Responsible Investing Report 2020

Because it matters and it works.

NN investment partners

Foreword

Our third Responsible Investing Report covers a year that was anything but ordinary. Covid-19 dominated all aspects of our daily lives and financial markets were no exception. It caused us all to take stock and made us realize how resilient we are, especially when we work together — with our clients and our partners. The market unrest also underscored the resilience of sustainable investments. Companies that rose to the challenge, built future-proof business operations and looked after their stakeholders were rewarded. Non-financial performance gained even more momentum in a world of changing priorities.

As well as reflecting on the challenges of the past year, this report provides an opportunity to focus on what lies ahead. The climate crisis continues to grow in urgency, threatening not just our financial future but our way of life. Social issues such as access to healthcare and structural inequality will also remain deeply relevant. Tackling these complex issues will require the commitment and resolve of all stakeholders.

Each year we raise the bar for ourselves and our responsible investing approach. This year will be no exception. The implementation of the first key piece of new legislation in the EU's Sustainable Finance Action Plan, the Sustainable Finance Disclosure Regulation, requires us to further improve and streamline our activities and increase transparency. We embrace these changes and the benefits they will bring to the world of responsible investing. We will work hard to implement them and help those around us do the same.

The events of 2020 have heightened our belief that we are prioritizing the right things and that responsible investing is the best way to build a fairer, more sustainable world while also fulfilling our clients' financial and responsible investing ambitions.

This report is proof of our conviction. We hope you enjoy reading it.

Hester Borrie
Chief Client Officer

NN Investment Partners in numbers

As of 31 December 2020, we manage EUR 300 billion (USD 367 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.

2020 Highlights

Responsible investing achievements

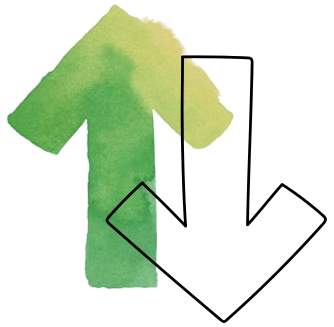
Click on a box to read more

74%

ESG-integrated and target 80%

Climate Change Policy

RI summer course UpsideDown series



A+ score

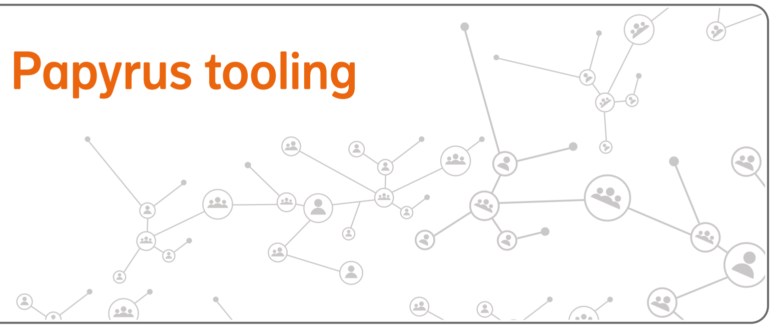
Signatory of:

PRI Principles for Responsible Investment

Complete overview

Click on a box to read more

Papyrus tooling



Voting activities

6th

ShareAction»

Launch of new annual reports

Towards Sustainability Label

TOWARDS SUSTAINABILITY - TOWARDS SUSTAINABILITY

ESG integration across EMD

Sovereign engagement

Efforts on sustainable securities lending

ISLA
INTERNATIONAL
SECURITIES LENDING
ASSOCIATION

Euro Sustainable Credit

€ 1 bln AuM

New ESG fund partner

ChinaAMC

Green bonds: new corporate fund and AuM milestone

€ 3 bln AuM

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Sustainability across asset classes

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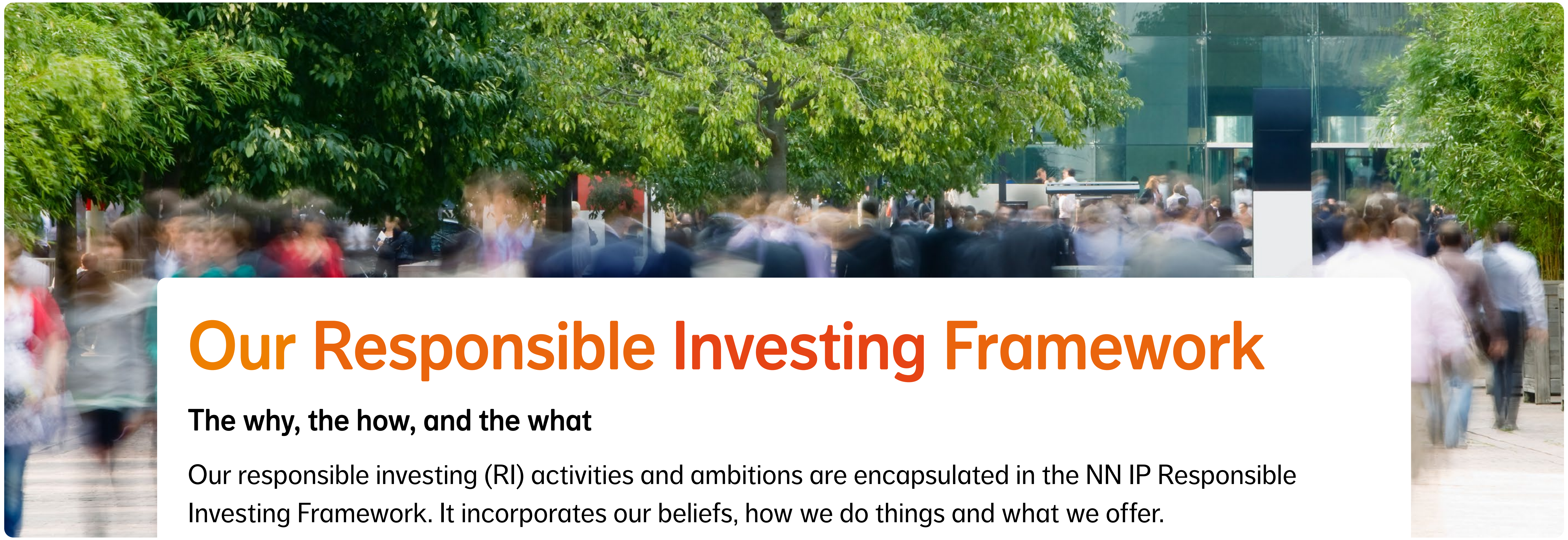


Our Responsible Investing Framework

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 - the why

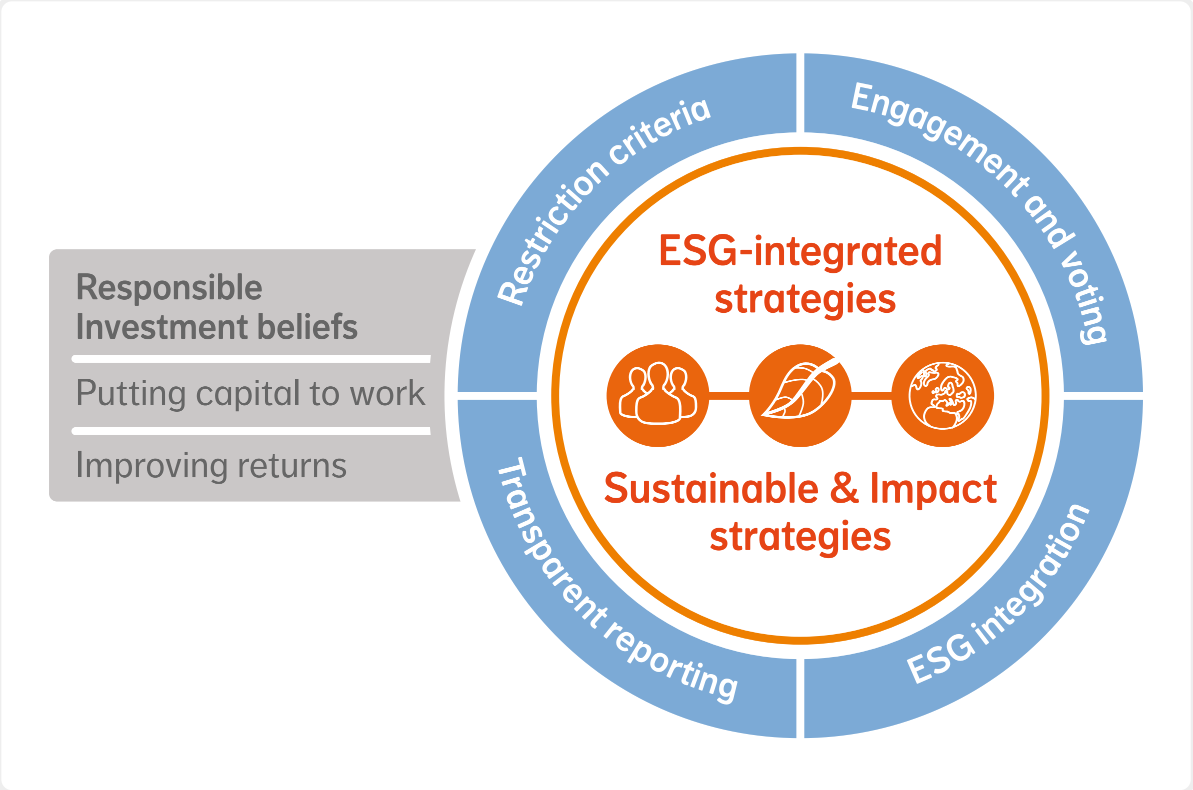
Our two RI beliefs – **putting capital to work** and **improving returns** – form the starting point, as they explain why responsible investing is important to us. These two elements form the foundation for our Responsible Investing Framework and influence every aspect of how we implement our responsible investing strategy and ambitions.

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 responsible investing and improved risk-adjusted returns. In addition to its effects on the well-being of both society and the environment, the consistent integration of environmental, social and governance (ESG) factors 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. 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. Read more in the restrictions section.

Engagement and voting

We select ESG-related engagement themes on relevant and material topics that offer us scope to 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 organizations and with other institutional investors to strengthen the impact of our efforts. Read more in the engagement section and in the voting section.

ESG integration

We take into account non-financial information by defining the materiality of ESG issues linked to 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. Read more in the ESG integration section.

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 topics such as 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. Read more in the transparent reporting section.

What we offer

Our investment strategies are the tangible result of the beliefs and approach outlined above. We have three types of responsible investing strategy – ESG integrated, Sustainable and Impact – to cater to a variety of client needs across a broad range of asset classes. These are presented in the section on investment strategies.

Our beliefs

Satish Bapat, Chief Executive Officer

Our core responsible investing beliefs are the foundation of our RI framework. They remind us why investing responsibly matters, not only for our clients but also for wider society. The turbulence of 2020 has only reinforced these beliefs, as the challenges and opportunities reflected the strength of our choices.

We represent the interests of many types of asset owners. As well as catering to their needs, we take a proactive stance on what matters to us. This starts with the two core RI beliefs that guide us: putting capital to work and improving returns.

1 Putting capital to work

As an asset manager, we have a responsibility to put the capital we manage to work, helping to guide society towards a more sustainable future. This is a duty that goes beyond short-term financial returns. In practice, it means taking a clear stance on delicate topics and joining forces with others to tackle complex problems like child labour, extreme poverty or climate change.

In 2020, we put this belief into action by engaging with sovereign authorities on deforestation and a sustainable recovery from Covid-19. We also intensified our Climate Action 100+ engagements with the world's largest greenhouse gas emitters. Tackling climate change requires concerted global effort from all stakeholders – governments, individuals and companies like us.

2 Improving risk-adjusted returns

As well as making a positive difference, our focus remains on financial performance. Examining ESG criteria enriches our understanding of a company's business strategy and ambitions. This, combined with thorough financial analysis and decision-making, drives long-term risk-adjusted returns. The Covid-19 crisis proved the validity of this belief in 2020, as our global and European sustainable equity strategies both outperformed their benchmarks by over 18% for the year.

There is also growing evidence that sustainable business models 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 transition. The Covid-19 pandemic itself is another example, as companies and governments worldwide acknowledge the need for a sustainable recovery for all stakeholders.

How to select a manager that fits your sustainability needs

‘It all boils down to your investment beliefs’

Pim Lievense, Senior Advisor Responsible Investing

The rise of responsible investing has presented investors with a new challenge: how to pick an asset manager that’s aligned with your sustainability objectives? In his role as advisor to fiduciary clients, Pim Lievense sees a lot of different asset owners with different needs. He explains what investors should look for when selecting an asset manager and why it’s crucial not to skip any steps.

Why is it so difficult to find a manager to help achieve sustainability goals?

“The responsible investing space has grown tremendously. There are many providers in the market and even more views on what responsible investing really means. Ten years ago, investors would simply check whether a manager was a signatory to the Principles for Responsible Investment. But today most managers are, so it’s no longer a differentiating factor. You have to dig deeper and there is a wealth of factors to consider. To illustrate that point, our own ESG due diligence of external fund managers covers more than 120 datapoints.”

That sounds overwhelming. Let’s go back to the basics. How should investors start this process?

“The first step is to ask yourself what your goals and convictions are. It’s critical not to skip this phase, which is why we always ask new clients these questions. Why is RI important to you? What are you really after? Maybe you want to reduce CO_2 emissions by a certain percentage. In that case, you can have a targeted discussion with an asset manager about how they will realize that goal without sacrificing returns or adding too much risk.”

When we move to the selection phase, what should investors look at when assessing managers?

“You should definitely take a close look at the asset manager’s RI policy framework. How serious are they about ESG integration, how transparent are they? Do they just buy ESG data off the shelf or do they form their own opinion? It’s also important to look at the instruments they use and how their approach aligns with your ambitions and beliefs. For instance, if you want to contribute to making the world a better place, you might want a manager that uses engagement and voting to nudge companies towards more sustainable behaviour.”

How will asset manager selection change in the years to come?

“It will probably become easier because of the new legislation. The EU’s Sustainable Finance Action Plan will introduce a classification system for sustainable investments, which should promote improved disclosure and transparency, helping investors to distinguish between the leaders and the laggards. But we should be aware that we can’t take these labels at face value and should still do our homework when it comes to researching potential investments. And of course, you will still have to align your investment strategy with your ambitions and convictions. In the end, it all boils down to your beliefs.”

Governance and teams

Embedding responsible investing throughout NN IP

As an asset manager we have a fiduciary duty to act responsibly on behalf of our clients. Our responsible investing framework and a set of interrelated policies help us to make and implement well-informed decisions. Our governance structure ensures that we maximize long-term risk-adjusted returns and stay focused on maintaining a positive impact.

Our responsible investing approach is embedded throughout the organization. The Responsible Investing team oversees and advises on top-down implementation, while the investment teams carry out ESG integration from the bottom up. The NN IP Management Board provides strategic direction and the RI Leadership Team oversees the implementation of the RI Framework in investment processes, using information and recommendations from a number of sources.

NN IP Management Board

The Management Board oversees our corporate strategy and responsible investing is at the core of our approach. One of their objectives is to strategically manage the RI Framework and oversee its implementation. The board is chaired by the Chief Executive Officer, and includes the Chief Investment Officer, Chief Finance and Risk Officer, Chief Client Officer, Chief Operations Officer and Chief Human Resources Officer. The CIO also plays a key role in the ESG Committee and in the development of NN IP's responsible investing approach. Furthermore, the Chief Sustainability Officer advises the board on sustainability matters and challenges, and their implications for the entire organization.

An interview with Arnoud Diemers

Head of Innovation & Responsible Investing Platform and member of the RI Leadership Team

Can you briefly describe the Responsible Investing (RI) team?

"The RI team is a close-knit and diverse international team with ten core members from a range of academic backgrounds. Within the team we focus on three key areas: ESG integration, active ownership, which includes engagement and voting activities, and responsible investing thought leadership. One member focuses on fiduciary clients and we usually also have a trainee offering additional support. Our recently created role of Chief Sustainability Officer underscores our commitment to responsible investing. It will ensure a focus on external sustainability developments at board level and facilitate the further implementation of our RI approach."

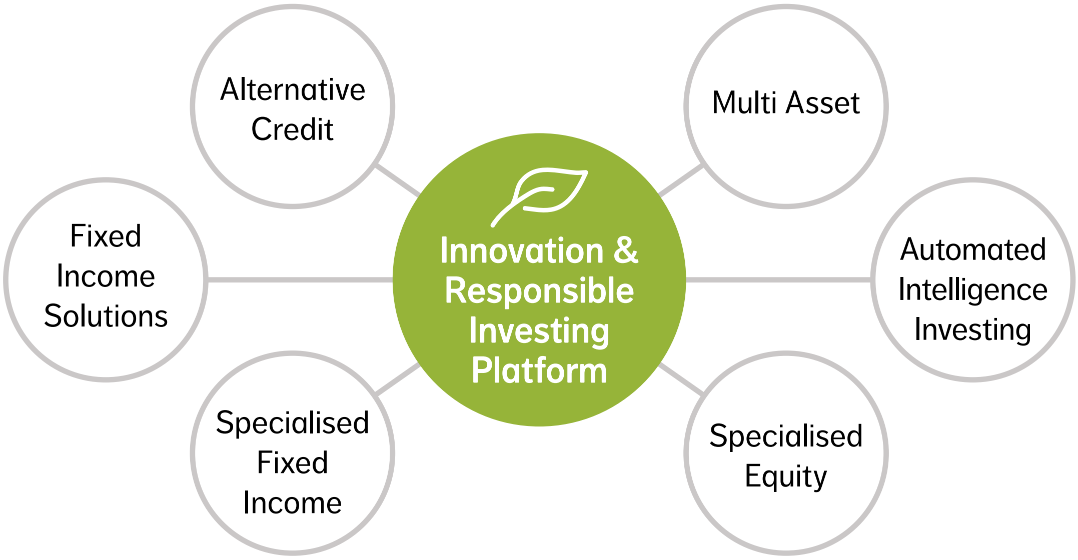
What makes responsible investing and innovation such a good fit?

"Developments in responsible investing are accelerating and we need to be innovative. Its location within the Innovation & Responsible Investing Platform allows our RI team to benefit from additional resources, knowledge and support. Data is a key element in assessing how sustainable an entity really is and we can use techniques developed elsewhere to aid our own data enrichment. Our missing value algorithm is a good example. ESG data can be unaudited and datasets are often incomplete; this algorithm helps fill in the gaps and enhances the quality of our ESG data. Recently several investment teams implemented our proprietary ESG Lens - a great example of innovation and responsible investing coming together! Tools like these rely heavily on the technical support of the platform. In this sense, I think our set-up is unique."

Why is the RI team positioned at the core of the investment department?

"Our primary role is to ensure we help the investment teams with their non-financial goals. We do this in a number of ways – by developing tools and frameworks, by pursuing voting and engagement, and probably most importantly by offering support and guidance on ESG integration practices. We believe that financial and non-financial data are inextricably linked and so our portfolio managers and analysts carry out the ESG integration themselves – with our support, if needed. Our broader RI community serves as a platform for all parties to share best practices and to discuss developments and dilemmas. Our portfolio managers also hold dialogues with companies on material issues and input this information in Papyrus. This internal knowledge-sharing platform enhances the information flows between the investment departments and the RI team."

RI team positioned at the core of the investment department



What is the main goal of the RI team?

"In a nutshell, I would describe the team as NN IP's 'expertise centre on non-financial responsible investing topics'. Our goal is to ensure that our investments are both sustainable and future-proof by supporting the investment teams wherever we can. As a thought leader we must have sufficient contact with the world beyond NN IP. We need to adopt an outside-in approach while further embedding responsible investing at the core of our organization. In 2020 we succeeded on both counts. RI team members organized a series of well-attended internal sessions on responsible investing, primarily aimed at our sales teams. And our UpsideDown series of events offered a platform for internationally recognized experts and academics in the field of sustainability. Together with them we discussed the future of responsible investing and hosted a series of lectures in our Responsible Investing Summer Course."

What are your plans for the RI team in 2021?

"I think we need to carefully monitor our priorities. We should look for areas where we can make the most impact and focus our resources there. This may also mean looking at our investment teams and ensuring that the level of ESG knowledge and expertise is sufficient to manage the ongoing challenges and increasing demands. For example, ensuring that all our strategies are aligned with the EU's Sustainable Finance Disclosure Regulation imposes an additional challenge. The Covid-19 crisis has accelerated action on both the social and environmental fronts, both of which will remain a focus for us in 2021. We also have plans to further build on the synergy between innovation and responsible investing. The world of responsible investing is changing dramatically and we will have to constantly raise our game to keep up."

