

# European SRI Transparency Code

NN Equity Investment Fund • NN Duurzaam Aandelen Fonds • NN (L) Global Sustainable Equity • NN (L) European Sustainable Equity • NN Europa Duurzaam Aandelen Fonds • NN Global Sustainable Opportunities Fund • NN (L) Global Equity Impact Opportunities • NN (L) Health & Well-Being • NN (L) Climate & Environment • NN (L) Smart Connectivity • NN Enhanced Index Sustainable Equity • NN Enhanced Index Emerging Markets Sustainable Equity • NN Enhanced Index Europe Sustainable Equity • NN Enhanced Index North America Sustainable Equity



## Statement of Commitment

Responsible Investing is a key investment belief at **NN Investment Partners**. We have been involved in SRI since 2000 and welcome the European SRI Transparency Code. This is our tenth statement of commitment and covers the period January 2021 to December 2021. Our full response to the European SRI Transparency Code can be accessed below and is available on our web site [www.nnip.com](http://www.nnip.com).

## Compliance with the Transparency Code

**NN Investment Partners** is committed to transparency and we commit to share as much available ESG-related information as possible with clients and society at large including compliance with the regulatory and competitive environments that exist in the countries in which we operate. **NN Investment Partners** meets the full recommendations of the European SRI Transparency Code for its NN Equity Investment Fund, NN Duurzaam Aandelen Fonds, NN (L) Global Sustainable Equity, NN (L) European Sustainable Equity, NN Europa Duurzaam Aandelen Fonds, NN Global Sustainable Opportunities Fund, NN (L) Global Equity Impact Opportunities, NN (L) Health & Well-Being, NN (L) Climate & Environment, NN (L) Smart Connectivity, NN Enhanced Index Sustainable Equity, NN Enhanced Index Emerging Markets Sustainable Equity, NN Enhanced Index Europe Sustainable Equity, and NN Enhanced Index North America Sustainable Equity

September 2022

## Section 1. List of funds covered by the Code

Several/many SRI funds invest in the same asset class and share both a dominant SRI strategy and the same methodology. Such funds can be grouped into the same application to sign up to the Code.

- **NN Equity Investment Fund**
- **NN Duurzaam Aandelen Fonds**
- **NN (L) Global Sustainable Equity**
- **NN (L) European Sustainable Equity**
- **NN Europa Duurzaam Aandelen Fonds**
- **NN Global Sustainable Opportunities Fund**
- **NN (L) Global Equity Impact Opportunities**
- **NN (L) Health & Well-Being**
- **NN (L) Climate & Environment**
- **NN (L) Smart Connectivity**
- **NN Enhanced Index Sustainable Equity**
- **NN Enhanced Index Emerging Markets Sustainable Equity**
- **NN Enhanced Index Europe Sustainable Equity**
- **NN Enhanced Index North America Sustainable Equity**

### **NN Equity Investment Fund**

Domiciled: The Netherlands  
ISIN Codes: NL0000286318  
EUR 729 mln AUM as of 31 December 2021  
Benchmark: MSCI World DM Index  
Inception date: 1 February 2000

3 Portfolio managers  
9 ESG Specialists  
Team of 9 analysts (7 equity analysts + 2 data scientists)

### **NN Duurzaam Aandelen Fonds**

Domiciled: The Netherlands  
ISIN Codes: NL0006311789 - NL0010623039 - NL0010157459  
EUR 4,410 mln AUM as of 31 December 2021  
Benchmark: MSCI World DM Index  
Inception date: 31 May 2000

3 Portfolio managers  
9 ESG Specialists  
Team of 9 analysts (7 equity analysts + 2 data scientists)

### **NN (L) Global Sustainable Equity**

Domicile: Luxembourg  
ISIN Codes: P Capitalisation LU0191250769  
I Distribution LU0119216710  
I Capitalisation LU0119216553  
X Capitalisation LU0121204431  
EUR 2,731 mln AUM as of 31 December 2021  
Benchmark: MSCI World DM Index  
Inception date: 31 July 2000

3 Portfolio managers  
9 ESG Specialists  
Team of 9 analysts (7 equity analysts + 2 data scientists)

### **NN (L) European Sustainable Equity**

Domicile: Luxembourg  
ISIN Codes: P Capitalisation LU0991964320  
I Capitalisation LU0991964247  
EUR 680 mln AUM as of 31 December 2021  
Benchmark: MSCI Europe DM Index  
Inception date: 19 December 2013

3 Portfolio managers  
9 ESG Specialists  
Team of 9 analysts (7 equity analysts + 2 data scientists)

### **NN Europa Duurzaam Aandelen Fonds**

Domicile: The Netherlands  
ISIN Codes: NL0010583423  
EUR 149 mln AUM as of 31 December 2021  
Benchmark: MSCI Europe DM Index  
Inception date: 1 October 2005

3 Portfolio managers  
9 ESG Specialists  
Team of 9 analysts (7 equity analysts + 2 data scientists)

### **NN Global Sustainable Opportunities Fund**

Domiciled: The Netherlands  
ISIN Codes: NL0009265404  
EUR 280 mln AUM as of 31 December 2021  
Inception date: 2 April 2001

2 Portfolio managers  
9 ESG Specialists  
Team of 9 analysts (7 equity analysts + 2 data scientists)

### **NN (L) Global Equity Impact Opportunities**

Domiciled: Luxembourg  
ISIN Codes: LU0250161907  
EUR 503 mln AUM as of 31 December 2021  
Inception date: 24 April 2006

2 Portfolio managers  
9 ESG Specialists  
Team of 9 analysts (7 equity analysts + 2 data scientists)

### **NN (L) Health & Well-Being**

Domiciled: Luxembourg  
ISIN Codes: LU0119214772  
EUR 337 mln AUM as of 31 December 2021  
Inception date: 6 December 2019

