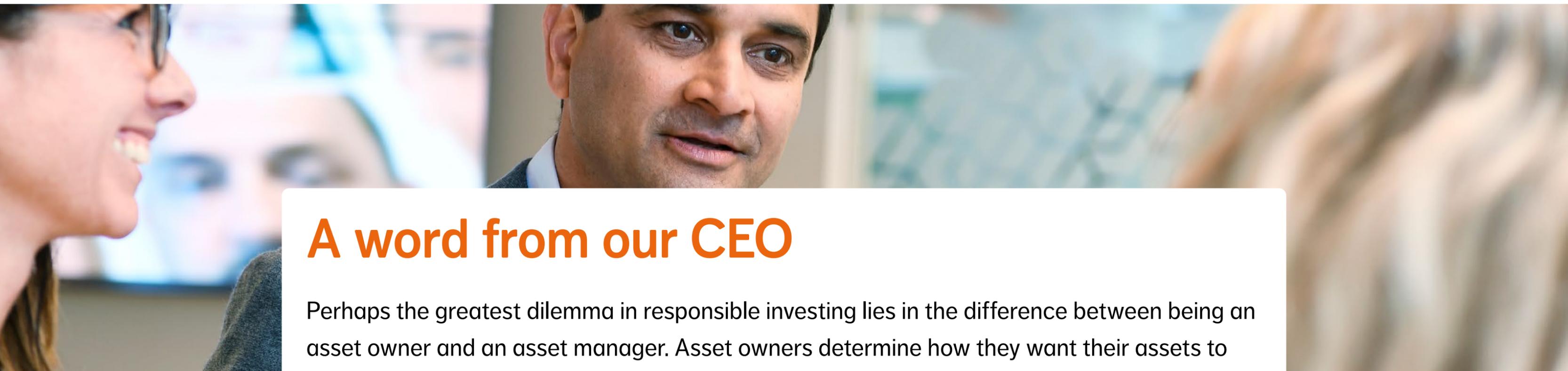


In December, we expanded our product range by adding **three thematic impact equity funds**, focusing on People, Planet and Prosperity. The themes are Climate & Environment (Planet), Smart Connectivity (Prosperity) and Health & Well-being (People). Each of the three funds has four investable goals, aligned with the 2030 SDG agenda and global megatrends.



Irish Life

We entered into a partnership with Irish Life Investment Management (ILIM) to jointly manage **a range of sustainable index strategies**. We first launched an emerging markets equity strategy, followed by three equity funds focusing on global, North American and European equities. The new strategies combine NN IP's expertise in sustainability with ILIM's experience in index tracking.



A word from our CEO

Perhaps the greatest dilemma in responsible investing lies in the difference between being an asset owner and an asset manager. Asset owners determine how they want their assets to be managed and this includes their responsible investing preferences. Some have very clear views, others have yet to form an opinion.

As an asset manager we represent them all; their money and their interests. In addition to catering to a broad range of client needs, we take a proactive stance ourselves and form an opinion on what we think is important. Our responsible investing beliefs play a crucial role in this.

Putting capital to work

An asset manager of our size, with a global reach in the capital markets, has a clear responsibility. Our first belief is that we

should actively put the capital we manage to work. We form opinions on delicate topics and join forces with other institutional investors to strengthen our message.

We approach companies via collaborations and initiatives to tackle complex problems like child labour and living wages. These are issues that cannot be solved overnight. Only a long-term collective approach with major industry players can help turn the tide.



Improving risk-adjusted returns

In addition to making a positive contribution to society, we always focus on financial performance. Our second belief is that responsible investing improves risk-adjusted returns. Examining ESG criteria enriches our understanding of a company's business strategy and ambitions. This complements thorough financial analysis and aids decision-making. We also invest time and money in data and data quality to further enhance this process.

There is growing evidence that sustainable policies create more value in the long run. For example, energy companies that adapt to new forms of power generation will be better placed to thrive following the green energy transi-

tion. This trend can also stimulate companies and governments to allocate capital more sustainably.

We work hard to ensure that the assets we manage on behalf of our clients fulfil long-term performance targets, from both a financial and non-financial perspective.

Satish Bapat

Chief Executive Officer
NN Investment Partners





Responsible Investing at NN IP

The why, the how, and the what

Our responsible investing (RI) activities and ambitions are encapsulated in the NN IP responsible investing framework. It incorporates our beliefs, how we do things and what we offer.

Our RI beliefs - why

Our two RI beliefs form the starting point, as they explain why responsible investing is important to us.

Putting capital to work

NN IP actively manages assets on behalf of its client base worldwide and participates in global financial markets. We are well aware of the challenges confronting the world today, not only in the area of climate change, but also from a social and economic perspective. We have a responsibility to represent the numerous investors who have entrusted their money to us.

This extends far beyond the realm of short-term financial gains. We are in a position where we can make a difference in a far broader context by putting the capital we manage to work.

Improving returns

We believe there is a strong link between the longer-term positive impact of ESG integration and improved risk-adjusted returns. In addition to its effects on the well-being of both society and the environment, our own efforts have shown that consistent ESG integration enables us to unlock potential value by identifying the associated risks and opportunities.



Our RI approach – the how and the what

Our approach combines the building blocks we use to implement responsible investing at NN IP. It also incorporates the range of investment strategies that we offer clients to enable them to fulfil their responsible investing ambitions.

Restriction criteria

Our restriction criteria enable us to take a stance on activities and behaviour that do not match with our ethics, principles and regulations. Decisions on restriction are the starting point in defining the initial investment universe for our strategies. Restriction criteria also play an important role for our clients and the parties they represent, as they are often related to broadly debated topics.

Engagement and voting

We select ESG-related themes on topics that are relevant and material, and where we believe we can positively influence corporate behaviour. As share- and debtholders, we are fully aware of the potential we have to drive change for the better. We collaborate with international entities and with other institutional investors to strengthen the impact of our efforts.

ESG integration

We take into account non-financial information by defining the materiality of ESG issues linked to both companies and sovereigns for all our responsible investing strategies. We integrate the additional insights we gain from ESG data into our investment processes to mitigate risks and to leverage new opportunities.

Transparent reporting

Although it is the last activity on the list, reporting for investors is often actually the starting point of responsible investing. These reports cover, for example, exposure to potential controversies, climate emissions figures and other ESG performance metrics. We promote transparency by sharing as much available ESG-related information as possible with clients.

What we offer

Our investment strategies are the tangible result of the beliefs and approach outlined above. We have three types of responsible investment strategy – ESG integrated, Sustainable and Impact – to cater to a variety of client needs across a broad range of asset classes. The strategies are presented in detail on [pages 53-60](#).





Governance

Oversight on implementation of responsible investing

As an asset manager we have a fiduciary duty to act responsibly on behalf of our clients. A set of interrelated policies and our extensive responsible investing framework provide us with a solid basis on which to make and implement well-informed decisions. Our governance structure ensures that we continue to optimise long-term risk-adjusted returns for our clients, while staying focused on maintaining a positive impact on society at large.

NN IP's day-to-day approach to responsible investing (RI) is organised in a structured way. We make sure the relevant people are involved in decision-making, that recommendations are shared and decisions are efficiently implemented. The management board provides strategic direction and the RI Leadership Team oversees the implementation of the RI framework in investment-related processes. In order to do this, they receive information and recommendations from a number of sources.

RI Leadership Team

This team was established in 2018 to drive and oversee responsible investing developments and ensure ongoing ESG integration at strategy level, with the overarching goal of prioritising and supporting NN IP's responsible investing activities. Its members are also responsible for supporting innovation, particularly in enriching data and in reporting. The team consists of four senior

managers. These are the Head of Fixed Income, Head of Equity, Head of Responsible Investing & Innovation Platform and the Principal Responsible Investing. Together, they drive our ambition to be a leader in responsible investing and our commitment to deliver attractive returns in a responsible manner to clients.

Responsible Investment Team

This team's role is to empower and support the investment teams in integrating ESG factors into the investment process and to strengthen and oversee our active ownership activities. Its members also provide advice and give their expert opinion on RI-related matters in the global context of our investment practices. This team comprises ten experts with diverse backgrounds. Some have gained experience at NGOs, others in commercial entities and in areas ranging from sustainability and finance to anthropology and engineering.



Their focus areas include voting and engagement activities and ESG integration. They are also responsible for RI thought leadership. In the company's organisational structure, they are located at the core of the investment teams, reporting directly to the Chief Investment Officer (CIO) of NN IP.

The Controversy & Engagement Council

This council plays a key role in our active approach as share- and debtholders. Its role is to monitor engagements, assess controversies and provide recommendations to the ESG Committee on the appropriate steps to take. It also monitors progress made by companies who are in the process of remedying past controversies.

Acting in an advisory capacity, the council meets on a regular basis to discuss engagement activities and updates, and determines the next steps required to achieve the engagement objectives at individual company level. The Controversy & Engagement Council is chaired by a member of the Responsible Investment Team. Its members include portfolio managers and analysts, as well as representatives from NN Group's Investment Office and Corporate Citizenship department. The Council makes recommendations to the ESG Committee and maintains a database of all our engagement dialogues and the progress made, which is accessible to all the investment teams.

ESG Committee

The ESG Committee is chaired by NN IP's CIO and comprises members of the Responsible Investment Team, the RI Leadership Team and senior representatives of business segments such as risk management and product management and development. The CIO of NN Group and representatives of

the NN Corporate Citizenship department are also members of this committee. It meets on a quarterly basis and advises NN IP's management board on the implementation of the responsible investing framework.

The Committee's objectives are to advise on NN IP's positioning in responsible investment initiatives, to provide assistance and input on any requirements relating to our memberships and affiliations (such as the PRI assessment) and to make recommendations regarding the exclusions list. This entails assessing whether a violation of NN IP's norms-based RI criteria has occurred¹. If this is the case, the committee decides whether to engage or to make a recommendation to NN Group's management board to place the country, industry or company on the restricted list.

In addition to implementing the recommendations of the Controversy & Engagement Council, our investment universe is screened on a quarterly basis with a view to identifying companies that are violating (or at risk of violating) our norms-based RI criteria. This screening is carried out for our investment universe.

¹ See [page 13](#) for more information on restrictions and NN IP's norms-based RI Criteria.

‘Developing timely sovereign indicators is the next step in fixed income responsible investing.’

Edith Siemann

Head of Fixed Income Solutions, Specialised Fixed Income & Responsible Investing



‘As shareholders, we have a responsibility to take action on issues that matter to stakeholders.’

Adrie Heinsbroek

Principal Responsible Investing

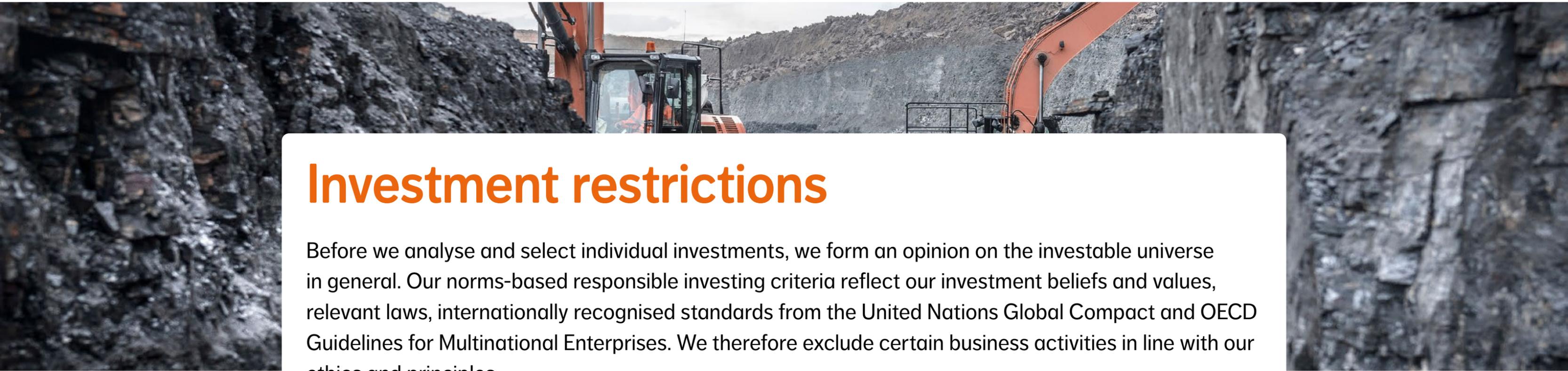


‘Bondholders can play an important role by choosing to finance companies that do good and set an example to others.’

Bram Bos

Lead Portfolio Manager Green Bonds





Investment restrictions

Before we analyse and select individual investments, we form an opinion on the investable universe in general. Our norms-based responsible investing criteria reflect our investment beliefs and values, relevant laws, internationally recognised standards from the United Nations Global Compact and OECD Guidelines for Multinational Enterprises. We therefore exclude certain business activities in line with our ethics and principles.

Areas where violations can currently occur:

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

In these areas, our norms-based RI criteria consist of two main categories.

1. Companies involved in specific products or services

- Controversial weapons
- Arms trade with entities that are subject to arms embargoes
- Tobacco production
- Oil sands production and controversial pipelines
- Thermal coal mining*

2. Controversial conduct

- **Corporates:** Corporate issuers that severely and systematically violate the UN Global Compact principles and/or the OECD Guidelines (and where we consider that engagement is not or no longer feasible to change the conduct of those companies).
- **Countries:** Sovereign issuers involved in severe and systematic violations of human rights and countries against which arms embargoes have been issued by the UN Security Council.

* See [next page](#) for more information on this 2019 restriction



New restriction in 2019 – Thermal Coal Mining



Thermal coal, the type of coal used for power and heat generation, has the highest CO₂ emissions in relation to its energy content. While global demand for reliable and affordable energy is expected to rise, there is widespread scientific consensus that a stringent phase-out of thermal coal is required if global warming is to be kept well below 2°C above pre-industrial levels.

In 2019, together with NN Group, we decided to place investment restrictions on companies involved in coal mining. We also committed to developing a strategy to engage with electric utilities companies that need to transition to lower-carbon alternatives.

Restriction policy

We apply investment restrictions on companies with business models that are dependent on the extraction of thermal coal. This is defined as companies that derive more than 30% of their revenues from thermal coal mining. Such companies will be placed on our publicly available exclusion list¹. This means that we have divested the equity and fixed income holdings that were held within mutual funds managed by NN IP and we encourage our clients with segregated accounts to follow our decision.

Engagement on transition

We will intensify dialogue with power generation companies. A focus list with clear engagement goals has been drawn up to achieve clarity from compa-

nies on their mid-to-long-term transition plans to reduce their dependence on coal. Divestment is the alternative if engagement is not expected to achieve the desired results.

Sustainable and impact strategy range criteria

Stricter restriction criteria on exposure to the coal industry apply to our sustainable and impact product ranges to ensure they continue to meet external quality standards for sustainable and socially responsible financial products. These include, for example, not financing electricity utilities with a carbon intensity that is not aligned with the below-2-degree scenario. We also include the decommissioning of old power generation assets and additional investment in renewables in our due diligence process.

NN Group

On behalf of its proprietary investment portfolio, NN Group has committed to a phase-out strategy to reduce its investments in thermal coal mining and coal-fired power generation to 'close to zero' (defined as between 0 and 5%) by 2030.

¹ www.nn-group.com



Additional restriction criteria for Sustainable and Impact strategies

We have raised the bar for our Sustainable and Impact strategies, where we strive to generate financial performance as well as clearly contributing to sustainable development. A number of restrictions apply for these strategies, because they are contradictory to sustainable development and may detract from our ability to reach sustainability objectives.

NN IP Investment restrictions



Additional for Sustainable and Impact strategies



The following additional business activities are restricted for these strategies:

- Adult entertainment
- Arctic drilling
- Fur and specialty leather
- Gambling
- Nuclear energy¹
- Shale oil and gas
- Weapons and military contracting

The applicable thresholds are compliant with the Belgian Finance Federation's Quality Standard Requirements. For more details on the specific rationale behind these additional restrictions, please refer to the NN IP Responsible Investment Viewpoint Policy (ri.nnip.com).

¹ Partial restriction: companies involved in constructing additional nuclear-based power production installations are excluded.



Voting

A shareholder's most powerful weapon

Voting is one of the best ways for shareholders to express their opinion about performance and strategy. It is a tool to encourage companies to change for the better and it plays an important role in holding management accountable to shareholders. In 2019, we voted at 2,752 annual general meetings (AGMs). Our voting activities were focused on three main issues: board elections, sustainability shareholder resolutions and the alignment of executive remuneration with company strategy.

