

Engagement Standard for Proprietary Assets



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Clarification note

This document contains the essentials of NN Group's Engagement Standard for Proprietary Assets (dated December 2019).

The Engagement Standard is part of the Responsible Investment Policy Framework of NN Group N.V. (NN Group).

Important legal information

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

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1. Introduction

NN Group strongly believes in the use of engagement to create beneficial change. We apply an engagement-led divestment approach, which implies we will only decide to restrict individual companies when engagement is not or is no longer considered feasible to change the conduct or involvement in the specific business activities of those companies. Such decisions are not taken lightly and only where we believe that restriction is a balanced and proportionate response, or where restrictions are demanded by law.

1.1 Objectives

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

1.2 Scope

This Standard is part of NN Group's Responsible Investment Framework policy, and is aligned with our Global Voting policy. The Global Voting Policy sets out the high-level principles for voting on resolutions at shareholder meetings, and describes what we do to avoid potential conflicts of interests. Both documents can be downloaded [here](#).

2 Engagement

Engagement, or the direct interaction between investors and companies, is an important part of our investment process. Through engagement, NN Group aims to understand the risks and opportunities of each specific investment case. This means that not only financial performance, capital structure, and strategic matters are discussed with companies, but also environmental, social and governance (ESG) topics to get a full understanding of all the relevant business drivers. NN Group believes that engagement on ESG topics can also bring about positive change. It enables investors to use their influence to stimulate companies to improve their ESG practices, thereby ensuring long-term value that also benefits society at large.

2.1 Forms of engagement

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

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

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

2.2 Engagement triggers

The following situations can be a trigger to start an engagement process:

- In case of (increased risk of) a violation of NN's norms-based RI criteria
- Directly related to the investment case (including Corporate Governance issues or related to internal guidelines of specific NN investment strategies)
- As part of NN Investment Partners' (NN IP) thematic engagement programme
- NN Group wants to engage on specific issues related to high reputational risk

2.3 Different engagement levels

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

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

3. Engagement Process and Requirements

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

This chapter describes the minimum requirements of NN's engagement identification and execution process.

3.1 Screening of investment universe

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

The screening for the Proprietary Assets are performed by NN Group Finance (ART Team), based on the research data delivered by NN Group Corporate Citizenship.

3.2 Violations of NN's norms-based RI criteria

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

Violations can currently occur in relation to the following areas:

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

3.3 Governance of violations, engagements and restrictions

NN has delegated the responsibility of assessing whether or not issuers are in violation of NN's norms-based RI criteria to the ESG Committee of NN IP. The ESG Committee is advised by the Controversy and Engagement Council. This council consists of representatives from NN IP as well as NN Group staff (from Investment Office and Corporate Citizenship), which ensure relevant perspectives are included in the decision making and communicated to the respective stakeholders. Such perspectives may include for instance business relations of other NN entities with the issuers, for example to raise (potential) conflicts of interest.

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

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

Potential violations of issuers managed within NN Group, but not by NN IP

For assets that are managed directly by NN Group, and not by NN IP, any (potential) violations of NN's norms-based RI criteria by issuers that have not already been identified by NN IP are discussed between NN Corporate Citizenship and NN Investment Office. Together they will assess the violation and decide on the engagement feasibility.

3.4 Assessment of engagement feasibility

If the NN IP ESG Committee determines that a company is in violation of NN's norms-based RI criteria, and considers engagement to address the violation feasible, the company can be formally included in NN's engagement program.

In the case that an issuer is in violation of NN's norms-based RI criteria and engagement is not considered feasible, the issuer will be considered ineligible for investment and thus put on the Restricted List.

3.5 Measurement of progress during the engagement

Each engagement has to be supported by an engagement plan that outlines the objectives, milestones, timeframes, and engagement activities to be carried out. The executors of the engagement will maintain an archive of these reports.

3.6 Engagement execution

NN Group has delegated to NN IP the execution of the engagement related to assets managed by NN IP, as it manages the large majority of the Proprietary Assets. The potential executors (or coordinators) of the engagements, depending on the context, type of engagement, and available capacity, are:

- Analysts NN IP
- Portfolio Managers NN IP
- RI team representatives NN IP
- Through collaborative engagements other institutional investors can engage on behalf of NN
- External Engagement provider(s)

In addition, the NN Corporate Citizenship team provides support for NN IP's engagement programme. For assets managed outside of NN IP, the potential executors include representatives of NN Investment Office and NN Corporate Citizenship, as well as the External Engagement Provider.

As the engagements will be executed by various teams/ individuals, both in-house and externally, this will require close coordination to ensure alignment and consistency, and to avoid duplication of work. The responsibility for this lies with NN IP's RI Team, from which one individual is assigned the role of Active Ownership coordinator.

3.7 Engagement term

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

In addition, during the engagement term it may occur that a holding is divested because of financial considerations. In this case, NN's preference is to continue with the engagement until it is concluded that it can be closed based on ESG considerations.

3.8 End-evaluation and potential outcomes

The NN IP ESG Committee, advised by the Controversy & Engagement Council, measures progress and advises on progress made (or not made). There can be three potential outcomes:

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

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

Dependent upon the size of our holdings, we intend to sell all issuer exposures (equity, bonds) within three months after the Restricted List has been approved. For some assets (i.e. loans) this can be more complicated due to illiquidity and therefore will be decided on a case-by-case basis. Pre-trade and post-trade compliance checks are conducted by our Risk Management teams to ensure that the Restricted List is implemented by all relevant portfolios. Further details on the governance and procedures for the approval of the Restricted List is set out in the Restrictions Applications Standard, which is available for employees in the policy house on the intranet.

The NN IP ESG Committee monitors the practices of restricted companies four times a year, and may propose to remove a company from the Restricted List in the case that the company has sufficiently improved their practices.

More information

For more information about NN Group's Engagement Standard and responsible investment policies, please contact:

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