

Investment Guidance paper on the Environment

Supporting document to implement the RI Policy Framework

April 2017



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1. Introduction

At NN Group, we strive to conduct our business in a manner that is environmentally and socially responsible. This guidance paper focuses on our approach to the environment in our role as an investor. It provides background on environmental protection and illustrates due diligence processes we apply. It further highlights relevant standards and principles to promote best practices and avoid negative impact of companies in which we invest.

1.1 Background guidance papers

NN Group adopted the [Responsible Investment Policy Framework](#) in 2014. This policy sets out the measures we take to responsibly invest our own assets, as well the assets that our customers entrust to us. We define Responsible Investment (RI) as the systematic integration of Environmental, Social, and Governance (ESG) factors into the investment decision-making and active ownership practices.

Our Responsible Investment Policy Framework reflects our commitment to various international and sector-specific standards and initiatives. An important guideline that we use to evaluate the social or environmental policies of the companies in which we (may) invest is the United Nations Global Compact. This is a set of ten principles for responsible corporate behaviour in four areas:

- Human rights
- Labour relations
- Environment
- Anti-corruption

For each of these areas, NN is developing papers, with the objective of providing internal guidance to our asset managers. These papers are also intended to be a basis for discussion between NN Group and our stakeholders. They are living documents that will be reviewed by NN Group regularly to ensure that they reflect evolving risks and best practices, as well as solidify our ongoing education on these topics.

1.2 NN Group and the environment

The basis of our approach to the environment is embedded in the [NN statement of Living our Values](#), which provides the foundation on which we do business. We avoid or responsibly manage any negative impact our business activities may have on people or the environment, and seek positive change in society.

When investing in companies, there is the potential that we become indirectly linked to challenging environmental situations. Implementing a process to systematically incorporate ESG considerations in investment analysis and active ownership practices will help us to identify, prevent and mitigate sustainability-related risks, including those related to the environment. In addition, we believe such a process will support us in making better informed business decisions and in identifying sound and beneficial opportunities.

This paper begins with an introduction to the international frameworks and principles that are the foundation of environmental protection. This is followed by an explanation of how companies and industries are exposed to environmental risks, illustrated with a risk assessment that we performed. Further, examples of sub-themes which we believe are important in relation to the environment are provided.

2. Environment and the role of companies

2.1 International framework

The UN Conference on the Human Environment held in Stockholm in 1972 was the first global environmental meeting of governments, which stated that long-term economic progress needs to be linked with environmental protection. Some argue that this conference had a real impact on the emergence of international environmental law.

The Rio Declaration on Environment and Development of 1992 is the output of the second global environmental conference. The Rio Declaration reaffirms and builds upon the Stockholm Declaration. It has proved to be a major environmental legal landmark as it clearly mentions amongst others, the following principles:

- The **precautionary principle**, which entails that companies need to be responsible and proactive in avoiding threats of serious or irreversible damage; the lack of full scientific evidence is not a reason for inaction;
- The **polluter pays principle** that lays out the practice that those who produce pollution should bear the costs for the damage done to the natural environment.

The Rio Convention also led to adoption of the UN Framework Convention on Climate Change (UNFCCC). This convention sets out a framework of action aimed at stabilising greenhouse gas (GHG) concentrations in the atmosphere to avoid 'dangerous anthropogenic interference with the climate system.' The convention entered into force in 1994 and in turn led to the adoption of the Kyoto Protocol (1997) and the Paris Agreement. The Paris Agreement of 2015 established a framework for a new era in climate action and laid the foundation for future cooperation amongst countries on carbon pricing. Refer to section 4.2 for more information.

2.2 Companies and the environment

Arguably, the environment has typically been part of companies' sustainability strategy longer than human rights have been. However, a framework that combines all major environmental standards conveniently together and that speaks to corporate responsibility (like the Guiding Principles on Business and Human Rights) is lacking. Nonetheless, authoritative and broadly accepted standards that outline environmental responsibility for companies exist. These include the UN Global Compact and the OECD Guidelines for Multinational Enterprises, which are the foremost voluntary initiatives that promote corporate responsibility and sustainable business practices¹. The IFC Environmental and Social Performance Standards - and more specifically for project finance: the Equator Principles - also contain important references for environmental responsibility.

