

# Responsible Investment Framework policy



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## Clarification note

This RI Framework policy of NN Group N.V. ('NN Group'), originally adopted in 2014, was last revised and approved by the Management Board of NN Group in October 2018.

## Important legal information

This document is for internal guidance purposes only and is not intended to be relied upon by any third party. The policy may be subject to change at any time.

# 1. Introduction

NN Group is a long-term global institutional investor with a duty to act in the best interest of its policyholders, clients, shareholders and other stakeholders. To fulfil this duty, we acknowledge the importance of systematically incorporating Environmental, Social, and Governance (ESG) factors into its investment policies, decision-making and related processes. On the one hand, we strongly believe that this ensures better informed investment decisions and helps to optimise the risk/return profile of the investment portfolios. On the other hand, incorporation of ESG factors helps to reflect NN's values in the investment process and to better align our business with the broader objectives and expectations of society.

## 1.1 Objective

The objective of this NN Group Responsible Investment Framework policy (hereafter: RI Framework policy) is to support Business Units and NN Group Investment Office in the systematic incorporation of ESG risk and opportunities into the investment process.

## 1.2 Scope

The RI Framework policy applies to all assets managed by majority-owned NN Group businesses (including NN Group Investment Office) and businesses under NN Group's management control. In cases where NN Group has an equity interest in life insurance, pension or asset management businesses, but it does not have management control, it will use its influence to apply the spirit of this policy. Everything to the extent permitted by local law or regulations.

The RI Framework policy applies to every asset category. Furthermore, it applies to both NN Group's role as asset owner of Proprietary Assets and its role as asset manager for Client Assets, although the implementation of the RI Framework policy may differ between these two roles, as set out in this policy.

Proprietary Assets comprise those assets that belong to NN Group. Among Proprietary Assets are the assets held for the account of NN Group in the context of insurance obligations and own capital of NN Group. Client Assets are all assets that are managed by NN Group entities on behalf of third party clients. Assets held for unit-linked products, pension funds, as well as for separated account investment contracts, are also defined as Client Assets to ensure alignment with the purpose of this policy.

## **NN Group as asset owner**

The RI Framework policy applies to all Proprietary Assets of NN Group. NN Group, via the Investment Office and its Business Units, decides upon the allocation of all its assets to different asset classes. Management of the assets is in accordance with the outcome of the allocation process either outsourced to our in-house asset management company, NN Investment Partners, or to other internal or external asset managers, or directly performed by the Investment Office.

Specific guidelines for Proprietary Assets ('RI Guidelines Proprietary Assets') that relate to NN Group's activities as an asset owner have been developed. These guidelines translate the principles set out in this RI Framework policy into expectations around the incorporation of ESG aspects into investment decision-making and active ownership processes. They apply to all asset classes in which the Proprietary Assets are invested. These expectations are to be included in the investment mandates to internal and external asset managers.

## **NN Group as asset manager**

NN Group's asset managers will implement this RI Framework policy in relation to the Proprietary Assets that they are mandated to manage.

With regard to the Client Assets that are managed by NN Group's asset managers or by other Business Units, NN will apply those elements of the RI Framework policy that are consistent with the fiduciary responsibility and the mandate provided by its customers.

## **External asset managers**

NN Group expects external asset managers to implement the key principles in this RI Framework policy in relation to the Proprietary Assets that they are mandated to manage, and will monitor the implementation.

# 2. Policy requirements

This chapter describes the mandatory requirements of this policy.

All NN Group's businesses need to establish processes to systematically incorporate ESG factors in the investment decision-making process and active ownership practices, thereby incorporating (where relevant) NN's seven publicly committed Responsible Investment (RI) principles, as outlined in the Appendix.

## 2.1 Applying NN's Norms based RI criteria

NN Group has developed norms-based RI criteria that are a reflection of relevant laws, the organisation's values, and internationally recognized standards such as the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises. These norms are likely to evolve over time. See Chapter 3 for more detail on the norms. In case 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 taken with regard to whether NN considers this a violation. Subsequently, in case of a violation, a decision needs to be taken on engagement or restriction.

The ESG Committee of NN Investment Partners has been mandated to assess whether or not an issuer is in violation of NN's norms-based RI criteria. In case of a violation, the ESG Committee needs to decide whether to engage with the issuer or to provide a recommendation to the NN Group Management Board to restrict the issuer via NN's Internal Restricted List.

## 2.2 ESG integration in research/valuation

NN Group's Business Units (BUs) ensure that, where relevant, material ESG risk and opportunities are integrated into the research and analyses of companies, countries and/or sectors, and portfolio construction, across all asset classes.

## 2.3 Active ownership

NN Group believes that active ownership contributes to good corporate governance and thereby enhances the long term economic and societal value of the investee company over time. Ownership practices consists of dialogue and engagement with investee companies, and the exercise of voting rights to hold investee companies' management accountable.

