

RI Guidelines Proprietary Assets – Private Equity

NN Group manages a private equity investment portfolio within its own account. We believe that environmental, social and corporate governance (ESG) factors can influence the long-term performance of private equity investments. This guideline defines our approach to integrating the consideration of ESG risks and value creation opportunities into the management of this portfolio.

Objectives and scope

This guideline describes how NN Group takes ESG factors into consideration with regards to private equity investments. This document is part of the Responsible Investment (RI) Guidelines for Proprietary Assets, which consist of guidelines to assist the implementation of the overall [Responsible Investment Policy Framework](#) of NN Group. The scope of this guideline covers NN Group's proprietary private equity portfolio. NN Group invests in funds that are managed by external private equity managers.

Vision and strategy

NN Group is committed to responsibly investing its assets. It recognises that ESG factors have the potential to influence the long-term financial performance of its private equity investments. Beyond this rationale, NN Group believes that considering ESG issues is also a matter of good corporate citizenship.

NN Group's strategy is to constantly enhance the sustainability performance of its private equity portfolio by: (i) systematically integrating ESG factors in the selection, appointment and monitoring of the private equity managers and (ii) actively engaging with these managers to raise awareness on the importance of ESG factors for the long-term performance of the underlying assets (portfolio companies).

Manager selection

NN Group has appointed an external advisory company to select private equity managers that fit its mandate and criteria. This advisory company will evaluate the extent to which the private equity manager has the policies and expertise needed to invest in accordance with NN Group's



key responsible investment principles. To ascertain this performance, an ESG questionnaire is part of the private equity manager, or General Partner (GP), due diligence. This questionnaire enables NN Group to verify if a GP has a policy and process in place to systematically assess material ESG risks and opportunities both pre-and post-investment. Other critically important factors in the GP due diligence include, amongst others, the firm's board composition, key personnel, and remuneration policies and practices. Where not all NN Group's ESG requirements are met during due diligence, the fund may still be considered if the GP demonstrates a clear ESG or sustainability vision. Furthermore, the GP should express a commitment to work towards implementing a systematic approach to integrate ESG in the investment process and ongoing management of portfolio companies.

Appointment

When NN Group appoints a new private equity manager, the advisory company performs satisfactory due diligence (including Business Partner Due Diligence). This due diligence is to verify the company's strategy, organisation, internal control and compliance policies and procedures (including corporate code of conducts). It also has a specific section on ESG to ascertain, amongst others, that the private equity manager observes important international standards such as the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises, and that relevant policies and processes are in place.

Investors in private equity funds (called Limited Partners or LPs) generally commit to provide capital to a fund for a specific period of time. During the course of a commitment, as investments are made, LPs such as NN Group have limited influence to manage ESG risks and opportunities. Therefore it is important to agree on responsible investment standards prior to an investor's commitment. NN Group will ensure that the 'Limited Partnership Agreement' (LPA) or related side-letter always includes its investment restrictions provisions and the requirement that GPs act in accordance with their ESG policy in the due diligence process and ongoing management of portfolio companies.

The LPA or side-letter will also make reference to reporting. GPs are asked to report within a reasonable timeframe on material risks at portfolio companies and provide an explanation of how the fund has sought and/or plans to remediate them. Furthermore, GPs are asked to communicate and disclose the following information on an annual basis:

- The ESG performance of individual portfolio companies
- The progress made on further integrating ESG-related aspects in the investment process in the reporting period, including planned steps and aspirational objectives

Monitoring and engagement

Once invested, NN Group's ongoing role encompasses consistent monitoring of the funds in which it invests. NN Group's Investment Office will report on ESG developments through quarterly performance reports to relevant internal stakeholders such as the mandate holders (insurance business units) and the Management Board. These reports will include an ESG dashboard that tracks the progress of the funds and GPs towards meeting NN Group's expectations. It gives an overview of how managers perform on best practice standards, implementation of ESG policy, embedding ESG factors in performance reporting, and undertaking initiatives (e.g. collect carbon data of portfolio companies). This ESG dashboard will also help NN Group's periodic engagement with the management of the private equity funds (e.g. through their annual meetings or Fund Advisory Committees).

ESG considerations for private equity

The ESG topics material to investment decision-making will largely be driven by a fund's underlying investments and the investment mandate as the relevance of ESG factors differ per geography and sector or industry. Still, certain ESG factors are likely to be relevant to all portfolio companies:

- **Environmental** - Compliance with environmental laws and regulations and responsible use of natural resources. Amongst others, NN Group expects GPs to monitor portfolio companies' efforts to manage and improve their environmental performance and increase resource efficiency.
- **Social** - Management of social risks throughout the value chain. For example, social risks include a violation of international/universal human rights and labour standards in manufacturing, but may also relate to consumer use of products. NN Group also expects GPs to pay attention to social considerations and impact in a portfolio company's local community especially when operating in less developed markets.
- **Governance** - Effective corporate governance structure that will enable sound risk management. NN Group expects GPs to additionally focus on anti-corruption and bribery programmes, culture and transparency at portfolio companies.

International best practices standards

NN Group expects GPs to identify material ESG issues and work towards improving the ESG performance of the fund's underlying portfolio companies. In doing so, it encourages GPs to assess portfolio companies' policies and practices using international best practice standards, such as the UN Global Compact, OECD Principles of Corporate Governance, OECD Guidelines for Multinational Enterprises and the IFC Performance Standards. Furthermore, it encourages GPs to participate in initiatives and relevant industry associations that promote and support improved integration of ESG factors in the management of the fund, such as the PRI and Invest Europe.

Important legal information

This document is not intended to be relied upon by any third party.

The guidelines may be subject to change at any time.

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