Based on these broadly accepted standards and principles, NN Group expects companies to comply with environmental regulations, and strive towards continuous improvement of their environmental performance. Companies can demonstrate their commitment to improve the environmental performance of their processes through implementing an Environmental Management System (EMS) such as ISO 14001. Other actions they can take include:

- Draft publicly available policies formalising company commitment to environmental responsibility, including policies relating to suppliers with specific criteria;
- Conduct regular environmental impact assessments using tools such as environmental impact assessment (EIA) and life cycle assessment (LCA) in the development of new technologies and products;
- Refocus research and development towards making operations sustainable and developing environmentally friendly technologies;
- Contribute to partnerships or initiatives that will enhance environmental awareness and protection.

NN Group further expects companies to report publicly on their environmental management and performance. For the sake of convergence towards a globally consistent sustainability reporting practice, companies are encouraged to apply the widely-adopted guidelines of the Global Reporting Initiative (GRI), as well as to integrate material sustainability indicators in their financial reporting by making use of the tools of the IIRC, and the Sustainability Accounting Standards Board (SASB).

3. Environmental risk assessment

A good understanding of environmental issues will allow investors to identify investment risks and opportunities, and focus dialogue and engagement on the topics that are relevant to the companies in which we invest. While all companies are exposed to environmental risks, the type of risks that companies face, and severity of these risks, will differ depending on their sector and operational circumstances.

NN Group regards the UN Global Compact as a key instrument in determining accountability. As a first step in assessing environmental risks, we looked at the environmental risks faced by key sectors, as summarised in Table 1. This analysis is based on an assessment of risk exposure to involvement in severe and structural controversies using compliance with principle 7 of the UN Global Compact Principles as a guide:

- Principle 7: Businesses should support a precautionary approach to environmental challenges.

Of note, the UN Global Compact comprises two other principles that relate to the environment, namely:

- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

The sector deemed to have the highest risk exposure to serious environmental controversies is Materials. Consumer Staples, Energy, Industrials and Utilities have medium exposure.

- The Materials sector's high exposure is mainly due to the occurrence of large tailing spills by mining companies.
- The Consumer Staples sector's medium exposure is related to deforestation involvement by palm oil producers.
- The Utilities sector's medium exposure originates mostly from the environmental impacts of dam construction projects. However, the outcomes of the 2011 nuclear disaster in Japan have also escalated the sector's overall exposure.
- The medium exposure of the Energy sector and the Industrials sector are attributed to various types of air, land or water pollution.

This sector matrix, as prepared by the ESG research and data provider Sustainalytics, is not static, as it is based on a holistic assessment of environmental impacts in dynamic conditions. Furthermore, differences in scope and assessment methodologies may lead to different outcomes. Nevertheless, it illustrates that not all sectors are exposed to environmental risks to the same degree.

Table 1: Environment Sector Matrix

Sector	Environmental Risks Principle 7
Consumer Discretionary	Low
Consumer Staples	Medium
Energy	Medium
Financials	Low
Health Care	Low
Industrials	Medium
Information Technology	Low
Materials	High
Telecommunication Services	Medium
Utilities	Medium

Notes: (i) This sector breakdown is based on the Global Industry Classification Standard (GICS). (ii) A darker colour indicates higher risk.

To further identify the environmental risks faced by the companies in which we invest, we developed an internal tool, named the 'Consolidated Environment Matrix'. This matrix contains various environmental dimensions mapping low, medium and high risks for 42 industry groups. This matrix was developed with input from the equity sector analysts of NN Investment Partners. In advance of a workshop on environment, they identified key environment exposure risks based on Sustainalytics' data assessing company involvement in environment-related controversies. Table 2 shows examples of the main environmental risks for several industry groups. We also identified examples of environmental opportunities.