The AGM is one of the most important events in the annual corporate calendar. In order to effectively represent our clients in their role as shareholders, we vote at as many shareholder meetings worldwide as we possibly can. We attend some AGMs in person and also rely on the services of the electronic voting platform of proxy voting advisory firm Glass Lewis, who

votes according to our proxy voting guidelines.¹

Board elections

A regular item on the AGM agenda is board elections. Appointing capable directors who can engage in all aspects of a

¹ Proxy Voting Policy Client Assets (ri.nnip.com)



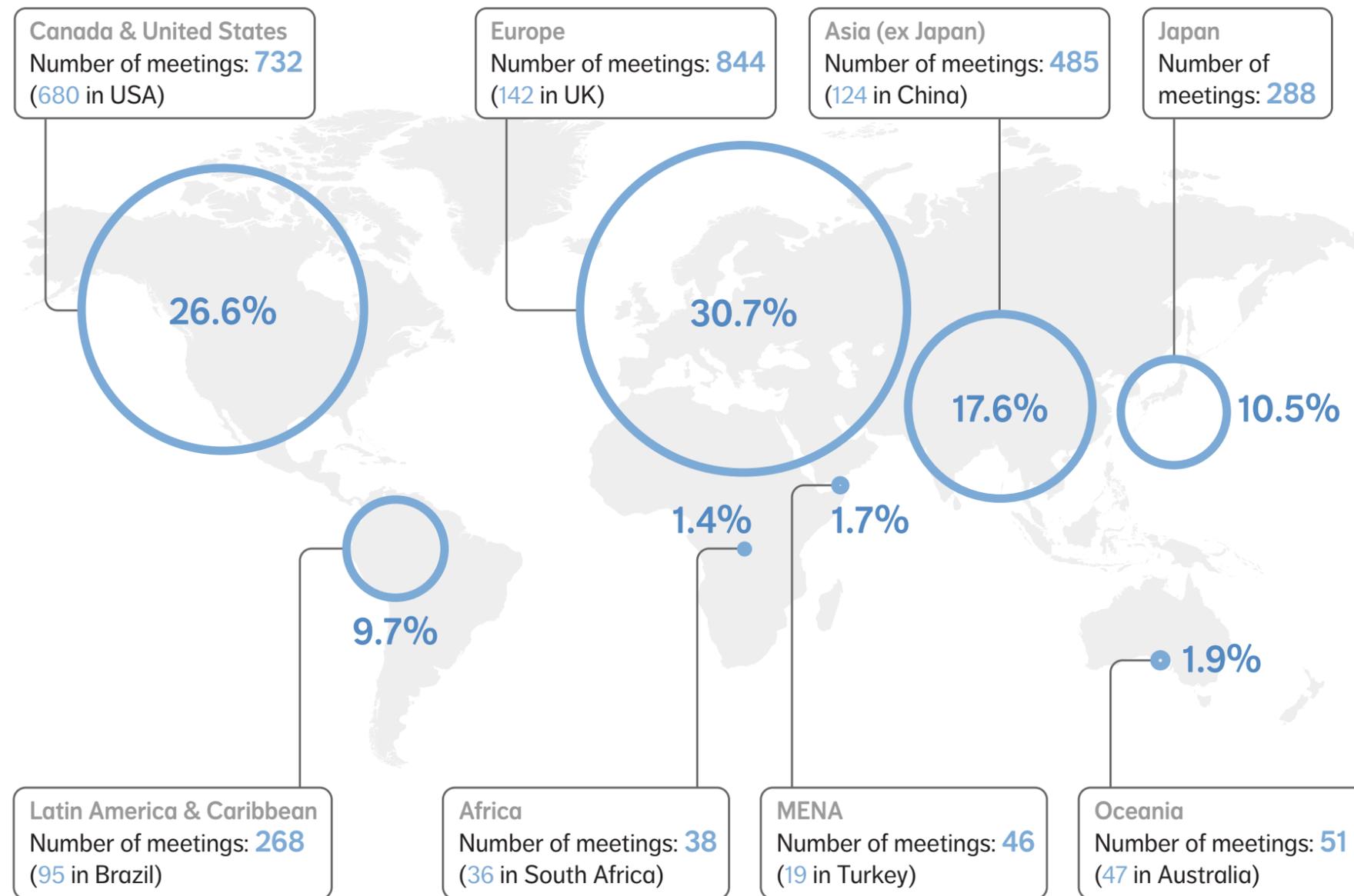
How and where we voted in 2019

Voting summary overview

Number of meetings voted on: **2,752**

Number of items voted on: **31,775**

For:	26,430	(83.2%)
Against:	4,614	(14.5%)
Abstain/other:	731	(2.3%)



These figures represent voting activities for client assets as well as NN Group proprietary assets. Voting is carried out for client assets above EUR 100 mln.



corporate's operations is important to all stakeholders. In general, NN IP supports the appointment and reappointment of candidates put forward by the company. Sometimes we are compelled to vote against the nominees. In 2019 we rejected 1,949 board-related agenda items. The reasons varied from a lack of independent board members and poor diversity to an absence of proactive and comprehensive board oversight on environmental and social risks.

Ferrari – we voted against the election of four board members at the AGM

Several of the board members had attended less than 75% of the board meetings in the year and the company did not disclose its greenhouse gas (GHG) emissions. The items on these topics were passed by a majority of the company's shareholders, but a vote against an individual board member sends a strong message to the company.

Remuneration

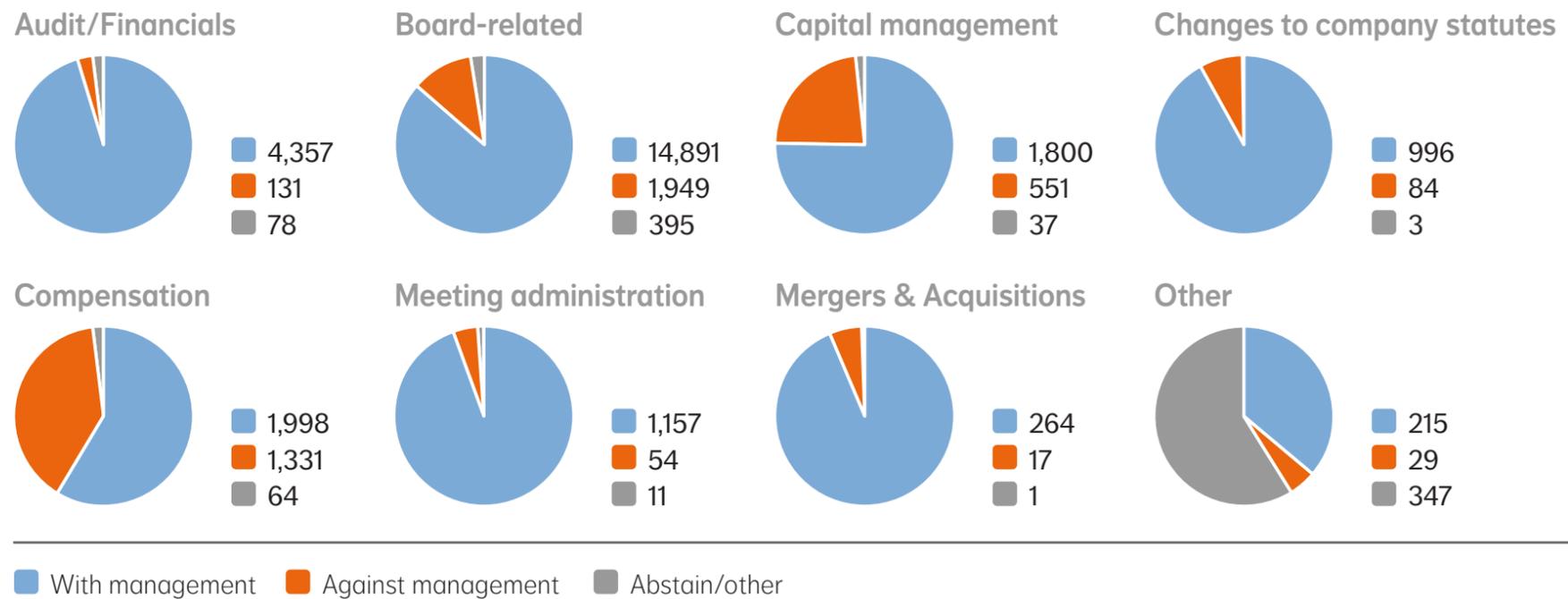
Executive compensation is one of the most debated topics at AGMs. Every year there are heated discussions about the size of pay packages and the effectiveness and complexity of remuneration systems. The approval rates for executive compensation items at AGMs are below the average of those for other company proposals.

In 2019 NN IP voted against almost 40% of all remuneration proposals that were put forward. It is important that the remuneration policy for the executive board incentivises long-term value creation and aligns the interests of executives with those of the shareholders. Performance measurement should also incorporate risk considerations so there are no rewards for taking inappropriate risks at the expense of the company and its shareholders.

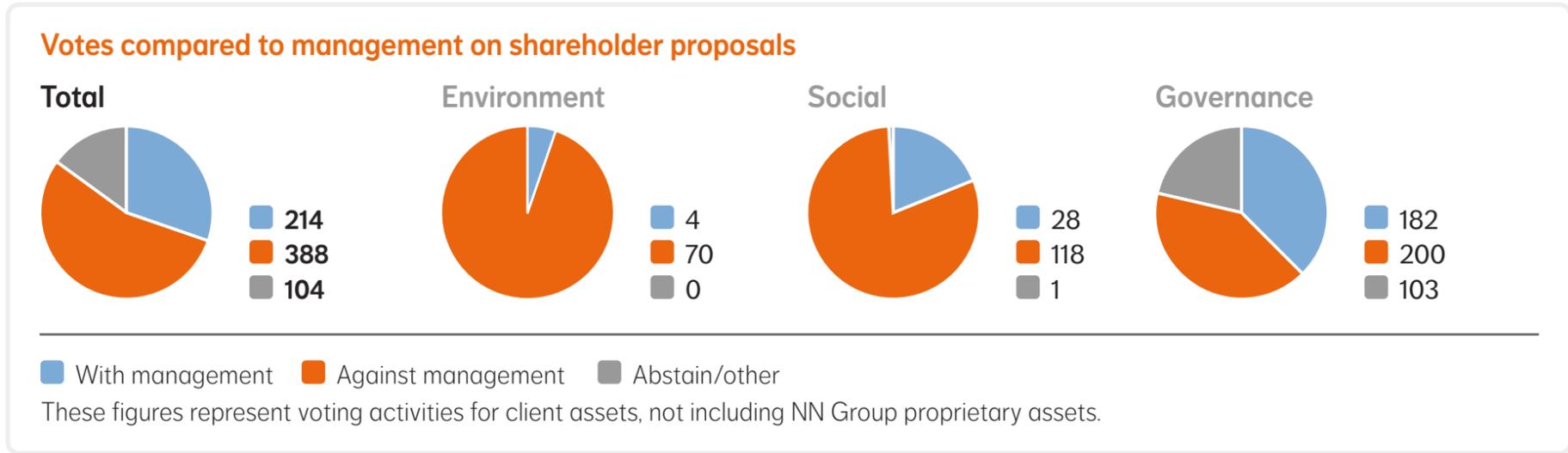
Amazon – we voted against the advisory vote on executive compensation at the AGM

Company executives receive a long-term variable equity award, which is not tied to any performance criteria. We expect companies to have performance

Votes compared to management on management proposals



These figures represent voting activities for client assets, not including NN Group proprietary assets.



criteria in place that are measurable, transparent and relevant to long-term success. Amazon awards its executives on a periodic basis with no additional safeguards, triggering us to vote against this motion.

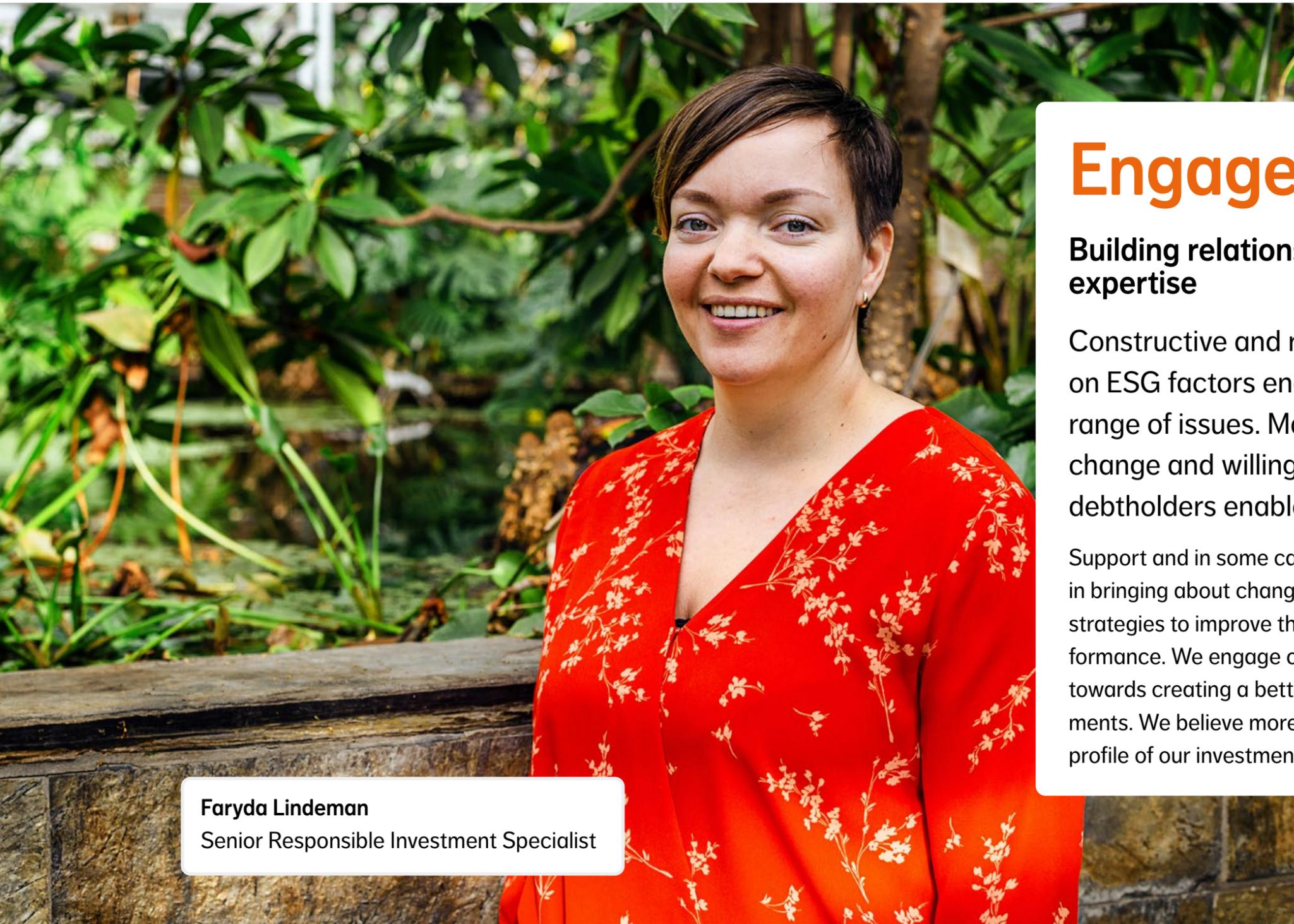
Sustainability shareholder resolutions

We have a policy of actively voting on proposals filed by shareholders that are related to ESG issues relevant to the company. We support these proposals if they address significant material social and environmental issues that could impact the company. Sometimes this may lead to us voting against the management's recommendation. This was the case for 388 out of 706 shareholder proposals filed in 2019, as illustrated in the figure above. We voted on issues such as climate change, supply-chain management, human rights and environmental management systems – all issues that can have a direct impact on a company's short- and long-term value creation or destruction.

ExxonMobil – we supported all seven shareholder resolutions at the AGM

The company removed an important climate resolution from the agenda before its 2019 AGM. As a result, we supported a resolution which requested the appointment of an independent chairman to show our discontent with the company's behaviour. We also backed a resolution to create a climate change committee. These shareholder resolutions were not approved by a majority of the investors but did send a clear signal to the company that climate change is important to investors.

We expect these focus points to continue to play an important role in our voting activities in 2020.