3 Portfolio managers  
9 ESG Specialists  
Team of 9 analysts (7 equity analysts + 2 data scientists)

### **NN (L) Climate & Environment**

Domiciled: Luxembourg  
ISIN Codes: LU0332194231

EUR 287 mln AUM as of 31 December 2021  
Inception date: 6 December 2019

3 Portfolio managers  
9 ESG Specialists  
Team of 9 analysts (7 equity analysts + 2 data scientists)

**NN (L) Smart Connectivity**

Domiciled: Luxembourg ISIN  
Codes: LU0242142221  
EUR 837 mln AUM as of 31 December 2021  
Inception date: 6 December 2019

3 Portfolio managers  
9 ESG Specialists  
Team of 9 analysts (7 equity analysts + 2 data scientists)

**NN Enhanced Index Sustainable Equity**

Domiciled: The Netherlands, Luxembourg ISIN  
Codes: T Capitalisation NL0009712488  
I Distribution NL0012125728  
A – P Capitalisation NL0012125736Lux share class LU2037300980  
EUR 5,271 mln AUM as of 31 December 2021  
Benchmark: MSCI World DM Index Inception date: 27 April 2011

Co-managed in partnership with Irish Life Investment Managers

**NN Enhanced Index Emerging Markets Sustainable Equity**

Domiciled: The Netherlands, Luxembourg ISIN  
Codes: Dutch share class NL0006311771  
Lux share class LU0051128774 EUR  
966 mln AUM as of 31 December 2021  
Benchmark: MSCI EM Index  
Inception date: 1 February 2019

Co-managed in partnership with Irish Life Investment Managers

**NN Enhanced Index Europe Sustainable Equity**

Domiciled: Luxembourg ISIN  
Codes: LU2037300550  
EUR 339 mln AUM as of 31 December 2021  
Benchmark: MSCI Europe DM Index Inception date: 1 October 2019

Co-managed in partnership with Irish Life Investment Managers

**NN Enhanced Index North America Sustainable Equity**

Domiciled: Luxembourg ISIN  
Codes: LU2037301368  
EUR 490 mln AUM as of 31 December 2021  
Benchmark: MSCI North America Index  
Inception date: 1 October 2019

Co-managed in partnership with Irish Life Investment Managers

## Section 2. General information about the fund management company

**2a Provide the name of the fund management company managing the fund(s) to which this Code applies.**

**NN Investment Partners B.V. and NN Investment Partners Luxembourg S.A. (both part of NN Investment Partners)**

Schenkkade 65  
Postbus 90470  
2509LL, The Hague  
The Netherlands  
[www.nnip.com](http://www.nnip.com)  
[info@nnip.com](mailto:info@nnip.com)

**2b What are the fund management company’s track record and principles when it comes to integrating SRI into its processes?**

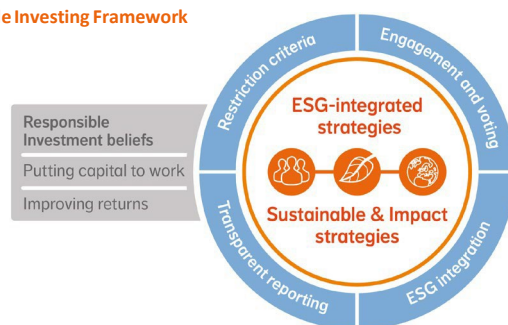
Responsible Investing is a key investment belief at NN Investment Partners (NN IP). We provide investment management services to a wide range of clients and we seek to invest their assets responsibly and with integrity, with a full understanding of the opportunities and risks involved.

NN IP’s objective when managing clients’ assets is to enhance long-term value. Investing responsibly with regard to social and environmental issues and encouraging strong corporate governance is embedded in our organisation’s philosophy and has been incorporated into the company’s core values. As an active investor, we believe that companies with good, well-managed sustainability and corporate governance practices should perform better in the long run.

**2c How does the fund management company formalise its sustainable investment process?**

Our Responsible Investment (RI) approach is driven by our company values and combines 4 building blocks to implement responsible investing at NN IP. It also incorporates the range of investment strategies that we offer clients to enable them to fulfil their responsible investing ambitions.

**NN IP Responsible Investing Framework**



1. Our firm-wide **norms based criteria** enable us to take a stance on activities and behaviour that do not match with our ethics, principles and regulations. Our norms-based criteria relate to controversial conduct of corporates and countries as well as to involvement in specific products or services. Decisions on restrictions are the starting point in defining the initial investment universe for our strategies.
2. **Engagement and voting** We engage on behalf of our clients to put their capital to work towards creating a better world

and to maximise their investments. We engage on specific ESG targets in two ways:

- 1) Controversy engagement – focuses on companies that severely and structurally breach our norms-based criteria
- 2) Thematic engagement - focuses on themes that have a material impact on society and that we believe our engagement efforts can achieve a beneficial change. As equity and debtholders, we are fully aware of the potential we have to drive change for the better. We collaborate with international entities and with other institutional investors to strengthen the impact of our efforts.
3. **ESG integration**, we take into account non-financial information by defining the materiality of ESG issues linked to both companies and sovereigns for all our responsible investment strategies. We integrate the additional insights we gain from ESG data into our investment processes to mitigate risks and to leverage new opportunities.
4. **Transparent reporting**, reporting for investors is often actually the starting point of responsible investing. We promote transparency by sharing as much available ESG-related information as possible with clients. It covers, for example, exposure to potential controversies, climate emissions figures and other ESG performance metrics.

In the NN RI Framework Policy, we specifically indicate that our investment beliefs are reflected in the RI approach as well as our values, relevant laws and internationally recognised standards such as the UN Global Compact Principles and OECD Guidelines for Multinational Enterprises. We use the aforementioned principles as a starting point for engagement with companies. We expect the companies in which we invest to adopt standards, policies and management processes covering and managing potential ESG risks and opportunities affecting them.