Table 2: Examples of the Consolidated Environment Matrix

Industries	Main environmental risks
Oil & Gas producers	<ul style="list-style-type: none"> • Oil spills constitute a major risk for oil extraction operations, leading to lost production and environmental fines. Particularly if access is limited, for example with deep-water or Arctic operations, a leak or a blow-out can lead to significant damage to animal life and economic conditions in coastal areas. • The production and use of oil, gas and oil-based products are carbon intensive, contributing to climate change. <ul style="list-style-type: none"> - While natural gas is less carbon intensive when burned than oil, the transportation in pipelines results in leakage of methane, a very potent greenhouse gas. • Oil and gas extraction are associated with risks of significant air pollution, water contamination and soil degradation. <p>Positive impacts:</p> <ul style="list-style-type: none"> • Oil and gas producers and refineries can improve the safety of their operations and carbon efficiency. • Oil and gas producers can collaborate with downstream stakeholders to develop more carbon-efficient applications for oil and gas. • Oil and gas producers may leverage their expertise and equipment to design and install large-scale offshore wind turbine parks, or to develop commercially viable biofuels or bioplastics.
Diversified metals	<ul style="list-style-type: none"> • The waste of mining can seriously affect the quality of the surrounding surface water and groundwater. E.g. irresponsible tailings disposal is a major risk of many mining operations. • Mining operations, e.g. the large scale open pit mining of minerals such as bauxite, are carbon intensive, contributing to climate change. • Mining (in particular surface mining) results in land-use change and deforestation, representing a major component of global emissions. Toxic spills can further lead to loss of biodiversity. <p>Positive impacts:</p> <ul style="list-style-type: none"> • Energy efficient processing of minerals through use of renewable energy can reduce carbon intensity. E.g., aluminium can be produced with renewable energy such as geothermal or hydroelectric power. This will have a much lower carbon intensity than coal powered facilities. • When renewable energy is also combined with recycling of metallic waste, the emissions (e.g. Co₂, and SO₂) can be reduced even more. • Minerals and metals are also required for a low carbon development such as the building of renewable infrastructure.
Food products	<ul style="list-style-type: none"> • Food products require agriculture. Agriculture tends to be carbon intensive and the use of arable land and ground or surface water bears the risk of over-exploitation of natural resources. Furthermore, monoculture, chemicals and genetic modification can lead to loss of biodiversity and hence, loss of ecosystem resiliency. • Many food products contain palm oil or soy. Palm oil and soy plantations continue to be associated with irresponsible and even illegal deforestation practices. • Packaging maintains the safety and quality of food, but packing waste can negatively impact the environmental impact when materials are not prudently selected and it can create extra waste (e.g. all the plastic packaging). <p>Positive impacts:</p> <ul style="list-style-type: none"> • Efficiency and process improvements can reduce carbon intensity, water intensity and soil depletion. E.g. palm oil can sometimes be (partly) replaced by other oils and responsible plantation management can also make a large difference. • Organic farming can benefit soil quality, biodiversity, and animal and plant health. • Besides risks, smart cross-pollination and/or genetic modification introduce opportunities such as improved resilience to draught for a plant or higher quality meat for an animal.

Table 2: Examples of the Consolidated Environment Matrix

Industries	Main environmental risks
<p>Utilities</p>	<ul style="list-style-type: none"> • Many traditional power utilities struggle to secure their future. The utilities industry is under heavy societal and increasing regulatory pressure to transition from a fossil fuel-based energy mix, towards a lower carbon power generation mix. • While nuclear power is significantly less carbon intensive (no emissions from power generation; just from constructing the plant) than fossil fuel-based power, safe storage of nuclear waste is a major challenge. Furthermore, the 2011 disaster at Fukushima's plants has demonstrated that the local environmental (and social) risks of nuclear power cannot be underestimated. • Power generation is water intensive; growing water insecurity and potential conflicts with competing users may affect operations. <ul style="list-style-type: none"> - Thermoelectric power plants use large amounts of water (45% US industrial usage according to US Geological Survey), although just a small part (~4%) of this is actually consumed. Most water is used for cooling nuclear and coal power plants, and is returned to surface water supplies and becomes available for other users. Large hydro does not consume water as such, but has significant environmental (and often social) impacts that include forest clearing, biodiversity loss and changes to water systems. <p>Positive impacts:</p> <ul style="list-style-type: none"> • Contrary to transport, aviation, steel and cement, utilities have clear opportunities to reduce their dependency on fossil fuels. • By incorporating more renewable energy sources like solar and wind, utilities can contribute to making products cleaner (e.g. the driving of electric vehicles). • Utilities are increasingly incentivising their customers to make more efficient use of energy and water through conservation measures and the use of smart-metering.