Faryda Lindeman
Senior Responsible Investment Specialist

Engagement

Building relationships, finding solutions, sharing expertise

Constructive and regular dialogue with investee companies on ESG factors enables us to help them tackle a wide range of issues. Management is often aware of the need to change and willing to do so, but the support of share- and debtholders enables them to justify taking concrete steps.

Support and in some cases pressure from stakeholders is often a key factor in bringing about change. It stimulates companies to adapt their business strategies to improve their environmental, social and governance (ESG) performance. We engage on behalf of our clients, to put their money to work towards creating a better world and to maximise the value of their investments. We believe more sustainable behaviour also enhances the risk-return profile of our investments.



Engage or restrict?

We consider the restriction of an individual company as a result of its behaviour or business activities to be a last resort, but in some cases it is unavoidable. Excluding a company from our investable universe means we stop having the influence to tackle ESG issues. For this reason, where possible, we take an engagement-led divestment approach. We only restrict companies when engagement is either not deemed feasible or is unlikely to change a company's conduct or involvement in specific business activities.

Types of engagement

We use internationally accepted standards of corporate behaviour – the guidelines/principles developed by the UN Global Compact, the International Corporate Governance Network (ICGN) and the Organisation for Economic Cooperation and Development (OECD) – as the starting point for our engagement. We engage on specific ESG targets in the two ways outlined below.

1. **Controversy engagement** focuses on companies that severely and structurally breach our norms-based criteria in the areas of governance, human rights, labour, environment, and bribery and corruption. This type of engagement is initiated and assessed by NN IP's Controversy and Engagement Council.
2. **Thematic engagement** focuses on different themes that have a material impact on society, and where we believe our engagement efforts can achieve beneficial change. These themes share objectives as defined by the Sustainable Development Goals (SDGs) and deal with material risks as defined by the World Economic Forum. The exact engagement themes are selected in consultation with portfolio managers/analysts and external stakeholders.

Investment dialogue

In addition to the two approaches outlined above, our analysts and portfolio managers maintain regular bottom-up dialogues with investee companies on ESG subjects we believe have a material impact on their value.

Engagement in practice

Our engagement approach is tailor-made for each specific theme and each individual company. To ensure we can have the most impact, we first carefully analyse a problem in detail to determine our engagement theme. We then identify the value chain linked to that theme in order to select those companies where engagement is most needed and can be most effective. Before we contact our engagement candidates, we create a theme-specific methodology with objectives and milestones for each company.

Some themes, such as a living wage, require an industry-wide approach where it may take years to fundamentally change a system that is woven into the fabric of society and where it is difficult to measure results. In other industries like oil and gas, the case is more black and white and a direct focus with company-specific goals can deliver more quantifiable impact. The reason that many of the companies we engage with are located in developed countries (Europe and the US) is because engagement is often related to supply chains and how companies manage these. In many cases these supply chains begin in less developed countries where the fundamental problems we want to tackle are most prevalent, as in the case of child labour.

Our engagement usually lasts for a three-year period. After 1.5 years, or sooner if necessary, we evaluate progress and adjust our engagement objectives, for example, in the light of market developments and stakeholder



Corporate Governance

 10 REDUCED INEQUALITIES	Board Composition and Responsibility
 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	

Natural Resources and Climate Change

 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Utilities 	Deforestation 
 13 CLIMATE ACTION	Oil and Gas 	Plastics 

Decent Work

 1 NO POVERTY	Living Wage 
 8 DECENT WORK AND ECONOMIC GROWTH	Child Labour 

expectations. We also assess progress and determine what further steps are required or possible consequences if insufficient progress has been made. Our stages of engagement are outlined on [page 23](#).

We focus our engagement efforts on a select group of companies. In practice, this means that there will be multiple interactions with a company each year. Our investee companies are monitored throughout the year and we keep track of our engagements in our internal engagement database.

In addition to our own efforts for our controversy and thematic engagement, we use the services of Sustainalytics Stewardship Services (previously GES). Sustainalytics engages with company representatives on our behalf, using predefined targets.

Collaboration in engagement

Engagement meetings are carried out by various teams and individuals, both

in-house and through external providers. We collaborate with other investors through initiatives on specific focus areas such as climate, the oil and gas sector and palm oil. This enables us to achieve maximum investor influence and pool resources and expertise. Together, we engage with policymakers, legislators and regulators to work on the development of sustainable government policies and financial systems. Our Responsible Investment Team acts as the main coordinator to ensure alignment and consistency, and to avoid duplication of work.

Role of technology – engagement completed in 2019

We focused our efforts on this engagement theme in 2017/2018. This was a PRI-coordinated global collaborative engagement on cyber security governance, targeting about 65 companies in the consumer, health-care and financial-services sectors. This engagement ended during 2019 and the final engagement report will be published this year by PRI.



Engagement stages

1. Initial communication

We contact the company to inform them that we would like to engage on a specific topic. We also inform them on why they have been selected, the parties involved (if it is a collaboration) and what the objectives are.

2. Establish dialogue

Our first contact with the company aims to discuss the engagement objectives in more detail and gather information on the status of these goals.

3. Company commitment

The company commits to addressing some or all of the objectives we have identified. Initially the focus is often on low-hanging fruit and we take a step-by-step approach.

4. Company strategy

The company develops a strategy to address issues, including a plan with clear activities and targets. We request a copy in writing and also encourage the company to publish this plan/strategy.

5. Progress on commitments

Through meetings and information-gathering we support the company, follow progress and assess whether results are on track. If progress is insufficient or the company is unwilling to collaborate, we may take additional measures, for example by filing a resolution.

6. Finalisation, extension or cancellation

If all objectives have been met, the engagement process can be finalised. If sufficient progress has been made but not all the objectives have yet been met, it can be extended. If too little progress has been made, other steps can be taken such as cancelling the engagement or restricting investment.



Our partnerships

We are an active member of a number of international sustainability initiatives in order to increase the impact of the capital we can put to work. Examples of these initiatives are PRI, IIGCC and RSPO.

PRI

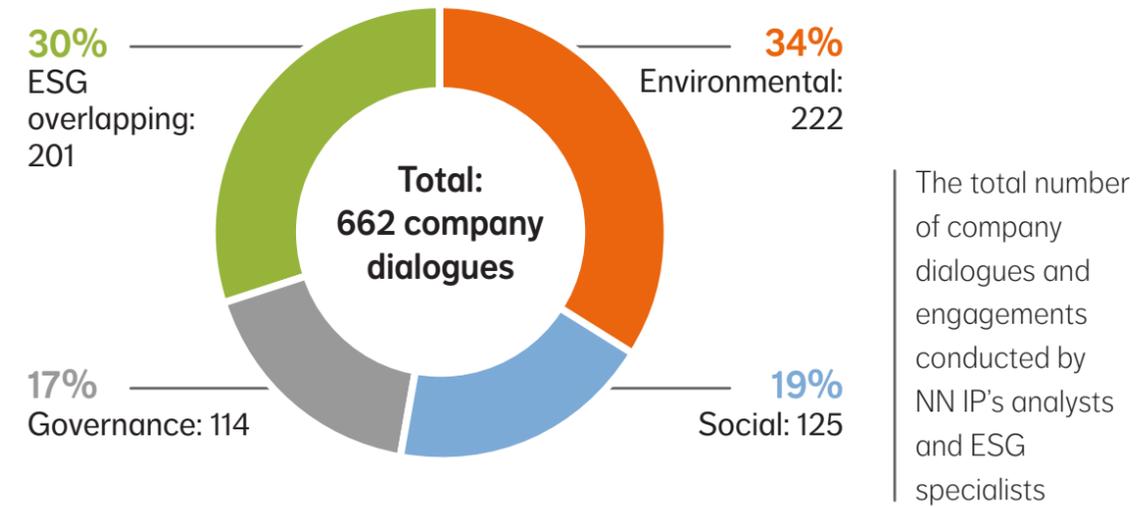
NN IP has been a signatory of the Principles for Responsible Investment (PRI) since 2008. We participate in an international network of investors working together to put these six principles into practice. Its goal is to understand the implications of sustainability for investors and support signatories in incorporating these issues into their investment decision-making and ownership practices. In implementing the principles, we contribute to the development of a more sustainable global financial system.

NN IP is a member of the PRI-coordinated collaborative engagement on sustainable forests, oil and gas, and palm oil. In these engagement groups we collaborate with other investors on the topic of deforestation in the soy and palm oil industries, and lead engagements with companies on these topics (www.unpri.org).

IIGCC

NN Group has been a member of the Institutional Investors Group on Climate Change (IIGCC) since June 2017. IIGCC is an investor network that collaborates on the topic of climate change. IIGCC has 140 members in nine European countries who represent over EUR 18 trillion in assets under management. IIGCC's purpose is to provide a collaborative platform for investors to encourage public policies, investment practices, and corporate behaviour that address long-term risks and opportunities associated with climate change.

Company dialogues on ESG*



NN IP participates in IIGCC's corporate programme and Climate Action 100+, where we engage on the climate-change risks and opportunities faced by companies and their strategies and performance in addressing and disclosing these. In addition, NN Group is represented on the board and participates in the Investor Practices Programme (www.iigcc.org).

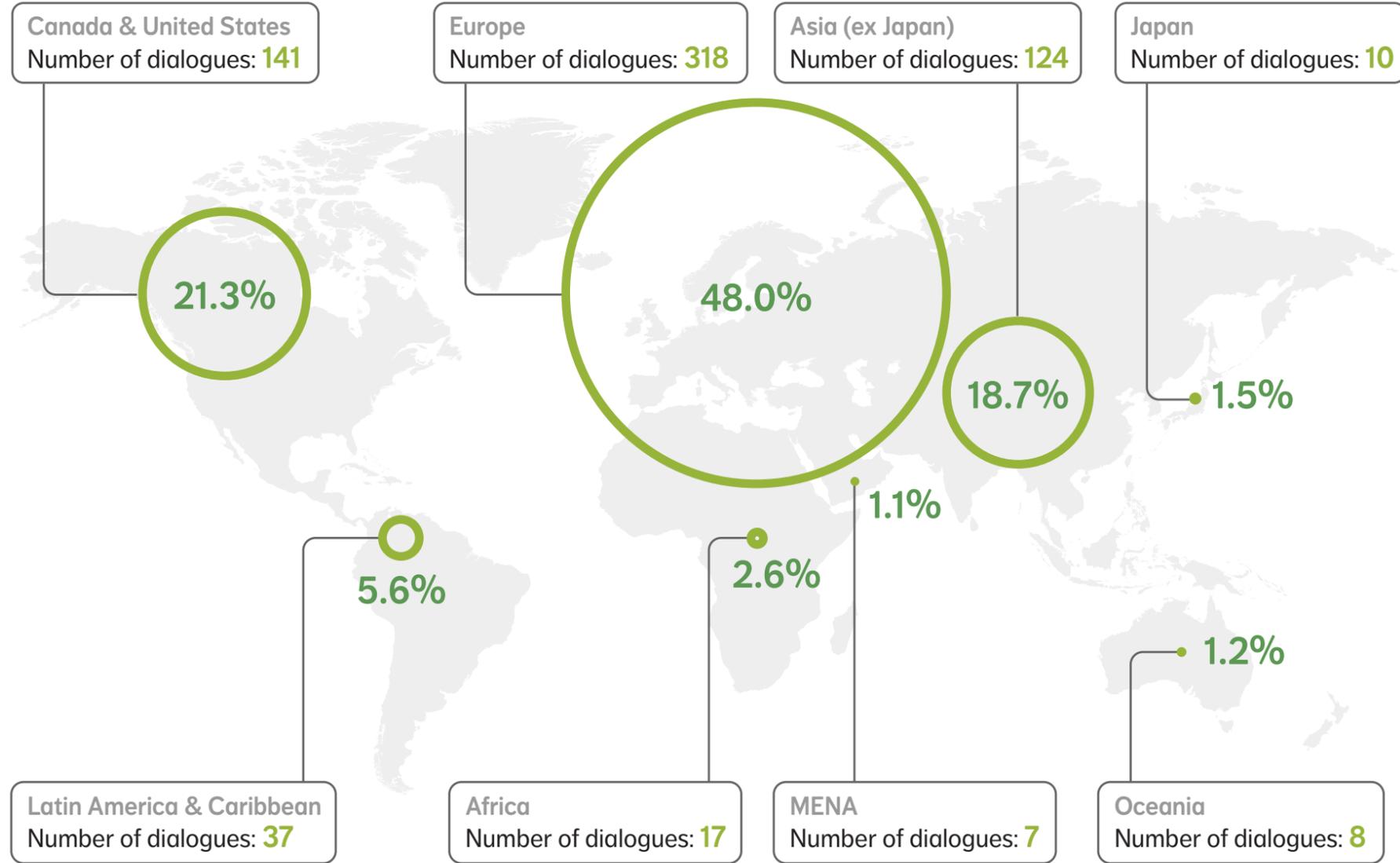
RSPO

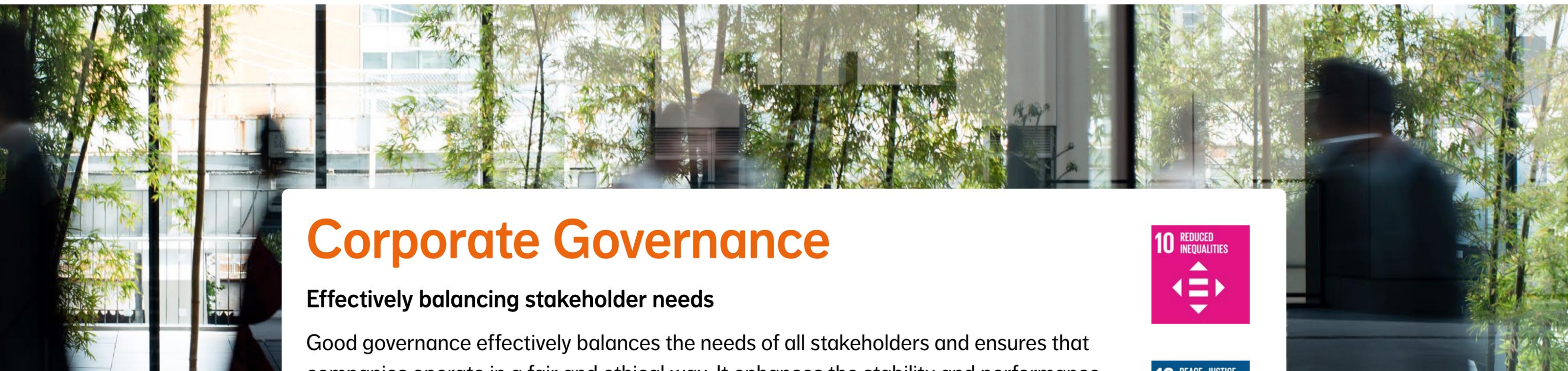
During 2019 NN IP became a member of the Roundtable on Sustainable Palm Oil (RSPO). Established in 2004, the RSPO aims to unite stakeholders in all parts of the palm oil industry and throughout the supply chain. The RSPO has developed a set of environmental and social criteria that companies must comply with in order to produce Certified Sustainable Palm Oil (CSPO). We are an active member of the RSPO Financial Institutions Task Force, which stimulates dialogue with other players in the financial industry to exchange best practice examples and align efforts (<https://rspo.org>).



Where we engaged in 2019

Number of company dialogues: **662**





Corporate Governance

Effectively balancing stakeholder needs

Good governance effectively balances the needs of all stakeholders and ensures that companies operate in a fair and ethical way. It enhances the stability and performance of a company and supports its long-term strategy. Governance encompasses tackling issues relating to remuneration, bribery and corruption and the appointment of independent and diverse boards of directors.

Governance is closely linked to environmental and social factors as most things start with governance. For example, if an oil and gas company does not have strong corporate oversight of its safety procedures, it risks production issues and accidents that could lead to environmental damage and have a financial impact. Negative social factors can also be very destructive for

reputation and brand. For example, child labour issues somewhere deep in a company's supply chain can be exposed by a single negative event. It is the task of good governance to ensure fair operations and to mitigate risks. We use engagement and voting to address corporate governance issues at the companies in which we invest.





Our approach

As corporate governance provisions can differ between countries, we adhere to internationally accepted guidelines, such as those of the International Corporate Governance Network (ICGN) and the UN Global Compact. We want companies to implement these to the best of their ability.