**2d How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by the fund management company?**

As an asset manager we have a fiduciary duty to act responsibly on behalf of our clients. A set of interrelated policies such as our Stewardship Policy, Voting Policy and our extensive RI Framework provides us with a solid basis on which to make and implement well-informed decisions. Our governance structure ensures that we continue to optimise long-term risk-adjusted returns for our clients, while staying focused on maintaining a positive impact on society at large.

NN IP's day-to-day approach to RI is organised in a structured way. We make sure the relevant people are involved in decision-making, that recommendations are shared and decisions are efficiently implemented.

The ESG Committee is chaired by the Chief Investment Officer (CIO) and decides on RI related matters within NN IP for investments. The committee is mandated by NN IP's Board and the Chief Executive Officer and comprises members of the dedicated RI Team and senior representatives of business segments of NN IP such as risk management and product management and development.

NN IP follows a stringent and systematic process for ESG integration; we demonstrably and consistently integrate all three ESG factors wherever applicable throughout the investment process. We take ESG aspects into account by first defining the materiality of ESG issues linked to both companies and sovereigns for all our RI strategies and subsequently integrating these into both the analysis of a potential investment and in portfolio construction. Our investments teams have access to leading external ESG data and research providers, which we combine with our own proprietary data and information obtained through our engagements. Also, we continuously evaluate our analytical frameworks and sources, in order to ensure our investment teams, have the best information at hand to inform their investment decisions and to help mitigate ESG risks and leverage new opportunities.

With regards to climate change, we aim to address the causes of climate change (mitigation) and the consequences (adaptation). We put these beliefs into practice by:

1. Integrating climate change in our investment process by using our materiality framework, corporate and sovereign indicators and by measuring the carbon footprint of our funds
2. Incentivising investment solutions to stimulate the transition to a low-carbon economy. We aim to find the right mix between encouraging corporations to make the transition to a low-carbon economy while further stimulating those that are already contributing
3. Using active ownership to create corporate change
4. Reducing the CO2 footprint of our portfolio
5. We take an engagement-led (dis)investment approach in stimulating the transition to a low carbon economy
6. Support transparency, commitments and advocacy on climate change.

By endorsing and actively participating in international initiatives, we underline our ambition and approach to responsible investing and corporate governance.

**2d How many employees are directly involved in the company's sustainable investment activity?**

The total of people involved in sustainable investment (RI platform, portfolio managers and analysts) are 64.

The dedicated RI Team and the fixed income and equity strategy teams added additional FTEs in (S)RI and ESG integration and ESG research in recent years. The RI Team is embedded in the transversal Platform for Innovation and Responsible Investment. This allows us to optimally combine our innovation skills and expertise on ESG.

**2e Is the fund management company involved in any RI initiatives? By**

endorsing and being actively involved in international initiatives, NN IP underlines its ambition and approach to responsible investing. Examples include:

- NN IP has been a signatory to the [UN Principles for Responsible Investment](#) (UN PRI) since September 2008. The PRI is a set of global best practices that provide asset managers, amongst others, possible actions and guidance for incorporating ESG issues into investment decision-making and ownership practices.

- NN IP is a member of the **International Corporate Governance Network (ICGN)**, a global membership organisation with several hundred corporate governance leaders with a mission to raise standards of corporate governance worldwide.
- NN IP is also strongly involved in the activities of **Eumedion**, the Dutch corporate governance organisation and network, where we provide active input through our representation on various committees. Eumedion represents institutional investors' interests in the field of corporate governance and related sustainability performance.
- NN IP is the sector lead for chemical companies of the **Climate Action 100+** and is an active member and (combined) lead investor for several electrical utility companies. We also adhere to the **ICMA Green Bond Principles** as we are a leading green bond investor and we partner with the **Climate Bonds Initiative**.
- NN IP also is a member of the **Farm Animal Investment Risk & Return (FAIRR)** initiative and an active member of the Dutch originated **Platform Living Wage Financials (PLWF)** that assesses and monitors investee companies on their commitment to paying a living wage to the workers in their supply chains.

For all information on NN IP's endorsement and advocacy activities, please refer to our website: [Responsible investing | NN Investment Partners \(nnip.com\)](https://www.nnip.com).

### 2f What is the total number of SRI assets under the company's management?

At the end of 2021 NN IP had assets under management dedicated to sustainable and impact investments totaling 37.9 bn euro. This has been verified by an independent external auditor.

## Section 3. General information about the SRI fund(s) that come under the scope of the Code

### 3a What is (are) the fund(s) aiming to achieve by integrating ESG factors?

ESG factors are important intangible value drivers and a key factor to identify corporate and management quality. We believe that companies that strive for high standards of corporate governance and corporate responsibility will tend to deliver long-term shareholder value over time. Integrating ESG factors enables our analysts to unlock potential value by identifying the associated opportunities and/or risks, which the fund managers then use as the basis for their investment decisions. By taking into account ESG factors we incorporate forward-looking variables and make reference to positive changes in society.

For the Enhanced Index funds, the ESG criteria implementation approach is rules-based and screens out negative impacts on

sustainable development, while increasing the universe for companies that make an effort in and contribute to sustainable development.

### 3b What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?

The consideration of ESG factors, alongside traditional financial data, helps us to make more informed decisions and optimise the risk-return profile of investment portfolios. At NN IP, assessing the materiality of ESG factors, such as climate change, is an integral part of the investment process, where the analysts identify material risks and opportunities within the investment case. In doing so, we make use of information from various ESG research agencies, including Sustainalytics, MSCI, Bloomberg and ISS-Ethix Climate Solutions. Our analysts look at data taken from corporate disclosures and external data providers and make use of our proprietary corporate and sovereign ESG indicator tool, the ESG Lens.

### 3c What ESG criteria are taken into account by the fund(s)?

The NN Equity Investment fund, NN Duurzaam Aandelen Fonds, NN (L) Global Sustainable Equity, NN (L) European Sustainable Equity and NN Europa Duurzaam Aandelen Fonds are equity funds which apply the following ESG approach:

- Search for sustainable business models
- Exclusion: normative, activities, behaviours
- ESG integration
- Engagement
- ESG momentum.