### Voting

NN's BUs will adhere to the Global Voting policy in their proxy voting policies and procedures, except where inconsistent with applicable laws and regulations or with specific client instructions.

### Engagement

Engagement is the interaction with investee companies on ESG topics in order to understand the risks and opportunities of each specific investment case, and to use NN's influence as an investor to encourage companies to improve their ESG practices, thereby ensuring sustainable long-term value that also benefits society as whole. Engagement can also be with external asset managers that manage assets on NN's behalf with regard to their responsible investment practices, or with regulators/policy makers.

NN Group has developed an Engagement Standard for Proprietary Assets which includes minimum requirements for engagement related to NN Group's Proprietary Assets. NN Investment Partners and any other BUs of NN Group for which it may be relevant, develop their own engagement policy that is based on the same language and definitions, in order to accommodate their specific context while ensuring as much alignment and consistency as possible.

## 2.4 Restrictions

As NN strongly believes in the use of engagement to create beneficial change, NN applies an engagement-led divestment approach, and will only decide to restrict individual companies when engagement is not or no longer considered feasible to change the conduct or involvement in specific business activities of those companies (based on NN's norms-based RI criteria). This decision will not be taken lightly and only where we believe that restriction is a balanced and proportionate response, or when such restrictions are demanded by law. BUs will adhere to the centrally managed Restricted List (refer to chapter 4 for more detail).

# 3. Violations of NN's Norms-Based RI Criteria

NN Group applies different Responsible Investment (RI) strategies, such as norms-based, voting, engagement, ESG integration and, as a measure of last resort, restriction. NN's RI approach is a reflection of our investment beliefs, the organisation's values, relevant laws, and internationally recognized standards such as the United Nations Global Compact and OECD Guidelines for Multinational Enterprises (hereafter: OECD Guidelines), based on which minimum requirements have been developed that have to be adhered to in the investment process.

In case there are strong indications that an issuer<sup>1</sup> may be in violation of any of these minimum requirements (NN's norms-based RI criteria), a decision needs to be taken with regard to whether NN considers this a violation. Examples of such indications can be research from NN's external ESG research or engagement provider(s), inputs from own (investment) staff or information from NGOs or media sources.

The ESG Committee of NN Investment Partners has been mandated to assess whether or not an issuer is in violation of the norms-based RI criteria. In case of a violation the ESG Committee needs to decide whether to engage with the issuer or to provide a recommendation to the NN Group Management Board to restrict the issuer.

## 3.1 Violation areas and criteria

Violations can currently occur in relation to the following areas:

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

Across these areas, NN's norms-based RI criteria consist of two main categories:

### Categories

Involvement in specific products or services	<ul style="list-style-type: none"> <li>• Controversial Weapons</li> <li>• Arms trade to entities that are subject to arms embargoes</li> <li>• Tobacco production</li> <li>• Oil sands production and controversial pipelines</li> </ul>
Controversial conduct	<ul style="list-style-type: none"> <li>• Corporates: Issuers that severely and systematically violate the UNGC principles and/or the OECD Guidelines</li> <li>• Countries: Sovereign issuers involved in severe and systematic violations of Human Rights, against which arms embargoes have been issued by the UN Security Council</li> </ul>

## 3.2 Applicable actions in case of violations

NN applies an inclusion approach and therefore first engages with companies to address the violation. Only when engagement is not considered feasible (such as in most cases of involvement in Controversial Weapons) the company will be directly put on the Restricted List. If engagement to address the violation is considered feasible, a formal engagement process need to be started in order for the company to remain eligible for investment. If after a three year period the engagement does not lead to the desired changes, NN will consider the company ineligible for investment and will decide to remove the company from its investment universe.

The section below sets out NN's norms-based RI criteria in more detail:

### Development, production, maintenance or trade of Controversial Weapons

NN considers certain weapons to be controversial due to the disproportionate and indiscriminate impact on the civilian population. This is the case for anti-personnel landmines, cluster munitions, biological weapons, chemical weapons, depleted uranium ammunitions, and white phosphorus weapons.

We restrict companies that are involved in activities such as production, research and development, maintenance, system integration and testing of products or services that are considered dedicated and essential for the lethal use of these type of weapons. In defining these weapons, we follow widely accepted international conventions or, where not available, we have developed our own criteria.

Separate criteria have been developed for nuclear weapons in addition to the criteria above, since they have a different character than other weapon types. The ownership, production, proliferation and use of nuclear weapons are strictly regulated and monitored via the Non-Proliferation Treaty (NPT) of 1968, and if necessary sanctioned by the international community.