We expect our investee companies to respect the following principles, which also form the basis for our engagement dialogues and voting activities:

- 1. Ensure transparency in their organisations.** Decision-making procedures, business models, strategies and risk appetite should all be disclosed.
- 2. Comply with generally accepted corporate governance best practice.** This should be done in the context of the corporate governance standards applicable in the country of domicile.
- 3. Be accountable to investors.** Management boards and supervisory boards should be composed in such a way that they base their decisions on the long-term interests of the company and its owners.
- 4. Implement proper risk management procedures.** Companies need an effective risk management structure to mitigate all forms of business ethics controversy.
- 5. Act responsibly.** In order to ensure long-term performance, companies need to act responsibly. This includes recognising the impact of business decisions on the environment and on social and human rights issues in the regions where they do business.
- 6. Long-term alignment of interests.** Management interests should be aligned with the long-term interests of the company and its stakeholders, also when it comes to executive compensation.

Engagement in 2019 – board composition and responsibility

In 2019 we engaged with 50 companies on corporate governance issues such as succession planning, remuneration, shareholder rights, and environmental, social and governance strategy. Our focus was board composition and responsibility. Boards are facing increasing challenges ranging from new regulatory regimes, environmental and social challenges, and political risks. It is clear that these challenges can best be managed if the respective responsibilities are overseen at board level. So board composition may well have to be adjusted to effectively manage the company in this changing environment. At many companies, this process is already underway.

These management challenges include understanding how to position companies and taking responsibility for this process. Boards need to be effectively engaged in the strategic direction of the company and made up of individuals who are committed to moving the business forward in terms of sustainability. They should also be in a position to maximise competitive advantage, for example by knowing where the greatest risks and opportunities are.

Boards are also having to adapt to a new reality – that more diverse boards are often better equipped to handle these challenges. And that does not mean simply looking at gender, age and ethnicity. We asked companies in what areas their boards lacked the requisite skills and how they intended to address this. We had in-depth discussions on how they look for new directors, whether they use recruitment companies, and if so, how they go about this. All of these aspects are important.



Our engagements show that companies that have a well-defined approach to recruiting directors, and are aware of the specific skills they require, tend to have a better and more diverse pool of candidates. We also explored how companies onboard new directors. Finally, we continued to encourage all the companies we engage with to provide shareholders with a board skills matrix. This type of information is hugely helpful in identifying where there are gaps in the skillset, and it provides more insight into why certain directors have been appointed.

Executive remuneration

During 2019 we also continued our engagement on executive remuneration. The newly updated European Shareholder Rights Directive (SRD II) aims to

promote long-term shareholder engagement at companies listed in EU-regulated markets, with a specific focus on compensation. Engagements relating to executive compensation focus on the alignment of compensation with actual performance of the company. It is important to shareholders that company payouts are aligned with the shareholder value that has been generated. There are more requirements in approving compensation policies at the AGM and increased transparency requirements. Companies will have to submit their revised policies during the 2020 and 2021 proxy season, and this has increased the number of conversations on this topic.





Company example: Royal Philips

In 2019 NN IP had a number of conversations with Royal Philips. The company used to be primarily an electric household equipment manufacturer but has changed course and now focuses on medical equipment. This business focus has caused the gender balance to be more tilted towards male employees, also at management level. We discussed diversity with the company as well as its aim to achieve a better gender balance. Management has made this a key topic and taken several steps, resulting in an increasing number of female employees throughout the organisation. Training and leadership programs, and unconscious bias training courses have been developed to establish new standards.

In addition to diversity, we have engaged with Philips on compensation. The company is going to implement SRD II transparency requirements and has consulted its shareholders to get their feedback on its compensation plans.



Company example: Alphabet

During 2019 we tried to engage with Google's parent company Alphabet. This US company's responsiveness, or lack of it, is quite disappointing, given the number of issues that shareholders bring to the company's AGM agenda every year. In 2019, Alphabet's shareholders filed 13 proposals, mostly related to corporate governance issues. Despite the significant level of shareholder dissatisfaction with the company's governance practices including its voting structure, Alphabet has not addressed any of these issues. Neither has the appointment of an independent chairman who previously served as the lead independent director translated into a more transparent and open approach towards investors. We are concerned about the degree of majority shareholder control, the long tenure of some board members and the lack of influence that minority shareholders have on the company's decisions. We will therefore continue our efforts to engage with the company.



Natural Resources and Climate Change

Global warming is causing far-reaching changes to our climate system. These could have irreversible consequences on ecosystems, agriculture, water resources, human health and security if we do not take action. NN IP acknowledges the effects this can have on our investments and so we are committed to working with investee companies to ensure they take action.



22%

The food sector accounts for around **22%** of total greenhouse gas emissions, largely from the conversion of forests into farmland.¹

1.0°C

As of 2017 humans are estimated to have caused approximately **1.0°C** of global warming above pre-industrial levels.¹

1/3

Climate pledges under the Paris Agreement cover only **one third** of the emission cuts needed to keep the temperature increase below 2°C.¹

USD 26 trillion

Bold climate action could trigger at least **USD 26 trillion** in economic benefits by 2030.¹

1. Source: www.undp.org

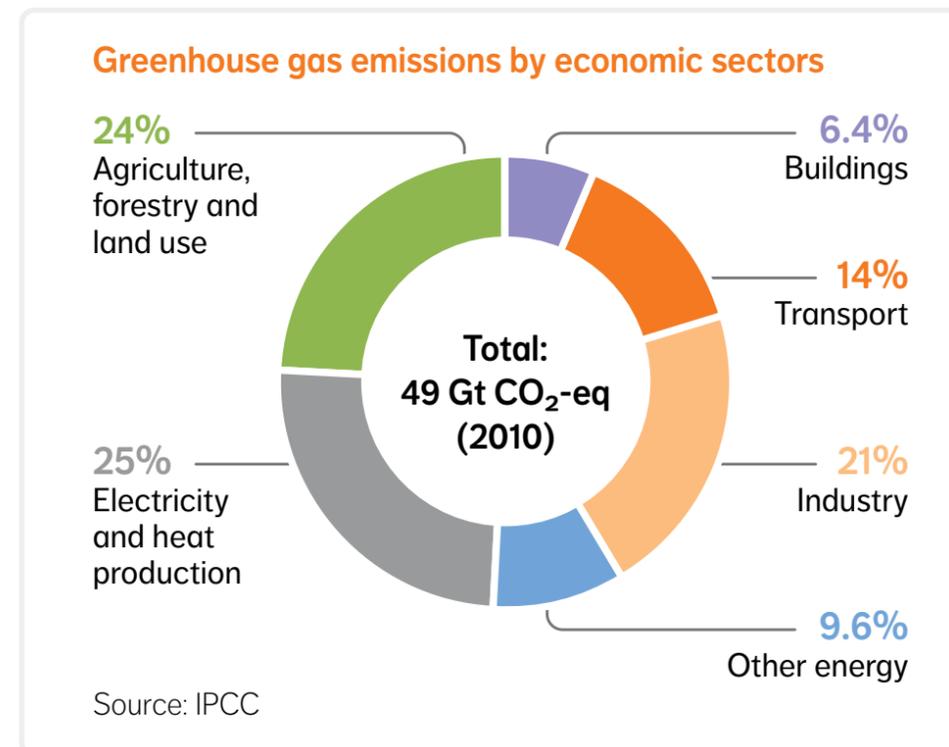
Utilities

Generating a sense of urgency

Of all sectors of the global economy, electricity and heat generation account for the largest portion of direct greenhouse gas emissions. Meanwhile, electricity demand is growing more than twice as fast as overall energy requirements. Within the electric utility sector – which includes generation, distribution, supply and trading – our engagement focuses on the generating companies and the need to transition to a low-carbon economy.

Greenhouse gases (GHGs), which trap heat and prevent it from escaping the atmosphere, are one of the primary causes of climate change. Human activities have been shown to be directly increasing atmospheric concentrations of GHGs, especially carbon dioxide (CO₂), causing further warming of the planet. According to the world's leading independent climate scientists, a global temperature increase of 2 degrees Celsius or more from pre-industrial mid-19th century levels would significantly increase the risks of drought, floods and extreme heat as well as poverty for hundreds of millions of people. By 2017, these scientists say, the earth's temperature had already risen about 1 degree since 1850.

Research by the Intergovernmental Panel on Climate Change (IPCC) shows that electricity and heat producers directly emit more CO₂ than any other sector of the economy (see figure). Power companies, therefore, have an important role to play in achieving the goals of the Paris Agreement.



Risks and opportunities

Our investments in electric utilities expose us to climate change-related risks. Carbon taxes and trading schemes can impact the profitability of different forms of power generation. Country-level decarbonisation efforts may require business model changes or force plant closures, resulting in stranded assets (assets that are at risk of suffering from premature devaluations).

Companies that fail to adapt their business models to the energy transition pose risks and could impact our goals for long-term value creation. On the other hand, companies that actively adapt and opt for lower-carbon resources and technology will see their value increase while making a positive contribution to climate change mitigation.

Engagement approach

We have identified the electric utility industry as an area where investors can wield substantial influence in the transition to a low-carbon economy. We have drawn up a methodology for engaging with companies in this segment. Its main aim is to encourage them to develop energy transition plans consistent with the goals of the Paris Agreement, including timelines and milestones for the reduction of coal use. On a case-by-case basis we determine which objectives are most relevant for the companies in scope.

1. Implementation of a strong governance framework

Electric utility companies should be transparent on how board members and their management structure provide oversight on managing the transition to a low-carbon energy system.

2. Energy transition strategy and climate change risk and opportunity assessment

Electric utility companies should undertake climate stress testing and/or climate change scenario analysis to assess the risks and opportunities of the transition to a low-carbon economy. They should then use these findings to develop an energy strategy.

3. Improvement of operational efficiency and sustainable natural resource management

In addition to a focus on renewables and low-carbon sources, an effective energy transition also focuses on improving the operational efficiency of thermal power plants. The sustainable usage of resources such as water is also of growing importance as water insecurity can materially impact operations.

4. Implementation of a stakeholder-oriented approach linked to their energy transition strategy

We encourage companies to take responsibility for engaging with stakeholders in their value chain. For example they can engage with transmission operators and distributors on CO₂ emissions disclosure and transparency and with business and individual end users on the efficient usage of electricity and energy.

5. Transparency and disclosure on progress towards the energy transition strategy

We expect electric utilities companies to disclose climate-related risks and opportunities in annual reports in line with the Taskforce on Climate-Related Financial Disclosures (TCFD) or report to the Carbon Disclosure Project (CDP).

Utilities ● ● ●

We will monitor our engagement efforts using our engagement reporting tool. Each company's progress is evaluated in relation to the established objectives and milestones, taking into account its current situation and factors such as government involvement and national plans.

Looking ahead

We plan to implement our utilities engagement in Q2 and to make initial contact with a select group of electricity producers that use coal for a significant share of their installed power generation capacity. Most are situated in Europe, but a number of North American and Asian companies are also included. By choosing alternative resources and technologies, they can make a major contribution to a reduction in global GHG emissions.

A key aspect of our engagement is to find the right balance between encouraging corporations to make the transition to a low-carbon economy and supporting those that are already in transition. The majority of the engagement candidates we have selected are companies that may have the ambition to move towards low-carbon alternatives but are not yet aligned with the goals of the Paris Agreement. Those in the other, smaller group are more advanced and may have already developed or even implemented parts of their transition plan for dedicating a substantial part of their energy mix to low-carbon alternatives. Engaging with these companies helps us understand what the energy transition means in practice. This can enhance our dialogues with those companies in the initial stages of their transition, as we can share best practice examples with them.



Oil and Gas

A race against the clock

Global warming is largely driven by an increase in greenhouse gases entering the Earth's atmosphere. Numerous human activities such as deforestation, transportation, land-use changes and burning fossil fuels for energy use contribute to this. The oil and gas industry is one of the most emissions-intensive industries, accounting for over half of global greenhouse gas emissions associated with energy consumption.

Oil and gas companies are facing increasing pressure from stakeholders to adapt their business models to align them with the transition to low carbon energy forms. Regulation and guidelines like the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) are resulting in increasing transparency requirements for companies in this segment.

Engagement approach

We recognise the risks and opportunities that climate change brings to the global economy. We support the Paris Agreement and the transition to a lower-carbon economy. The oil and gas sector has an important role to play, so we have developed a framework of engagement targets to ensure a consistent approach. We do not seek to set targets for individual entities but aim to ensure our policy approach is universally applicable to all the companies we engage with. In 2019 we set out our expectations for companies in the sector to focus on the transition to a lower-carbon economy.

- We expect all oil and gas companies to define short-, medium- and long-term targets for greenhouse gas emissions relating to their operations and products, which are to be in line with the below 2°C pathway of the Intergovernmental Panel on Climate Change (IPCC);
- These companies should have credible strategies to achieve these targets and capitalise on the opportunities that the energy transition brings; and
- We expect companies to report on their targets and progress in line with the recommendations of the TCFD.

These expectations have been developed with several other Dutch investors, as we believe that collaboration with other investors strengthens the message and aligns our approach. We have joined a PRI-coordinated engagement (PRI Oil & Gas Engagement) that asks companies to respond to the risks they expect to face as a result of constraints to oil and gas use going forward. We also participate in Climate Action 100+ program, where we

engage on climate-change risks and opportunities and evaluate companies' strategies and performance in addressing and disclosing them.

Results so far

In 2019 we engaged with 15 oil and gas companies. Our engagement with these companies is between Stages 3 and 5¹ of our engagement process, meaning that some have committed to addressing our objectives (Stage 3), others have developed a strategy to address issues (Stage 4), or progress is being tracked and validated (Stage 5). During the year, several large oil and gas companies took positive steps. For instance, Royal Dutch Shell, BP, Repsol and Equinor (all Stage 5) started to develop ways to assure investors on the alignment of their strategies with the goals of the Paris Agreement:

- Shell has set a long-term ambition, covering both operational and product emissions, to halve its net carbon footprint, and has linked executive remuneration to shorter-term carbon footprint reduction targets.
- BP and Equinor have agreed to inform investors annually on how their capital expenditure strategy is aligned with the goals of the Paris Agreement.
- Repsol aims to achieve net zero emissions by 2050 and is establishing a decarbonisation programme with intermediate targets for 2020 to 2040.

While we welcome these developments, we also want to see capital expenditure restricted to projects that are viable or aligned with a lower-demand environment. Although these commitments represent important progress, no company in the sector has yet comprehensively explained to investors how

its business and emissions profile fit with achieving net zero emissions by midcentury.

Company example: Total

French energy company Total, one of the largest oil and gas companies in Europe, was also one of the first companies in this segment to disclose climate-related targets and ambitions. Other companies in this segment have meanwhile increased their climate ambitions and overtaken Total in this area. The firm has developed carbon intensity reduction targets, set capex targets to invest in renewable energy and voiced a clear ambition on developing renewables and natural gas. These are all positive steps, yet the aim of our engagement is focusing on the true alignment of their ambitions with the Paris Agreement. In addition, we require more disclosure on the transition and physical risks that the company is exposed to.



In 2020, we will pursue our engagement with this same group of oil and gas companies.

1. See [page 23](#) for the six stages in our engagement process.

Deforestation

Biting the hand that feeds you

Forests cover approximately 30% of the world's surface area and trees are vital for life on earth. They not only absorb greenhouse gases (GHG) emitted as a result of various human activities, but according to the World Bank are also home to 80% of terrestrial biodiversity.

Deforestation is the second leading cause of climate change and accounts for nearly 20% of greenhouse gas emissions, according to the UN Food and Agriculture Organization. And although tropical tree cover could be a major solution for meeting the Paris Agreement goals set in 2015, forests around the world remain vulnerable. In terms of biodiversity, the number of animal

species has declined by 60% since 1970, primarily as a result of deforestation (WWF). Agriculture is the main culprit and some of the most significant tropical deforestation is caused by production of soft commodities. We are focusing our attention on engagement on palm oil and soy bean production, the two crops that cause the most damage.



Palm oil engagement

Palm oil is a vegetable oil cultivated from the oil palm, which grows mainly in humid tropical climates. It is cheap to produce and as thousands of consumer goods sold in the supermarkets contain palm oil, its extensive value chain drives demand for this commodity. Palm oil can also be used as a bio-fuel and has become the green fuel option for transportation. Indonesia and Malaysia produce about 90% of the world's palm oil.