The NN Global Sustainable Opportunities Fund and the NN (L) Global Equity Impact Opportunities are multi-thematic impact funds which invest in companies that have a positive environmental and societal impact. The funds apply the following ESG approach:

- Positive impact selection
- Exclusion: normative, sector, activities, behaviours
- ESG integration
- Engagement
- Link to the UN SDGs.

The NN (L) Health & Well-Being, NN (L) Climate & Environment and NN (L) Smart Connectivity funds are thematic impact funds that aim to invest in companies that are set to benefit from different long-term societal trends while supporting several UN SDGs. The funds apply the following ESG approach:

- Positive impact selection
- Exclusion: normative, sector, activities, behaviours
- ESG integration
- Engagement
- Link to the UN SDGs.

The NN Enhanced Index Sustainable Equity, NN Enhanced Index EM Sustainable Equity, NN Enhanced Index Europe Sustainable Equity and NN Enhanced Index North America Sustainable Equity funds are all passive equity funds. They seek to track a mainstream index as a base, but diverge from the mainstream index by applying further sustainability screens based on behaviour-based restrictions criteria, carbon emission and policy measures, as well as governance measures. The funds apply the following ESG approaches:

- Exclusion: normative, sector, activities, behaviours
- Positive inclusion based on carbon emission measures and reduction ambition and corporate governance strength
- Voting and engagement.

### 3d What principles and criteria linked to climate change are taken into account in the funds?

NN IP is committed to the Paris Agreement and the funds exclude the following activities which have a clear negative impact on global warming: next to the firm wide restrictions on thermal coal mining and oilsands exploration there are specific restrictions for these funds; arctic drilling and shale oil and gas exploration.

This is more elaborately described in the [NN IP RI Viewpoint policy](#). NN IP also has put in place a specific Climate Change policy,

The NN Equity Investment, NN Duurzaam Aandelen Fonds, NN (L) Global Sustainable Equity, NN (L) European Sustainable Equity and NN Europa Duurzaam Aandelen Fonds are equity funds which invest in sustainable solutions that are, amongst others, linked to renewable and cleaner forms of energy and clean mobility.

The NN (L) Climate & Environment Fund invests in companies that offer solutions to reduce the stress on our global ecosystem and help to stay within planetary boundaries. The fund invests to deliver a positive contribution to six SDGs which are relevant for achieving the most important environmental targets, by striving for the following four goals:

- Water management
- Food sufficiency
- Energy transition
- Circular economy.

In our view, companies that provide solutions to one or more of these goals are well positioned to benefit from the underlying trends, such as:

- Climate change mitigation
- Managing resource scarcity
- Reducing pollution (CO<sub>2</sub>, water and waste).

The NN Global Sustainable Opportunities Fund and the NN (L) Global Equity Impact Opportunities Fund are multi-thematic impact funds which have 'diminishing the stress on the ecosystem' as one of its three main themes. Within that theme we explicitly select companies which provide solutions to the climate challenge. This is linked to a number of SDGs, such as #6 (Clean Water and

Sanitation), #7 (Affordable and Clean Energy), #11 (Sustainable Cities and Communities), #12 (Responsible Consumption and Production) and #13 (Climate Action).

The NN Enhanced Index Sustainable Equity Fund, the NN Enhanced Index EM Sustainable Equity, the NN Enhanced Index Europe Sustainable Equity and the NN Enhanced Index North America Sustainable Equity funds aim to:

- avoid investing in the highest carbon emitters, while at the same time
- financing the transition to a low carbon economy by investing in high emitters with the most ambitious carbon reduction ambitions and results, thanks to our positive inclusion approach.

### 3e What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?

For the NN Equity Investment Fund, NN Duurzaam Aandelen Fonds, NN (L) Global Sustainable Equity, NN (L) European Sustainable Equity and NN Europa Duurzaam Aandelen Fonds the following holds: we believe our added value lies in identifying long-term winners through proprietary fundamental bottom-up stock picking, focusing on sustainable business models and material ESG aspects that are often overlooked by the broader market.

We make use of fully integrated ESG research, to benefit from the market's inability to correctly price/value ESG behaviour and risks, and its effect on long-term value creation. Material ESG factors have a strong influence on intrinsic company values which are often not fully recognised by the market. They help in identifying corporate opportunities, threats, strengths and weaknesses. Our ESG approach, in combination with applying the latest research insights, contribute to generating a complete, and in our view, superior fundamental analysis of corporations.

Avoiding controversial ESG behaviour is also a source of financial value creation, through the elimination of tail risks, and thus a factor in improving the Sharpe ratio (as was evidenced by the findings of our joint research project with academic institute ECCE).

Finally, we focus on the direction of the abovementioned ESG and financial metrics. For example, positive fundamental financial momentum and positive ESG momentum. These are leading indicators of future financial outperformance (another outcome of our ECCE academic research project).

On top of the company-wide activity restrictions, the strategy additionally restricts activities in: firearms & military contracting, nuclear energy, gambling, adult entertainment, fur and specialty leather and unconventional oil and gas including arctic drilling. The strategy also excludes companies fundamentally engaged in businesses that contravene generally accepted values and standards: violation of the Universal Declaration of Human Rights, violation of the core ILO conventions, violation of OECD Guidelines for Multinational Enterprises and involvement in dictatorial regimes.

For NN Global Sustainable Opportunities Fund, NN (L) Global Equity Impact Opportunities fund, NN (L) Health & Well-Being, NN (L) Climate & Environment and NN (L) Smart Connectivity, we invest from a focused positive and inclusive approach in companies that make a positive social or environmental impact, alongside a financial return.

By definition, the strategy has a strong focus on ESG. ESG factor analysis is integrated in both the impact validation and valuation assessment of target stocks.