ESG Committee

The ESG Committee is chaired by NN IP's CIO and comprises members from the Responsible Investing Team, the RI Leadership Team and senior representatives of business segments such as Risk and Product Management & Development. It meets on a quarterly basis. The committee's objectives are to advise the NN IP board on topics such as RI policy matters and investments-related RI goals and targets. In addition, the ESG Committee oversees the decision-making process related to engagements and exclusions. To support the ESG Committee's work, NN IP has also established the Strategy and Implementation Steering Committee and the Controversy & Engagement Council.

Strategy and Implementation Steering Committee

Since responsible investing is at the core of our business, it is important that our RI ambition is implemented not only within our investments, but throughout the company. The Strategy and Implementation Steering Committee, which supports the ESG Committee, drives and oversees our RI ambition and its implementation across all departments. It is chaired by the Head of Innovation & RI Platform and comprises senior representatives of business segments such as investment departments, Product Management & Development, and Sales & Marketing. Among other things, they oversee long-running transition projects related to topics such as climate change and RI regulation, and they advise NN IP's board.

Controversy & Engagement Council

The Controversy & Engagement Council's role is to monitor engagements, assess controversies and violations of our norms-based criteria, and provide recommendations to the ESG Committee on the appropriate steps to take. It also monitors companies' progress on remedying past controversies. Acting in an advisory capacity, the council meets on a regular basis to discuss engagement activities and updates, and to determine the next steps required to achieve the engagement objectives at the individual company level. The council's members include analysts, portfolio managers and representatives from NN Group. The council is chaired by a member of the Responsible Investing Team.

RI Leadership Team

Our RI Leadership Team, made up of Management Team Investment members delegated to responsible investing, underscores the emphasis we place on integrating responsible investing throughout our investments. The team was established in 2018 to oversee the implementation of the responsible investing framework in investment-related processes. Its members are also responsible for leading and supporting NN IP's innovation efforts, particularly related to further enhancing our data capabilities and analytical frameworks. The team consists of the Head of Fixed Income and RI, Head of Specialised Equity and RI, Head of Multi Asset, and Head of Innovation & Responsible Investing Platform. Together, they drive our ambition to be a leader in responsible investing and our commitment to deliver attractive returns to clients in a responsible manner.

Proxy Voting Committee

Our in-house Proxy Voting Committee has been established to oversee the execution of NN IP's Proxy Voting Policy Client Assets. In the case of shareholder meetings for companies in which we own a large percentage of the outstanding share capital, companies that are on our engagement list, and companies held in our Sustainable, Small Cap and Dutch Equity funds, voting is carried out manually by the Proxy Voting Committee. The committee takes voting decisions on equity holdings in NN IP's funds and for those (fiduciary) mandates where the client has chosen to vote based on NN IP's voting guidelines. This committee is made up of portfolio managers and RI specialists to ensure alignment between our voting and investment activities.

Governance in practice – green bonds

Close cooperation between our investment teams and RI team

NN IP's methodology for determining which bonds are eligible for our green bond strategies involves analysing both the issuer and the project. Not every green bond fulfils NN IP's stringent eligibility criteria. The governance for this process is well-structured and documented to ensure that portfolio managers and analysts are aligned. It also contains crucial checks and balances to keep our views on a bond's eligibility from changing too frequently and independently, which could pose reputational and investment risks.

On a monthly basis, the green bond team identifies those green bonds they would like **to be added to the list of eligible bonds**. The RI team reviews whether these bonds are aligned with NN IP's green bond criteria, sometimes flags additional RI considerations and makes a recommendation. If the portfolio managers decide to deviate from this, their decision should be explained in writing. Furthermore, if the green bond team doubts whether a planned new issue will meet our criteria, they contact the RI team to discuss the details of the bond, before participating in the issue.

In the event that a bond no longer meets the NN IP green bond criteria, the green bond team gives a detailed outline of why it should **be removed from the list of eligible bonds**. These bonds are then flagged to receive additional monitoring. The RI team and the green bond team jointly decide whether further evaluation is required. Once a decision has been made to un-label a bond as 'green', it must be sold within three months.

What motivates our colleagues?

Click on an image to find out

Matthew Huston
Senior Investment Analyst, Materials European Equities

Togo O'Brien
Responsible Investment Specialist

Faryda Lindeman
Senior Responsible Investment Specialist

Yew Thong Choong
Credit Analyst

JD Rieber
Director of Research, US Credit

Sebastiaan Reinders
Investment Science Lead

Valentijn van Nieuwenhuijzen
Chief Investment Officer

Ralf Kooken
Responsible Investment Trainee

Michelle Chu
Senior Account Manager, Fixed Income Solution NN General Account Desk

Judith van der Ven
Senior Investment Analyst, Investment Grade Credit

Siu Kee Chan
Head of Lifecycle Solutions & Sustainable Multi-Asset

Market trends in responsible investing

Using capital to drive true impact

We can look back on 2020 as a historic year in which Covid-19 accelerated the trend towards responsible investing. ESG integration gained widespread recognition as a driver of investment returns as sustainable businesses outperformed their traditional peers. As a result, more investors are entering the market and the investable universe is expanding, driven by a surge in sustainable issuance. But what's next?

In this section we examine some of the trends developing in responsible investing and the impact they will have. First we look at five trends to watch in 2021. To place these trends in a clearer context, we also zoom in on two other factors that are currently having the biggest impact on driving change.

The first is the **Covid-19 pandemic** that has affected every individual in every corner of the globe. In the wake of the first wave of infections, NN IP initiated its UpsideDown series to explore the wide-reaching effects of this historic event. We invited a number of experts to look at the pandemic in the context of macroeconomic developments, companies, governments and responsible investing, to share their views and answer investors' questions.

Our second focus topic is the **EU's new framework of sustainable finance regulations** aimed at creating a greener Europe. Starting from 2021, these developments are likely to change the investment landscape and cause capital to move to different places. They will also encourage asset owners to think more about the importance of sustainability in their investments.

Five trends to watch

Adrie Heinsbroek, Chief Sustainability Officer, explores five trends that will shape the industry in 2021 and beyond.

1. Clients will focus more on financing true impact
2. Investors will increasingly recognize the need for urgent climate action
3. Cross-country collaboration on specific issues will increase
4. Investors will use more tools to influence companies
5. Regulatory action will reshape the industry

1 Clients will focus more on financing true impact

"How can we ensure that the money we put to work in the financial markets has a positive impact in the real world? This will be one of the guiding questions for clients in the years ahead. Covid-19 has led them to focus even more on the fundamental issues that are affecting human life in every corner of the world. We are seeing increased demand for green bonds, sustainable equity strategies and other products that let clients directly contribute to environmental or societal change. Investors are also asking for more transparency on the impact of their portfolios. This trend will only increase, which is why we are constantly improving our reporting and aligning our data processes to meet client needs."

2 Investors will increasingly recognize the need for urgent climate action

"The 2021 United Nations Climate Change Conference will increase the sense of urgency to tackle climate issues. Images of clear blue skies in the pandemic's initial phase opened people's eyes to what can be achieved, so I think there will be even more pressure on governments to step up their efforts. For investors, it's crucial to take a broader view on climate. As companies transition to a more climate-friendly business model, they will also face social challenges relating to job security and the skills gap. Long-term investors have to remain invested and support businesses as they take difficult but necessary decisions. If we ask them to change, we also need to finance the change. We expect asset managers to adjust their policies to take this into account more in the future."

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3 Cross-country collaboration on specific issues will increase

"Asset managers will increasingly join cross-industry coalitions to drive change through engagement and dialogue. Europe is taking the lead on this, but we are also seeing the first initiatives on diversity in the US. By teaming up with social and governmental organizations, investors can have more impact on concrete topics that reflect clients' priorities. A good example from 2020 is our signing of investor statements to halt deforestation in Indonesia and Brazil. Going forward, we expect to team up with many more coalitions to accelerate our sustainability agenda. We are closely following developments relating to the launch of the Taskforce on Nature-related Financial Disclosures. This is linked to the growing importance of biodiversity, a topic where we already interact with sustainability and nature conservation organizations such as the WWF and MVO Nederland. In 2020 we asked global leaders to agree on effective measures to reverse nature loss in this decade to ensure ecosystem resilience."

4 Investors will use more tools to influence companies

"ESG will become an integral part of the stewardship role of asset managers. So far, it has been difficult for investors to use voting to influence ESG policies, but this is set to change. In the coming years, we expect the first companies to enable investors to vote on their sustainability policies at the annual general meeting. Similar to the 'say on pay', companies will start including a 'say on climate' or a 'say on diversity' as a standard item on the AGM agenda. Investors will also have more ways to influence ESG policies through engagement. We will actively engage with companies as we help them transition to more sustainable business models, and we will also continue to join forces with societal organizations to drive change on specific issues."

5 Regulatory action will reshape the industry

"Regulatory action will be a major driving force in the industry. The EU's renewed Sustainable Finance Action Plan will require investors to show how they integrate ESG and how their investments contribute to sustainable change. This trend will mostly focus on Europe for now, but it will also affect companies elsewhere as European investors demand more disclosure from their investments around the world. Clients will benefit because it will be easier for them to compare products and gain more insight into how their money is being used. In addition, we expect asset managers to introduce more investment products that let clients directly participate in positive change."

Covid-19 – a catalyst for sustainable change?

A closer look at the future impact of Covid-19

Covid-19 has affected every aspect of human life on a global scale. It has underscored the polarization of society and growing inequality. Multiple lockdowns in vast areas of the developed world resulted in clearer skies and lower carbon emissions, while the pandemic itself sharpened our focus on the importance of biodiversity and its links to a healthier world. The events of 2020 have amplified the importance of sustainable business operations and placed responsible investing on a growth trajectory. As shocks reverberated around financial markets, the performance of sustainable investments held up well. NN IP's Sustainable Equity strategies outperformed their traditional peers during the first-quarter rout, while our green bond strategies saw increasing interest throughout the year and continued to attract new investors. The pandemic has highlighted the link between the adaptability and resilience of sustainable companies and their performance. It has confirmed that responsible investing improves returns.

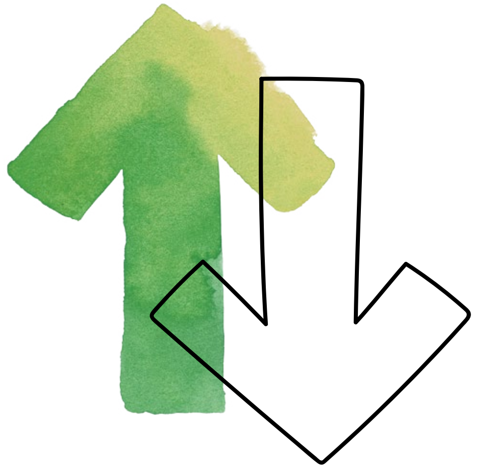
Transition to a more inclusive society and a cleaner world

The pandemic propelled the "S" (social) of ESG to the forefront of people's minds. Governments issued social bonds to fund healthcare and employment preservation projects, and companies focused on the welfare of their employees and other stakeholders. At the same time it reiterated the "E" (environment) and heightened the urgency to shift to a low-carbon world. These developments are affecting and being influenced by all levels of society: governments, companies and individuals. Governments can use their financial muscle to steer recovery packages to create fairer and more environmentally sustainable societies and economies. They can stimulate sustainable business practices from the top down, while changes in the behaviour of individuals and consumer preferences can influence corporate behaviour from the bottom up. Companies form the central point and can choose to adapt to new stakeholder preferences or risk losing out. Awareness can lead to action, and that is exactly what we think will happen – albeit at different speeds in different countries.

Responsible investing – the new normal

As responsible investors, we are in a position to play a leading role. We are convinced that responsible investing will become the new normal and so we must ensure there are sufficient solutions to fulfil all our clients' responsible investment needs in the post-Covid world. As regulation becomes more rigorous and sophisticated, we must remain at the forefront of developments, adapting and improving our product range and helping our clients to make the right choices. Although the boundaries between financial and ESG information are becoming increasingly blurred, investments still need to be profitable. A greater focus on ESG integration and improved data will enable investors to better determine value creation. Through collaboration, we as asset managers can play a key role in helping to finance change and change finance. We can engage with companies, join investor initiatives and make our votes count. But it won't happen overnight. It's going to be a transition, not a revolution.

To find out more, read:
Who will shape a better future? Responsible investing after Covid-19



UpsideDown – Responsible Investing

NN IP's UpsideDown series of international webinars explored the new challenges we face in a post-Covid world, together with leading academics, experts and fellow investors from all over the world. Part of the series focused on the impact of the pandemic on the future of responsible investing and whether it could be a catalyst for shaping a better future.

Rewatch the recordings of the series

External speakers in our series were: Peter Diamandis, Joseph Stiglitz, Marc Randolph, Christian Gärtner, Farnam Bidgoli, Mariana Mazzucato and Ian Bremmer.

Our RI summer course featured: Alex Edmans, Emma Macdonald, Satu Teerikangas, Jan Jonker, Cary Krosinsky, Nicolas Mottis, Enrico Giovannini, Lawrence Loh and Fenna Blomsma.

"We need to ensure that the economy emerging from Covid-19 will be greener, more equal, healthier, and more knowledge-based."

Joseph Stiglitz, Former chief economist, World Bank

"Our mission goes far beyond financials. We want to make a change in a sustainable manner."

Christian Gärtner, CFO HelloFresh

Participants from all over the world

"Coronavirus is accelerating our ability to innovate, our willingness to acknowledge the climate change disaster and respond effectively to it."

Ian Bremmer, Political scientist

New EU sustainable finance regulations

Financing sustainable growth and a greener Europe

A greener future is a top priority for the European Union. The 2030 target for achieving the environmental goals set out in the Paris Agreement and the UN's Sustainable Development Goals (SDGs) is less than a decade away. In the course of 2021, financial market participants will hurry to align with new regulations to create a more sustainable Europe.

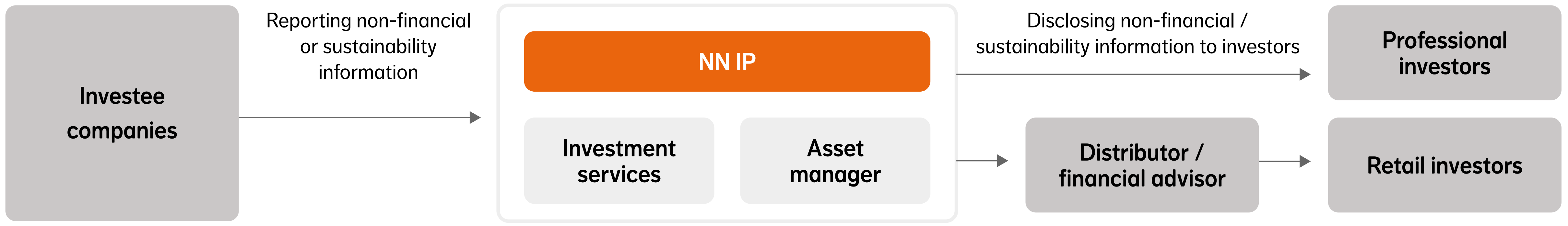
Improving transparency and stimulating sustainable investment

The renewed EU Sustainable Finance Action Plan, as the starting point, focuses on redirecting capital flows towards sustainable investments. The framework of regulations stemming from the plan aims to ensure that all parties use the same criteria to define, measure and report on the sustainability attributes of economic activities. Implementation, which will also require amendments to existing legislation including NFRD, MiFID II, BMR and the AIFMD and UCITS directives[1], will take place in the course of 2021 and 2022. Revisions and further stages will occur in 2023.

One of the key pieces of new legislation is the **Sustainable Finance Disclosure Regulation**. The SFDR aims to increase transparency on how financial market participants integrate sustainability risks and opportunities into their investment deci-

1 Non-Financial Reporting Directive, Markets in Financial Instruments Directive II, Benchmark Regulation, Alternative Investment Fund Managers Directive, Undertakings for Collective Investment in Transferable Securities Directive.

A chain of regulation to improve transparency and strengthen protection for end-investors



sions and recommendations. It introduces a classification system with new disclosure requirements for investment products. For more information about SFDR and the classification of our products, please see our website.

The SFDR is closely linked to the **EU Taxonomy Regulation**, which establishes the criteria for determining whether specific economic activities contribute to one of six environmental objectives[2]. Asset managers will need to disclose the proportion of investments financing taxonomy-eligible activities for each relevant financial product. The **EU Green Bond Standard** requires issuers and/or financial market participants to show the extent to which the economic activity/activities that a green bond finances are aligned with the EU Taxonomy. They should then follow the normal procedures prescribed by the International Capital Market Association's Green Bond Principles.

What does the new EU regulatory framework mean for NN IP and our clients?
The EU Sustainable Finance Action Plan ensures that asset managers can no longer just say they have sustainable funds. They must be able to demonstrate that their investment decision-making process, risk management and product disclosure are all fully aligned. The classification is not a measure of the level of sustainability; it is a measure of the level of transparency.

For NN IP, it requires a complete analysis of our funds and mandates so we can classify them. This type of analysis may sound daunting but it is not new to us. We adopted responsible investing two decades ago, implemented it in our product range and already have our own categorization for responsible investments: ESG-integrated, Sustainable and Impact. We are transparent on how we invest and publish audited figures on our responsible assets under management.

We used our own product specification criteria as a starting point and have documented more clearly how we invest to ensure we align with the new legal requirements. This legislation will not change the way we invest and how we apply ESG criteria to analysing and selecting investments.

Some clients may also be in scope for the SFDR. Pension funds, for example, will receive information and may also be required to provide it. The improved

2 https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

transparency and standardized labelling resulting from this new legislation should help curb greenwashing and give investors a better idea of how sustainable their investments are. What was previously an apples and pears exercise in terms of comparison should, in Europe at least, become more of an apples to apples comparison.

Our view – More transparency, more integrity, more well-informed choices

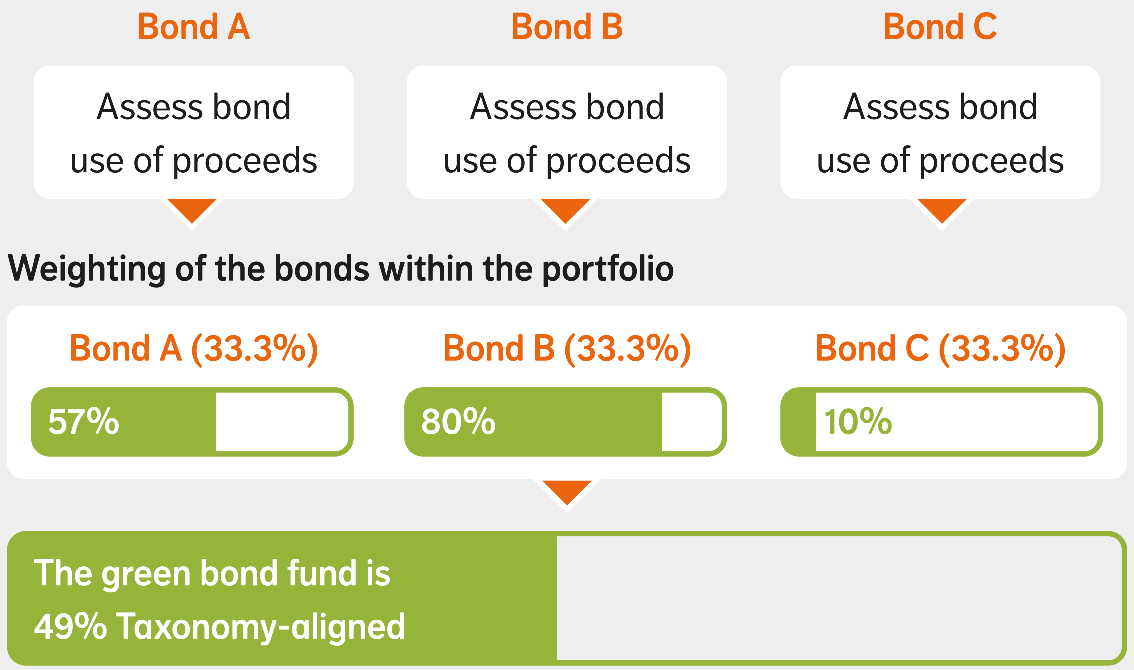
We believe the new EU regulations will have a long-term positive impact on the integrity and transparency of the market for responsible investments and heighten awareness on the importance of sustainability. They will help raise knowledge levels and give investors an increasingly clear idea of what they are investing in so they can make more well-informed choices, based on more than just financial parameters.