NN restricts companies that are involved in nuclear weapon activities and that: (i) are domiciled in countries that are not a signatory to the NPT, or (ii) contribute to nuclear weapons programmes of non-NATO member states.

<sup>1</sup> In this document the terms issuer and company are used interchangeably. Whenever the word issuer is used, this can be read as either company or non-corporate issuer (such as countries and development agencies), depending on the context.

Note that for NN's Proprietary Assets that are managed on a fully discretionary basis, we restrict nuclear weapon companies regardless of country of domicile or nuclear weapon programme.

### **The controversial supply of arms**

NN considers the trade of arms to certain countries or non-state actors as controversial, due to the high risk that these arms will be used to commit severe human rights violations or prolong conflict.

We screen investments as part of the ESG risk assessment process for involvement in activities in making weapons, weapons systems, or related materiel or services available to countries in which there is a serious risk that the weapons can be used for internal repression, serious violations of human rights or for any other purpose which cannot reasonably be considered consistent with normal and legitimate national security and defence.

We restrict companies that demonstrably have activities in making weapons, weapon systems, or related materiel or services available to (i) countries that are subject to a UN or EU arms embargo that is targeting the central government or (ii) non-state actors sanctioned by the UN or EU. Not in the scope are companies that have such activities in relation to humanitarian missions or to (peace-keeping) military missions that have been commissioned by the international community.

On a case-by-case basis, NN may decide to deviate from these criteria.

### **Tobacco production**

NN has concerns regarding public health as well as the economic burden that smoking places on society. We therefore restrict companies that are involved in the production of tobacco products. Producers are restricted when tobacco products account for 50% or more of their revenues.

### **Oil sands production and controversial pipelines**

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

We restrict companies whose business models are dependent on the extraction of oil sands. This is defined as a share of oil sands higher than 30% of the total oil and gas average production in barrels of oil equivalent per day. Companies with less than 30% share of oil sands will be monitored, and evaluated in two years' time<sup>2</sup>.

We also restrict pipeline operators when involved in oil sands transportation projects that are in dispute, and when engagement is not expected to achieve the desired results.

### **Controversial Conduct - Corporates**

NN expects the companies it invests in to act in accordance with the United Nations Global Compact and OECD Guidelines. If NN assesses companies to severely and systematically violate these standards, an engagement process need to be started in order for the company to remain eligible for investment. If after a three year period the engagement does not lead to the desired changes, NN will consider the company ineligible for investment and will decide to remove the company from its investment universe.

### **Controversial Conduct - Countries**

Restriction of countries subject to country-wide arms embargo sanctions imposed by the United Nations. On a case-by-case basis, NN may decide to also restrict countries on other grounds.

**Note:** For corporate issuers, the corporate tree needs to be analysed in order to decide which issuing parties are considered in-scope of being in violation:

1. A company itself is in violation
2. A company owns a majority stake (>50%) of a company that is in violation
3. A company has more than 50% of its shares owned by a company that is in violation

For involvement in Controversial Weapons, the ownership threshold under 2. is set at 25% or more.

2. The policy on oil sands was adopted in October 2018.

# 4. Restrictions application

Compliance with NN's norms-based RI restrictions is managed through the Restricted List. This list applies globally in the organisation as described in the table below.

## 4.1 Proprietary Assets

The Restricted List applies to all financial instruments (e.g. equity, corporate bonds, loans) in proprietary portfolios owned and/or managed by NN Group and its asset managers worldwide, except for index derivatives.

Specific additional requirements apply to Proprietary Assets that are invested via (internally or externally managed) mandates and whereby NN in all aspects can decide how its assets are invested (i.e. fully discretionary). Such discretionary mandates represent the vast majority of Proprietary Assets. At present, these additional requirements include the restriction of issuers involved in nuclear weapons irrespective of the country of domicile or of the nuclear weapons programme that it delivers to.

Where Proprietary Assets are invested in mutual funds (including ETFs and index funds), the conditions apply as described in section 4.2.

For Proprietary Assets that NN invests via private limited partnerships (e.g. hedge funds, private equity funds) and whereby other investors also participate, NN cannot ensure that the Restricted List is applied. For these assets, NN ensures that this policy is communicated to the manager, that it is taken into account in the due diligence process and that the restricted areas are referred to in the Investment Management Agreement or related arrangements. NN will monitor whether there are investments in issuers that are on NN's Restricted List and will encourage the external managers to adopt policies that include similar restriction criteria.

## 4.2 Client Assets

### NN managed funds

The Restricted List applies to all mutual funds managed by NN IP, including funds created for retail or institutional investors, as well as NN-labeled funds where fund management activities have been outsourced to a third party.

For NN managed funds which are obliged by their prospectus to replicate the composition of indices (i.e. passively managed products such as ETFs and index funds), NN will ensure that the cumulative weighting in issuers for which legislation is in place prohibiting their financing<sup>3</sup>, is not more than 5% of the related fund or index.