When it comes to restrictions for the NN Enhanced Index Sustainable Equity Fund range, the focus is on behavioural criteria carbon emissions scores and governance scores. Those determine the viable universe of stocks to be invested in.

**3f How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?**

All company profiles are fully updated at least once a year by Sustainalytics and continuously monitored by our internal research team. We discuss all companies that have a controversy 4 or 5 score from Sustainalytics in our Controversy & Engagement Council. This Council’s role is to monitor engagements, assess controversies and provide recommendations to the ESG Committee on the appropriate steps to take. They also monitor progress made by companies who are in the process of remedying past controversies. The Controversy & Engagement Council is chaired by a member of the Responsible Investment team. Its members include portfolio managers and analysts. The Council makes recommendations to the ESG Committee and maintains a database of all our engagement dialogues and the progress made, which is accessible to all the investment teams.

Regarding funds, the holdings are subjected to ongoing day-to-day monitoring by Investment Restriction Control, part of the risk department.

If a company becomes active in a sensitive country (e.g. Sudan), or gets seriously involved in controversies such as those relating to human rights issues, or fails to comply with our restrictions criteria, then the company is subject to exclusion. The Exclusion List of companies is updated quarterly. Furthermore, during the first five years of existence of the strategy, an independent Advisory Board has also helped our RI strategies in further deepening and extending knowledge on ESG topics and criteria.

**Section 4. Investment process**

**4a How are the results of the ESG research integrated into portfolio construction?**

After applying our norms-based restrictions criteria, the investment universe is subjected to our financial criteria (using our proprietary ranking and financial analysis tool). This ranking tool is used to prioritise bottom-up research, including three main screens on Valuation, Quality and Momentum.

Changes in the portfolio are communicated to investors on a

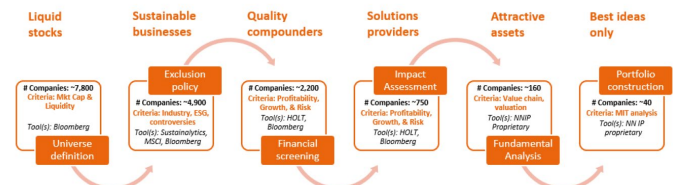
monthly basis.

In 2019, NN IP decided to also formally restrict companies involved in shale oil and gas in its sustainable and impact equity funds. Producing shale oil and gas is traditionally more expensive than conventional oil and gas, and has a far more destructive impact on the environment.

The NN Global Sustainable Opportunities Fund, NN (L) Global Equity Impact Opportunities, NN (L) Health & Well-Being, NN (L) Climate & Environment and NN (L) Smart Connectivity funds invest in companies that have a positive societal impact. The first step of the investment process is therefore to identify impact themes. These relate to people, planet and prosperity. Target companies within these themes should also have an appropriate ESG record or exhibit good ESG momentum. ESG factor analysis supports impact validation as well as financial valuation. As engagement is a key element of the investment process, investee companies also need to demonstrate a willingness to (further) improve their ESG profile.

Our impact strategy is benchmark agnostic and as such is not restricted to an index, although MSCI ACWI may sometimes be used by clients as a reference point. The portfolios typically contain 35 to 50 stocks. Since we do not take a standard market index as a starting point for the analysis, our universe, and the resulting portfolio, includes Emerging (and frontier) Markets, regions such as Asia, as well as small(-er) cap names. Sell-side coverage of these names tends to be relatively poor, especially from the ESG and impact perspectives, and potential success stories are harder to uncover. Some of the best alignment with SGDs we have seen came from companies in Emerging Markets, for example. Thanks to the extensive fundamental research carried out by our dedicated resources, we are able to pick the future winners that have little analyst coverage in the marketplace.

**Our investment process consists of six steps** as illustrated in the chart below:



**Step 1. Universe definition**

We use Bloomberg’s screening functionality to find stocks with a market cap above EUR 1 bln and minimum daily value traded of EUR1mln. This results in a universe of approximately 7,800 companies.

**Step 2. Exclusion policy**

We use MSCI and Bloomberg industry classification data to exclude companies based on their sector/activities, violation of human rights, Global Compact status, ILO conventions, OECD guidelines and the presence of business controversies or potential negative product involvement.

Furthermore, we use data from Sustainalytics to exclude companies with a weak ESG profile, focusing in particular on the ESG risk rating (risk score needs to <40). We also exclude companies with Sustainalytics controversy score 5.

### Step 3. Financial screening

We use Credit Suisse HOLT to filter for quality compounders - companies with attractive growth opportunities that have been able to create economic value in a consistent way. This quality screen covers metrics such as attractiveness of cashflow return on investment (CFROI), profitability and consistency of cashflows, liquidity measures, etc.

### Step 4. Impact assessment

We make impact tangible by taking the UN SDGs as a yardstick to get a first sense of societal contribution. However, not all SDGs are equally investible and they are typically mutually reinforcing. We therefore look for solutions provided by listed corporations contributing to 14 of the 17 SDGs which we have identified as meaningful from the investible universe perspective. We use proprietary framework to assign companies to our 12 impact solutions and the associated UN SDG (targets). Over the years we have built a significant proprietary impact database of over 700 positive impact stocks. It allows us to systematically screen on not only on the absence or presence of impact but also on impact types, as well as on company and industry attributes, to determine if a company can indeed deliver the required financial and impact performance. The database is continuously updated with our findings and analyst feeds.

SDG mapping is carried out early in the fundamental research process to ensure we spend most time analysing companies that qualify from the positive impact perspective. We look at a company's business model, source of revenue, its capex, etc. For each company, we define key performance indicators (KPIs) that are tailored to its specific context and operating segment. Thus, for social impact, the impact KPI takes the form of: #people helped\*quality help, whereas for environmental impact, the impact metrics include emissions, waste, or water saved. The ideal metric is always specific to the way the impact is delivered.