While the above analysis provides an overall materiality assessment on a sector and industry level, the ultimate environmental risk and opportunity profile will vary from company to company based on factors such as their regions of operation and specific business activities.

An increasingly important element is being able to fully understand how resource-intensive companies are. That is why NN Investment Partners has acquired an additional tool from South Pole Group that provides comprehensive carbon emissions data, but also includes environmental indicators such as water and waste intensity of individual companies. This enriched data can help to enhance the assessment of environmental risks and performance at the company level.

4. Sub-themes and emerging developments

In this chapter, we discuss several environmental issues which we believe are important in relation to the environment, as well as emerging trends that will play a crucial role in tackling climate change. These issues are based on gathered feedback, environmental standards, and sector guidelines.

4.1 Sub-themes

Prevention and reduction of local pollution

Most environmental incidents have a negative impact on the surrounding air, soil and/or water quality. Damage can be caused by accidental incidents or negligence on behalf of the company. In some cases, an accidental incident may occur, however, the damage is then increased when the company fails to respond adequately.

Companies which do not have a proper risk management system in place, which is able to prevent and avoid environmental disasters, are at the same time exposed to financially material risks. This is because, alongside the negative environmental impact, they can damage their reputation and brand, and lose their licence to operate. A clear example of the financial materiality of these risks is the Samarco dam disaster in Brazil which led to one of the biggest environmental disasters historically as well as had a large negative impact on the associated companies' financial performance due to reputational damages and lawsuits. Therefore, NN Group expects the companies we invest in, to have proper internal management control systems in place in order to avoid those material environmental risks.

Climate change mitigation

Besides local pollution risks, companies are expected to monitor and manage the carbon intensity of their operations, and where relevant, the carbon intensity of their entire value chain. If the carbon intensity and ultimately the absolute carbon footprint are not managed, the increasing concentration of carbon particles in the atmosphere will cause structural changes to the planet's climate system with potential large-scale negative consequences for the environment and society. Stricter regulations in several jurisdictions around the world are incentivising companies to prepare for a carbon-constrained future. We believe that companies with lower carbon intensities will likely be best positioned to maintain financial competitiveness in a carbon constrained economy.

To assess carbon related risks and opportunities as an investor, we are dependent on reliable, comparable data from companies. NN Group therefore encourages companies to report on their carbon emissions and targets via the CDP. Furthermore, NN Group supports the mission of the CDP to transform businesses to prevent climate change and to protect the world's natural resources. Therefore, we engage in active dialogue with our investee

companies to encourage them to shift towards renewable and low carbon strategies and to measure, disclose and reduce emissions, contributing to the transition to a low carbon economy. The box below illustrates an example of how we proactively engage with companies to promote the transition to a low carbon economy.

Case: Climate change risk engagement with utilities

The utility sector is one of the main contributors to CO₂ emissions but has at the same time, opportunities to adapt and prosper in a carbon constrained economy and can contribute to a reduced demand for fossil fuel extraction. Since the beginning of 2016, NN Investment Partners is proactively engaging with twenty companies in the power utility sector with the aim to reduce current and future tons of CO₂ emitted. The engagement is supported by one of Europe's leading engagement providers GES. By using measurable metrics and independent, third-party benchmarking, we are able to make a clear assessment of progress and impact of the engagement efforts. This engagement enables us to address our portfolio exposure to climate change, whilst at the same time support the United Nations' Sustainable Development Goals (SDGs) focusing on clean energy (goal 7). Refer also to section 4.2 for an explanation of the SDGs.

Climate change adaptation (including water use)

Companies with business operations that are vulnerable to the impacts of climate change should take precautionary measures to mitigate against these negative impacts. For example, companies should be aware of their vulnerability to extreme weather events, such as floods and hurricanes, based on their location and type of operations. In addition, companies with water-intensive operations in water-scarce regions should develop contingency planning to avoid business discontinuity or conflict with competing requirements for the scarce water.