### Discretionary mandates

In addition to any restrictions governed by laws and regulations, NN will apply the same restrictions as on NN's Restricted List<sup>4</sup>. Furthermore, clients may also request to implement their own exclusion list.

### Third party funds

Because in a mutual fund managed by a third party there are multiple investors that participate, NN Group's policy on restrictions cannot be forced upon these funds. For these funds (including ETFs and index funds), NN will monitor the composition to ensure that the cumulative weighting in issuers for which legislation is in place prohibiting their financing, is not more than 5% of the related fund or index. NN will ask third party managers for policies and restricted lists, and will apply a risk based approach if not available.

### Asset management advisory services (Fiduciary advice)

NN monitors compliance with relevant laws and regulations where NN is the fiduciary manager of the assets and will engage with its clients in case of violations by an external asset manager. Furthermore, NN will screen the assets against the NN Restricted List and may engage in dialogue with its clients in case of exposure.

## 4.3 Other requirements

The approval process of the Restricted List, which are updated four times a year, is managed by Corporate Relations/Corporate Citizenship of NN Group. The ESG Committee of NN Investment Partners has a (mandatory) advisory role with respect to changes on the Restricted List (as well as NN Group policy proposals) which have to be approved by the NN Group Management Board.

The Restricted List is not exhaustive, and therefore asset managers are required to judge if restrictions are applicable to investments. If in doubt, Corporate Relations/Corporate Citizenship is to be consulted. Negative recommendations of Corporate Citizenship are binding and can only be overruled by the NN Group Management Board.

NN Group entities may also need to apply other lists for exclusions to align with local regulatory requirements (e.g. Belgium).

<sup>3</sup> Currently this relates to companies involved in specific types of Controversial Weapons as part of (local) laws and regulation.

<sup>4</sup> For discretionary mandates where exposures based on restrictions on newly introduced norms-based RI criteria have been identified (e.g. tobacco, and oil sands) we will engage with clients to apply these restrictions.

## **Compliance**

Unless sanctions, laws or regulations stipulate otherwise, the asset management units are allowed to take an appropriate period of time in order to become fully compliant with the updated Restricted List. This ensures that divestment decisions can be made taking into account market circumstances. However, for publicly traded securities, this period should be no longer than 3 months after communication of the Restricted List<sup>5</sup>.

When an extension of the above mentioned periods is considered desirable, a request for a waiver can be submitted according to the procedure described in the NN Group Policy House Governance on the NN Group intranet.

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<sup>5</sup> In case a restriction is based on newly introduced norms-based RI criteria, a longer period may be chosen. This will be decided on a case-by-case basis.

# Appendix: Key Responsible Investment Principles

NN Group uses seven principles to highlight the measures it will take to systematically integrate ESG into our investment decision-making and ownership practices, for the benefit of all stakeholders.

## 1. We incorporate ESG factors into the investment analysis and decision-making processes

We consider ESG aspects that are often out-of-scope of traditional financial analysis, but can have a significant impact on long-term performance. We recognise that the consideration of ESG aspects also helps to better align our business with the broader objectives and expectations of society.

## 2. We make active and considered use of our voting rights

Voting at shareholder meetings is one of the best ways to let our voice be heard and promote our policy standards. By voting, we encourage companies in which we invest to comply not only with local legal requirements, but also with internationally accepted corporate governance standards. These standards include the OECD Principles of Corporate Governance and the International Corporate Governance Network (ICGN)'s Global Governance Principles.

## 3. We initiate dialogue to address ESG issues and encourage positive change

We use our influence to encourage companies to adopt appropriate ESG practices. Thereby, internationally accepted standards such as the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises provide a starting point for our dialogue and engagement with companies.

To emphasise our message, NN Group engages collaboratively with other institutional investors and/ or through initiatives such as the PRI. In this way, we maximise investor influence and sharing of resources and expertise when engaging with companies.

## 4. We advocate policy and legislation that support sustainability and shareholder rights

We engage with policymakers to develop sustainable government policies and a more sustainable global financial system. We often work with other investors, as this can be more effective.

## 5. We may use investment restrictions as a last resort

We aim to include, not exclude, entities for investment consideration. However, we may use restrictions to set a minimum standard, in recognition of law and/or international consensus.

## 6. We identify and consider sustainable investment opportunities

NN Group wants to play a role in addressing global sustainability challenges, such as climate change, resource scarcity and demographic change. We consider investment opportunities that offer solutions to those challenges whilst meeting our investment criteria.

## 7. We are transparent on our RI activities

Public disclosure of progress is important to the credibility of an organisation. Thereby, stakeholders can better understand how we are managing relevant ESG and sustainability issues. Transparency is also an important driver for continuous improvement.