### Step 5. Fundamental analysis

The portfolio managers work with our dedicated in-house analysts to define the best positioned companies in the value chain, while taking into account valuation. The 700 positive impact stocks identified in the previous step are discussed in periodic in-depth reviews. The purpose is to identify the winners and losers within each value chain, and to determine where to focus further research efforts, after considering the company's competitive advantage, total addressable market potential, exposure to attractive end markets, and sustainability factors.

Based on their views on companies within different value chains, our analysts have currently identified approximately 160 companies that are financially attractive and eligible for investment. These companies are sustainable quality compounders with positive fundamentals, and with share prices that offer upside potential. Companies with a strong moat are characterised by solid business models, healthy balance sheets, strong innovation capabilities, and are able to grow fast while creating significant (societal and economic) value for all stakeholders and adhering to high ESG standards.

We build an investment case for each eligible company, capturing both financial and impact sides of the story. The full analysis includes a detailed ESG assessment – each component of E,S, and G is closely examined. We look at all possible measurable datapoints, such as GHG emissions, waste, water for environmental impact, governance

structures, board composition, anti-corruption and equal opportunities policies, human capital scores, etc. Furthermore, we consider positive ESG momentum as a leading indicator of future financial performance.

We use the NN IP materiality framework and a proprietary tool, ESG Lens, which provides our investment teams with a single ESG score for each company (and country), taking into account a wide range of data points received from several external providers and the expertise of our in-house research analysts. We use the resulting score as a key input for the overall ESG assessment of the company. A detailed impact case is built as well – we make an assessment of each portfolio candidate following our MIT (Material, Intentional, Transformational) framework. This ESG and impact analysis forms an integral part of the overall investment case.

In assessing impact case for each company, the *MIT framework* is key - in our case, both in the stock selection and portfolio construction processes.

We score each potential portfolio candidate on a 0-5 scale for M, I, and T. Through this exercise, we get to a verdict as to whether the company's impact is relevant enough. To show how the MIT assessment works, the table below compares two companies that could fit our 'Energy transition' solution given the nature of their exposures. Due to its low scores on I and T, the hydropower utility does not score enough points to be considered. On the other hand, the enzyme maker is a posterchild impact company and easily passes this test.

We further deepen our understanding of a company's impact by estimating the size of its impact and seeing if and how impact and financial returns reinforce each other. We typically do this by creating an impact measurement mind-map, which covers all impact drivers and outlines to whatever extent they can be measured. The impact measurement mind-map is the basis for further engagement with the company.

### Step 6. Portfolio construction

We manage concentrated portfolios that consist of best ideas only and apply a position size matrix to optimize the degree of impact and the expected financial returns for our clients.

*Portfolio construction begins with the highest conviction stocks.* To determine conviction, we consider both the impact case and the fundamental investment case, which are equally relevant. The level of conviction on both aspects is directly reflected into the weights of the individual portfolio positions according to the matrix shown below.

For individual stock weightings, the following rules apply:

- The portfolio contains 35 to 60 stocks;
- Position sizes are capped at 5% at the time of purchase, with the hard limit of 10%;
- Individual stock volatility contributions are limited to 10% of total portfolio risk.

To assign a stock to a particular quadrant in the table above, we consider financial and impact considerations in tandem. For the impact side of the investment case, +++ corresponds to the high impact score (11-15) within the MIT framework, ++ to the medium score and + to the lower score. The financial assessment takes into account growth outlook, quality of the business and valuations. The outcome is a model portfolio with target stock weights.



### Impact Measuring Framework

We seek out companies that offer attractive financial returns and are actively and deliberately working to make the world a better place. We apply the same rigorous standards to all the companies we assess, in terms of their tangible contribution to a more sustainable world.

To measure our holdings' positive contribution to society, or positive impact, we have designed a proprietary impact assessment framework. This framework is built on impact measurement frameworks widely used in the private equity space, which we have adapted for the world of listed equities.

#### Step 1: Identification

Within this step, we identify the company's potential contribution to one of our focus themes and investment solutions. *To this end, we assess its impact potential and its activities and reach:*

- To assess the impact potential, we identify opportunities within the company's sector to contribute to one or more of the SDGs;
- Assessing activities and reach means looking at where the company is making a difference: identifying its stakeholders, countries of scope, and its contribution to one or more SDGs.

#### Step 2: Assessment

In this step, we assess the **positive impact of the company's core activities and the ESG risks that it faces**. Assessing positive impact means looking on a granular level at which of the company's products or solutions are contributing to one or more SDGs, and how. ESG risks differ by company and by sector. When calculating these metrics, we use key performance indicators that are relevant for the specific SDG targets for which the company was selected.

It is not yet possible to measure a company's net positive contribution, due to differences in reporting and lack of data. However, our process ensures that ESG risks do not overshadow positive contributions, and we take into account potential negative impacts where relevant.

#### Step 3: Monitoring

In the third step, we look at targets and progress, which allows us to track what the company currently reports and what it intends to achieve in terms of impact and ESG performance, so as to better engage on possible improvements in these areas. As part of this step, we also engage closely with companies to help them meet their impact targets.

The Sub-Funds have a global investment universe, including emerging markets, that is aligned with long-term societal and environmental trends. At least annually, the Sub-Fund's initial investment universe is reduced by at least 20%, as a result of the application of a "Best-in-Universe" approach and the below mentioned exclusions and restrictions.

#### Engagement

Engaging with companies is an integral part of our impact strategy and a mutually beneficial process. We work closely with companies to help them expand their positive contribution to society and advance to the next level of impact reporting, while we gain a better understanding of their processes and the tangible difference they are making.

We believe that engagement is key to unlocking the long-term value of a company. Our intensive dialogue with our investee companies:

- Encourages responsible capital allocation;
- Helps us monitor ESG risks and uncover opportunities;
- Helps companies improve their impact reporting and governance over time.