Investors should still also be critical in selecting investments rather than taking the new classifications at face value and regarding them as a measure of sustainability in themselves. They are the first step in streamlining the sustainable investments market and a clear signal from the EU that sustainability and climate change mitigation are at the top of their agenda. These changes should spark growth in the sustainable space and may affect the way clients invest. That is why we need to remain alert and flexible, and keep our fingers on the pulse when it comes to market developments.

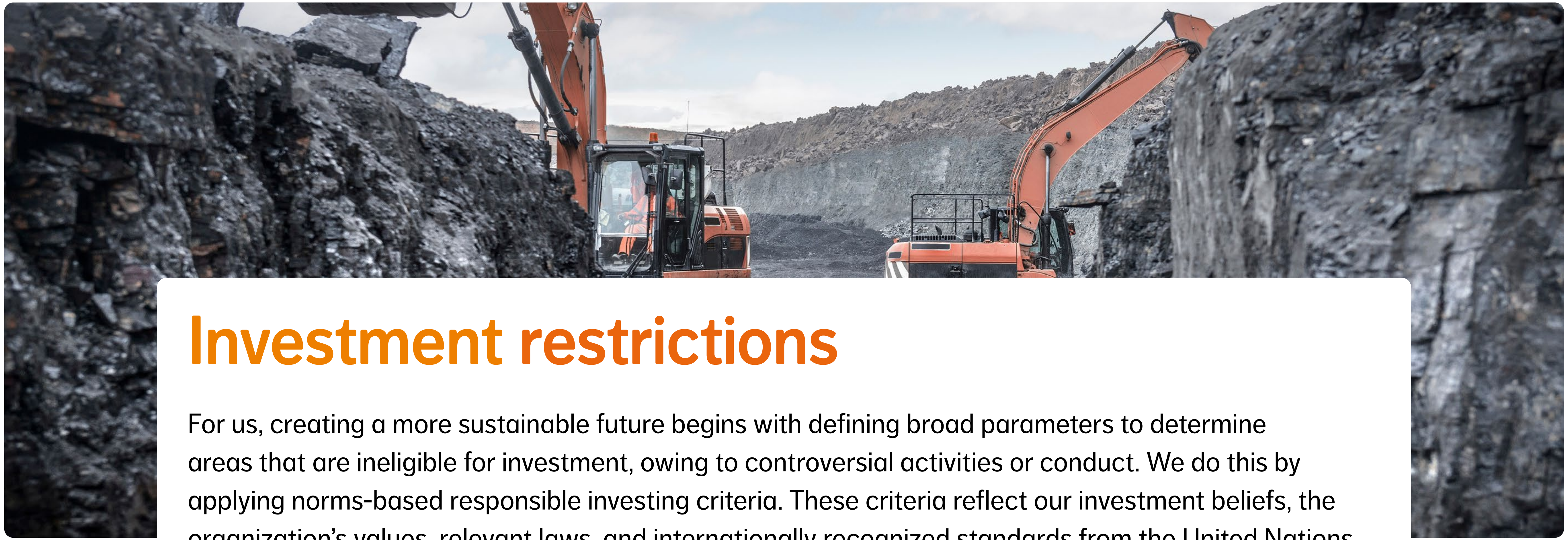
During 2021 we will start the process of carrying out EU Taxonomy alignment exercises for strategies in a range of asset classes. Below is a brief overview of how we will do this for our green bond holdings[3].

Step-by-step green bond EU Taxonomy alignment exercise

Step 1: We list all activities that a green bond finances.
Step 2: We examine whether each activity contributes to any of the six environmental objectives[4] laid out in the EU Taxonomy. The assessment is based on strict criteria that differ per objective.
Step 3: We check whether the economic activity passes the "Do No Significant Harm" criterion for the other environmental objectives.
Step 4: We repeat Steps 1-3 for all the activities the bond finances to obtain a percentage alignment for the whole bond.
Step 5: We ensure both the project and the issuer adhere to minimum social safeguards.
Step 6: We calculate the weighting of the bond within the portfolio and use this figure to calculate the weighted percentage alignment with the EU Taxonomy which this bond brings to the portfolio.



3 Our website has more information on the EU Taxonomy and EU Green Bond standard.
4 Currently the EU Taxonomy has only published the criteria for the first two objectives: Climate change mitigation and Climate change adaptation. Our alignment exercise therefore only includes these objectives.



Investment restrictions

For us, creating a more sustainable future begins with defining broad parameters to determine areas that are ineligible for investment, owing to controversial activities or conduct. We do this by applying norms-based responsible investing criteria. These criteria reflect our investment beliefs, the organization's values, relevant laws, and internationally recognized standards from the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises.

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. Controversial activities

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

2. Controversial conduct

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

Our norms-based RI-criteria applied to all strategies[1]

- Controversial weapons
- Thermal coal mining
- Tobacco production
- Oil sands production and controversial pipelines
- Arms trade with entities under embargoes

Additional criteria applied to Sustainable and Impact strategies

- Adult entertainment
- Arctic drilling
- Fur & specialty leather
- Gambling
- Nuclear energy[2]
- Shale oil & gas
- Weapons

1. Restrictions resulting from both controversial activities and controversial conduct are applied company-wide.
2. Partial restriction: companies involved in constructing additional nuclear-based power production installations are excluded.

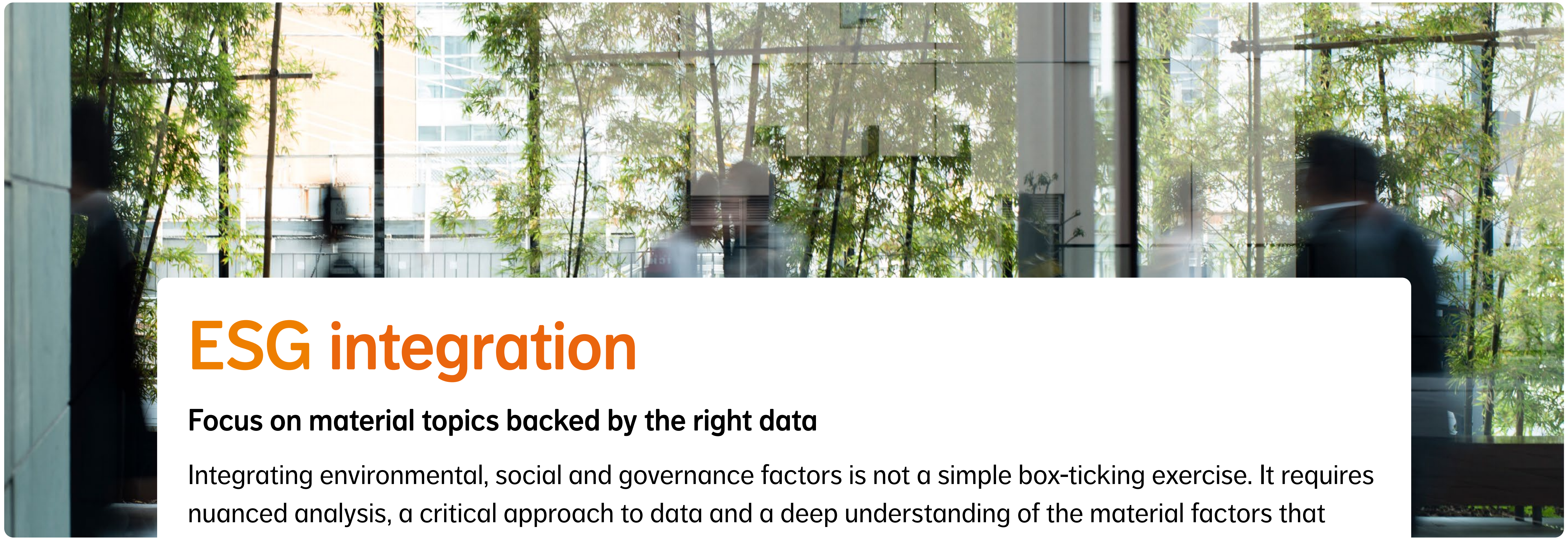
Additional restriction criteria for our Sustainable and Impact strategies

In addition to our firmwide exclusion criteria, we apply more stringent exclusions in our Sustainable and Impact strategies. Within these strategies, we strive for financial performance whilst maintaining a strong focus on contributing to sustainable development. For these strategies, we avoid investments that are not in line with the “do no harm” principle. As a result, we apply additional restrictions on certain activities, as they are contradictory to sustainable development and may detract from the ability to reach sustainability objectives. Please see the overview for these additional restrictions.

Alignment with Belgian “Towards Sustainability” initiative

Effective in 2020, NN IP became a signatory to the Belgian “Towards Sustainability” initiative. This quality standard aspires to increase the level of socially responsible and sustainable financial products, and to mainstream its principles towards traditional financial products. To meet this quality standard, we formalized and strengthened certain restrictions for our Sustainable and Impact funds, including those related to Arctic drilling, shale oil and gas exploration, and nuclear power.

To learn more about the reasons for these additional restrictions, please refer to the NN IP Responsible Investment Viewpoint Policy, available on the RI policies page of our website



ESG integration

Focus on material topics backed by the right data

Integrating environmental, social and governance factors is not a simple box-ticking exercise. It requires nuanced analysis, a critical approach to data and a deep understanding of the material factors that drive returns or that could have an adverse impact. We are committed to putting in this work because true ESG integration enhances our decision-making and helps us navigate an uncertain future.

Stringent and systematic ESG integration

We strive to integrate sustainability concerns throughout our investment process, from idea generation to analysis, portfolio construction, active ownership, voting and client reporting. We now integrate ESG factors into 74% of our assets under management, up from 68% in 2019, and we aim to increase this figure to 80% by 2023. This covers the assets we manage in our ESG-integrated, Sustainable and Impact strategies.

ESG integration means different things to different asset managers. We follow a stringent definition: for each investment, we demonstrably and consistently integrate all three ESG components wherever applicable throughout the investment process. We do this because we truly believe in the value of ESG integration – for investors and for the global community.

Our three-step approach

Integrating ESG factors effectively takes a critical and nuanced approach. "Blind" ESG integration, by using data from external providers without in-house analysis, can lead to less accurate risk analysis and in turn lower returns. We therefore follow a clear three-step process:

Identify → Assess → Integrate

1. **Identify**
   Our analysts and portfolio managers identify material ESG issues at company and sector level.

2. **Assess**
   In the case of companies: they 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 what impact they might have.
   In the case of sovereigns: they analyse and evaluate a country's performance based on ESG factors and potential controversies. They then use this information to compare different countries with each other.

3. **Integrate**
   Finally, they incorporate these ESG analyses into their investment cases and apply it throughout the process.

While our approach always includes these three steps, implementation varies between our strategies and between asset classes. For example, we use different data sources and tools when assessing sovereigns than when assessing companies. And while ESG risks are always relevant, the approach to these risks and to related opportunities may differ between strategies and asset classes.

Sourcing the input

To ensure that our ESG analyses tell the full story about the companies and countries in which we invest, we use three complementary sources of information: external data sources, in-house expertise, and ongoing dialogue.

Data: We gather ESG data from a wide variety of high-quality, reliable sources. In addition to more traditional providers, we use alternative datasets that highlight emerging trends and focus on forward-looking data to give us a new angle on ESG performance.

In-house expertise: We supplement the data from external providers with the knowledge of our analysts and portfolio managers, coupled with our data science expertise, to formulate a well-balanced investment view. Our deep experience in ESG integration strengthens this analysis, while our materiality framework (see following page) serves to focus and guide our thinking here.

Engagement: We engage on ESG issues with many of the companies and countries we invest in, either alone or in collaboration with others. These dialogues improve our company- and country-specific ESG knowledge, which we then use in our analysis.

Next steps in ESG integration

The landscape is constantly changing as transparency on ESG issues increases and as corporate behaviour adapts to a more sustainable future. We strive to expand and enhance our ESG integration efforts as part of our ambition to put the assets we manage to work. We will also continue to invest our time and energy in locating high-quality ESG information and optimizing our data sets to ensure the best results for investors and society at large.

Our ESG Materiality Framework

ESG integration for companies starts with finding the material, long-term issues and opportunities that firms in each sector might face. For example, the green energy transition could threaten the ability of traditional energy providers to create value for investors. By finding these factors and assessing how companies are adapting, we focus our responsible investing efforts and clear the way to financial outperformance.

We use our proprietary ESG Materiality Framework to better identify and interpret corporate ESG factors on a sector and industry level. This helps us to unlock value by identifying the associated risks and opportunities. It builds focus in our ESG analysis, underpins other ESG integration tools, connects with our engagement efforts, and offers a starting point for our dialogues with companies. Above all, it guides our thinking and investment actions across all our investment teams.

The framework starts with four overarching pillars divided into two themes apiece. Each theme is built around a central question, which helps us focus our thinking and assess companies' real-world impact. For example, for **resource use & pollution**, we ask "What is the firm's dependency upon natural resources and what does it do to manage its impact?"

Next, we subdivide these themes into material factors. For example, for resource use & pollution we look at three factors: **materials sourcing**; **water management, biodiversity & land use**; and **pollution & waste**. We then assess how material each factor is for each of the 24 industry groups in our framework. For instance, issues linked to climate change are more material for an energy company than for a software developer. We do not differentiate between equity and credit, as we believe that the material factors for an industry group are the same regardless of asset class.

Materiality of sovereign ESG factors

While the materiality framework is very well suited to analysing companies, we take a different approach for sovereign issuers. Although the degree to which material factors impact a country financially may differ, most ESG factors tend to be "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 perspective.

Business model
- Environmental innovation and opportunities
- Social innovation and opportunities

Governance
- Corporate governance
- Corporate behaviour

Environmental
- Climate change
- Resource use & pollution

Social
- Product responsibility
- Human rights & human capital

CASE STUDY:

Corporate ESG analysis in European equities

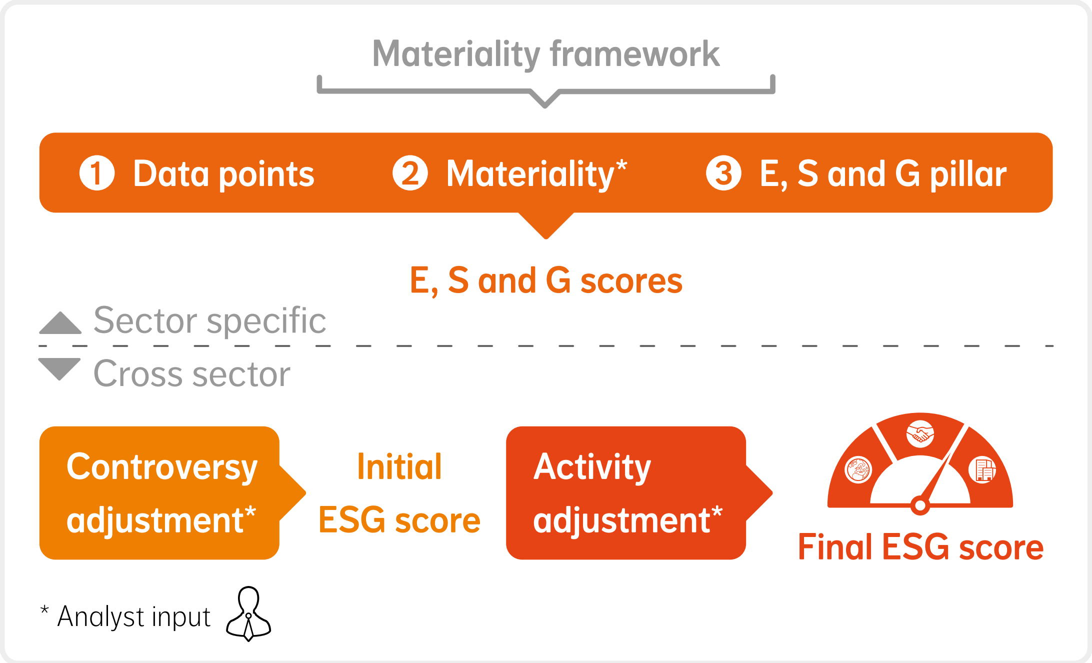
Business conduct and corporate governance strongly influence a company's intrinsic value. We can gain deep insights into a company's potential long-term economic success by assessing the material risks to which it is exposed and how it is managing this exposure.

We integrate ESG factors via **qualitative assessments** of material factors on a sector level, using the ESG Materiality Framework (described on the previous page) as a starting point. Taking a sector-by-sector and company-by-company approach helps us capture the complexity of business models and understand how companies interact with the constantly changing world. The focus on material issues also helps us structure our research efforts and provides a clear starting point for engagement discussions.

In our ESG integration process, we first screen out subsectors with unsustainable business models and ESG concerns, such as tobacco production, partly based on our company-wide restriction criteria. Next, we assess ESG concerns and controversies on a company level and identify companies with governance issues. Rather than automatically excluding such companies, we engage wherever possible to stimulate them to improve. As part of this assessment, our analysts talk to the companies and our RI team to get the best understanding of the risks and opportunities a company might face.

After initial screening, we use NN IP's ESG Lens as a key input. When used in corporate analysis, this proprietary tool provides a single overarching ESG score for each company we assess. It combines the expertise of our investment professionals with a wide range of inputs, including big data and forward-looking data sources. This combination of data sources makes our ESG data analysis as thorough as possible, bolstered by the strengths of both man and machine: human intelligence coupled with the rigours of machine learning.

Deriving a company's ESG score begins with weighting material factors on a sector level using the ESG Materiality Framework. We use data from third-party providers to derive a score for each ESG pillar. Next, the E, S, and G scores are adjusted for controversies, such as malpractice and other questionable behaviour. An outlook is added



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Tackling climate change
Breathing new life into the AGM
Sustainability across asset classes

(negative, neutral, or positive) for each controversy. Finally, the score is adjusted for the impact of a company's business activities. This results in a comprehensive score between 1 and 100. This reflects our view on a company's ESG performance, a key input for our investment decisions.

Our analysts' opinions also provide a crucial input on each company. They can suggest changes to the weighting of the materiality factors, the outlook of a company's controversies, and the weighting of business activities. We also ask our analysts to give qualitative comments if they believe that the score or its underlying components do not yet capture certain information.

We use the resulting score not just as an absolute number, but rather as a tool to help us calibrate a company's valuation and attractiveness. It incorporates the company's strengths and weaknesses and helps us to position it versus its peers. As the underlying data is dynamic, the score also demonstrates the company's momentum and ESG sustainability efforts. As a result, it is forward-looking and helps us decide whether to apply a discount or premium to a stock's valuation.

Maarten Geerdink
Head of European Equities

CASE STUDY:

Sovereign ESG analysis in emerging market debt

Integrating ESG factors in our sovereign emerging market debt (EMD) strategies provides us with a powerful tool for identifying and assessing key risks and opportunities. ESG analysis is relevant for emerging markets because their performance naturally stems from non-financial as well as financial factors. Our in-house analysis and the expertise of our sovereign ESG analysts are also invaluable in helping us overcome data and transparency issues to reach the right conclusions.

The integration of ESG factors throughout our sovereign EMD strategies is built on a clear framework and frequent in-house analysis. We assess improvement (or deterioration) in ESG factors – which means looking at where countries are starting from, where they are today and how we expect this journey to evolve in the future. We have implemented weekly, monthly, quarterly and annual assessments for each country in our investment universe. This ensures our analyses are as frequent and forward-looking as possible and that we have a deep understanding of what drives the countries we invest in.

These assessments result in our country-level ESG scorecard, which combines a qualitative analysis of ESG-specific developments within the country, with NN IP's ESG Lens. On the sovereign side, the ESG Lens is split into two parts: our **ESG development score** and our **ESG stability score**.

Including the ESG Lens in our process helps us identify where future risks and opportunities could arise, as well as how countries are equipped to respond. In particular, the growing threat of climate change is becoming ever more dominant; countries that are committed to tackling this threat will be better placed to avert its most damaging consequences. The ESG Lens also helps us standardize data between countries and increases consistency and measurability in our investment process.

ESG development score

The ESG development score includes commonly acknowledged criteria like education levels, poverty rates, and good governance. It also takes into account criteria that reflect our company values, such as gender equality. We use this score to assess a country's level of ESG development, to compare it with other countries in the universe, and to follow its structural improvement or deterioration over time.

We separate the ESG development score into three pillars: environmental (25% weight), social (25%) and governance (50%). The higher weight for governance data reflects conclusions from academic literature that countries need good governance for strong performance on environmental and social criteria, not the other way around. Each pillar is based on several investment themes, which are in turn based on a selection of raw data points. For example, the social pillar includes the theme of gender inequality, which in turn contains data points about female labour force participation and school enrolment disparity.

ESG stability score

The ESG stability score reflects a country's level of stability regarding political events, natural disasters, socioeconomic tensions, and so on. It is based on five broadly defined themes, each scored separately: violence & terrorism, fractionalization, socio-economic tensions, political unrest and natural disasters. Each theme is further subdivided into several data inputs; for example, the political unrest theme includes data points about political stability and strength of institutions.