The list of risks associated with palm oil is a long one – deforestation; air, soil and water pollution; climate change; human rights challenges; and negative health effects. The biggest environmental impact is large-scale deforestation. Due to the complexity of the supply chain, we do not believe that exclusion is the answer and prefer to use our influence to improve standards. Engagement with all parties throughout the supply chain – from producers to retailers – is our preferred approach.

NN IP is a member of the PRI working group on Sustainable Palm Oil. This group focuses on palm oil growers, traders and several regional banks. In 2019, we also became a member of the Roundtable on Sustainable Palm Oil (RSPO) to further strengthen our commitment to this sector. The RSPO is a multi-stakeholder forum that represents the entire supply chain. It has established a certification system for different stakeholders to ensure that palm oil is both sustainably produced and transparently traded. We lead the engagement with five growers and three regional banks. Our engagement with these companies is between Stages 2 and 5¹, meaning we have established a

dialogue (Stage 2), the companies have committed to addressing our objectives (Stage 3), they have developed a strategy to address issues (Stage 4), or progress is being tracked and validated (Stage 5).

Company example: DBS Bank

DBS Bank is a Singaporean multinational banking and financial services corporation, with a large client base in the palm oil business. Although DBS scores well on ESG factors, it needs to strengthen its palm oil policy to ensure traceability and sustainable palm oil practices throughout the operations of both existing and new clients. Our engagement is currently at Stage 2 and we have asked the company to commit to the RSPO's standards when evaluating its customers. DBS acknowledges that palm oil is a credit risk, but only requires NDPE (no deforestation, no peat, no exploitation) commitments from new clients as they feel this is stringent enough. There are also differences between the way new and existing clients are evaluated and in terms of audit procedures. Our ongoing focus will be on encouraging the company to commit to RSPO standards for its lending practices, and to improve evaluation procedures for both new and existing clients.



Soy engagement

The soy industry is at the heart of the debate on the environmental challenges posed by agriculture. This edible bean has numerous uses: it is cultivated for its oil, is a good source of protein and is used to make tofu and soy milk, among other things. However, in a world where more and more people are eating meat, the dilemma it poses relates mainly to meat production, as

¹ See [page 23](#) for the six stages in our engagement process.

Deforestation ● ● ●

soy is also the most important protein source for animal feed. According to the World Wildlife Fund, one of the main reasons for the expansion of agricultural land in the last 50 years has been the increase in soy production, which has grown tenfold – from 27 to 269 million tonnes. Increased demand has been a significant driver of deforestation in South America and particularly Brazil, now the largest exporter of soybeans globally.

We engage with six investee companies on deforestation-related risks within their supply chains. We focus on companies with direct or supply chain exposure to soybeans and related products, with a view towards protecting long-term value and mitigating risks. Our engagement with these companies is between Stages 3 and 5, meaning they have committed to addressing our objectives (Stage 3), they have developed a strategy to address issues (Stage 4), or progress is being tracked and validated (Stage 5).

Engagement targets

- Disclose and implement a commodity-specific no-deforestation policy with quantifiable, time-bound commitments for the entire supply chain and sourcing geographies.
- Establish a transparent monitoring and verification system for supplier compliance with the company's no-deforestation policy.
- Report annually on deforestation risk exposure and management, including progress on the company's no-deforestation policy.

Company example: Danone Group

NN IP engages with French company Danone Group, one of the largest producers of dairy food and bottled water in the world, active in more than 140 countries. Danone is one of the leading companies in this engagement and has developed a specific soy policy with concrete targets. We are currently at Stage 5 in the engagement process with Danone and are tracking their progress on meeting these goals. They are also very committed to traceability and have calculated that 20% of the soy used for animal feed in Europe, Russia and Africa is imported from zones where there is a risk of deforestation. This is a key concern and we have asked the company to ensure they are not linked to deforestation risks. They have made a commitment to work with farmers to transition to local soy/soy alternatives and aim to achieve this by December 2020. They have mandated consultancy Trase to help them, but also work with the farmers directly. As a result of this engagement Danone will no longer be dependent on the deforestation-risk areas for their soy production.

In 2020, we will pursue our engagement on deforestation in the soy and palm oil industries with this same group of companies.



Plastics

Effectively balancing stakeholder needs

Plastics are inescapable in modern life, but the majority end up in landfills or elsewhere in the environment, leading to a host of sustainability concerns. We are committed to engaging for change on plastics issues and have identified three focus areas: waste management, recycling and innovation towards sustainable solutions.

Since large-scale plastic production began in the 1950s, the yearly volume has increased from 2 million metric tons to 380 million metric tons. Today, 36% of all plastic produced is used for packaging products, which generally have a lifetime of less than a year. Owing to the huge growth in plastics production and typically short product lifespan, some 6.3 billion of the 8.3 billion metric tons of plastic ever produced has become waste. The vast majority (79%) of this waste has ended up in landfills or in marine environments as potentially hazardous microplastics. If production trends and waste management practices do not change, 12 billion metric tons of plastics will have accumulated in landfills and the natural environment by 2050, and there will be more plastic than fish in the oceans (by weight).

We can't live without it...

Complicating the issue, plastic has many positive characteristics: it is cheap to produce, lightweight, versatile and durable. There are significant down-

sides to using other materials, and substitution is not always possible. In many cases, using plastic actually results in a lower carbon footprint from reduced transport emissions (compared with glass) or decreased food waste (compared with paper). Bioplastics, made from bio-based materials such as wheat or sugar cane, are regularly touted as a possible substitute, as they have a lower carbon footprint than traditional petrochemicals. However, some bioplastics will not degrade if they end up in the ocean or in landfills, and they are much more expensive to produce than traditional plastics.

We recognise the complexity of tackling plastics use and acknowledge that there is no simple fix. Despite the associated challenges, we are committed to working with our investee companies to find practical solutions that minimise plastic waste through improved waste management practices, recycling initiatives and innovation to find sustainable alternatives.

Engagement

To tackle the issues at hand, we have created a comprehensive engagement strategy with three main targets. First, waste-management systems must be improved to reduce the leakage of plastics from collection systems into natural environments. Second, the reuse and recycling of products must be increased. Companies can contribute to this transition by rethinking product design to increase recyclability, as well as by finding ways to increase the use of recycled plastics in their own production processes. Lastly, significant innovation is needed in the area of bioplastics and to explore other renewable and less-polluting alternatives. Decoupling plastics from fossil fuel-based raw materials is an essential step in the transition towards a more circular plastics economy.

Engagement monitoring and results

In 2019, we engaged with 20 companies on their use of plastics throughout the supply chain. We focus on the plastic-intensive industries of consumer goods, automotive and electronics. Our engagement with companies in these three areas is at different stages.

In our seven engagements that focus on consumer goods packaging, some of the companies are still developing strategies with targets, putting them at Stage 4¹ in our engagement process. For others we are tracking and validating progress made on these goals (Stage 5). For our seven electronics sector engagements, we are still in the early stages. We are contacting some of the companies to inform them that we want to engage on a specific topic

(Stage 1). With others we are establishing a dialogue to discuss the objectives and gather information (Stage 2), as is also the case in our engagements with six automotive companies.

In our engagement dialogues, we raised the importance of improving waste management practices and ways companies can increase the percentage of recycled plastic in their products. We also discussed the benefits of taking a more sustainable approach to plastics. Companies that improve the recyclability of their products will be better positioned to withstand changing regulations and less likely to suffer reputational damage. Meanwhile, those that find cost-efficient sustainable alternatives will be strongly positioned for a post-plastics world.

Through our in-house engagement reporting tool, we closely monitor all our engagement efforts and the results. To help us track progress, we have set out a roadmap with six key performance indicators for evaluating companies' efforts towards our plastics engagement objectives.

Reporting on plastics issues

Companies' plastics policies need to be part of their governing processes and reporting practices.

- **Reducing the input of fossil feedstock**
Amounts must be reduced and efficiency increased.
- **Risk management**
Risks of fines and/or reputational damage from plastics issues must be mapped and minimised.

¹ See [page 23](#) for the six stages in our engagement process.

- **Reuse and recycling practices**
Companies must improve their own practices and raise awareness among consumers.
- **Innovation**
Companies must innovate to improve product design and make production more responsible.
- **Co-operation with stakeholders**
Companies must collaborate with each other, governments and other organisations.

Several companies with which we are actively engaging took positive steps in the past year to reduce their plastics use and transition towards viable alternatives.

Company example: General Motors

In 2019, we had a meeting with General Motors (Stage 2) to discuss their approach to plastics. The company has developed several circular activities, including the integration of circular economy principles into its business planning. It also participates in the NextWave collaboration on ocean-bound plastics. The company said it had achieved its goal of making 50% of its facilities landfill-free by 2020 and provided various examples of circularity projects. These include giving tires to one of its suppliers to be recycled and reused, for example in plastic components that go under vehicle hoods. The members of the NextWave collaboration want to encourage people to treat plastic as a commodity to decrease the volume of ocean-bound waste. They are looking at various suppliers in Indonesia to see what type of sources they use. Another meeting will be planned with General Motors in the next six months to explore other aspects of governance and risk and impact assessment and mitigation.

NN IP's plastic engagement goals

Waste collection and waste management



- Plastics must be collected at the end of their useful life
- Reuse of plastics will increase their after-use value
- We should retrieve plastics that are already in natural environments

Improved reuse and recycling



- We need to increase the percentage of plastics that are recycled
- Some products should be redesigned to make them better suited for reuse/recycling
- Companies must include more recycled plastics in their products

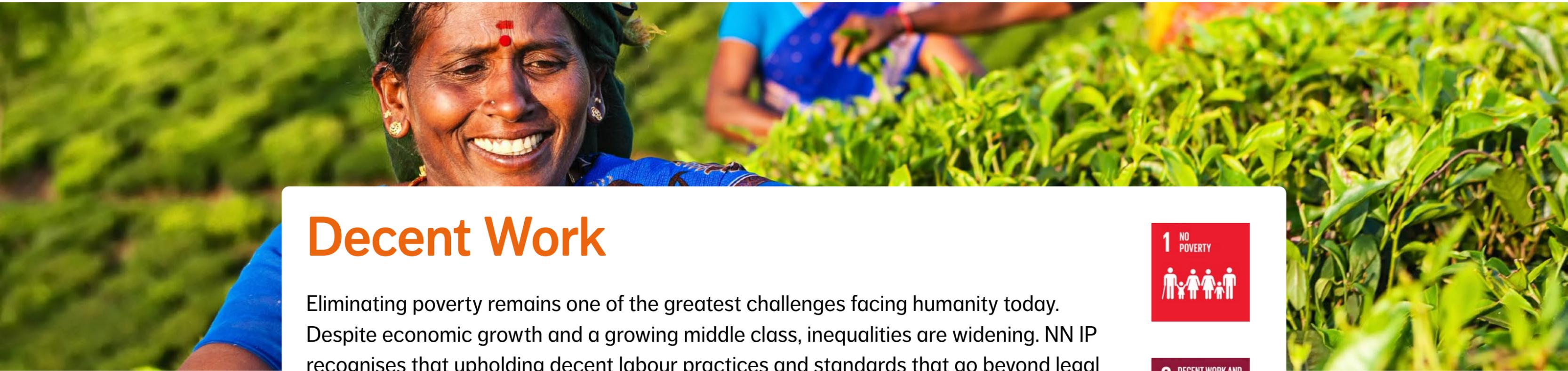
Innovation towards sustainable solutions



- Research and development can standardise types of plastic and decrease use of fossil feedstocks
- Increasing research and development into bioplastics is essential
- More research into biodegradable plastics is also needed

Looking ahead to 2020

Over the coming year and beyond, we plan to continue our engagement work on plastics use and production.



Decent Work

Eliminating poverty remains one of the greatest challenges facing humanity today. Despite economic growth and a growing middle class, inequalities are widening. NN IP recognises that upholding decent labour practices and standards that go beyond legal frameworks contributes to both society and business. We therefore encourage investee companies to achieve inclusive employment throughout their own operations and global supply chains.



10%

10% of the world's population live in extreme poverty, down from 36% in 1990. Half of all people living in poverty are under 18.¹

2 billion

Overall, 2 billion workers were in informal employment in 2016, accounting for 61% of the world's workforce.¹

80%

80% of people living on less than USD 1.90 a day are in South Asia and sub-Saharan Africa.¹

48%

Women's participation in the labour force stood at 48% in 2018, compared with 75% for men.¹

1. Source: www.undp.org

Living wage

The first step to a better life

We take many things for granted – a nutritious diet, basic housing, clothing and footwear, education, healthcare. A living wage should cover the costs required for a person to have a decent life. However, according to the United Nations¹, despite improvements in the last 20 years, in 2018 an estimated 8.6% of the world's population was still living in extreme poverty, calculated as below the World Bank's international poverty line of USD 1.90 a day.

The reason why NN IP focuses its efforts on this complex and challenging engagement theme is because it directly tackles the first of the UN's Sustainable Development Goals - No Poverty. By targeting a number of major international companies operating in sectors where this issue is prevalent and by joining forces with other investors and stakeholders, we can help turn the tide. Poverty is most widespread in the regions of Southern Asia and sub-Saharan Africa and in small, fragile and conflict-affected countries. It is inextricably linked to several other fundamental human rights issues in global supply chains.

Collaborative industry-level approach

NN IP was one of the founding members of the Platform Living Wage Financials (PLWF) in 2018. This group of 12 financial institutions (representing a combined EUR 2.5 trillion in AuM) focuses on industry-level engagement efforts. The PLWF aims to encourage investee companies to commit to paying a living wage to the workers in their supply chains. The platform has set up working groups to focus on three highly labour-intensive sectors (garment and footwear, food retail, and food and agriculture) where the issue of extremely low wages is most acute. These groups assess companies' progress and use the leaders to establish best practice examples. Since 2019, we have been head of the food and agri working group.

¹ www.un.org

Decent Work

Living wage ● ● ●

In 2019, the PLWF increased the number of assessments and engagements at company level, engaging with 46 companies. It also developed methodologies to measure progress towards living incomes in its three focus sectors. In recognition of its efforts in 2019, the PLWF was awarded the international PRI award for the best initiative in the field of socially responsible investment and active ownership. Most of the clothing companies with which the PLWF engages are at Stage 5², where progress on predetermined goals is being tracked and validated, with a few companies at earlier stages.

Living wage challenges in the food and agri sector

In the case of food and agri, the living wage issue is closely linked to the issues of child labour, education and deforestation. One of the major problems is that products like coffee and cocoa, where the working group focuses its activities, are commodities. As such, their prices are often set at a market rate and driven by global developments rather than the local situation. Buyers often have only very limited influence over how the price is set and how much the farmers receive, making it difficult to ensure even minimum wages. The ability to trace exactly where the products originate and establish long-term relationships with producers is also a challenge.

Cocoa

The biggest sourcing countries for cocoa are Ghana, Côte d'Ivoire, Indonesia, Nigeria and Brazil. The majority of cocoa farmers do not earn a living wage, and over two million children are estimated to be working in Ghana and Côte

d'Ivoire alone³. Although yields in some West African countries could be doubled, this is not necessarily the solution. Increased supply can destabilise markets and cause steep price declines, actually having a negative effect.

Coffee

Low market prices, excessive volatility and low yields not only affect coffee farmers' income, but also deter them and future generations from becoming involved in coffee farming. This causes labour shortages during harvest time and as margins are low, it also stimulates child and unpaid labour.

Engagement in 2019

In addition to engaging with individual companies in the garment and footwear industry, NN IP has played a leading role in developing the PLWF methodology used for all agri-food company assessments. This methodology, which is summarised below, follows the UN Guiding Principles on Business and Human Rights (UNGPR) framework, which addresses how businesses should protect and respect human rights. To that end, we engage with companies to increase their transparency on the subject of living income and move them towards integrating it into their company policies. Once this has been done, follow-up steps can be established. Engagement with all companies in this sector is currently at Stage 2 – we have had our first contact with the companies to discuss the engagement objectives in more detail and gather information on status.

² See [page 23](#) for the six stages in our engagement process.

³ www.un.org

Decent Work

Living wage ● ● ●

PLWF methodology – food and agri sector

- **Policies and transparency**

Companies should acknowledge that paying a living wage is an issue and have policies in place to address it.

- **Assessing impact**

We expect to see quantifiable impact and therefore engage with companies to encourage them to publish verifiable numbers instead of vague claims in their reporting.

- **Stakeholder engagement**

Our engagements with companies consider how their strategies take into account the wishes of the local population, how many people they have on the ground, whether they engage with civil society stakeholders, etc.