Over the past two years, the World Economic Forum identified water as the third greatest global risk by impactⁱⁱ. The projected increase of the world population growth rate and climate change impact will increase water scarcity unless water use and management practices markedly change in future years. NN Group believes that companies with water intensive operations that develop effective strategies aimed at protecting water quality and supply will be able to maintain their license to operate and continue their ability to produce products and services. Therefore, we expect these companies to acknowledge water scarcity as a strategic issue and develop policies and management systems to maintain water resources and reduce their own water usage. This includes

conducting an impact assessment of water scarcity when considering new operations in water scarce regions. Furthermore, as a signatory to the CDP Water program, we encourage companies to collect and share information concerning water-related risks and opportunities. The institutional investor supported initiative run by CDP addresses more than a thousand global companies with water-intensive production or water-related challenges.

Protection of biodiversity

According to the National Wildlife Federation, biodiversity relates to animal species in addition to genetics, habitats and ecosystems. Biodiversity is extremely important for both humankind and all ecosystems, as it contributes to the provision of clean air and water, as well as the prevention of diseases. The benefit of rich biodiversity is ecosystem resilience. The existence of numerous species of animal and plants improves the resiliency of nature against viral attacks and other threats. In other words, when biodiversity is rich, the loss of one species does not immediately threaten the entire ecosystem.

While the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the IUCN categories I-IV, the natural sites on UNESCO's World Heritage List, FSC's designation of High Conservation Value Forests and the Ramsar Convention on Wetlands all serve as useful references, biodiversity challenges do extend beyond the most endangered species and sites only. Companies are also expected to protect 'regular' ecosystems. Overfishing and destruction of natural habitat need to be avoided.

Yet another important reference with respect to biodiversity is the Cartagena Protocol on Biosafety, which provides a framework for the safe use of living genetically modified organisms. Today, the Cartagena Protocol is an important international instrument related to biodiversity issues, aimed at ensuring the safe handling, transport and use of living modified organisms.

NN Group acknowledges the critical role of protecting biodiversity in the face of a changing climate. In our role as an investor, we expect companies to reduce the negative impact on biodiversity by taking into account, where relevant, internationally accepted standards and instruments. We also expect them to develop management systems that will enable them to monitor biodiversity impacts of their business operations. Before beginning a new project or expanding into new markets, companies should carry out an environmental impact assessment on various aspects of the environment, including biodiversity. In addition, companies that operate in the latest stage of the supply chain should ensure that they have adequate systems in place to monitor their suppliers. Furthermore, they are encouraged to promote initiatives for the conservation of biodiversity in supply chains.

Animal welfare

During the last twenty years, there has been a sharp increase in the consumption of animal products; effectively meat production to more than 310 million tons in 2013ⁱⁱⁱ. The growth in meat consumption is strongly linked to

growing population and incomes, along with changing food preferences, in many countries of the world. In order to satisfy the growing demand for meat, intensive livestock farming has been replacing the traditional small- and medium-scale farms. The increasing efficiency of intensive livestock farming has led to reduced prices and had helped to nourish large populations. The production of livestock however contributes to multiple environmental issues such as greenhouse gas emissions (mostly methane), water contamination, land degradation and loss of biodiversity. In addition, there are challenges concerning animal welfare where particularly the intensive livestock operations are more likely to place efficiency and production ahead of animal welfare.

While it can be challenging to define a standard for the humane treatment of animals, or to ensure animals have the opportunity to behave naturally, there is undoubtedly increasing and broad public support to curtail animal suffering and improve their welfare. NN Group expects companies that operate within the agriculture industry that raise or sell meat or fish products, to have policies in place which define a clear commitment to responsible animal welfare practices. For instance, a well-developed policy takes into consideration the issues identified as the 'Five Freedoms', which are a set of internationally-recognised animal welfare standards (refer to the box on this page). Companies should establish internal processes to control for each issue and have their practices periodically inspected and tested through appropriate certification schemes.

International standards animal welfare

The 'five freedoms', which were originally developed by the UK's Farm Animal Welfare Council (FAWC), provide valuable guidance on animal welfare. They outline five aspects of animal welfare under human control, which are:

1. Freedom from hunger and thirst (food and water)
2. Freedom from discomfort (shelter)
3. Freedom from pain, injury and disease (medical care)
4. Freedom to express normal behaviour (exercise)
5. Freedom from fear and distress (avoid mental suffering).