For each theme, the indicator seeks to answer two questions: What is the probability of an event happening (Risk)? How prepared is the country and what courses of action can it take to reduce that risk (Mitigation)? Countries with similar risk levels might respond very differently to the same risk event because they have different tools at their disposal to limit the economic impact. The indicator also includes a big data overlay that can flag current risk events such as protests or strikes. Meanwhile, the risk levels and mitigating factors help us put these events into the context of the structural issues that the country faces.

We analysed the predictive power of these indicators for our universe, backtested across multiple years and countries. The results showed that incorporating them strengthens our diversification through the inclusion of environmental and social factors, which we believe will become more prominent going forward. We also found that they provided valuable explanatory power for the high-beta subset of the universe, bolstering our faith in our holistic approach to ESG integration.

Marcin Adamczyk
Head of Emerging Markets Debt

Why not 100% ESG-integrated?

“Quality is more important to us than simply reaching a higher number”

Petra Stassen, Senior Responsible Investment Specialist

NN IP aims to apply strict ESG criteria to 80% of assets under management by 2023. Petra Stassen explains our approach to ESG integration and why we haven’t set a target for 100%.

Let’s jump right in, why aren’t you targeting 100% ESG integration?

“Because we apply stringent criteria that we have laid upon ourselves. In our ESG-integrated strategies, we consistently look at all three factors – the E, S and G. We also aim for transparency. Our portfolio managers are required to document their considerations, so we can prove that we have assessed all three factors in each decision. And for certain strategies, it is and will remain difficult to credibly claim that we meet those criteria. One example is portfolios where derivatives play an important role and where there are no good alternatives yet that meet both our financial and sustainability requirements.”

If you aren’t aiming for 100% ESG integration, won’t that give clients the impression that you’re less committed?

“For us, this is not a tick-the-box exercise or marketing gimmick. We genuinely believe that proper ESG integration provides us with much more insight into the long-term sustainability, profitability, and creditworthiness of our investments. If we were to become more lenient, we would lose that edge. In addition, by taking a stringent approach we can be more confident that our definition of ESG integration will stand the test of time.”

What do you mean by that?

“If anything, the bar will be raised, not lowered. If you look at where the Sustainable Finance Disclosure Regulation and the EU Taxonomy are heading, 100% integration will be a more difficult claim to make in the future. Those who are more lenient won’t be able to keep their promises if they have to show the regulator what ESG integration means to them.”

Your aim is to integrate 80% of your assets under management by 2023. How are you tackling the challenges of the remaining 20%?

“That depends on the asset class. In private markets, it can be challenging to get reliable data that we can compare to other companies in the sector. And with residential mortgages, it’s difficult to claim that E, S and G were considered when those loans were made 10, 20 years ago. We are actively looking into whether we can enhance the data we have on such loans to still develop a view on their ESG characteristics. But given our stringent criteria, we certainly won’t get there overnight.”

So, when do you expect to achieve 100% ESG integration?

“We’d love to reach that target based on our current definition. Currently, we integrate ESG criteria for 74% of our assets under management. We have plans to also include those asset classes that aren’t yet fully integrated. But if we can’t get there quickly, it doesn’t mean we will become more lenient and change our definition. In the end, we focus on quality rather than simply reaching a higher number.”

Engagement

Sharing expertise, finding common ground and encouraging change

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 maximize the value of their investments, as we believe that sustainable corporate behaviour also enhances risk-adjusted returns.

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 companies from our investable universe means we can no longer influence them 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, or no longer, deemed feasible or is unlikely to change a company's conduct or involvement in specific business activities.

Our approach

Types of engagement

We use internationally accepted standards of corporate behaviour – the guidelines and principles developed by the United Nations, the International Corporate Governance Network 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 on the right. In addition, 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 maximize our 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 with whom 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, a direct approach with company-specific goals can deliver more quantifiable impact.

Our engagement usually lasts for a three-year period. We apply five milestones in order to keep track of progress, as outlined on the next page. 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 restricting investment.

In order to maximize our influence and pool resources and expertise, we collaborate with in-house and external experts. And together, we engage with policymakers, legislators and regulators to work on the development of sustainable government policies and financial systems. Our Responsible Investing team acts as the main coordinator to ensure alignment and consistency, and to avoid duplication of work.

We also play an active role in a wide range of sustainability initiatives. By joining forces with other institutional investors, we can strengthen our message and increase the impact of the capital we put to work. The following page includes three examples of these partnerships.

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

Controversy engagement focuses on severe and structural breaches of our norms-based criteria in the areas of governance, human rights, labour rights, environment, and bribery and corruption.

Thematic engagement focuses on themes that have a material impact on society, and where we believe our engagement efforts can create positive change. These themes share objectives and risks as defined by the SDGs and World Economic Forum.

Engagement milestones

1. Initial communication

We contact the company to inform them that we would like to engage, why we have selected them, how we plan to proceed and what the engagement objectives are.

2. Dialogue established

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 the issues, including clear activities and targets. We encourage the company to publicly disclose this strategy.

5. Strategy effective

If the company is at an advanced stage of implementing the strategy, and all objectives have been met, the engagement process can be finalized.

Some of our engagement partners

Click on a logo to read more

VBDO

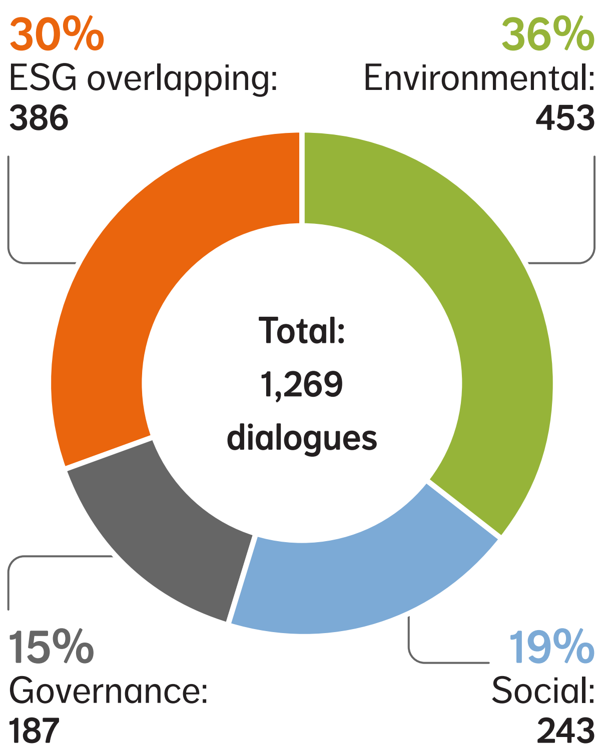
Financials for living wage

IIGCC Institutional Investors Group on Climate Change

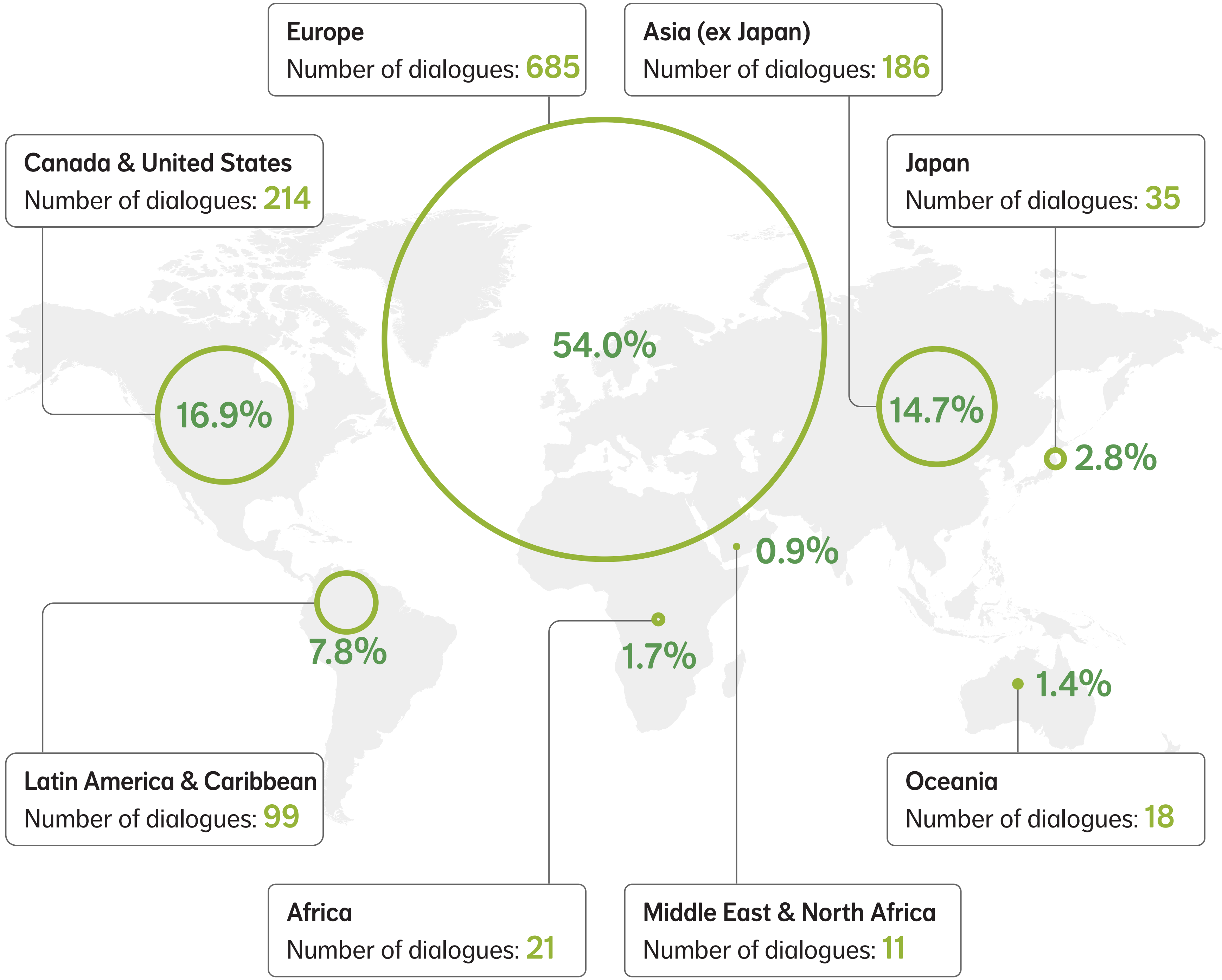
Climate Action 100+ Global Investors Driving Business Transition

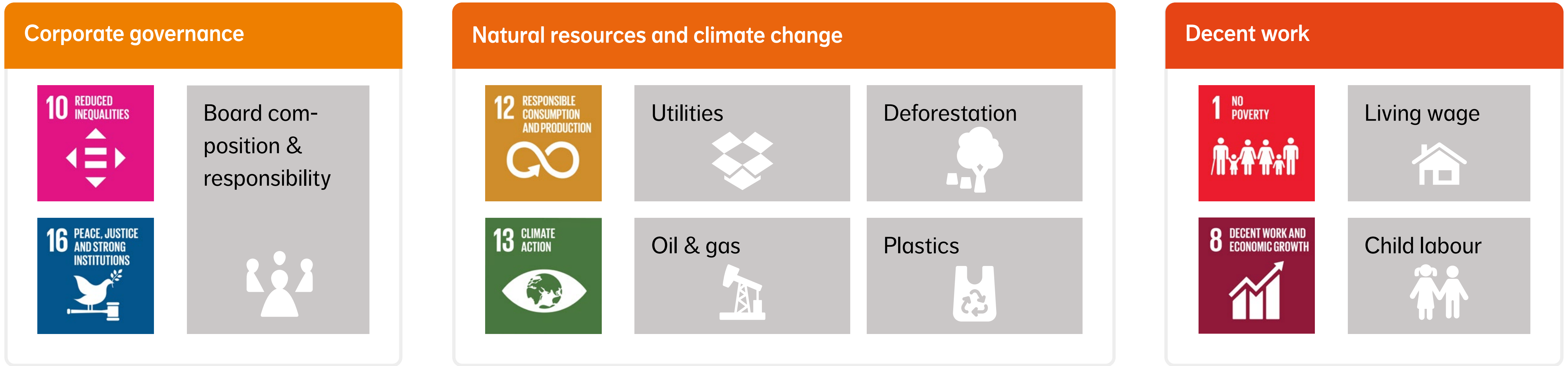
Key engagement figures for 2020

Number of companies: 667
Number of sovereigns: 17
Number of dialogues: 1,269



This represents all ESG dialogues and engagements conducted by our analysts, portfolio managers and RI specialists, as well as Sustainalytics Stewardship Services. This number was **significantly higher** in 2020 than in previous years (up 91% from 2019), reflecting our increased efforts and improved efficiency.





Our engagement efforts focus on three main themes: **corporate governance**, **natural resources and climate change**, and **decent work**.

Corporate governance

Good governance effectively balances the needs of all stakeholders and ensures that companies operate in a fair and ethical way. It also enhances a company's stability and performance and supports its long-term strategy. Governance encompasses issues relating to remuneration, bribery and corruption and the appointment of independent and diverse boards of directors. Within this engagement theme, we focus on **board composition and responsibility**, as strong oversight at board level can significantly impact how companies deal with political risks, new regulatory regimes and environmental and social challenges.

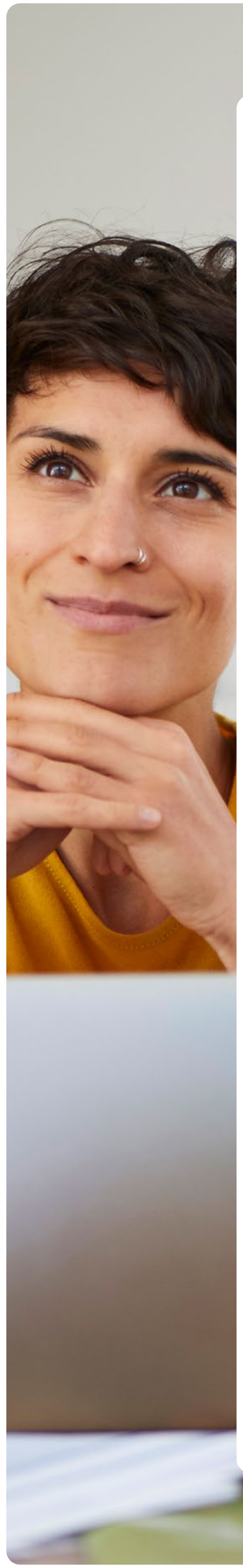
Natural resources and climate change

The natural world is at a tipping point. The wide-ranging effects of the climate crisis and the growing pollution of natural environments could irreversibly alter our ecosystems, agriculture, water resources, human health and security. We acknowledge the potential effects on our investments and our responsibility to take action. Within this engagement theme, we focus on four topics: **utilities**, **deforestation**, **oil and gas** and **plastics**.

Decent work

Eliminating poverty remains one of the greatest challenges facing humanity. In 2020, the Covid-19 crisis further exacerbated inequality on a global level, placing the poorest members of society at the most risk. 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. Within this engagement theme, we focus on the subthemes of **living wage** and **child labour**.

We made significant progress towards our engagement goals during 2020. In particular, the following pages highlight our achievements in three specific subthemes: **board composition and responsibility**, **utilities**, and **child labour**.



ENGAGEMENT THEME:

Board composition and responsibility

8 companies | 16 dialogues

The events of 2020 highlighted the growing importance of accountability and transparency. The pandemic reshaped our societies and economies – and against this backdrop, the resilience of many companies was tested to its limits. Are business models built to withstand environmental and social issues? How are companies prioritizing responsible business conduct during and after the crisis? And how do they ensure that they act in accordance with current and future stakeholder needs?

Goal and approach

Our goal is to persuade companies to implement proper board-level oversight for tackling the environmental and social challenges that may arise. In many cases, engaging on this topic means prompting companies to increase the diversity of their boards, in terms of skills and experience as well as age, gender and ethnicity. We believe that more diverse boards are often more resilient and better equipped to handle today's challenges.

Progress in 2020

Our continued focus on overall transparency, alignment between pay and sustainability performance, and board quality and oversight has led to discussions with a number of companies during 2020. The pandemic has also changed the questions we have been asking of companies: have they fired employees? How are they protecting their staff against the virus and what impact does the crisis have on employees? As investors we need to encourage companies to prioritize stakeholders and the longer-term health of the company over executive bonuses and share buybacks and dividends.

Engagement progress
Board composition & responsibility

Companies per stage

We have challenged companies' boards to align non-financial elements with their strategy and link them to their remuneration policy. In particular, the incorporation of non-financial metrics in a company's long-term incentive plan has been a recurring topic, as this is an important tool to safeguard sustainable business practices. Hence, as active owners we encourage a rule- and performance-based remuneration plan that is aligned with sustainability targets and stimulates both financial and non-financial performance. For example, in the engagement with one of our investee companies, we raised our concerns about the supervisory board's full discretionary mandate to grant awards. This feedback was welcomed and the company made a few significant changes to the policy in order to live up to investor expectations and better incorporate long-term sustainability objectives.

We have also raised questions about how our investee companies engage in stakeholder dialogues and to what extent their remuneration plans take into account a range of perspectives from all stakeholders. We have challenged companies to consider and consult employees and the broader public to ensure social acceptance. Finally, we have encouraged a more holistic approach to improving diversity and inclusion within organizations. In addition to setting up well-defined recruitment strategies, companies with which we engage have developed programmes to tackle cultural issues such as unconscious biases and dominant norms.

Next steps

We believe that strong corporate governance is the solid foundation of a company's potential for long-term value creation. That is why we continue to engage for successful stewardship, effective boards and responsible remuneration amidst changing market developments and societal expectations.

Company example: Shell

During 2020, we had several discussions with Shell on corporate governance and its ambition to become a net-zero emission leading energy company. The firm's announced strategy change has led to an increased focus on what actions Shell is undertaking to achieve its objective by addressing, for example, how it aims to sustain its societal license to operate, how it focuses capital expenditures on renewable energy sources, and how its remuneration is tied to strategic corporate objectives. To further support Shell's ambitions and urge the company to take its responsibility in the energy transition, we again voted for the Follow This shareholder resolution on emissions reduction targets. As active owners, we will continue to provide the company with feedback on how to improve its practices and deliver on its promises.

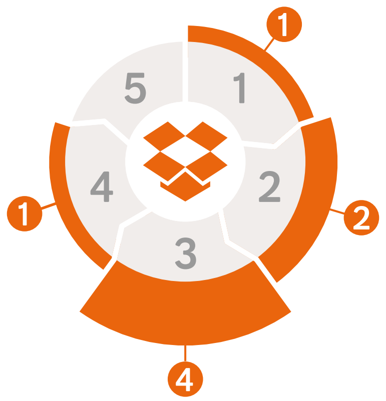
ENGAGEMENT THEME:

Utilities

8 companies | 16 dialogues

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 quickly as overall energy requirements. Our engagement with electric utilities focuses on power-generating companies and the need to transition to a low-carbon economy.

Engagement progress
Utilities



Companies per stage

Goal and approach

By engaging with companies on this issue, we aim to encourage them to develop energy transition plans consistent with the Paris Agreement, including timelines and milestones for the reduction of coal use. We also engage on the social impact of the transition. Focusing on inclusivity can accelerate climate action and maximize its benefits. In other words, we need to assess the impact on all areas of society and ensure no one is left behind.

We seek the right balance between encouraging companies that have not yet begun the move to a low-carbon economy and supporting those that are already transitioning. Most of our selected engagement candidates already aspire to move towards low-carbon alternatives but are not yet aligned with the Paris Agreement goals. Others may have already developed or even implemented parts of their transition plan for dedicating much of their energy mix to low-carbon alternatives.

Progress in 2020

As planned, we began implementing our utilities engagement approach in 2020 and have so far contacted eight companies. In some cases this was part of a collaborative engagement effort; in others we reached out individually. We have already seen progress on several engagement objectives. For example, utilities including PGE and Enel have committed to net zero emissions by 2050 or sooner and developed decarbonization plans.

We pay close attention to the ambition of these plans – the frontrunners such as Enel aim to phase out coal by 2030, while others such as ČEZ Group are targeting 2038, influenced by national energy policy. We assess real-world impact: will coal plants be closed, leading to lower emissions, or sold off, which would simply transfer emissions without decreasing them? We also ask companies how they ensure a “just transition”, taking into account the impact on employees, communities and other stakeholders. For example, a company planning to close its coal plants should have a plan for retraining or relocating affected workers. It should also clearly and proactively communicate these plans and assign a budget for managing the impact.