- **Income diversification**

Based on extensive stakeholder input, the PLWF is convinced that income diversification is a key element in achieving living incomes. Reliance on a single crop can lead to oversupply and negatively affect household incomes.

- **Remediation**

In areas where people do not yet receive a living wage, processes to remedy the negative side effects of low incomes, e.g. child labour, should be established. To address this, companies are expected to have a Child Labour Remediation System in place.

Food and agri – what have we learned?

The food and agri working group engages with eight companies. As we are in the early stages of our engagement in this sector, one of our ambitions for 2019 was to identify at least one practice leader in the cocoa industry, which we could use as an example to strengthen our case with other companies. Our initial dialogue with Singapore-based global soft commodity trading company Olam revealed that its approach to achieving a living income in its supply chain is worth highlighting:

- The company has a specific living wage target for its cocoa business: Their goal is that 150,000 or 60% of the farmers in their supply chain should earn a living income by 2030.
- Olam recognises the importance of income diversification and runs projects to that end with 30% of the cocoa farmers in its supply chain.

Looking ahead to 2020

Last year was the start of the PLWF's and NN IP's engagement efforts with agri-food companies. We used it to learn about each company's stance on this matter and define the next steps. In 2020 and beyond, we will focus on encouraging companies to include living income targets in their policies. This means they will also need to report on the current state of affairs in their supply chains and, in some cases, start defining what constitutes a living income per country of operation.

Child labour

Breaking the vicious circle

Child labour occurs in a number of sectors, including agriculture, manufacturing, quarrying and mining, and domestic service. Of the 152 million child workers, an estimated 73 million worldwide – mostly girls – are engaged in hazardous work¹. Child labour is usually caused by poverty, lack of decent work opportunities for adults and adolescents, migration, and emergencies. The situation is made worse by the social norms that often condone it.

Despite a decline in the number of child workers, more efforts need to be developed to make further progress. The goal (SDG 8) is to end child labour in all its forms by 2025. According to the International Labour Organization (ILO), 1 in 5 children in Africa (19.6%) are engaged in child labour, making it the worst region in terms of prevalence by some margin.

Much has been done by companies, governments and other stakeholders to fight child labour in the cocoa supply chain. Côte d'Ivoire and Ghana are the world's leading cocoa-producing countries, accounting for almost 70% of cocoa production worldwide. In these countries this issue is closely linked to that of a living wage, a topic on which we also engage actively, in

some cases with the same companies. It is estimated that over two million children work in hazardous conditions in the cocoa supply chain in these two countries alone².

In 2001 the cocoa sector introduced the Harkin-Engel Protocol, in which the cocoa industry commits to combat child labour in its supply chain. Since then, standards, programs and pledges have been developed to eliminate child labour. Despite these developments in the sector, child labour still occurs at millions of small-scale farms involved in cocoa farming in West Africa. Efforts must therefore continue, and be further developed, so that child labour can be eradicated.

¹ International Labour Organization.

² www.un.org

Engagement approach

We are participating in a three-year engagement with seven cocoa and chocolate companies: Nestlé, Mondelez, Hershey, Lindt & Sprüngli, Barry Callebaut, Olam International and Cargill. Engagement with all the companies is currently at Stage 2³ – we have had our first contact with the companies to discuss the engagement objectives in more detail and gather information on the status.

We expect companies in this sector to make certain commitments. They will:

- Plan to roll out child labour identification and remediation systems across the majority of their farmer bases in Côte d'Ivoire and Ghana by 2020. They should also make a further commitment to ensure an ongoing roll-out after 2020 so that the remediation system eventually covers their entire farmer base in the two countries.
- Formulate strategies to create an environment that fosters children's rights in cocoa-growing communities, especially in areas such as education, child protection and health. This is particularly important for the communities most at risk in Côte d'Ivoire and Ghana.
- Demonstrate progress on paying a living income for farmers in Côte d'Ivoire and Ghana, by reporting on the impact of farmer programmes and other initiatives on farmers' income.
- Report on the extent to which current income levels equate to a living income for cocoa-growing farmers in the two countries.

3. See [page 23](#) for the six stages in our engagement process.

The companies we engage with recognise that together with other stakeholders, they need to step up their game to tackle the issue of child labour. Several expressed expectations that a new public-private partnership with UN bodies would play an important role in this. Further efforts were also reported on the roll-out of child labour monitoring and remediation systems. Lastly, in terms of the issue of living income⁴, companies were positive on an increase in the minimum price for cocoa. This was introduced by government agencies in Côte d'Ivoire and Ghana, in a joint move to support farmers in achieving a living income. Several companies also made a commitment towards a living income for farmers in their supply chains.

Company example: Nestlé

Swiss company Nestlé is one of the leading consumer goods companies in terms of executing programs to limit child workers in its supply chain. Our engagement with the company focuses on moving it towards adopting a more balanced range of interventions against child and forced labour and achieving a living income for farmers and agricultural workers in its supply chains. We are also pushing Nestlé to scale up its efforts on reporting the impact of its programmes and initiatives on smallholders and agricultural workers.



4. See the previous section on [Living Wage](#).



Petra Stassen-van Lochem
Senior Responsible Investment Specialist

ESG Integration

Focus on material topics backed by the right data

We believe that integrating environmental, social and governance (ESG) factors enhances the decision-making process. By taking both financial and non-financial information into account in our portfolios, we are better able to optimise both short- and longer-term risk-adjusted returns. We integrate our stringent ESG criteria throughout the investment process for the majority of our assets under management in a broad range of responsible investment strategies.



Our definition of an ESG-integrated strategy stipulates that for each investment, all three ESG components must be demonstrably and consistently integrated where applicable throughout the investment process. This holistic approach enables us to offer ESG strategies across a broad range of asset classes. These include not only public fixed income and equity markets, but also multi-asset and private-debt strategies, in both developed and emerging markets.

Stringent and systematic ESG integration

Currently, ESG criteria are systematically integrated for 68% of NN IP's assets under management. This amounts to EUR 189 billion and covers the assets we manage in our ESG-integrated, Sustainable and Impact strategies.

Our sustainable strategies offer a stronger tilt towards investments that we believe contribute positively to a more sustainable economy or prosperous society and therefore focus on selecting today's and tomorrow's sustainability leaders.

Our impact range targets companies whose products or solutions demonstrate an intentional and measurable impact and make a clear, positive contribution to the UN Sustainable Development Goals (SDGs).



Three-step approach to ESG Integration

1. Identify

Our investment experts first identify material ESG issues at company, sector and country level.

2. Assess

In the case of companies: they then evaluate each company's performance on each material ESG issue. Next they examine how well these translate into the business strategy and what opportunities they offer. Finally they discuss and analyse potential controversies and their impact as part of this process.

In the cases of sovereigns: they analyse and evaluate a country's performance based on ESG factors and potential controversial issues and use this information to compare different countries with each other.

3. Integrate

Finally, they incorporate these ESG analyses into their investment cases, to be taken into account throughout the investment process.



While our approach always includes these three steps, implementation is not the same for all our strategies. ESG integration can differ significantly from one asset class to another for a variety of reasons. The type and quality of data and its availability varies from public to private asset classes and in developed and emerging markets. ESG integration for sovereigns uses different data sources to the information we look at for companies. And while ESG risks are always relevant, the focus on opportunities is stronger in equities, because there is potentially more upside gain.

Unlocking corporate value by focusing on material ESG topics

The ability to link a company's capacity for value creation to the material, long-term issues and opportunities that they may face is crucial. Our materiality framework optimises how we identify and interpret corporate ESG factors. This approach unlocks potential value by identifying the associated risks and opportunities. This framework was developed in close cooperation with analysts and portfolio managers to ensure we effectively identify issues that are truly material and to optimise our approach to ESG integration.

Sovereigns

While the materiality framework is very well suited to analysing companies, our approach for sovereigns is different, since most ESG factors are "material" for every country. Examples include the quality and availability of education and healthcare, political stability and the energy sources a country relies on. We therefore score all countries using the same factors to determine how they compare to each other from an ESG point of view. This analysis also enables us to identify issues that might cause us to refrain from investing in a specific country.

Role of engagement

We frequently engage with many of the companies we invest in, either alone or in collaboration with others. This ongoing dialogue incorporates a strong emphasis on ESG issues, including the level and transparency of corporate disclosure. These dialogues enhance our company-specific ESG knowledge, which we can then integrate into our analysis, supporting our aim for better and more sustainable investment results.

Engagement is also a powerful tool to instigate change. It allows us to encourage companies to up their game in the transition to cleaner energy, increase their transparency in reporting and improve board diversity, for example. More information on engagement can be found on [page 19](#).

Data quality

We ensure we work with the highest-quality data. In addition to our in-house analysis of ESG and other forms of data, we use alternative datasets that highlight newly emerging trends.

In case of missing values, when it comes to data that is used for investment analysis and reporting, we have constructed a missing values algorithm that computes the missing data points using machine learning. The algorithm uses correlation between other data fields and company characteristics to make an educated guess of what a reasonable value might be, rather than just taking an average. This enhances the quality of the data.

As much of the more commonly used ESG data is backward-looking, we also use sources that offer more forward-looking information. One source of such data is TruValue Labs, which applies artificial intelligence to unstructured



ESG data, tapping into information from non-company-reported resources. This supplements the ESG data we receive from more traditional providers and gives us a new angle on ESG performance.

Finally, we combine the data we gather from external providers with the expertise and knowledge of our in-house analysts and portfolio managers to formulate a well-balanced investment view. We are currently formalising this approach by rolling out our newly developed proprietary corporate ESG Indicator that incorporates multiple external data sources combined with the in-house expertise of our investment professionals. This is to be further implemented in the coming months and we are also developing a sovereign ESG indicator.

Next steps in ESG integration

The landscape is constantly changing as more information on ESG is made public through a growing number of providers and as corporate behaviour quickly adapts to a more sustainable future. We strive to bring additional strategies into scope for stringent ESG integration as part of our ambition to put the assets we manage to work in an effective manner. We will also continue to invest our time and energy to find and use high-quality ESG information to ensure the best results for investors and society at large.

‘Increasingly high-quality data and new investment technologies will reshape responsible investing in the 2020s.’

Arnoud Diemers
Head of the Innovation &
Responsible Investing Platform



‘Effectively integrating ESG aspects into the investment process gives more complete insights and leads to better investment decisions.’

Jeroen Bos
Head of Specialised Equity &
Responsible Investing



‘Sustainability goes far beyond static ESG scores. We apply a granular and dynamic approach based on two decades of experience.’

Hendrik-Jan Boer
Head of Sustainable & Impact Investing





Investment strategies

Varied, investable, scalable

‘We have a broad selection of responsible investing strategies, reflecting our diverse fields of expertise. These range from listed equity and fixed income strategies to multi-asset and alternative credits. The diversity of our range enables us to offer our clients three types of responsible investing solutions to match a broad spectrum of needs.’ **Valentijn van Nieuwenhuijzen** – Chief Investment Officer

The starting point for our range of responsible solutions is that they enable our clients to realise their responsible investing ambitions. These ambitions can relate to their responsible investing beliefs in the broadest sense but also to detailed criteria relating to specific portfolio allocation requirements.

Responsible building blocks

What most clients require from their asset managers when it

comes to responsible investing is an approach based on stringent environmental, social and governance (ESG) integration. This is a process that avoids controversial activities and behaviour and involves concrete efforts to put their capital to work in areas where it has a positive effect and generates attractive returns. These requirements are reflected in our ESG-integrated strategies, which form the basis of NN IP’s Responsible Investing range.



From traditional to sustainable

A growing number of investors prefer to allocate some or all of their portfolios to strategies with a stronger sustainability bias. An important shift is taking place in this area, with many private banks and distributors changing their default offering from traditional to sustainable solutions and portfolios.

They seek exposure to companies and issuers that are well prepared to take on the sustainability challenge within their own strategic context. Our sustainable strategies offer transparency; they report on climate impact and on the controversies they avoid. NN IP has both active and enhanced index/semi-passive sustainable strategies.



1. Data as per 31/12/2019. ESG is integrated into 68% of NN IP's AuM (EUR 189 billion).

2. Alternative Credits (except Sustainable Infrastructure Debt): The nature of these assets makes ESG integration more complex, also due to poorer data availability and information asymmetry. Nevertheless, ESG integration plays an increasingly important role and we are developing a systematic approach and auditable documentation where possible.

3. Global Equity strategies which are outsourced to external managers are not yet qualified as ESG integrated. These include US High Dividend, Asia Income and Greater China Equity.

4. Multi-asset strategies: some of the externally managed multi-asset sleeves are not yet ESG integrated.

5. EM sovereign debt strategies are not included in the ESG-integrated category as the consistent documentation of ESG assessments has been delayed due to recent changes in the EMD team.



Impact: from niche to mainstream

The third responsible investing area or “flavour” is impact investing. This focuses on companies and issuers that are directly linked to products and solutions, developed to improve the global environment and to tackle social challenges. These strategies report on their exposure to the UN Sustainable Development Goals (SDGs), to which they are closely connected.

Until recently, investors looked at impact investing in its purest form, often resulting in relatively small-scale and illiquid opportunities. However, as impact investing opportunities are growing, there is a strong trend towards making it more liquid and investable without losing sight of its sustainable objectives. This makes it possible for investors to allocate a portion of their mainstream portfolio to these SDG-focused investments, instead of seeking

impact exposure in a niche allocation. This opens new doors to larger investments in green bonds and impact equity strategies that offer large-scale, highly liquid investments that perform well and report transparently on their activities.

We maintain strong relationships with a broad range of clients worldwide to ensure we understand their constantly evolving needs. This enables us to be proactive in developing our investable solutions to match the constantly changing world of responsible investing.

In the following section, we look at the three types of responsible investing solutions that we offer.

ESG-integrated strategies

As ESG criteria play a key role in our investment process, we offer a broad range of ESG-integrated strategies in a number of different asset classes. These strategies restrict certain activities and behaviour from their portfolios, as described in the chapter on restrictions, and vote on and engage with the companies and issuers in portfolio where relevant.

We apply a stringent ESG analysis throughout the investment process for all our ESG-integrated strategies. This enables us to take into account a far broader range of factors – many of which are outside the scope of traditional financial analysis. These ESG criteria reveal much more about how a

company’s business strategy is positioned for future challenges and opportunities, and highlights issues that can have a significant impact on long-term performance.



In our view, successful integration of ESG criteria into the investment process hinges on two factors. The first is the ability to link companies' capacity for value creation to material, long-term issues that they may face. The second is the sourcing of relevant high-quality data to be able to successfully do this.

Strategy in the spotlight: Euro Credit

Our experienced team of Euro Credit portfolio managers and credit analysts applies a disciplined investment process, built on multiple alpha sources combining proprietary fundamental and ESG research. The aim is to generate consistent and stable outperformance, with a high information ratio and a moderate beta through the credit cycle. This is achieved by ensuring a high degree of diversification in our active positions. Since the current team started managing the portfolio in early 2010, the fund has outperformed its benchmark (Bloomberg Barclays Euro Aggregate Corporate Index) every single year.

Material ESG factors help determine company scores

The Euro Credit investment process combines a top-down allocation approach with strong bottom-up issuer selection. We believe that integrating ESG factors into the investment process enables us to consider factors which have a significant impact on long-term performance. ESG factors are relevant because they relate to corporate competitiveness and the strategic choices companies make. Focusing on ESG factors enables our analysts to unlock potential value by identifying the associated opportunities and/or risks, which portfolio managers use as the basis for their investment decisions.

Material ESG risk and opportunities are integrated into the analyses of companies and/or sectors, and portfolio construction. Our materiality framework identifies these factors for each sector and the results of this analysis are added to the company score cards. Although we incorporate all aspects of an issuer's ESG profile into our internal credit assessment, good governance is particularly relevant in mitigating risks for bondholders that might arise from disclosure and transparency issues.

More generically, ESG considerations are very relevant for our relative value discussions. We encounter controversies that are already being resolved or have just arisen and should be taken into consideration when assessing the issuer's expected future creditworthiness. We make use of external data from Sustainalytics, Bloomberg and other parties. Given that much of the data from those providers is backward-looking, we typically also make our own forward-looking assessment based on our analysts' insights.



Sustainable strategies

Sustainable investing at NN IP means looking beyond today's top performers. By analysing corporate strategy and intention to move towards a more sustainable future, we believe we can find tomorrow's winners and identify potential laggards.