Although the freedoms are also applicable to animals used in science, the 'three Rs' (which stand for Replacement, Reduction and Refinement) provide a more specific set of guidelines for human animal research. These 3Rs are aimed at reducing animal suffering and the number of animals used as much as possible. They have become widely accepted, enshrined in legislation, and embedded in the conduct of animal-based science throughout many countries in the world.

Companies that operate in the latest stage of the meat or fish supply chain, such as retailers and fast-food restaurants, should also be aware of those potential risks connected to the livestock production within their supply chain and take appropriate steps to mitigate those risks. These include for instance putting a proper traceability system in place that allows them to check the origin of the product and the different stages of the supply chain. Furthermore, the adoption of certification schemes such as organic or bio certification will help to prove the sustainability of their products.

4.2 Emerging developments

Paris Agreement

The 21st meeting of the Conference of Parties (COP 21) to the United Nations Framework Convention on Climate Change (UNFCCC) was held in Paris in December 2015. The entry-into-force requirements of the 'Paris Agreement' were met when the European Union ratified the agreement in November 2016, following the example of other large emitters including Brazil, China, India and the U.S. The new agreement succeeds the 1997 Kyoto Protocol as per 2020.

The key strength of the Paris Agreement is that both developed and developing countries intend to mitigate their greenhouse gas emissions. The compromise is that there will be a lack of any legally binding targets. Participating countries are expected to submit more ambitious nationally determined contribution plans every five years. The plans submitted to date still fall short of keeping global temperatures from 'well below 2°C Celsius above pre-industrial levels' as prescribed in the Paris Agreement. To that extent, the agreement is an important but only first step towards an effective policy response, creating a framework which individual countries will have to translate into concrete action.

The FSB' sector recommendations to standardise climate change disclosures

In December 2015, the Financial Stability Board (FSB) set up an industry-led disclosure task force on climate-related financial risks. The Task Force on Climate-related Financial Disclosure (TCFD) was asked to assess the most efficient way of disclosing environmental data and to develop a set of recommendations for companies that incorporate these data into their reporting activities.

NN Group acknowledges the financial materiality of climate-related risks and therefore we incorporate those risks into our investment decision making process. One of the main challenges for doing so is that there is no uniform or standardised way of reporting for entities which operate in the private sector. By providing recommendations to the private sector about how to incorporate effective climate-related risks into financial reporting, the TCFD's work helps investors to make more informed decisions, taking into consideration climate related risks. We therefore welcome this initiative to close the gap in climate related risks reporting and disclosure.

The UN' Sustainable Development Goals

In September 2015, the United Nations released the Sustainable Development Goals (SDGs), a set of 17 goals with 167 specific targets aimed at fostering the sustainable economic development. The SDGs are set for 2030 and relate to climate, poverty, health care, education, and other societal challenges.

NN Group believes the SDGs can offer a business opportunity for companies which can enhance economic performance, foster innovation and process improvements as well as contributing to positive social and/or environmental impact. Effectively, according to a recent report of PwC (2015), companies that are able to integrate their most financially material strategic SDGs into the business strategy will have brand and reputational benefits as well as process efficiency.

With regards to our investment activities, we believe there is an opportunity to link different responsible investment instruments, such as ESG integration, dialogue and engagement (refer to the box on the next page for an example), and impact investing, to various SDGs. We welcome new approaches, such as the one referenced in the case study below, that promote the importance of SDGs for investee companies and aim to invest in related opportunities.

Case: Investing in the Sustainable Development Goals

Not all SDGs are equally investable and reporting on key SDG performance indicators is still too limited to rely on for investment purposes. To overcome this problem, NN Investment Partners has developed a pragmatic method of tagging companies' contributions to SDGs with pluses and minuses. This method - already applied by our Global Sustainable Opportunities strategy - allows it to assess SDG company exposure to SDGs and with that, the investment opportunities in SDGs.

From the SDGs that relate clearly to the environment, NNIP finds that the most investable goal is clean and affordable energy (Goal 7). This includes opportunities not just in renewable energy (like windmills and solar power), but also in its suppliers and in enablers of energy efficiency. These can be found in industries ranging from auto components (fuel efficiency and light weighting of cars) to construction materials and real estate (green buildings).