Next steps

For the coming year, we will focus on encouraging utilities to further develop their decarbonization plans with clear short- and medium-term targets and plans for ensuring a just transition.

Company example: PGE

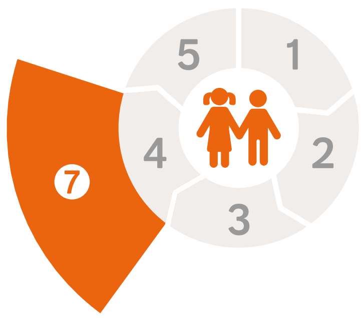
In 2020 PGE published a new strategy that contained, among other things, a commitment to carbon neutrality by 2050. The company’s long-term strategic goal is for 100% of the energy it sells to come from renewable sources by 2050. PGE also announced that it plans to reduce its investment in coal: specifically, by 2030, the share of renewable energy in its portfolio will increase to 50% and carbon emissions will be reduced by 85%. We contributed to the development of this new strategy together with other investors, and we are pleased with the success of this collaborative effort. In the future we also plan to raise the issue of the “just transition” with PGE.

ENGAGEMENT THEME:

Child labour

7 companies | 18 dialogues

Engagement progress
Child labour



Companies per stage

Global inequalities continue to widen. The Covid-19 pandemic could further exacerbate this by increasing the number of people in extreme poverty by as much as 60 million. This has a direct bearing on child labour, as a 1% rise in global poverty leads to a 0.7% increase in child labour. The majority of child labour takes place in agriculture, and so we focus our engagement efforts on the cocoa sector.

Goal and approach

Our goal in this engagement is to encourage companies to more closely monitor their supply chains for the existence of child labour, to remedy this and to foster children’s rights with relation to education, health and safety. Given the clear link between poverty and child labour, we also address the need for a living income.

We focus particularly on Côte d'Ivoire and Ghana, where over 2 million children are estimated to be working in cocoa farming. Our approach is to ask companies in the cocoa sector to make certain commitments, including setting up child labour monitoring and remediation systems (CLMRS). We also ask that companies formulate strategies to foster children's rights in cocoa-growing communities, particularly in areas such as education, child protection and health. We expect companies to demonstrate progress on paying a living income to farmers and to report on the extent to which current income levels equate to a living income.

Tackling child labour in cocoa production takes a nuanced and careful approach. Some farmers operate with old trees, low-nutrition soil and small acreages, while others have larger farms and more productive trees. This also means that a higher cocoa price is not a silver bullet.

Progress in 2020

Five of the seven companies with which we are engaged have made progress, largely in the area of CLMRS. Most companies now have CLMRS covering more than 50% of their supply chain in Côte d'Ivoire and Ghana, and some have started rolling them out in other cocoa-growing communities in West Africa, Indonesia and Brazil. Further, several companies have announced their support of two new programmes to keep primary-aged children in school.

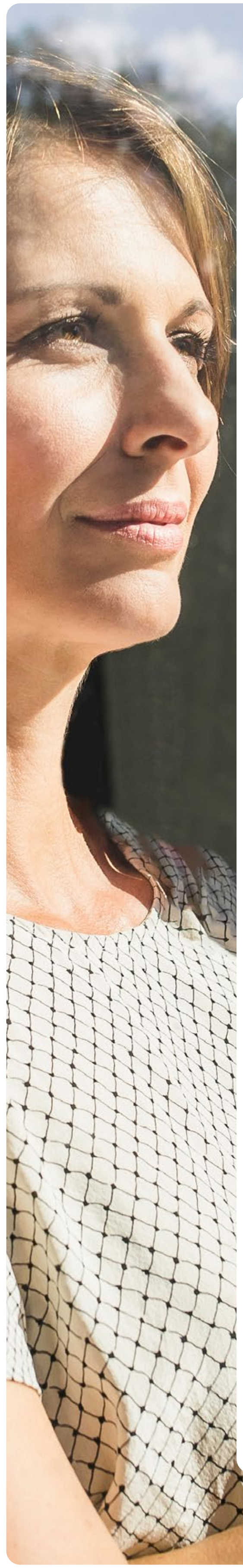
In 2020 we also supported an investor statement on living income and living wages, which was sent to the CEOs and chairpersons of more than 40 companies. Among these companies, Olam has publicly committed to a living income in its cocoa supply chain by 2030. Nestlé will start with a bonus for farmers that follow good practices: pruning of cocoa trees, CLMRS implementation, and deployment of other means of income besides cocoa.

Next steps

We will continue encouraging our engagement companies to take further actions within our focus areas: CLMRS, access to education, and living income for cocoa-growing farmers. We see the largest challenges around living income, so we will focus our efforts here. We also expect improved farmer data and digital solutions to become more important contributors to achieving our engagement objectives.

Company example: Mondelez

In a 2020 engagement meeting, cocoa maker Mondelez said that 66% of communities supplying it with cocoa had CLMRS in place. The company mentioned that it aims for this to be rolled out in all West African Cocoa Life communities (Mondelez's farmer programme) by 2025. The company also measures how many children gain access to school in cocoa communities, partnering with local stakeholders and NGOs. In 2020, Mondelez was one of several cocoa companies endorsing a new programme by the Jacobs Foundation. One of the programme's aims is to support access to quality primary education for 5 million children in Côte d'Ivoire. The company reported that average farmer income had risen by 6% and yields had increased by 15% in the Cocoa Life communities. Still, a robust approach to improving farmer income towards a living income is lacking, and will be one of the main areas of focus in the engagement going forward.



Looking to the future

To maximize our influence as an asset manager, we must continually look ahead. We outline several developments and challenges that we expect to come into focus in 2021 and beyond.

Modern slavery

We have partnered with Sustainalytics on a new engagement effort on modern slavery as part of our overarching **decent work** theme. Estimates indicate that 40 million people worldwide are enslaved, and many companies are not doing enough to address slavery in their supply chains and spheres of influence. This also exposes investors to unforeseen risks stemming from increased regulation and societal expectations. The engagement effort will focus on approximately 20 companies in the construction and manufacturing industries. It will promote measures addressing the root causes of modern slavery, rigorous due diligence procedures, and enhanced transparency.

Engagement after the pandemic

Several topics gained new prominence last year, as the Covid-19 crisis highlighted social inequalities on every level. In particular, diversity, employee welfare and executive remuneration took centre stage as investors and communities grappled with the new realities created by the pandemic. We expect these topics to become more important, which is also the rationale behind our new **modern slavery** engagement theme.

Sovereign engagement

Sovereign engagement has long been underutilized by investors. As a large sovereign debt investor, we will continue to engage with national governments on (potential) bond issuance to better assess investment risks and opportunities. We view sovereign engagement as an opportunity to use our influence to drive change and shape ESG outcomes.

Click for examples of our sovereign engagement activities.

Dilemmas in engagement

We constantly tackle dilemmas in our engagement activities. For example, in the race towards net zero emissions by 2050, what if companies operate within regulatory frameworks that are not (yet) supportive of the energy transition? This is especially relevant for national energy companies that depend on the governing state's energy policy. Other sectors pose further challenges: emissions within the chemicals sector, for example, are often hard to track because of the diversity and wide use of products across numerous supply chains in various sectors. Issues related to technological readiness and transformation also present concerns. There is a clear urgency to develop and scale up technological innovations to reduce emissions, but this will not happen overnight.

How we are tackling climate change

Global warming is causing far-reaching changes. If we do not take swift action, these could have irreversible consequences for ecosystems, agriculture, water resources, human health and security. What role can asset managers play in tackling this crisis, and what are we doing to minimize its impacts on society and our investments?

Yvon Philips, Responsible Investment Specialist

"The climate crisis demands urgent action. We can play a key role in driving the transition to a low-carbon economy. By putting capital to work, I believe we can achieve scalable change and a more sustainable society for future generations."

We strive to address the **causes of climate change (mitigation)** and the **consequences (adaptation)**. **Mitigation** efforts seek to curb emissions, while **adaptation** focuses on reducing susceptibility to the negative effects of climate change and making productive use of any positive effects.

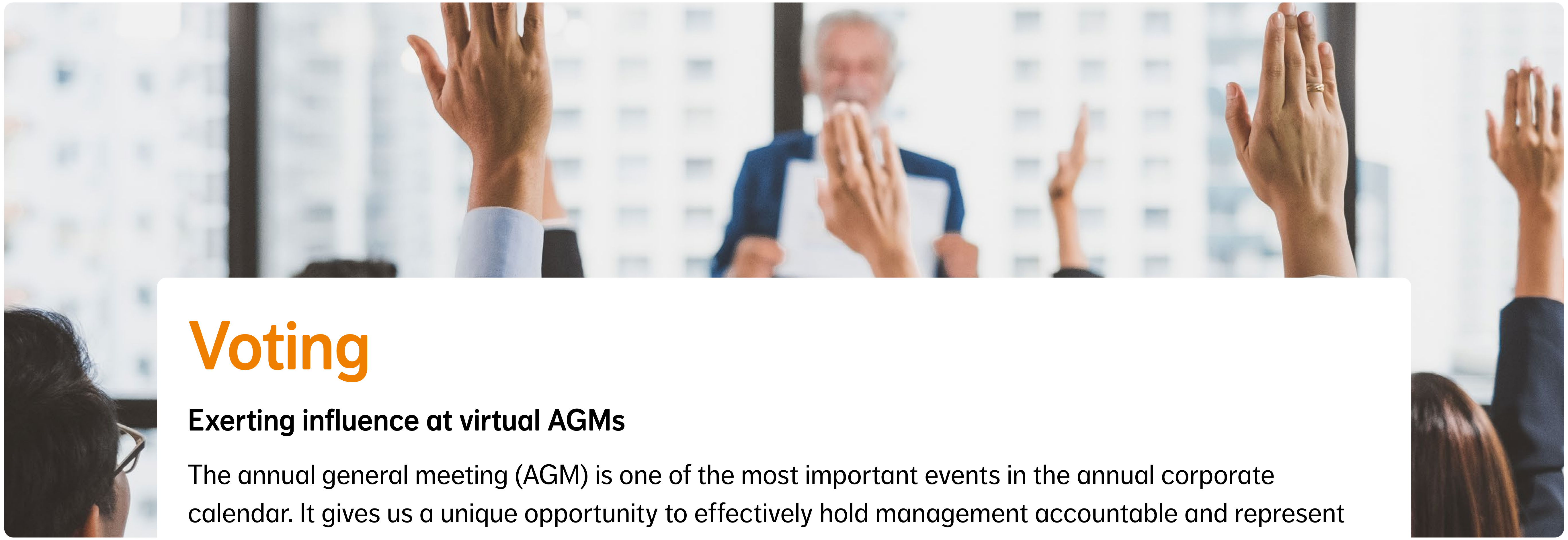
We put our views into practice by:

1. **Integrating climate change in our investment process:** We do this by using our materiality framework and ESG Lens and by measuring the carbon footprint of our funds where deemed relevant.
2. **Incentivizing investee companies:** We seek the right mix between encouraging corporations to transition to a low-carbon economy and further stimulating those that are already contributing.
3. **Using active ownership to create change:** Through voting and engagement, we incentivize companies to align with the Paris Agreement, implement a strong governance framework and disclose their emissions, targets and progress on climate change issues.
4. **Reducing the CO_2 footprint of our portfolio:** We measure and report on the emissions of our Sustainable and Impact strategies and take an engagement-led approach to stimulating the transition to a low-carbon economy.
5. **Supporting transparency, commitments and advocacy:** We endorse and actively participate in several international initiatives that seek to tackle the threat of climate change.

Next steps

We are committed to increasing our contribution to the goals of the Paris Agreement and Dutch Climate Agreement. We aim to report on emissions for our strategies where deemed relevant and to contribute to a 49% overall emissions reduction by 2030. In 2021, we will introduce explicit targets for our Sustainable and Impact strategies to reduce the carbon footprint of these portfolios to below the benchmark. We will continue our active ownership efforts and keep investing in projects and companies that reduce emissions. We also aim to carry out a climate change scenario analysis for strategies and at the fund level where this is feasible and deemed relevant.

We have introduced a governance structure to steer and track our progress. Our Strategy and Implementation Steering Committee is responsible for driving and overseeing RI developments and ensuring that we integrate climate-related risks and opportunities into our strategy. In 2021 we will set up a cross-company task force to drive the development and roll-out of our climate change approach.



Voting

Exerting influence at virtual AGMs

The annual general meeting (AGM) is one of the most important events in the annual corporate calendar. It gives us a unique opportunity to effectively hold management accountable and represent our clients. The pandemic made last year's proxy season anything but ordinary, with many companies organizing virtual meetings for the first time.

Voting highlights Click on a box to read more

Co-filed a shareholder resolution for the first time

One of the top 10 best performers on voting for climate and social action

NN IP supported:

100% of Climate Action 100+ share-holder proposals

100% of climate-related shareholder proposals

80% of human and labour rights-related shareholder proposals

100% of deforestation-related shareholder proposals

Complete overview

Quick links

2020 Highlights
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Behind the scenes

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EU sustainable finance regulations
Why not 100% ESG-integrated?
Tackling climate change
Breathing new life into the AGM
Sustainability across asset classes

Key voting figures for 2020

How and where we voted in 2020

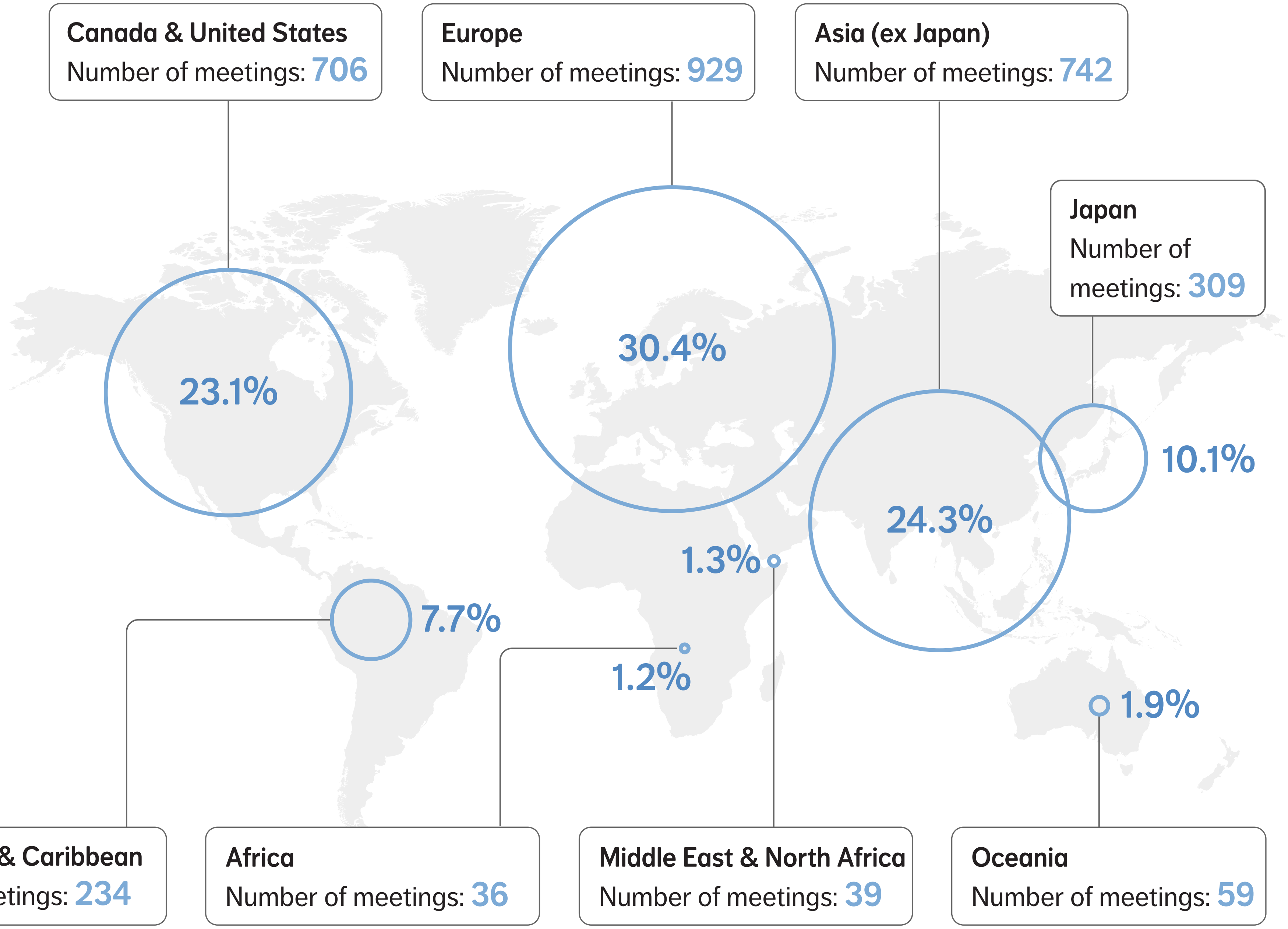
Voting summary overview

Number of meetings: 3,053

Countries where we voted: 60

Number of items voted on: 35,015

For:	28,713	(82%)
Against:	5,586	(16%)
Abstain/other:	716	(2%)



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.

Key voting topics

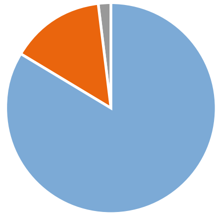
A fundamental part of being an active investor

As a responsible investor, we have a role to play in ensuring there are checks and balances in place on the activities and conduct of our investee companies. Exercising voting rights is one of the most effective ways of doing this. In 2020, our voting activities remained focused on three key topics: **board elections**, the alignment of executive **remuneration** with company strategy and **sustainability shareholder resolutions**. We believe that ongoing engagement on ESG issues with companies does not stand in the way of ambitious voting behaviour. Rather, we see voting as an additional mechanism to voice our concerns and expectations and further build on our engagement efforts.

Board elections

A regular item on the AGM agenda is board elections. Appointing capable directors who can engage in all aspects of a company's operations is important to all stakeholders. In general, NN IP supports candidates put forward by the company, but sometimes we are compelled to vote against the nominees. We may hold the board accountable in the absence of board independence and board diversity, for insufficient board oversight of environmental and social risks, when a company fails to disclose greenhouse gas emission reduction targets, and in the event of severe and structural breaches of our norms-based responsible investing criteria.

Votes compared to management on board elections



Total: **15,493**
- With management: **12,985**
- Against management: **2,246**
- Abstain/other: **262**

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

Company example: ExxonMobil

Our engagement with ExxonMobil forms part of our thematic engagement programme. As one of the world's largest oil and gas producers, climate change is one of the most material ESG topics for ExxonMobil. For the second year in a row, the company removed a shareholder resolution to be proposed at its AGM. The resolution asked the company to report whether and how it plans to align its operations and investments with the goals of the Paris Agreement. The company announced increased investment in oil and gas projects, and failed to disclose how it is preparing for a low-carbon future. To express our dissatisfaction and hold the board accountable for their lack of policy on climate change risks and governance, NN IP voted against the re-election of all ten board members.

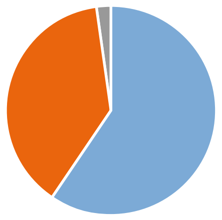
Company example: Boohoo Group

Our engagement with Boohoo Group forms part of our controversy engagement programme. This online fashion retailer has been targeted for improper working conditions. It has been accused of having insufficient personal protection equipment for workers at its UK suppliers during the pandemic's first wave. This controversy can be viewed as one of the few known cases of modern slavery in an OECD country. Under the UK's Modern Slavery Act, the company is subject to an investigation and its executive team could face legal action. These risks, combined with the clear lack of gender diversity at top management level, caused us to vote against the directors up for election, all of whom were male.

Remuneration

Every year there are heated discussions about the size of pay packages and the effectiveness and complexity of remuneration systems. In 2020 the pandemic triggered a broader debate on high levels of executive compensation and its impact on income inequality and society's capacity to respond to global emergencies. Topics like sustainability, employee health and safety, company purpose, management ability to manage a crisis and stakeholder engagement received more focus in the context of remuneration.