Our sustainable strategies integrate ESG factors throughout the investment process and pursue a similar engagement and voting policy to our ESG strategies. They offer diversified alpha potential by investing both in companies that already have sustainable operations and those that are working to make their business models more sustainable. We look at a company's underlying ESG momentum and material building blocks, not just at its current ESG score and performance.

Although their specific products and solutions do not need to specifically target the UN Sustainable Development Goals (SDGs), these are companies that support the transition to a more sustainable society in their specific area of business and can develop a competitive advantage as a result. Renewable energy is perhaps the most obvious and high-profile area for transition, but in every industry, companies need to adjust and find solutions that enhance efficiency if they are to survive and flourish.

Restrictions based on activities and behaviour

Our sustainable strategies apply more stringent restrictions at industry level, assessing activities, products and services and restricting investment in companies that operate in certain areas. [Page 14](#) gives more information on these additional restriction criteria. In order to reduce risk and stimulate pos-

itive change, we also assess behaviour on individual company level. If we discover material controversies on environmental, social or governance issues, we avoid investing until the company has taken steps to remedy them.

Reporting on environmental impact and controversy scores

When focusing on environmental impact, we aim to invest in securities that have lower carbon footprints, use less energy or create less waste than the average market index. We report on our portfolio's carbon emissions and waste versus their benchmarks for all our sustainable strategies. For our sustainable credit strategies, we use Sustainalytics data to report on our portfolio holdings' controversy scores versus the benchmark.

NN IP has a sustainable range of equity, credit and multi-asset strategies.

- **Sustainable Equities** invests in a diversified portfolio that combines risks and opportunities linked to ESG factors combined with a thorough financial analysis. We offer a European and a global variant of this strategy.
- Our four **Enhanced Index Sustainable Equity strategies – Emerging Markets, Global, North America and Europe** apply exclusions and a positive selection approach to combine the low tracking error similar to passive funds and a strong sustainability profile.
- **Euro Sustainable Credits** invests in high-quality euro-denominated corporate

- bonds, while applying positive selection and a stricter view on controversies.
- **Balanced European Sustainable** is a diversified multi-asset strategy targeting long-term capital growth. It invests in a portfolio of European stocks and euro-denominated fixed income instruments.

Strategy in the spotlight: European Sustainable Equity

Our European Sustainable Equity strategy was launched in 2013, based on a successful mandate managed by the same team from 2005. The fund invests in a diversified portfolio of attractively valued sustainable high-quality companies that perform well over the long term. Our seven dedicated equity analysts combine an assessment of ESG-related risk and opportunities with a thorough financial analysis. NN (L) European Sustainable Equity generated a gross full-year return of 36% in 2019, outperforming its benchmark, the MSCI Europe Net Index, by 10%.

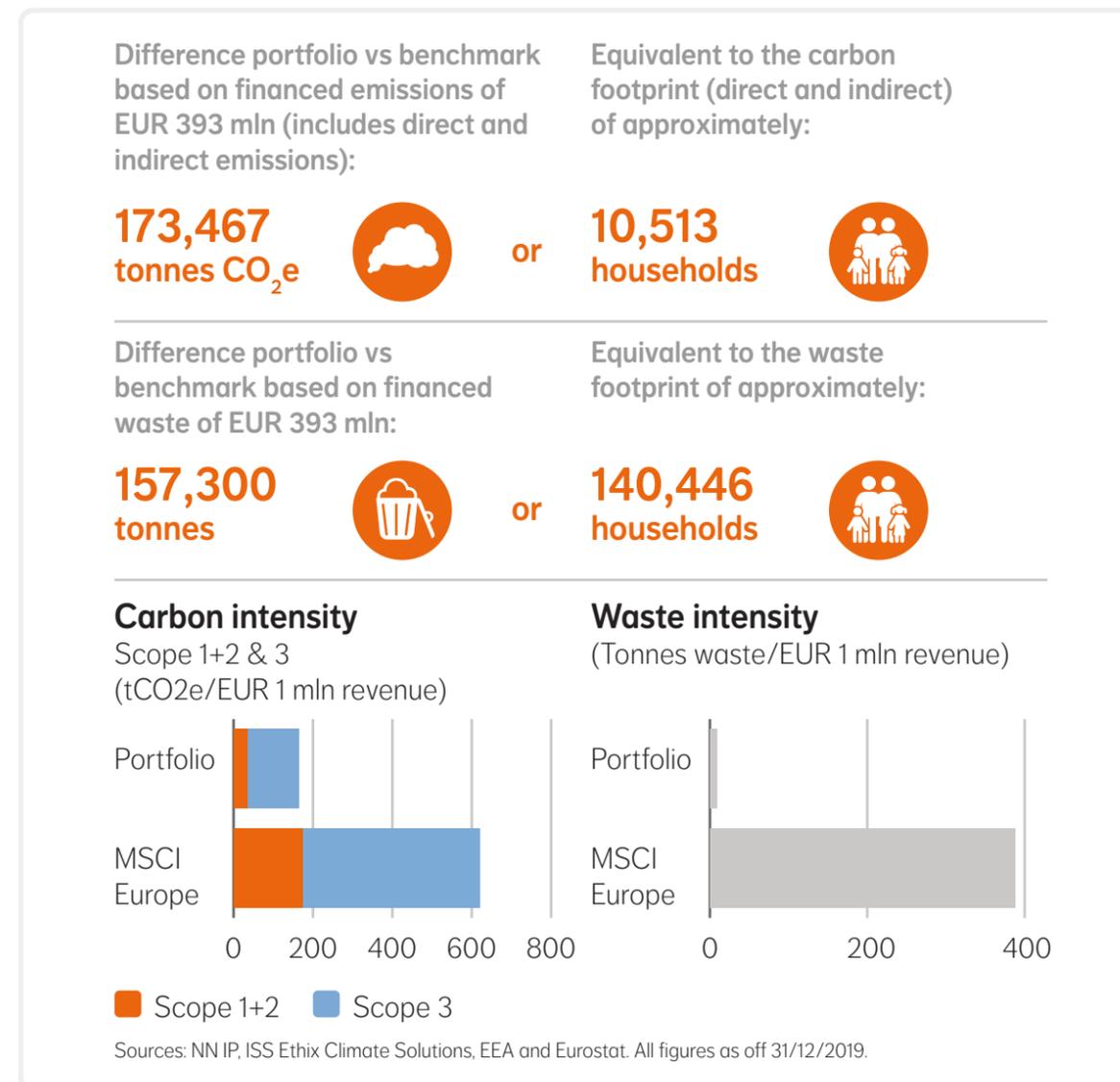
Sustainability = Quality

We believe that the level of sustainability can be an important indicator for the quality of a company. By investing primarily in companies with above-average cash-flow and earnings potential and strong sustainability qualities and efforts, the strategy is more likely to outperform over the long term.

Engagement and reporting

We engage with all companies and meet every year to discuss material ESG issues. In our dialogues we focus not only on weaknesses but also on making a company's strengths more visible. These discussions with management also give us more access to data and a better sense of companies' intentions. In essence, our engagement is an extension of mainstream fundamental analysis. We report on the carbon and waste for our portfolio on a

monthly basis. For our carbon emissions we also give a breakdown of Scope 1, 2 and 3 greenhouse gas emissions¹.



1. Scope 1 - Direct GHG emissions.
Scope 2 - Energy Indirect GHG emissions.
Scope 3 - Other Indirect GHG emissions.

Impact strategies

We offer equity, fixed income and private debt impact strategies that target measurable positive impact while generating attractive financial returns.

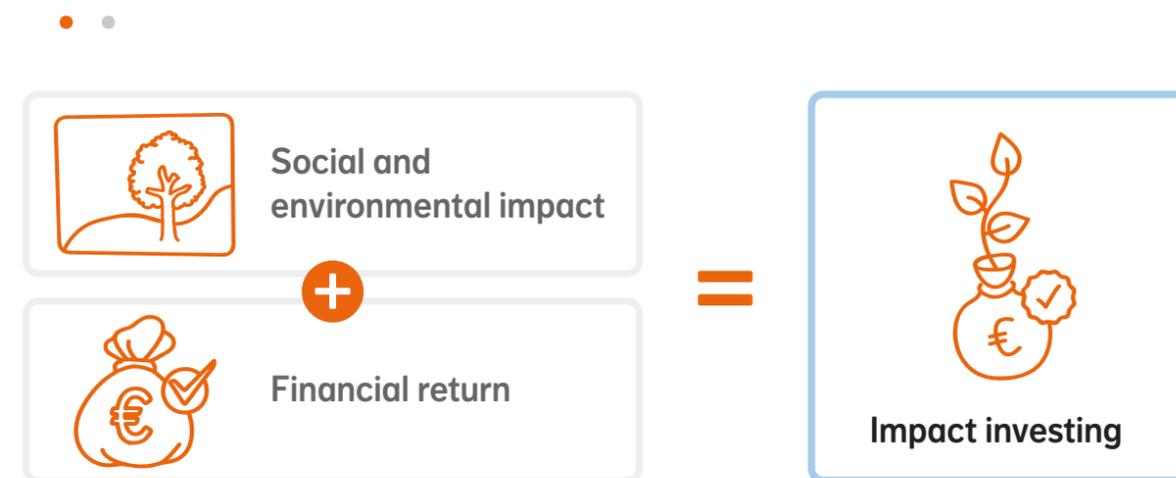
Impact investing is often linked to the United Nations' Sustainable Development Goals (SDGs). These 17 ambitious goals have been adopted by all UN member states and provide a blueprint for tackling issues in three key areas: social inclusion, environmental protection and economic fulfilment of lives. They are linked to the three broad themes of People, Planet and Prosperity. Our impact strategies target companies whose products or solutions demonstrate an intentional and measurable impact and make a clear, positive contribution to the SDGs.

The impact range addresses the world's most pressing environmental and social challenges in sectors such as energy, agriculture, healthcare and education. In addition to measuring impact we use the UN SDGs to provide insights into the type of contributions that are made through our investments.

Our four-step approach to realising maximum impact

1. Define the true impact universe

The first and probably most important step in impact investing is to establish the true impact universe. This is linked to establishing to what extent a company or project intends to positively impact the chosen SDGs.



2. Select the best investments for the portfolio

Traditional fundamental analysis of investments is the next step. We then construct a portfolio that is diversified, liquid, scalable and attractive to a broad range of investors. Our focus in this step is on realising attractive financial performance.

3. Active engagement and voting to optimise results

From the outset and during the investment period we actively engage with our investee companies/issuers to find ways to further optimise results and share best practices.

4. We report on the outcomes

Report on SDGs, environmental and/or social impact

One of the key characteristics of our impact investing strategies is the ability to measure and report on the contribution of the underlying investments to society. We report on the carbon footprint and contribution to the SDGs in scope for all our impact strategies.

Use company cases to illustrate qualitative results

We also share many of our investment cases in addition to our quantitative reporting efforts to give insight into the more qualitative characteristics of individual investments and the decision-making process.

NN IP has three impact strategies, and in 2019 was awarded “Best provider in impact investing” by CashCow, a Dutch multimedia platform for private investors, for the third year in a row.

- With our **Green Bond** strategy we are leading the market both from a volume and performance perspective, with our diversified offering including short-duration, corporate bond and blended variants.
- Our **Impact Equities** strategy offers a global diversified and three thematic funds, focusing on our impact themes of People (Health & Well-being), Planet (Climate & Environment) and Prosperity (Smart Connectivity).
- In **Emerging Market Loans** we partner with the Dutch Entrepreneurial Development Bank (FMO) to co-invest in loans arranged by FMO in emerging and frontier markets.

Strategy in the spotlight: Green Bonds

Our dedicated green bond team pursues a very stringent and active approach to find projects that make a measurable positive contribution to the UN SDGs, particularly climate change mitigation and adaptation. NN IP is one of the largest market participants in terms of open-ended green bond funds and is ranked in the top decile in its peer group. Assets under management in the strategy have risen from EUR 20 million (February 2016) to EUR 1.8 billion (end December 2019). NN (L) Green Bond fund has outperformed its benchmark (Bloomberg Barclays MSCI Green Bond Index) every year since inception. At its current size the fund saves 657,689 tonnes of CO₂ annually.

Engagement

Our green bond team engages with each issuer, often before the bonds are issued, to understand how the green bond fits into the company’s strategy. We then maintain the dialogue to evaluate how projects develop.

Reporting

Regular and transparent reporting is also a powerful tool in the green bond space. In addition to looking at CO₂ emissions, for example, we also assess how issuers align their green bonds to the SDGs and then provide this information on a fund aggregate level as shown below.

Reporting NN Investment Partners’ Green Bond strategy (December 2019)

The CO₂ emissions saved per EUR 1 mln invested in our fund are equivalent to the average annual emissions of:

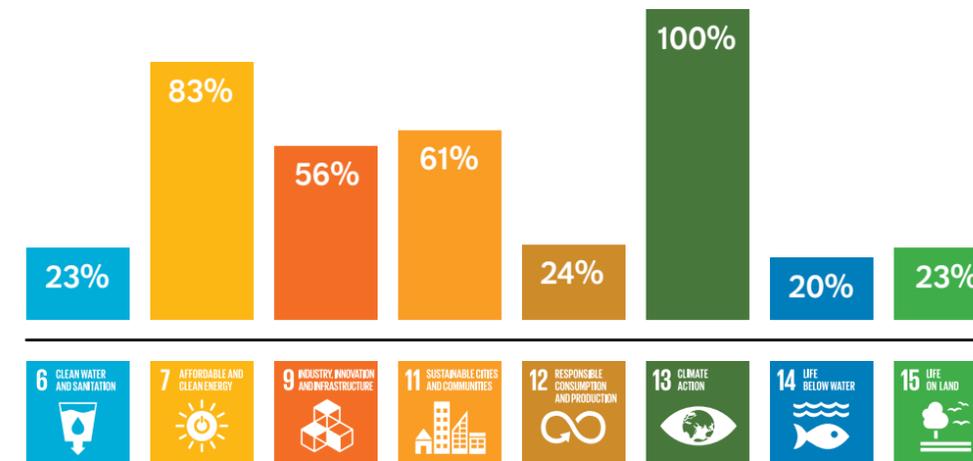


Renewable Energy Capacity Added is equivalent to:

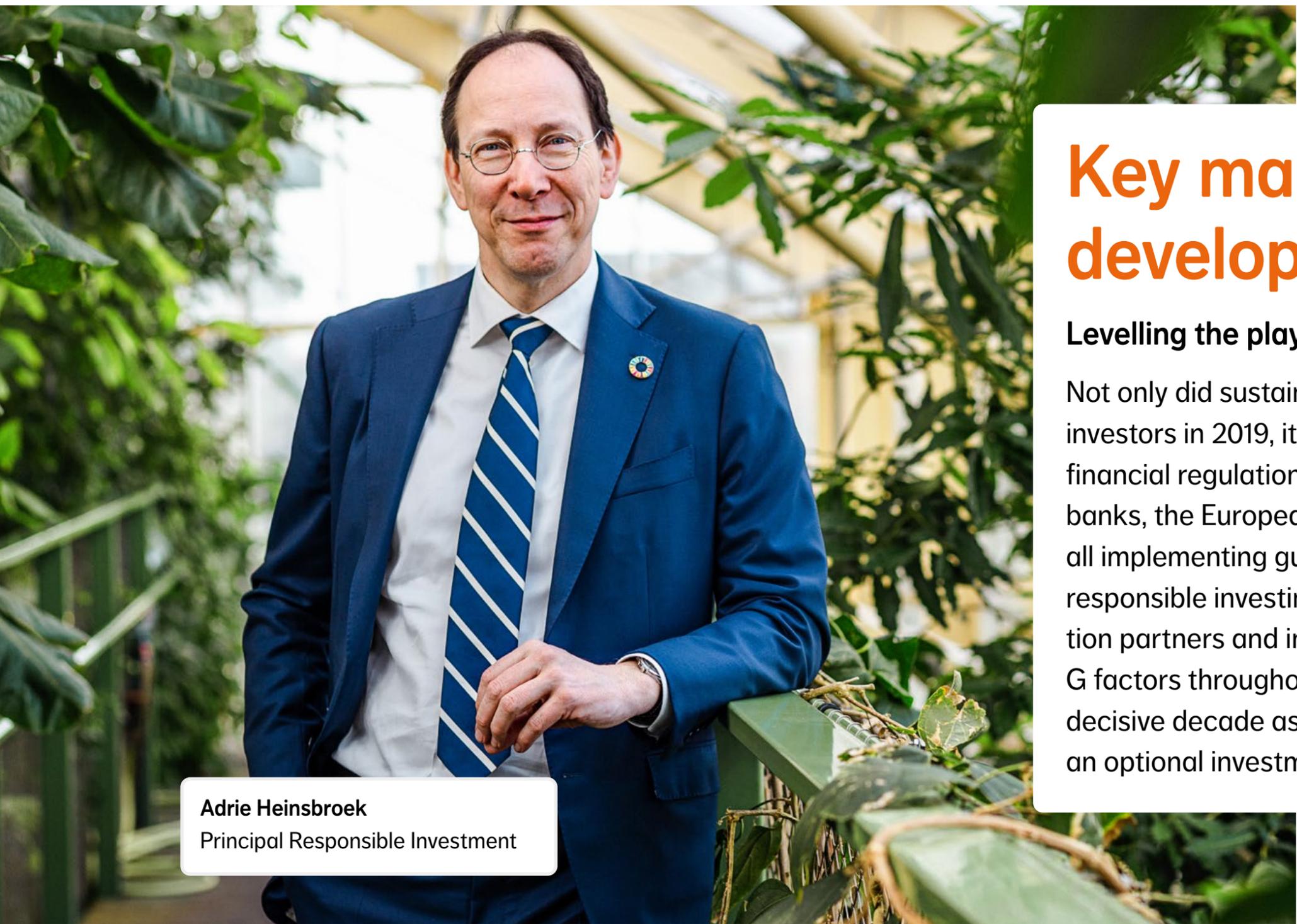


Source:
* European Environment Agency and Eurostat
** Milieucentraal, *** WindEurope

UN Sustainable Development Goals Exposure*



* Portfolio positions can have exposure to multiple SDG themes. Source: NN Investment Partners



Adrie Heinsbroek
Principal Responsible Investment

Key market developments

Levelling the playing field

Not only did sustainability receive more attention from investors in 2019, it also continued to make its way into financial regulation and other government policies. Central banks, the European Commission and local regulators are all implementing guidelines that will define what constitutes responsible investing and monitor compliance. Our distribution partners and institutional clients are prioritising E, S and G factors throughout their portfolios. The 2020s will be a decisive decade as sustainability makes the transition from an optional investment criterion to a default requirement.