We engage with all the companies in our portfolios at least once per year, and usually more often. Our engagement efforts typically take one of two forms. The first is investment team-level engagement, where our impact portfolio managers and fundamental analysts engage directly with the companies in our portfolios, as well as with those we are considering for investment. For example, we might ask a company how it is preparing for the introduction of a new regulation or offer guidance on how to strengthen its impact reporting.

The second type of engagement is carried out in collaboration with **NN IP's Responsible Investing team**.

This dedicated team focuses on voting and engagement on specific topics and sector-wide issues, such as responsible supply chains and climate change.

The above-mentioned selection process is applied to at least 90% of the equity investments.

The NN (L) Health & Well-Being, NN (L) Climate & Environment and NN (L) Smart Connectivity funds follow the same process, but are each focused on a specific set of long-term environmental trends, organised along four tailored goals for each fund:

- NN (L) Health & Well-Being: decent living standards, fit body & mind, affordable healthcare and financial inclusion
- NN (L) Climate & Environment: water management, food sufficiency, energy transition and circular economy
- For NN (L) Smart Connectivity: enhanced productivity, resilient infrastructure, better knowledge and safe society.

The NN (L) Global Equity Impact Opportunities, NN (L) Health & Well-Being, NN (L) Climate & Environment and NN (L) Smart Connectivity funds must have scored better on at least two indicators compared to the benchmark/investment universe. The first indicator for each fund with a coverage rate of at least 90%, and the second with a rate of coverage of at least 70%.

These 2 extra-financial goals for each fund are the same and are mentioned below:

- ✓ Carbon Intensity (Annually, per EUR 1mn revenues, scope 1, 2 & 3)
- ✓ Waste intensity (Tonnes per EUR 1M revenues)

Carbon data is provided by ISS – ESG on an issuer level. ISS - ESG derives the data from the CDP reporting of the corporations directly or uses an estimation model for missing data. If a company in our invested universe is not covered by ISS - ESG, we apply an inhouse estimation model.

Waste data is provided by Refinitiv on an issuer level. If a company in our invested universe is not covered by Refinitiv, we apply an inhouse estimation model.

**4b How are criteria specific to climate change integrated into portfolio construction?**

NN IP has developed a materiality framework. This framework outlines our view on material ESG issues per sector. The materiality framework has four pillars 1. Business model, 2. Governance, 3. Environmental and 4. Social. In this framework, climate change issues are captured under the factor of “Business Model” and “Environmental” and is material to most of the sectors.

With respect to climate change the material factors are:

- Climate change strategy, environmental policy & management systems
- Carbon emissions, energy management
- Environmental impact of product and services.

To assess climate change risks of a company or issuer, material ESG issues are linked with specific performance issues. Our analysts look at data taken from corporate disclosures and external data providers and make use of our proprietary corporate and sovereign ESG indicator tool, the ESG Lens. The environment score within the ESG Lens consists of, among others, analyses of carbon intensity, water, and waste pollution. The ESG Lens allows us to assess the performance of companies on ESG issues such as climate change and captures measures such as GHG emissions, involvement in fossil fuels, electric vehicle production. The data from the ESG Lens reveals how each company scores on different ESG factors compared to its sector average and show if there are any structural issues or controversies relating to people, planet, and society. Our teams incorporate these ESG analyses into their investment cases, while also analysing their materiality for each company that is reviewed for investment. This process is applied to equities and corporate bonds. A similar procedure is in place for government bonds, but instead of using ESG data on a company level, we look at country data.

NN IP is committed to the Paris Agreement and the funds exclude certain activities which have a clear negative impact on global warming. These include, alongside restrictions on thermal coal mining, oil sands exploration, arctic drilling and shale oil and gas exploration.

In other sectors the analysts and portfolio managers analyse the role of the sector and company in the energy transition and analysts take a close view on the value chain of the companies. In our active ownership activities, we incentivise companies and countries to align with the Paris Agreement, implement a strong governance framework, and disclose their emissions, targets and progress on climate change issues. In the future we also aim to further engage with countries on the need to align with the Paris Agreement. We have set an escalation strategy in place for those cases where engagement does not provide sufficient progress..

**4c How are issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?**

All issuers present in the portfolio are subject to ESG due diligence before they are admitted into the portfolio.

**4d Has the ESG evaluation or investment process changed in the last 12 months?**

The ESG evaluation or investment process has not materially changed in the last 12 months, for any of the products in scope.

**4e Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises (impact investing)?**

NN Global Sustainable Opportunities Fund, NN (L) Global Equity Impact Opportunities fund, NN (L) Health & Well-Being, NN (L) Climate & Environment and NN (L) Smart Connectivity are thematic funds which invest in companies that have a positive societal impact.

The aim is to invest in innovative solutions that are valuable for society and shareholders, in order to make a meaningful contribution to solving the world’s biggest challenges and achieving an attractive financial return.

The screening process involves:

- 1) positive impact screening, by filtering our proprietary impact database according to impact theme
- 2) financial quality screening, by focusing on companies with strong and innovative business models leading to high and sustainable CFROIs
- 3) fundamental analysis, by review impact and fundamentals through value chain and business model analysis.

A high conviction portfolio is then constructed.

**4f Does (do) the fund(s) engage in securities lending activities?**

No, the funds do not engage in securities lending activities.

**4g Does (do) the fund(s) use derivative instruments?**

For all the funds in scope, they did not use derivative instruments in 2021.

**4h Does (do) the fund(s) invest in mutual funds?**

The funds do not invest in mutual funds.

## Section 5. ESG Controls

### 5a What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?

The holdings within the funds are subject to continuous monitoring. Portfolio managers and analysts are responsible for conducting the checks. On a continuous basis, analysts provide portfolio managers with an update of the ESG profile of all companies covered. This generally includes the ESG score, controversy and ESG momentum. Consequently, they monitor whether any material changes took place. In addition, portfolio managers and analysts continuously monitor if a significant event could have a material impact on a company's analysis. The NN IP Controversy and Engagement Council also monitors controversies and the progress of the engagement with companies. Representatives of the funds are members of the Council.