Votes compared to management on remuneration



Total: **4,071**
- With management: **2,429**
- Against management: **1,556**
- Abstain/other: **86**

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

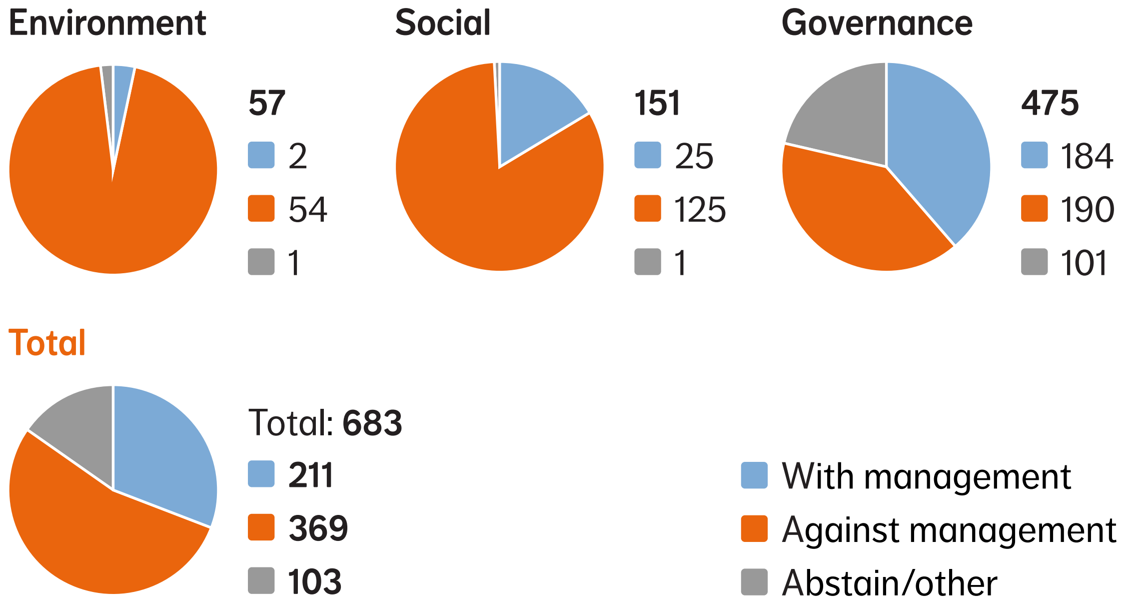
Company example: SBM Offshore

Our engagement with SBM Offshore, a Dutch energy service provider, forms part of our thematic engagement programme. We have been engaging with the companyfor several years. At the 2020 AGM, we voted against the remuneration report due to concerns over misalignment between pay and performance. We also raised questions on the proposed salary increase for the CEO in light of the Covid-19 crisis, declining oil prices and resulting difficult business environment. As a result of this pressure, the company postponed the decision on the pay rise and promised to revise its remuneration policy. At the end of 2020 the company consulted us on their new remuneration policy.

Company example: Bayer

Our engagement with Bayer forms part of our controversy engagement programme. Following its acquisition of Monsanto in 2018, Bayer took over all Monsanto's ESG risks in the agricultural chemicals industry. As a result, the company is involved in several controversies related to the impact of its herbicide and pesticide products on human health and the environment. We are concerned about the severity, stakeholder impact and recurrent nature of the issues, and Bayer's continued exposure to the associated ESG risks. We therefore voted against the ratification of management board acts and did not support the remuneration policy. Given the company's involvement in ongoing litigation, we would have expected a more cautious approach on remuneration. We were concerned about the proposed significant fixed pay increase for the CEO and the head of Crop Science, and the guaranteed long-term incentive plan that is not based on performance.

Votes compared to management on sustainability shareholder resolutions



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

Sustainability shareholder resolutions

We have a policy of actively supporting proposals filed by shareholders that address a company's ESG issues. Voting for shareholder resolutions can be seen as an important part of our stewardship efforts. They encompass clear requests, address investors' expectations, and have great potential to achieve positive change for both companies and their stakeholders. We therefore actively use our voting power on shareholder resolutions that address ESG issues that can impact a company's long-term value creation or destruction.

Company example: Walmart

Our engagement with Walmart forms part of our controversy engagement programme. The company has been at the centre of controversies over its low wages, overtime pay abuses and discrimination. It still faces frequent employee lawsuits claiming violations of labour rights. As the largest private employer in the world, Walmart has a significant responsibility to respect labour rights. We are concerned about the negative impact of the violations, on both the company and society. One of the shareholder resolutions we supported urged the board to improve Walmart's prevention of workplace sexual harassment. We believe this vote strengthened our call for high labour standards and built on our ongoing engagement efforts with the company.

Company example: Facebook

Our engagement with Facebook forms part of our controversy engagement programme. In recent years, the company has been associated with frequent privacy and data-security-related management lapses and is under regulatory investigations in multiple jurisdictions. We supported all eight shareholder resolutions that were filed at the 2020 AGM. One of them urged the company to disclose information on board-level oversight of civil and human rights risks, which we deem warranted given the extreme implications of the company's operations on society. We believe this encourages the company to consider improving board-level expertise on these rights.

Co-filing a shareholder resolution

In 2020, we co-filed a shareholder resolution for the first time. The company in question was Italian energy firm Enel Spa. At the AGM, the slate of directors that we helped to co-file was appointed to the board. In Italy, the "vota di lista" system ensures that one or more independent members can be nominated to be elected to the boards of listed companies. This is basically a guarantee that minority shareholders, like NN IP, also get a say and it prevents large shareholders, like the state, from dominating the board and its decisions. This resolution enabled us to help bring energy transition expertise to Enel's board.

Voting policy and governance

We vote at as many shareholder meetings worldwide as we possibly can. In normal circumstances we attend AGMs whenever possible, as this enables us to put questions directly to board members and gauge their response and that of other shareholders. In 2020, the dynamics were different as most AGMs were held online, which actually meant we could attend more of those meetings digitally.

In the case of shareholder meetings for companies in which we own a large percentage of the outstanding share capital, companies that are on our engagement list, and companies held in our Sustainable, Small Cap and Dutch Equity funds, voting is carried out manually by our in-house Proxy Voting Committee. This committee is made up of portfolio managers and RI specialists to ensure alignment between our voting and investment activities.

Proxy advisor

As it is not physically possible to attend all meetings, we also rely on the services of a proxy voting advisory firm. Glass Lewis can vote on our behalf according to NN IP's custom voting policy guidelines. Proxy advisors have an important and powerful role in guiding and advising asset managers globally on how to cast their votes. We therefore have frequent dialogues with Glass Lewis to provide feedback on their research and recommendations, to ensure we maximize our influence.

Voting policy guidelines

In 2020 we implemented our revised voting policy guidelines. The most important changes relate to a potential vote against the approval of the accounts and reports, the remuneration proposal, and the board chair or incumbent directors in the following cases:

- If the company provides **no disclosure regarding material ESG factors**
- If there is no explicit **ESG board oversight**
- If a company does not report on its **greenhouse gas emissions or emission reduction targets**
- If a company does not support **gender diversity** on its board
- If a company **violates our norms-based RI criteria**
- If a company's **remuneration policy** does not incentivize long-term value creation or align stakeholder interests

Looking ahead to 2021 and the AGM of the future

The concept of a virtual or hybrid AGM has a lot of plus points. It avoids the costs of the venue and shareholders travelling to attend, which reduces the environmental impact. It also makes it easier to attend more meetings and allows for more flexibility for companies and shareholders. The greatest challenges from our perspective are the lack of participation and ensuring that shareholders can vote live at the meeting. If these issues can be tackled and a way can be found to facilitate more dynamic discussions and interaction, the virtual AGM may have a future.

The impact of the pandemic on shareholders' agendas will probably become clearer in 2021, when we can expect to see more proposals addressing topics such as employee health and safety, human rights, supply chain management and human capital management.

Breathing new life into the AGM

‘Voting remains one of the best ways to hold corporate management accountable’

Florentine van den Eerenbeemt, Responsible Investment Specialist

Covid-19 dominated the 2020 proxy season. As the outbreak started, many annual general meetings were postponed or went virtual. Florentine van den Eerenbeemt explains how we use voting for sustainability action and why AGMs could do with an overhaul.

How did online AGMs impact your ability to represent clients on ESG?

“At first it seemed harder to participate in discussions and interact with company management. In a virtual meeting, there’s not always room to ask follow-up questions and get your message across. But these limitations meant our dialogues with companies intensified prior to the AGM, enabling us to address sustainability concerns related to agenda items and to raise other issues related to the pandemic. This also touches on a more fundamental point: environmental and social issues are not structurally embedded in the current AGM.”

Is voting then still an effective way of bringing about change?

“Absolutely, the annual general meeting is a very important moment in the year. We use the power to vote as a way to stimulate responsible conduct and hold corporate management accountable. For example, if we are not satisfied with a company’s engagement progress, we can vote down board members or vote against management’s recommendations.”

How can you vote on sustainability if this is not structurally on the agenda?

“An important part of our voting policy is to actively support shareholder proposals on environmental and social issues that are material to the company. These are put forward by shareholders or NGOs. We also use regular agenda items to send a clear message about sustainability. For example, if there is insufficient board diversity or a company refuses to disclose its carbon emissions, we vote against the election of board members. But in the current format, there is no clear mechanism to indicate what is important to us.”

It sounds like the AGM could do with an overhaul. How should it change?

“It makes sense to structurally incorporate material sustainability topics into the AGM. The ‘say on pay’ has become mandatory in many areas and facilitates structured engagement with companies. So why not have a ‘say on climate’ or a ‘say on diversity’ as standard agenda items too? Management may then be more inclined to respond to shareholder concerns. This could act as a formal way to voice investor support or lack of it on how a company integrates ESG into their long-term business strategy.”

This won’t happen overnight. What can you do in the meantime?

“During 2020 we saw the first ‘say on climate’: a Spanish company voluntarily put their climate transition plan on the agenda for formal shareholder approval. We believe this trend could significantly change AGMs. In the meantime, we aim to maximize our influence by aligning our engagement and voting practices. In our engagement partnerships, for example, we will continue to discuss ways to use our joint voting power to strengthen our message and stimulate responsible corporate conduct.”

Transparent reporting

Fostering clarity on non-financial performance

For an asset manager, reporting is probably the most concrete way of demonstrating a commitment to responsible investing. It closes the circle as it can be both the starting point and the end of the responsible investing process. This is also why we place such emphasis on our annual responsible investing report to give a transparent overview of our activities and why, every year, we raise the bar.

Transparency is becoming increasingly important throughout the investment value chain: from issuers to asset managers, to asset owners, to the general public. And all the links complement and depend on each other. As an asset manager, we face challenges in integrating ESG into an investment case if the issuers we want to invest in do not provide sufficient ESG disclosure. This also means we are not able to properly report back to clients and other stakeholders. The chain needs to be complete.

Data and disclosure

Data quality is improving rapidly in responsible investing and reporting is one area to showcase this. The EU Sustainable Finance Action Plan also aims to foster transparency on how entities measure and report on the sustainability attributes of economic activities. This is encouraging more and more companies to report on their non-financial performance or link it more closely to their financial reporting. We also emphasize the importance of disclosure to the companies we invest in. Showing how sustainability factors are taken into account or embedded in a company's long-term strategy enables us as investors to better identify, assess and integrate the associated risks and opportunities in the investment process.

As a PRI signatory, NN IP is required to report on its responsible investing activities every year and we promote transparency by sharing as much ESG-related information as possible with clients. For example, twice a year, we give an update on the percentage of our total assets under management that are ESG integrated. In 2020, we also produced our first fully integrated annual ESG report for fiduciary clients, enabling them in turn to communicate more clearly on their RI policies to their stakeholders, such as pension fund providers.

Environmental reporting

For our Sustainable and Impact strategies, we carry out environmental reporting at fund level, for example on carbon and waste footprints and intensity, and compare these to their respective benchmarks. For those funds that are benchmark-unaware we use an appropriate reference index to provide the proper market context. We also use equivalents such as car trips around the world and household waste to add a human dimension to the large-figure emission footprints of investment funds. In 2021, we are working on expanding our environmental reporting to include all our ESG-integrated strategies.

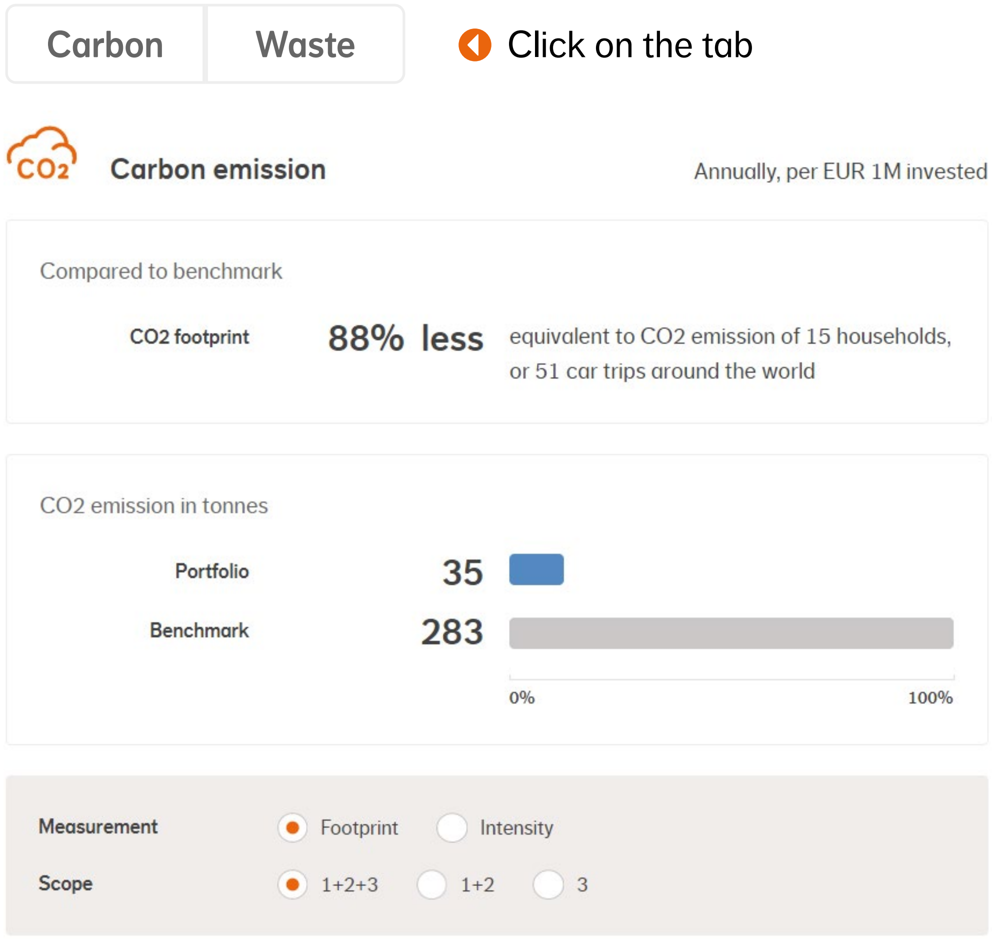
Engagement and voting reporting

We report on our engagement and voting activities in our annual RI Report, giving an indication of focus themes and the progress that we have made. NN IP's voting activities are also publicly disclosed and updated on an ongoing basis. This ensures a continuous feedback loop on how we implement our voting policy and represent clients.

Impact reporting

For our impact equity and green bond strategies, we provide additional impact reporting. In 2020 we published our first impact equity report[1], which explores how we assess, measure and achieve societal impact using concrete examples. And for green bonds, in addition to showing the greenhouse gas emissions avoided and renewable energy capacity added, we also show the portfolio's SDG exposure in the monthly Strategy Brief.

Example of online environmental reporting



Example for the NN (L) Global Sustainable Equity fund (data as of 30/10/2020)

1 Available upon request

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How the new regulatory framework will impact sustainability reporting

“We will continue to enhance the transparency and reliability of our ESG disclosure”

Slavek Roller, Senior ESG Data Scientist

The launch of the renewed EU Sustainable Finance Action Plan made 2020 a landmark year for ESG reporting. Slavek Roller explores how the impending changes might impact clients and explains what we are doing to continuously improve our sustainability disclosure.

What are the regulatory changes likely to mean for clients?

“Eventually, this will be good for clients. The regulator’s intention is to provide them with more transparency on the sustainability performance of their portfolios, which is exactly what we have been working on for many years. However, we do believe that regulation has to go hand in hand with more harmonization in Europe and across the world.”

How will this new framework impact NN IP?

“It will involve a lot of careful work, that’s for sure. For our Sustainable and Impact investment strategies, we already disclose carbon and waste footprints and intensities, and soon we will also include water emissions. So far, we have been doing this as part of our ambition to share more relevant data with our clients. The EU reporting guidelines are still being finalized, but it looks as if we will have to report on many more indicators going forward.”

What are the biggest challenges you face in preparing for this?

“The main challenge is the lack of harmonization in how companies measure and report on ESG issues. There are big differences, which makes it challenging for us to compare data and report on a portfolio level. As regulators from across the world are getting involved, it’s crucial that they don’t add to the patchwork. That’s why we use every opportunity we have to convince regulators of the importance of a common framework for sustainability disclosure globally.”

Data scarcity is often cited as a barrier. How do you cope with this?

“Many companies are still a long way from being able to report on all the required indicators. To give an example, water emissions are reported by only a fifth of the companies in our investable universe. If we cannot obtain data from companies, we resort to estimates based on peer group comparisons. We have developed our own algorithm to estimate carbon emissions, which we expanded in 2020 to also cover water and waste.”

It sounds like 2021 will be another busy year for you and your team...

“Indeed, we have already invested heavily in familiarizing ourselves with what’s coming and doing everything we can to steer our data processes in that direction. One thing is certain, we will continue to enhance the transparency and reliability of our ESG disclosure as this is something that clients want, and it is one of our core ambitions. For example, we are currently conducting due diligence on several potential Sustainable Development Goal (SDG) data vendors because clients are very interested in this. There will certainly be more to come on this in 2021.”

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Diverse, distinct, versatile

"We offer a broad selection of responsible investing strategies, reflecting our wide-ranging fields of expertise. We are committed to helping investors find the approach that best meets their objectives: both their responsible investing ambitions and their financial goals."

Valentijn van Nieuwenhuijzen, Chief Investment Officer

The starting point for our range of responsible solutions is that they support our clients in achieving their responsible investing ambitions. These ambitions might relate to their responsible investing beliefs in the broadest sense, but they can also relate to specific portfolio allocation requirements or the impact they want to achieve.

We now stringently integrate environmental, social and governance criteria into 74% of our assets under management (AuM), divided between **ESG-integrated**, **Sustainable** and **Impact** strategies.

Our ambition is to integrate ESG criteria into 80% of AuM by 2023.

Responsible building blocks

The majority of clients require a responsible investing approach based on rigorous ESG integration. This is a process that avoids investing in controversial activities and behaviour and involves concrete efforts to put capital to work so that it makes a positive difference and generates attractive returns. These requirements are reflected in our ESG-integrated strategies, which form the basis of our responsible investing range.

Sustainable: finding tomorrow's winners

A growing number of investors prefer to allocate some or all of their portfolios to strategies with a stronger sustainability focus. Our sustainable strategies offer transparency; they report for example on climate impact and on the controversies they avoid. NN IP offers both active and enhanced index/semi-passive sustainable strategies. Our active sustainable strategies are well-suited to clients who prioritize active engagement, while our enhanced index strategies are suitable for investors seeking to invest responsibly while matching a traditional benchmark in terms of returns. Sustainable AuM increased to EUR 22.8 billion in 2020 from EUR 19.3 billion in 2019.

Impact: from niche to mainstream

For investors seeking to maximize the potential impact of their investments, impact investing is the ultimate step in responsible investing. This focuses on companies and issuers directly linked to products and solutions that aim to improve the global environment and tackle social challenges. These strategies report on the impact that they generate and on their exposure to the UN Sustainable Development Goals, to which they are closely connected. Impact AuM increased to EUR 6.3 billion in 2020 from EUR 3.5 billion in 2019.

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

Total AuM that integrate ESG criteria: EUR 223.4 bln[1]

Traditional strategies

EUR 76.6 bln

- Liquid Alternatives
- Alternative Credits[2]
- Multi Asset[3]

ESG-integrated strategies

EUR 194.3 bln

- Investment Grade Credits
- Emerging Market Debt
- High Yield
- European Equity
- Global Equity[4]
- Automated Intelligence Equity
- Convertible Bonds
- LDI, Rates and Money Markets

Sustainable strategies

EUR 22.8 bln

- Sustainable Equity
- Sustainable Credits
- Sustainable Multi Asset
- Enhanced Index Sustainable Equity
- Sustainable Infrastructure Debt

Impact strategies

EUR 6.3 bln

- Green Bonds
- Impact Equity
- Emerging Markets Loans

1. Data as per 31/12/2020. ESG is integrated into 74% of NN IP's AuM (EUR 223.4 billion).
2. Alternative Credits (except Sustainable Infrastructure Debt): The nature of these assets makes ESG integration more complex. Nevertheless, ESG integration plays an increasingly important role and we are making good progress on developing a systematic approach and auditable documentation where possible.
3. Multi-asset strategies: many of the underlying funds are ESG-integrated or would classify as sustainable, however, some of the externally managed underlying funds are not yet ESG-integrated.
4. Some Global Equity strategies which are outsourced to external managers do not yet qualify as ESG-integrated. These include US High Dividend, Asia Income and Greater China Equity.