As responsible investing moves into the mainstream, it becomes increasingly clear that embedding ESG criteria in investment decisions requires the support of an internationally recognised framework of guidelines and regulations. The aim is to improve transparency and governance and to protect investors, giving them more and better information on which to base decisions. However, these new policies and guidelines also have financial implications. Part of our fiduciary role as an asset manager is to keep one step ahead of these developments, as they affect not only us but also our clients.

Governance - strengthening investor trust

One of the furthest-reaching regulatory steps of the last few years was the **Shareholder Rights Directive II (SRD II)**. Its forerunner came into effect in 2007 and was amended in 2017. It incorporates major steps to encourage shareholder engagement, increase transparency and improve corporate governance by stimulating a long-term focus. It focuses on the exercise of voting rights at EU-listed companies, disclosure requirements for EU-based asset managers and asset owners, and shareholder identification and data transmission requirements for intermediaries. It also incorporates additional requirements for issuers, including improved transparency and approval procedures for related-party transactions and executive remuneration.

SRD II increases incentives for asset managers to exercise their voting rights and be transparent on their voting behaviour. It highlights the long-term importance of engagement on core governance issues to ensure investments realise their full potential and to enhance value for clients. Our 2019 governance engagement also focused on issues highlighted in SRD II, like remuneration, diversity and board composition.

Environment - defining sustainability

Environmental issues are currently high on the political and economic agenda and the Paris Agreement is never far from our thoughts. As a result, investors tend to focus on global warming and pollution and on quantifiable data like CO₂ emissions or water and waste metrics. The **European Commission** has developed a system – the so-called **EU taxonomy** – to classify economic activities based on their contribution to EU environmental sustainability policy objectives. It aims to bridge the gap between international goals and investment practice and help investors find companies that truly contribute to a low-carbon economy.

This taxonomy is expected to speed up the development of investment solutions that meet their criteria and cause a shift in capital flows towards sustainable activities and green parts of the economy. It may also sharpen the focus on reputational risk in investment decision-making. However, until the final taxonomy is revealed, market players will play a sustainable waiting game – something which dampens their motivation to innovate. They will continue to rely on their own ESG criteria and context or find guidance in the existing non-standardised range of labels and quality standards.

Playing catch-up on climate change

In the last decade, market participants and governments have spent so much time discussing the extent to which climate change poses a real threat that they will now have to work exponentially hard in the next decade to contain its impact. One notable initiative is the **Inevitable Policy Response (IPR)**. This PRI collaboration with NGOs and other market participants aims to prepare investors for measures that could be implemented as soon as governments speed up their efforts to curb greenhouse gas emissions. As yet,

the most likely of these disruptive consequences are not priced into market valuations or incorporated in risk models.

In 2019, the IPR released a research paper that reveals the potential impact of an unanticipated policy response to climate change on the real economy and financial markets. Such a response is likely to be uncoordinated and forceful when it eventually occurs, probably in the not too distant future. Highlighting these risks enables investors to prepare – at least to some extent – for potentially disruptive policies that might severely impact their investments. In our view, the IPR will become increasingly important as climate change adaptation becomes a part of market reality and even dictates market movements.

All roads lead from Paris

In order to substantially reduce the risks and impacts of climate change, the main goal of the **Paris Agreement** is to keep the increase in the global average temperature to well below 2°C above pre-industrial levels, and to pursue efforts to limit the increase to 1.5°C. It also aims to improve the ability of parties to adapt to the adverse impacts of climate change. As of early 2019, countries representing more than 87% of global greenhouse gas emissions had ratified or acceded to the agreement, although the US has since announced its intention to withdraw. Under the agreement, each country must determine, plan, and regularly report on its contribution to mitigating global warming.



In their regulatory capacity, central banks in countries like Italy and the Netherlands are also translating the Paris Agreement’s requirements into their local regulatory frameworks. To aid this process, they are requesting clarification from asset managers on how ESG criteria and particularly climate risk measures are incorporated in investment processes and decision-making.

In the Netherlands, around 50 financial institutions (including NN IP) committed to support the Dutch Climate Agreement – **Klimaatakkoord**. This included implementing mandatory reporting on the carbon footprint of their relevant investments from 2020. In France, lawmakers implemented Article 173, part of France’s ‘energy transition for green growth’ law. This was a first step in imposing climate-change and more general ESG reporting requirements on institutional investors, albeit on a comply-or-explain basis.

The effect of these changes is to heighten stakeholder expectations on disclosure and reporting, but also to promote more restrictive investment views. Thermal coal mining related investments were a case in point in 2019, with several market players including NN IP excluding this segment from their investments.

Creating impact via the SDGs

Impact investing is often linked to the **United Nations’ Sustainable Development Goals (SDGs)**. These 17 ambitious goals have been adopted by all UN member states and provide a blueprint for ending poverty and other hardships, improving health and education, reducing inequality, and spurring economic growth. Clients increasingly ask us to link portfolios and individual investments to the SDGs. This preference underscores a more general need for clarity and transparency on the actual impact and SDG alignment of



investments. We clearly link our impact investing strategies to SDGs and are committed to improving our impact measurement.

In the fixed income arena, for example, the green bond market is growing and becoming more diversified, making it more and more viable as a substitute for non-green variants in bond asset allocations. This process is being supported by an EC proposal for a voluntary, non-legislative **EU Green Bond Standard**. Such a standard would enhance the green bond market's effectiveness, transparency, comparability and credibility, and would encourage market participants to issue and invest in EU green bonds.

These changes in shareholder awareness, and the corresponding policy responses, indicate that we are entering a decisive decade for responsible investing. We have passed the tipping point. In this new decade we will need to fulfil the ever-greater responsible investing ambitions of our clients and our responsibilities as an asset manager. Being transparent and accountable for the choices we make in the short term will play a decisive role in how responsible investing will be acted upon in the long term.



About NN Investment Partners

Helping investors achieve their financial and sustainable goals

NN Investment Partners is an active investment manager with a global view and a proven track record. We are recognised for our approach to responsible investing as well as our specialised fixed income, alternative credit, multi-asset, sustainable and impact strategies.

As at 31 December 2019, we manage EUR 276 billion (USD 310 billion) of assets for institutions and individuals worldwide, employ around 1,000 staff and have offices in 15 countries across Europe, North America, Latin America, Asia and the Middle East.

Our commitment to partnership

Clients come first in everything we do. We cooperate closely with pension funds, insurers, family offices, independent financial advisers, banks and private individuals to achieve their

financial goals. We strongly believe in engaging in continuous dialogue, being a true partner for our clients and making their challenges our challenges.

Our commitment to responsible investing

Responsible investing matters and it works. We regard it as the best way to enhance risk-adjusted returns, fulfil our clients' financial and sustainable objectives, while contributing to society as a whole.

Our commitment to embrace change

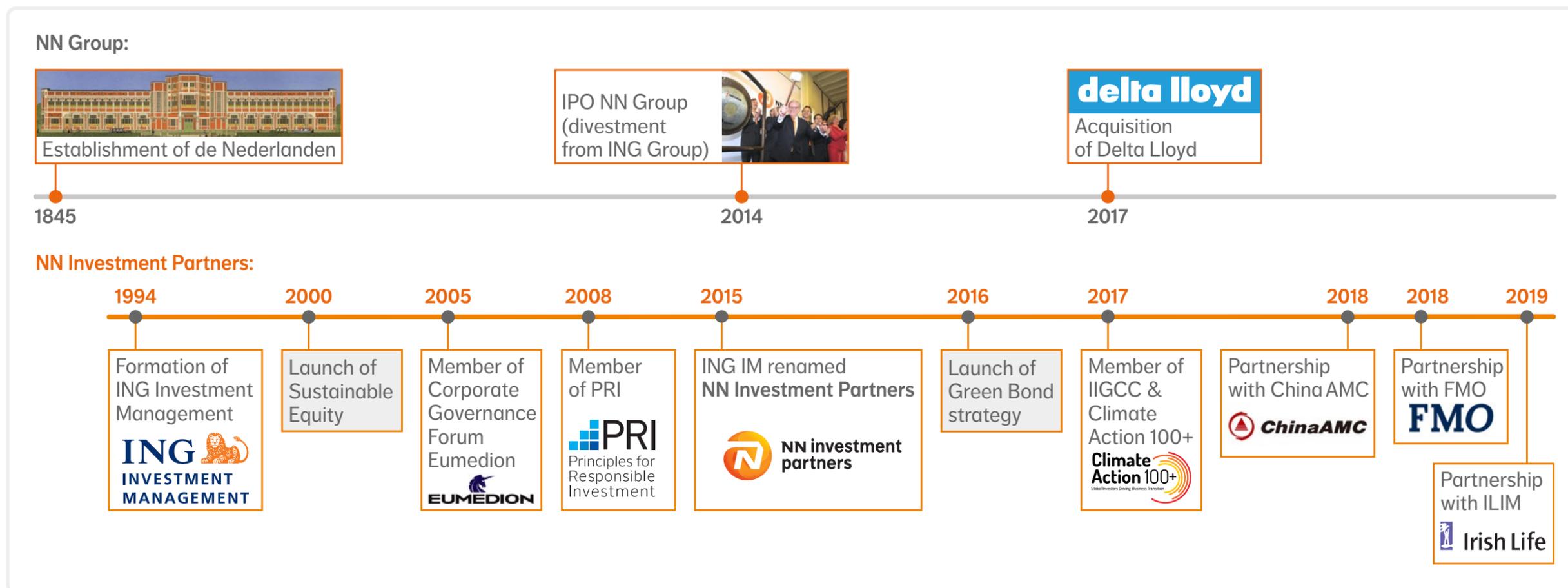
We stimulate and embrace new ideas and innovation to meet our customers' increasingly complex and constantly changing investment requirements. We aim to stay at the forefront of developments in the asset management business, as we have always done.

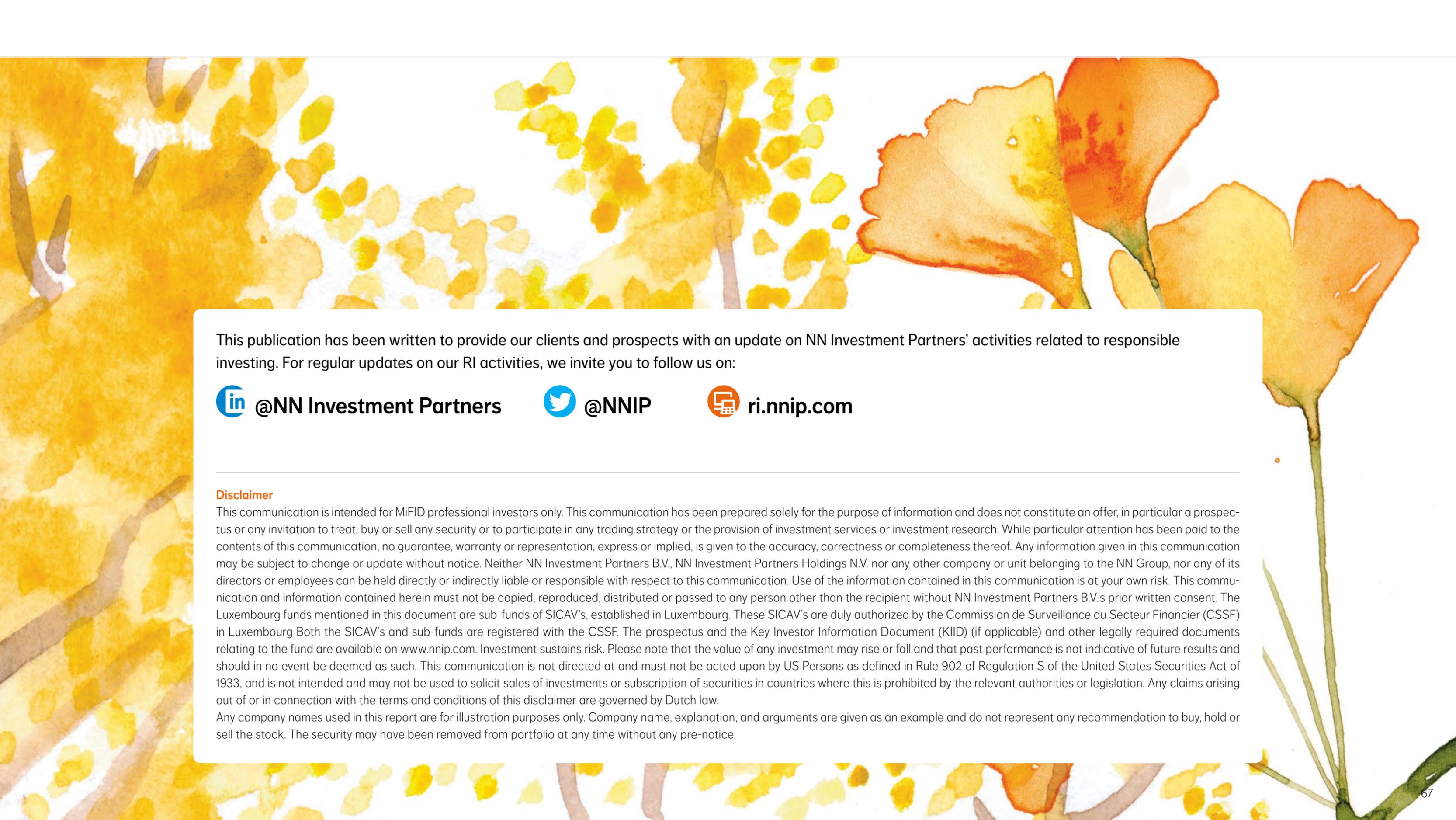
NN Group

NN Investment Partners is proud to be part of NN Group. NN Group is a financial services company headquartered in The Hague, the Netherlands,

and is active in 18 countries, with a strong presence in a number of European countries and Japan. Formerly part of ING Group, NN's roots lie in the Netherlands, with a rich history that stretches over almost 175 years. NN Group listed as an independent company on Euronext Amsterdam on 2 July 2014.

NN Group is committed to helping people secure their financial future, through retirement services, insurance, investments and banking products. It aims to create long-term value for its stakeholders, be a positive force in people's lives and responsibly manage the assets entrusted by its clients.





This publication has been written to provide our clients and prospects with an update on NN Investment Partners' activities related to responsible investing. For regular updates on our RI activities, we invite you to follow us on:



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