If a company does not comply any more with one or more of our criteria - this could for example happen if a company extends its activities by acquiring another company active in an area, which is excluded from our universe, e.g. nuclear energy (applicable to our SRI equity funds) - then the strategy would redeem its position in the company. The portfolio managers will proceed within six months. This time frame allows to take all elements into consideration to execute the transactions (amongst others the situation in financial markets).

Another reason for disinvestment would be if a company suddenly becomes active in a sensitive country (e.g. Sudan), or gets seriously involved in controversies, such as those relating to human rights issues. The fund is also audited on its ESG criteria on an annual basis by an external independent auditor.

The portfolio management activity is also monitored by:

- The front office compliance tools which are set to prevent ineligible instruments to enter the portfolio.
- Our Internal Restriction Control department as a part of Risk, which checks for pre- and post trade compliance of portfolios with the applicable policy.
- The monthly internal portfolio diagnostic report which gathers all risk inherent to the portfolios.
- NN IP's Management Team Investments which regularly monitors the investment approach, implementation, risk management, and risk budgets. If necessary it will intervene and address current or potential issues.

The NN (L) Global Sustainable Equity and NN (L) European Sustainable Equity funds are among the few equity strategies, in their respective categories, to be awarded the ESG Label from Luxflag in Luxembourg, which recognises the fund's standards in term of transparency and extra-financial analysis. Next to this label the above strategies also have the Belgian Towards Sustainability label.

## Section 6. Impact measures and ESG Reporting

### 6a How is the ESG quality of the fund(s) assessed?

We monitor the weight of the different controversy categories in our funds versus the benchmark. For our sustainable equity funds, we exclude all controversies 4 and 5 based on Sustainalytics' assessment. We are in the process of measuring the carbon footprint of these funds and are developing a proprietary ESG score, which will allow us to compare the fund to the benchmark based on this metric.

### 6b What ESG indicators are used by the fund(s)?

For most of the indicated funds, we determine the relative position of companies in their sectors by using Sustainalytics scores and our internal analysis based on ESG criteria. These ESG scores are mainly based on risks that a certain company faces and needs to manage.

The NN Enhanced Index Sustainable Equity Fund range has a specific focus on behavioural criteria (ISS ESG), carbon emissions scores (Refinitiv) and governance scores (Sustainalytics). Those determine the viable universe of stocks to be invested in.

### 6c What communication resources are used to provide investors with information about the SRI management of the fund(s)?

Please find below the list of documents and links where you can find further information on NN IP RI approach:

- [NN IP - About Responsible Investing](#)
- [NNIP Responsible Investment Framework Policy](#)
- [UN PRI: RI transparency Report](#)
- [NN IP Annual RI Report](#)
- [Dedicated fund pages.](#)

### 6d Does the fund management company publish the results of its voting and engagement policies?

Yes, see NN IP Annual RI Report 2021 on pages 36-41 on our voting activities and pages 26-35 on our engagement activities. We also publish our engagement approach. Our voting policy is publicly available on our website. Our votes can be viewed via [the Glass Lewis portal](#).

**Definitions of key terms used in the**

<b>CodeTerm</b>	<b>Definition</b>
Divestments	Companies that are sold from the fund
portfolio.ESG	Environment, Social and Governance
Engagement	A long-term process of dialogue with companies by investors which seeks to positively influence company behaviour in relation to their social, ethical, governance and environmental practices. This includes vote at AGM, filing or co-filing shareholder proposals, asking questions at AGM, collaborative engagement initiatives, individual company contact and dialogue with policy makers and industry organisations.
Exclusion	The exclusion of sectors or companies from a fund if involved in certain activities based on specific ESG criteria.
Fund manager	The entity responsible for overall management of the fund.
Fund(s)	A legal entity, the purpose of which is solely the acquisition of portfolio investments. This also includes compartments and sub-funds.
Fund Purpose	The spirit and overall focus of the fund, but not the investment criteria
employed.Holdings	Equities and/or bonds of companies that collectively comprise the fund
portfolio. Portfolio	A collection of investments managed by the fund manager.
Signatories	Fund(s) and/or fund manager that commits to disclose SRI information in line with the Code.
SRI	SRI, a generic term covering sustainable, responsible, ethical, environmental, social investments and any other investment process that integrates financial analysis with the influence of environmental, social and governance (ESG) issues. It includes an explicit written policy to make use of ESG criteria. NN IP uses RI as a term.
Voting Policy	Policy of a fund to exercise its voting rights as investors to influence company behaviour.

### About Eurosif

EUROSIF, the European Sustainable Investment Forum, is the pan-European network whose mission is to address sustainability through the financial markets. Eurosif works as a partnership of the national Sustainable Investment Forums (SIFs) within the EU and with the support and involvement of Member Affiliates. Recognised as the premier European forum for sustainable investment, Eurosif's Member Affiliates are drawn from leading pension funds, asset managers, NGO's, trade unions, academic institutes and research providers, together representing assets totalling over €1 trillion. Eurosif's work includes a focus across asset classes - equity and fixed income markets, microfinance, renewable energy, property, private equity and hedge funds - all centred around the industry trends and future legislation affecting this space. The key benefits that Eurosif affiliate members receive include EU interfacing, SRI information and European wide initiatives that integrate Environmental, Social and Governance (ESG) issues into the financial services sector. For the full list of Eurosif Member Affiliates, please see [www.eurosif.org](http://www.eurosif.org).

National social/sustainable investment forum to date include:

- Belsif, Belgium
- Dansif, Denmark
- FNG – The German, Austrian and Swiss Sustainable Investment Forum
- Forum per la Finanza Sostenibile, Italy
- Forum pour l'Investissement Responsable, France
- Norsif, Norway
- Spainsif, Spain
- Swesif, Sweden
- UKSIF, UK
- VBDO (Vereniging van Beleggers voor Duurzame Ontwikkeling), The Netherlands

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