ESG-integrated strategies

We offer a broad range of ESG-integrated strategies in various asset classes. By taking into account relevant information on E, S and G factors, we are better equipped to make balanced decisions based on more complete information.

To determine the investable universe, these strategies exclude certain activities and behaviour from their portfolios, as described in the chapter on restrictions. Where relevant, we vote on and engage with the companies and issuers in which we invest. Further, we apply stringent ESG analysis throughout the investment process for all our ESG-integrated strategies. In this way, we can take into account a far broader range of factors – many of which are outside the scope of traditional financial analysis. These ESG criteria reveal a great deal about how a company's business strategy is positioned for future challenges and opportunities, and highlight issues that could significantly affect 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' or countries' capacity for value creation to material, long-term issues that they may face. The second is the sourcing of relevant high-quality data that enables us to do this successfully. To learn more about this, please see the chapter on ESG integration.

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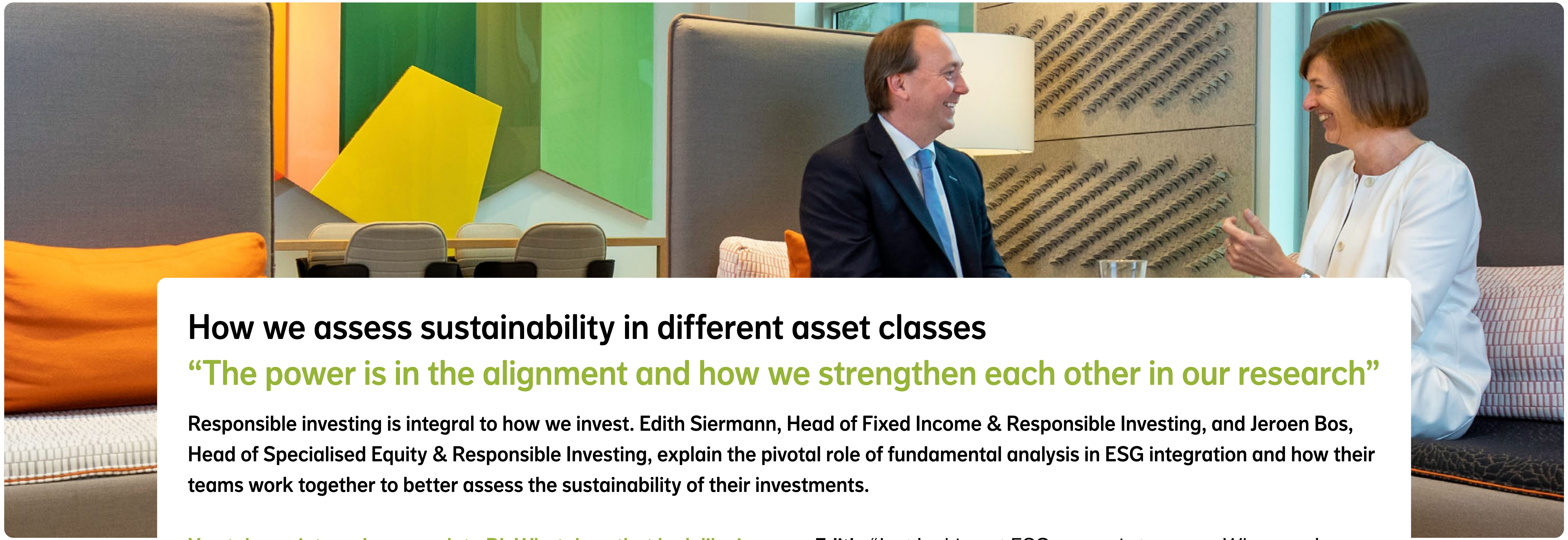


How we assess sustainability in different asset classes

"The power is in the alignment and how we strengthen each other in our research"

Responsible investing is integral to how we invest. Edith Siermann, Head of Fixed Income & Responsible Investing, and Jeroen Bos, Head of Specialised Equity & Responsible Investing, explain the pivotal role of fundamental analysis in ESG integration and how their teams work together to better assess the sustainability of their investments.

You take an integral approach to RI. What does that look like in practice?

Jeroen: "For one thing, the investment teams play a huge role in ESG integration. Like most of our competitors, we use several external data sources for ESG information. But for us, those scores are only the starting point because sustainability cannot be captured in a single number. Our analysts go one, two, three levels deeper. Which of these E, S and G factors actually have a material impact on a company's long-term cash flow generation and profitability? We are essentially trying to translate all relevant ESG aspects into financials, which leads to more complete and therefore better investment decisions."

That sounds like a labour-intensive approach. Why can't you just use the ESG scores from external vendors?

Edith: "Just looking at ESG scores is too easy. When analysing emerging markets, for example, you cannot use the same criteria to determine what's good and bad. You have to judge a corporate or sovereign in its own environment. What's the political landscape? What are the local laws and restrictions? Are they willing to operate more sustainably within the local context? This is very hard to capture in mathematical scores; you need to do your own fundamental analysis to have a view on those investments."

Jeroen: "Several external ESG scores focus on whether companies have certain policies in place. This is valuable but misses a crucial point: what are they actually doing in practice and which direction is that activity going? Our analysts also consider the sustainability of the business model, look at behavioural scores and engage with the management team to assess whether they actually follow their own policies. It's man and machine working together to get the best view of a company's sustainability."

What are the differences between ESG integration in equity and fixed income?

Edith: "There are some obvious differences. As credit investors, we are typically more focused on the risk side and whether a company can repay its loans."

Jeroen: "For us, that's where we start. If a company is not able to repay its debt, we won't invest. And then we differentiate based on the upside – in other words, analysing a company's growth prospects as well as its profitability profile. Is the company more energy-efficient, so they have better margins? Or how sustainable is the brand, which says something about customer loyalty and impacts its sales growth opportunity, just to name a few examples."

Edith: "Indeed, we have different perspectives on ESG when analysing a company. But there's also a lot of overlap."

How do you leverage that overlap in your ESG analysis?

Edith: "At the end of the day, we use our collective knowledge and resources to do the best possible analysis. But it goes much further than that. In ESG, there's no black and white, no single truth, no one solution. An important part of our work is navigating all the developments in this field and trying to make sense of it. We continuously discuss these issues between the teams to see if we can team up to tackle the challenges that we face."

Jeroen: "The power is in the alignment and how we strengthen each other in our research. We share a lot of information. In Papyrus, our research sharing platform, equity investors can see what credit analysts are researching and thinking and vice versa. Edith's team might already have dived into the covenants and the paperwork on the risk side, and we probably already checked out some of the products. All that information is shared, so it can be linked to different aspects of the same investment case."

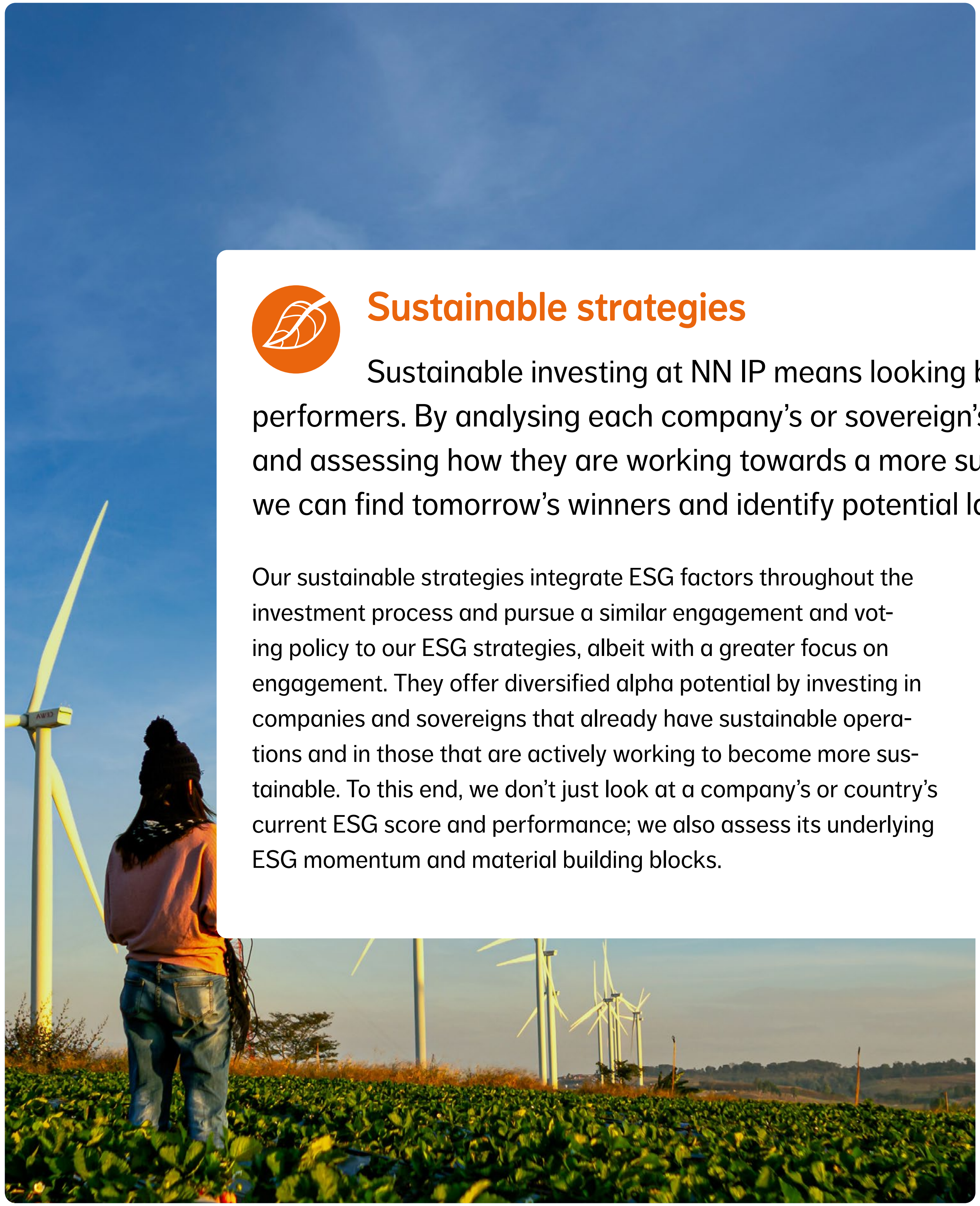
Can you give an example of a big challenge that you tackled together?

Jeroen: "A great example is how we developed our own proprietary ESG Lens for corporates and sovereigns. We said to people from the Responsible Investing team and people on the fixed income and equity side: let's sit together and discuss what's material for each sector and come up with a starting point for how we view this as a firm. We might use that information slightly differently, but we share a solid foundation."

Looking ahead, what will be the next big thing for responsible investing in your asset class?

Jeroen: "In the next couple of years, we want to get much more insight into the environmental and societal impact of the companies we invest in. We already measure and report on some environmental data such as carbon and waste emissions, but the challenge here is to get much more transparency from the companies. Through engagement, we help them understand what else they can report on and how that can be useful for us, for the companies themselves and for society."

Edith: "Measuring impact is equally important on the fixed income side. Clients are asking for this and regulators are aiming for it as well. Besides, measuring impact is a crucial step in NN IP's mission to put capital to work for a sustainable future. It will require even more analysis, and even more data. It's a big challenge, but together we have the scale and capabilities to do this really well."



Sustainable strategies

Sustainable investing at NN IP means looking beyond today's top performers. By analysing each company's or sovereign's approach to sustainability and assessing how they are working 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, albeit with a greater focus on engagement. They offer diversified alpha potential by investing in companies and sovereigns that already have sustainable operations and in those that are actively working to become more sustainable. To this end, we don't just look at a company's or country's current ESG score and performance; we also assess its underlying ESG momentum and material building blocks.

Although their products and solutions do not need to specifically target the UN Sustainable Development Goals, 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. Similarly for sovereigns, we seek out countries with a focus on tackling environmental and societal challenges. Renewable energy is perhaps the most obvious and highest-profile area for transition, but in every industry and every region, companies and countries need to adjust and locate solutions to the challenges ahead if they are to survive and flourish.

Additional restrictions based on activities and behaviour

Our sustainable strategies apply more stringent restrictions than our ESG-integrated strategies with regard to certain product involvements and behaviour. We assess activities, products and services and restrict investment in companies that operate in certain areas. To learn more about this, please see the chapter on restriction criteria.

To reduce risk and stimulate positive change, we also assess behaviour on the individual company level. If we discover material controversies on environmental, social or governance issues, we discuss these in the Controversy and Engagement Council, where we jointly decide on the best way forward.

Reporting on environmental impact and controversy scores

When focusing on environmental impact, we aim to invest in securities that for example have lower carbon footprints, use less energy or create less waste than the average market index. We report on our portfolios' 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.

Our sustainable range includes equity, fixed income and multi-asset strategies.

- Our **Sustainable Equity** strategies seek out high-quality companies that make a positive contribution to a more sustainable world. Some do this by providing innovative solutions to long-term challenges; others simply exhibit sustainable behaviour in all their core activities. We offer two sustainable equity strategies: European and Global.
- 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 of passive funds with a strong sustainability profile.
- Our **Euro Sustainable Credit** strategy invests in high-quality euro-denominated corporate bonds. The strategy takes a combined approach to sustainability and financial performance, with the goal of selecting companies that are focused on a sustainable future.
- Our **Balanced European Sustainable** strategy 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 from companies and other issuers pursuing policies of sustainable development.

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. 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. These areas are linked to the broad themes of People, Planet and Prosperity.

Until recently, investors looked at impact investing in its purest form, often resulting in relatively small-scale and illiquid opportunities. However, the growth of the impact investing universe in recent years has brought about a strong trend towards making impact investing more liquid and investable without losing sight of its sustainable objectives. This trend enables 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.

Our impact strategies target companies whose products or solutions demonstrate an intentional and measurable impact and make a clear, positive contribution to the SDGs. They address the world's most pressing environmental and social challenges in sectors such as energy, agriculture, healthcare and education. As well

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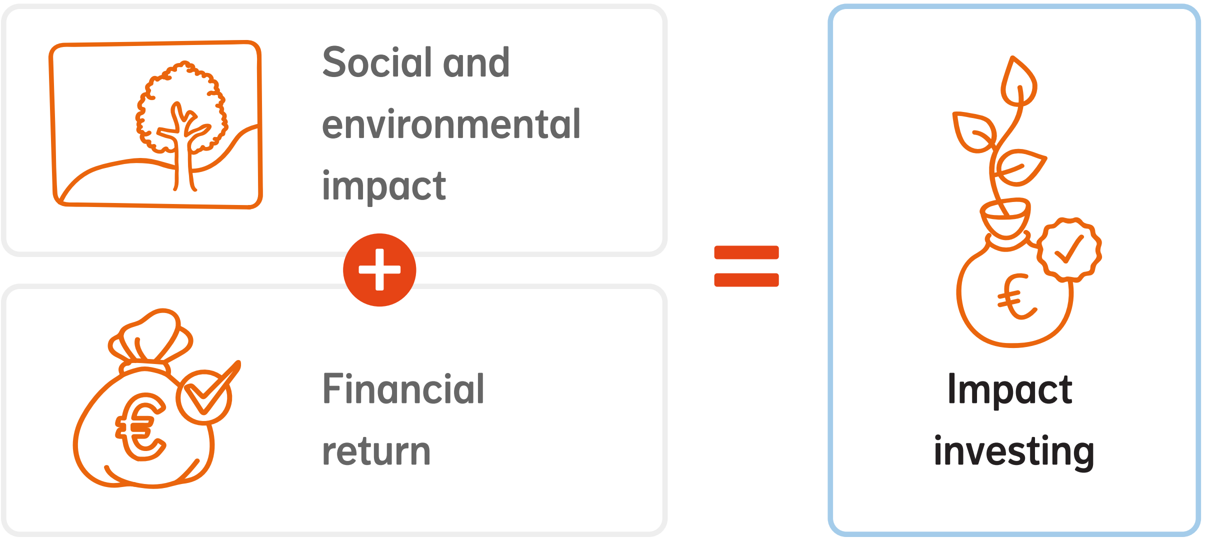
as measuring impact, we use the UN SDGs to provide insights into the type of contributions that are made through our investments.

Our approach to realizing maximum impact

We recognize that true impact isn't achieved through box-ticking exercises. Rather, it takes sustained effort and commitment. To that end, in our impact strategies we focus on in-depth analysis of the true impact of each investment. We maintain our own in-house screening systems with a very strict process and thorough ongoing assessments, both internal and external. We also look closely at the overarching sustainability profile of each company and issuer; this helps us identify innovative, forward-thinking companies that are better positioned for long-term growth.

As with all our responsible investing strategies, the process doesn't end once we make an investment decision. We actively engage with investee companies/issuers to minimize risk of greenwashing, optimize financial results and share best practices. Further, for all our green bond and impact equity strategies, we report on carbon footprint and intensity, waste and SDG contribution.



NN IP has three impact strategies:

- With our **Green Bond** strategy we lead the market from both a volume and performance perspective. Our diversified offering includes short-duration, corporate bond and blended variants.
- Our global **Impact Equities** strategy offers one diversified and three focused impact strategies for 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.

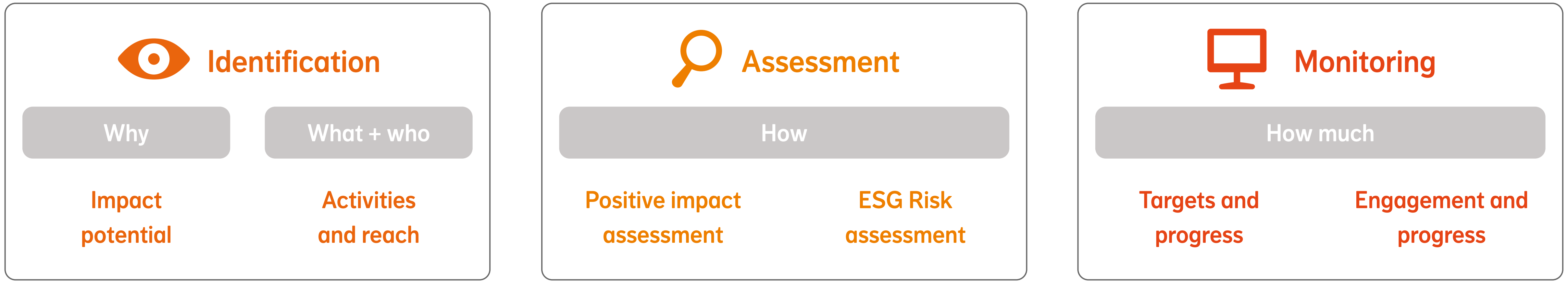
On the following pages, we take a closer look at two of our three impact strategies: Impact Equities and Green Bond.

Impact equities: measuring our impact

What is the true definition of impact? How can we best assess the real-world effect of a company's actions and business model? For our impact equity strategy, the answer lies in clear and consistent measurement. We have built a comprehensive methodology for assessing each company's real-world impact. We work closely with companies to help them advance to the next level of impact reporting, while we receive the societal information that we need.

Our impact equity strategy seeks out companies that offer attractive financial returns and are actively working to make the world a better place. Measuring impact is therefore crucial for assessing a company's tangible contribution. We focus on seeking out companies whose impact is material, intentional and transformational (MIT). We have also built a three-part framework for assessing the true impact of each company in which we consider investment (see figure).

Impact framework



This framework is built on widely used impact measurement frameworks from the Impact Management Project (IMP).

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Step One: Identification

We identify whether the company is actually making an impact in one of our focus areas. To this end, we assess both the company's **impact potential** and its **activities and reach**:

- To assess impact potential, we identify sustainable opportunities within the company's sector and we look at which of the Sustainable Development Goals in scope are relevant. Our impact equity funds are based on SDG contribution because we believe this is the clearest and most objective way to measure and convey our impact.
- Assessing activities and reach means looking at where the company is making a difference: identifying its stakeholders, its countries of scope, and the contribution to one or more SDGs.