Water and sanitation (Goal 6) are most directly investable through water machinery, plumbing, and water utility companies. But one can also think of agricultural products that reduce water usage or protect against drought. Indirectly, SDG 6 can be played through consumer goods companies that reduce their water footprint or that teach their customers the basics of sanitation. An example is Unilever's Lifebuoy handwashing program, which has reached over 300 million people, and helps reduce killer diseases and child mortality (Goal 3).



Much less investable are the goals of climate action (Goal 13), life below water (Goal 14), and life on land (Goal 15). Climate action has been defined mainly on a government level. Nevertheless, individual companies can contribute. In particular, the financial sector can commit to climate action, for example by adapting environmental targets, and taking part in climate coalitions. Life below water (Goal 14) seems somewhat investable through (sustainable) fish farms, marine and dredging companies. Life on land (SDG 15) is investable through agricultural or forest companies that are good at restoring or protecting land.

Figure 1: The United Nations Sustainable Development Goals.
Source: United Nations

5. Concluding remarks

NN Group's Responsible Investment (RI) Policy Framework highlights the measures we take to systematically integrate Environmental, Social, and Governance factors into the investment decision-making and active ownership practices. NN Group will encourage our asset managers to use this paper as a guide to determine risks and opportunities and to engage in a dialogue with companies to address environmental risks that could in our view affect the value of investments. Where needed, these processes will be supported by additional tools or guidance materials. This may include more detailed theme or sector policies for areas that are identified as high risk (e.g. the NN Defence Policy).



Best practice materials and tools, such as the Consolidated Environment Matrix, are available for download in the 'supporting materials' (to the RI Policy Framework) section of the policy house on SAM.

This paper was developed to help our asset managers in evaluating investments from an environmental perspective. By publishing this paper externally, we aim to express our position and use it to promote change within the sphere of our investment activities.

Annex 1: Standards and guidelines

List of international standards, principles, guidance and other tools consulted.

International standards and principles

Rio Declaration on Environment and Development

Electronic Industry Citizenship Coalition (EICC)

Extractive Industries Transparency Initiative (EITI)

CDP Supply Chain Initiative

Sustainable Packaging Coalition (SPC)

CEO Water Mandate

Business and Biodiversity Offsets Programme

UN Global Compact principles

OECD Guidelines for Multinational Enterprises

Sustainable Development Goals (SDGs)

Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)

Cartagena Protocol on Biosafety

Management Systems

The ISO 14000 family of standards provides practical tools for companies looking to manage their environmental responsibilities. It includes most notably the ISO 14001 standard, which focus on environmental management systems (EMS) to achieve this.

Examples of environmental certification schemes

Forest Stewardship Council (FSC)

Marine Stewardship Council (MSC)

Aquaculture Stewardship Council (ASC)

Roundtable on Sustainable Palm Oil (RSPO)

Roundtable on Responsible Soy Association (RTRS)

Roundtable on Sustainable Biomaterials (RSB)

The Gold Standard

Examples of sector specific standards

IFC's Environmental and Social Performance Standards and the Equator Principles are helpful tools for financial institutions to evaluate the environmental and social risk exposure, management and impacts of companies (and specific projects in the case of the Equator Principles).

Reporting frameworks

Global Reporting Initiative (GRI) G4

International <IR> Framework

Sustainable Accounting Standards Board (SASB)

The CDP provides a framework for disclosing environmental impacts related to climate change. Other sustainability reporting frameworks include GRESB for real estate and infrastructure assets.

Abbreviations

IFC - International Finance Corporation

IIRC - International <IR> Framework; the International Integrated Reporting Framework

IUCN - International Union for Conservation of Nature

OECD - Organization for Economic Cooperation and Development

UN - United Nations

Endnotes

- i Sections that relate to environment include: Principles 7, 8 and 9 of the Global Compact, and Guideline IV of the OECD Guidelines for MNEs.
- ii World Economic Forum, the Global Risk Reports for 2016 and 2017.
- iii IFC, Good practice Note - Animal welfare in livestock operations, 2006.

Important legal information

All information, opinions and estimates in this document are those of NN Group. They reflect our knowledge and judgement therefore as of the date indicated and may be superseded by subsequent events or other reasons.

This document is not intended to be relied upon by any third party. The guidance paper may be subject to change at any time.

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