Step Two: Assessment

We assess the company's **positive impact** and the **ESG risks** that it faces. Assessing positive impact means looking on a granular level at which of the company's activities are making a difference, and how. ESG risks differ by company and by sector. When calculating these metrics, we use key performance indicators and aim for impact measurement on an aggregate portfolio level. It is our ambition to assess all companies on a level playing field and to better report our portfolio's aggregate impact, which unfortunately remains a challenge due to a lack of data and reporting standards.

Step Three: Monitoring

We look at **targets and progress**, which includes assessing the quantity and quality of impact. Quantifying environmental impact, for example, might mean assessing absolute reductions in CO_2 emissions. Quality of impact is harder to assess as it isn't always numbers-based. For example, a company that provides life-saving products would deliver a better quality of impact than one that manufactures oral care appliances, even if the latter reaches more people.

In order to help companies meet their impact targets, we also **engage** closely with them. Through active dialogue and exerting our voting rights, we can increase our impact as a stakeholder, while simultaneously helping companies boost their financial returns and contribute to a better world. We strive to engage with all the companies in our portfolios at least once a year.

Our impact equity strategy is run by a team of three experienced portfolio managers.

Huub van der Riet
Lead Portfolio Manager, Impact Equity

Ivo Luiten
Senior Portfolio Manager, Impact Equity

Marina Iodice
Senior Portfolio Manager, Impact Equity

Green bonds: explosive growth set to continue

Traditional bonds with green benefits

The green bond market is one of the most dynamic segments in fixed income and fast became a mainstream market in its own right. Europe is leading the way. Although increased regulation is improving transparency and issuer integrity, green labels are no guarantee. We take an active approach to find bonds that offer the best long-term return potential and environmental impact.

Bram Bos
Lead Portfolio Manager
Green Bonds

Jovita Razauskaite
Portfolio Manager
Green Bonds

The impact of Covid-19 only temporarily derailed the green bond market from its growth path of recent years. By the third quarter of 2020, it had bounced back with record issuance of EUR 74 billion. The pandemic and the increasing urgency to tackle climate change is likely to stimulate green financing on a scale that far exceeds what we have seen so far. New regulations, the EU's planned green bond issuance and the booming sovereign market all lead us to estimate that the global green bond market could reach the EUR 1 trillion threshold in 2021, up from EUR 700 billion at the end of 2020.

New-issue pipeline, increasingly global market, regulation to support growth

Triple-A-rated issuers including Germany, which is building a green yield curve, tapped the market in 2020 and more inaugural and follow-up sovereign issues are planned for 2021. Although Europe remains dominant, green bond issuance has been increasing in the US and the Biden administration could pave the way for a green US Treasury. Emerging market green bond issuance also looks set to grow, led by China, which is aiming for carbon neutrality before 2060. Furthermore, the scheduled issuance of new Next Generation EU-Bonds includes EUR 225 billion dedicated to environmental projects. This should boost the supranational share of the green bond universe from 2021 onwards. The EU Sustainable Finance Plan's Taxonomy and Green Bond Standard should raise the bar for transparency and disclosure; the clearer guidance it will provide could also encourage a broader range of corporate issuers to go green.

Traditional bonds with green benefits for every active bond investor

Green bonds offer a transparent use-of-proceeds structure and a focus on climate change mitigation and adaptation. This makes them an effective tool for issuers to finance the climate transition and for investors to greenify their portfolios and make a measurable impact. Green bonds are liquid, diversified investments that offer similar attributes to traditional bonds and an appealing risk-return profile. Every fixed income investor should consider this segment when constructing their portfolio. In 2021, we expect demand for green bonds to continue to outstrip supply, resulting in significant oversubscription and spread compression for euro and US dollar green bonds.

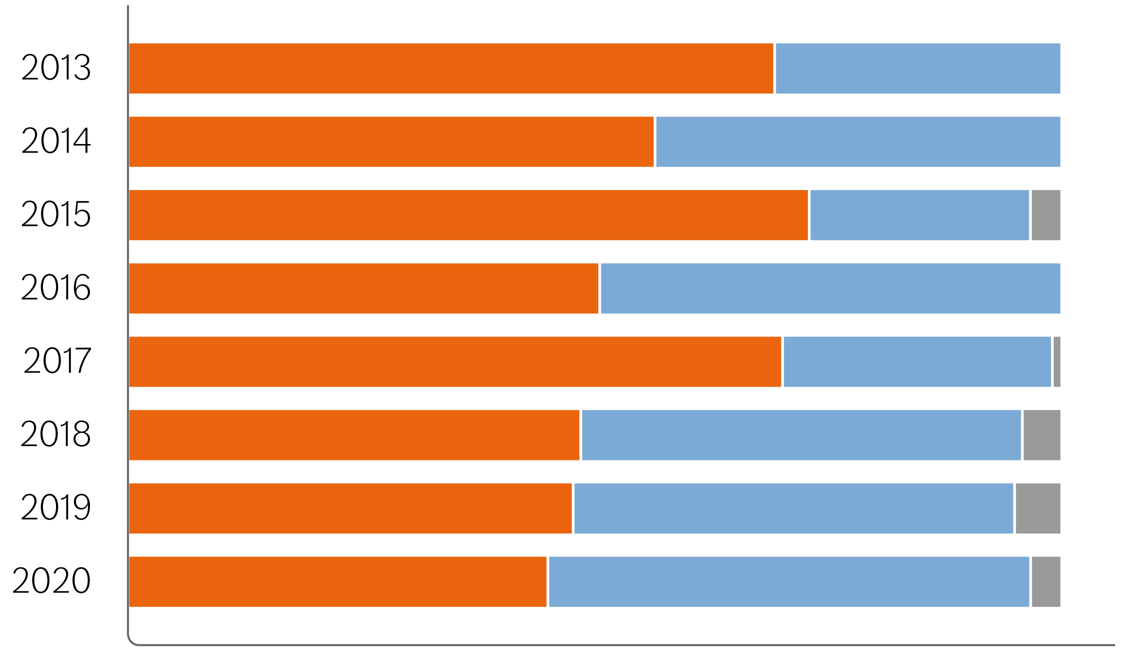
Despite the market's rapid growth and increased regulation and transparency, green bonds are still "self-labelled" instruments. Stronger legislation is making it easier to determine the eligibility of the projects being financed, but determining how green/sustainable a company's strategy is still remains a challenge. Companies with no intention of addressing sustainability issues in their core business can issue green bonds. This is why active management will continue to play a crucial role in selecting the right green bonds. To accurately assess companies, investors need to examine quantitative and qualitative indicators at the project, company and even market level. For this reason, our analysts and portfolio managers do not solely rely on external providers; they also carry out their own thorough evaluation of a company's activities, future plans and intention to improve business practices.

Green bond market characteristics

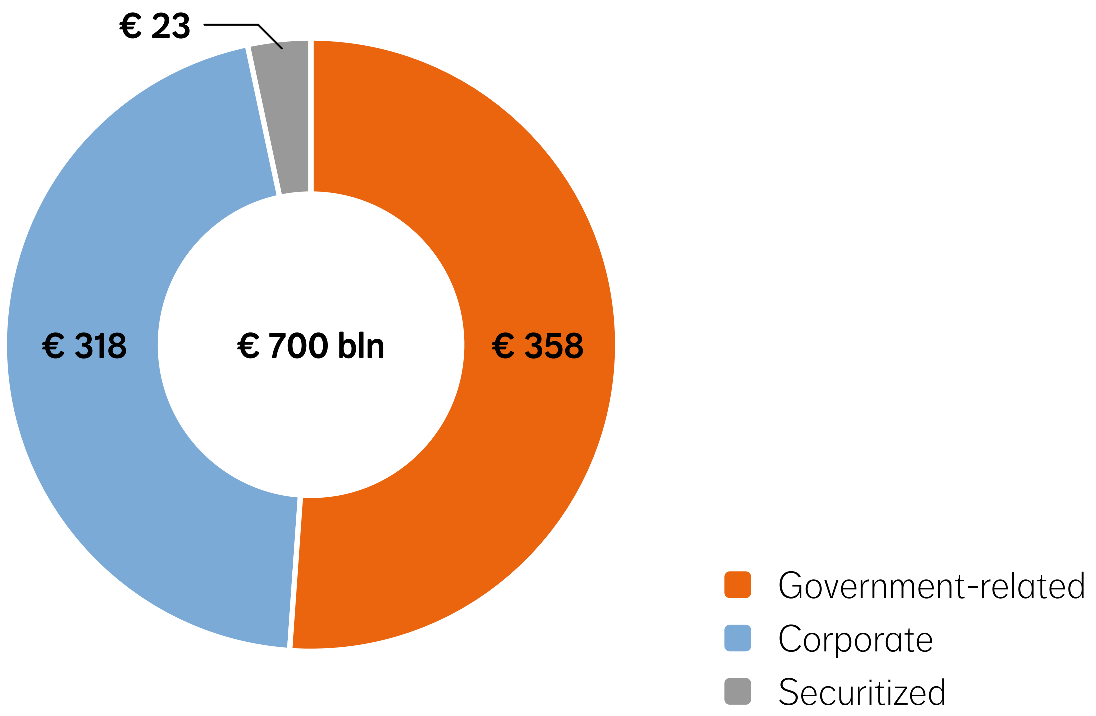
Click here to show issuance by:

Type | Sector | Region | Currency | Rating

Annual issuance by type (%)



Market exposure by type (billions)



Source: Bloomberg, NN Investment Partners (31/12/2020)

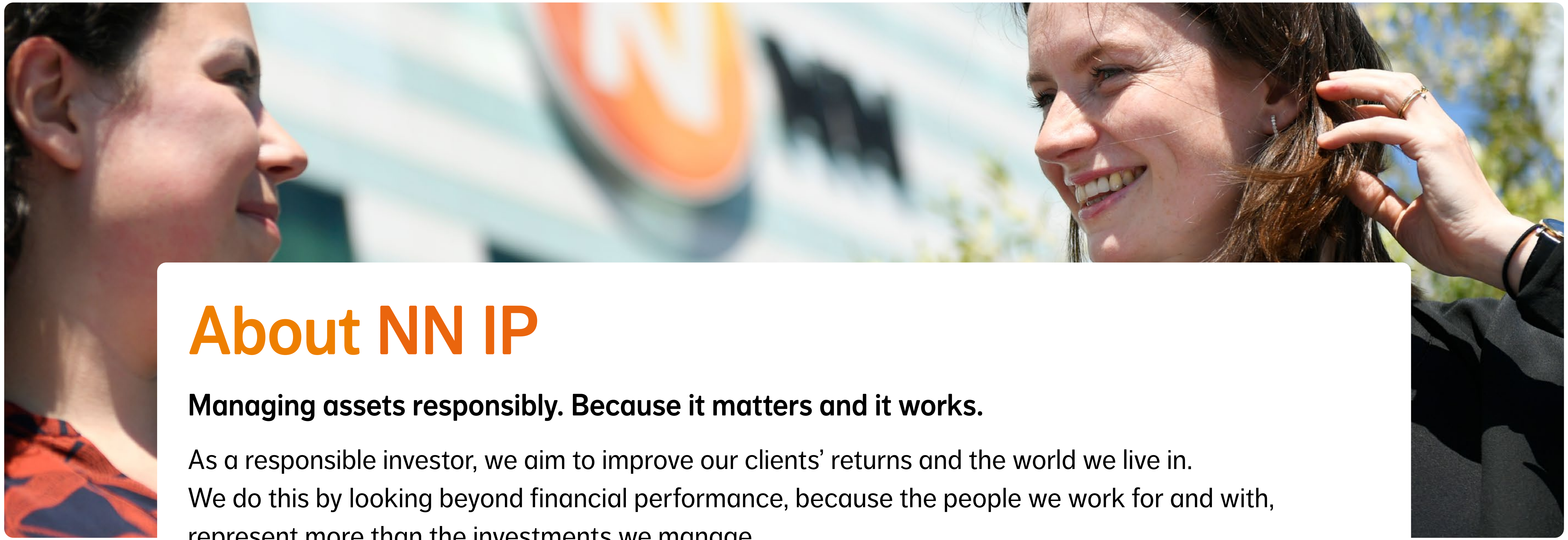
Leading the way to a better world

We will remember 2020 as the year of Covid-19. The pandemic has defined our lives and reshaped our reality. For investors, 2020 will hold an additional significance: the year responsible investing grew up. Sustainability has graduated from an optional investment criterion to a requirement that asset managers can no longer ignore. Investing for the planet and for our communities has become the new normal on a global scale.

The road ahead will hold new challenges. The impact of the Covid-19 crisis will reverberate throughout the coming decade in the form of lost jobs, ruptured communities, and permanently shuttered businesses. New regulation will also alter the investing landscape. The Sustainable Finance Disclosure Regulation will demand more from asset managers across Europe and will change how we look at ESG issues. And as deadlines for reducing our carbon emissions loom ever closer, the urgency of the climate crisis will continue to grow. Still, these challenges bring with them new opportunities to build a safer, greener, more prosperous world that works for everyone.

As a responsible asset manager, we owe it to all stakeholders to tackle these challenges head-on and to do our part in shaping a better world. We want our clients and investors to know that we will help and guide them through these and other dilemmas that arise. We will show them how achieving their responsible investing ambitions can go hand in hand with attaining their financial goals. We will also continue to prioritize innovation and research as part of our ambition to be a leader in responsible investing. And as we head towards the challenges and opportunities of the coming years, the lessons of 2020 will act as a guiding light steering us towards a more sustainable future.

Adrie Heinsbroek, Chief Sustainability Officer



About NN IP

Managing assets responsibly. Because it matters and it works.

As a responsible investor, we aim to improve our clients' returns and the world we live in. We do this by looking beyond financial performance, because the people we work for and with, represent more than the investments we manage.

What we do

We invest responsibly, adapt constantly

Managing assets for investors worldwide, we see active investing as a way of benefiting our clients and society as a whole. We use data and technology to adapt our investment approach to changing markets.

Our investment approach to creating long-term value

Markets are complex and not fully rational. We believe an adaptive approach creates long-term value. Fundamental analysis, real-time data and artificial intelligence help us understand what affects our clients' assets. We invest responsibly, as this contributes to attractive returns and a sustainable future.

Our people, culture & heritage

We put our resources, expertise, and networks to use for the well-being of our customers, the advancement of our communities, the preservation of our planet, and for the promotion of a stable, inclusive, and sustainable economy.

Our purpose is to help people care for what matters most to them. Because what matters to them matters to us. At NN Investment Partners we use responsible investing to bring this to life.

NN Investment Partners in numbers

€300 bln AuM	**150+ years** of managing risk and return	**37 nations** where we're active	**A+** UN PRI rating
74% of assets ESG-integrated	**1,269 dialogues** to make a difference	around **1,000** professionals	close to **50** staff nationalities

Figures as of 31 December 2020.

We are part of NN Group

NN Investment Partners is proud to be part of NN Group, an international financial services company, active in 20 countries, with a strong presence in a number of European countries and Japan.

Led by its purpose and ambition, guided by values and brand promise, and driven by strategic commitments, NN Group is committed to create long-term value for all stakeholders: customers, shareholders, employees, business partners and society at large.

With all its employees, NN Group provides retirement services, pensions, insurance, investments and banking products to approximately 18 million customers. NN Group's main brands are Nationale-Nederlanden, NN, NN Investment Partners, Movir, AZL, BeFrank and OHRA.

Our roots lie in the Netherlands, with a rich history that stretches back 175 years. NN Group is listed on Euronext Amsterdam (NN).

Practising what we preach

NN Group sustainability initiatives

As part of NN Group, we are committed to embodying the values of our parent company.

Click on the boxes below to learn more about how NN Group demonstrated these values in 2020.

PARIS2015 UN CLIMATE CHANGE CONFERENCE COP21·CMP11

Net-zero greenhouse gas emissions

Ambition 2050

33% women in senior positions. Employee engagement scored 7.9 out of 10

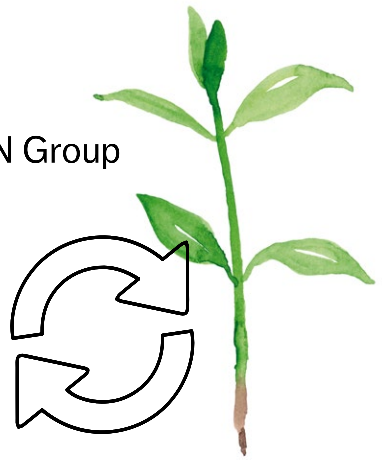
Ratings

84/100	Dow Jones Sustainability Indexes
18.6 Low risk	SUSTAINALYTICS
A-	CDP
AA	MSCI

43% CO_2 emissions reduction per FTE

100% carbon neutral since 2007

Environmental performance NN Group



Covid-19 employee well-being

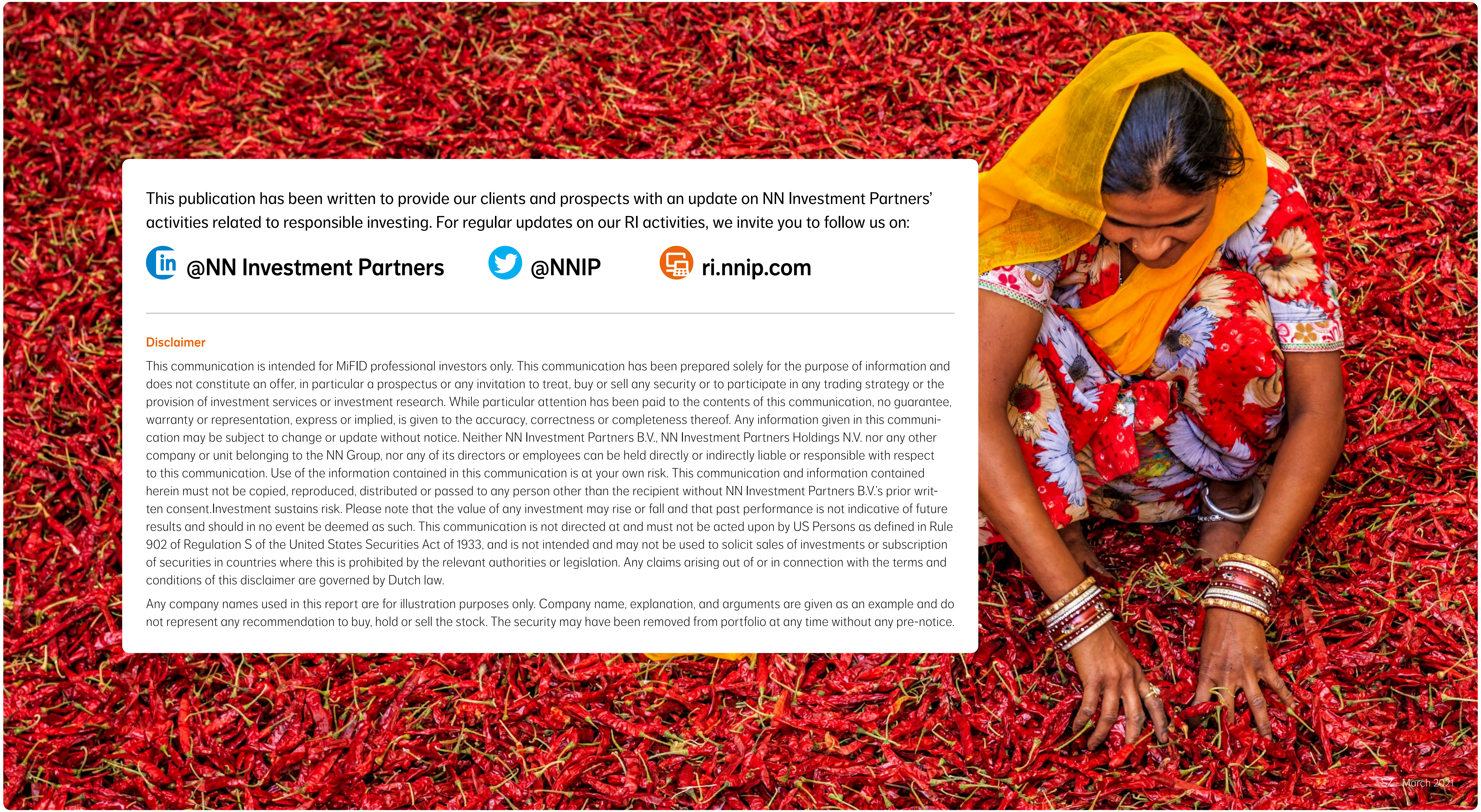
Supporting our people

Donations: EUR 4.7 million

Volunteer hours: 7,991

Investing in our communities

NN Future Matters



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:

@NN Investment Partners **@NNIP** **ri.nnip.com**

SZ - March 2021