Responsible Investing Report 2018

Because it matters. And it works.

NN investment partners

Foreword

I am pleased to be writing this foreword to NN Investment Partners' annual responsible investing report. It has been more than 20 years since we started integrating environmental, social and governance (ESG) criteria into our investment processes and launched our first sustainable products. In this report we highlight our responsible investing approach and show how we help our clients achieve their financial and sustainable goals.

I am proud of the progress we made in 2018. We engaged with many companies in a wide range of areas, in some cases taking a leading engagement role, for example in the palm oil industry. We developed proprietary ESG scores that we use in our investment processes, and although we strongly advocate inclusion, we don't shy away from difficult choices. During the course of 2018, we excluded tobacco from our investments and restricted companies with oil sands exposure. Perhaps most importantly, we have been a trusted partner on responsible investing for many of our clients worldwide; involved in strategic discussions and in the implementation of detailed requests.

There is a lot to look forward to in 2019. We have set up a partnership with the Yale Initiative on Sustainable Finance in the form of an academic research stream called "Delivering value to investors from sustainability" and we will further grow our Sustainable and Impact ranges. We will also improve and expand the way we report on our responsible investing capabilities in order to fulfil growing client requirements in this area.

Making the transition to a more sustainable world is a complex task and one that we cannot tackle on our own. Partnering is key to us. We partner with clients, cooperate with fellow investors and join forces with leading international organisations to generate and access the best possible ESG information. As a result, we develop strong investment products and have a more positive sustainable impact on wider society. It is all about what we can achieve together.

We hope you find it interesting to learn how NN Investment Partners can help investors to make the world a better place while helping clients achieve their responsible and financial goals.

Satish Bapat
CEO NN Investment Partners

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2018 Milestones

NN IP's responsible investing achievements

In 2018 we once again received the **highest score of A+ from the Principles for Responsible Investment (PRI)**, underlining our performance for excellent strategy and governance on responsible investing.

A+

Our assets under management in sustainable and impact funds and mandates increased by **53%** in **2018** to **EUR 16.5 billion**.

We made significant progress on **palm oil,** leading engagements with several large plantation companies. Progress was made on encouraging them to pursue a more sustainable policy. In 2019, we will become a member of the Roundtable on Sustainable Palm Oil (RSPO) to further strengthen our commitment to this sector.

We developed a proprietary **methodology to compare the governance policies** of small-cap companies for which there is less external coverage/data in order to further enhance our ESG analysis.

We incorporated a new proprietary comprehensive **ESG scoring methodology** for our Central and Eastern European franchise (CEE) – a region where transparency on ESG information is limited – and implemented it for our credit and equity exposure in the CEE-related strategies.

We started screening stocks on positive **ESG momentum**, based on the results of our research cooperation with the European Centre for Corporate Engagement (ECCE).

Together with NN Group, in 2018, we added **tobacco** and **oil sands** to our exclusion list.

NN IP and FMO Investment Management launched the **FMO Emerging Markets Loans strategy** in the second quarter of 2018, with strong Dutch and international institutional demand leading to a first close of USD 250 million.

We joined the **Climate Action 100+ initiative**. This is a five-year investor initiative to engage with the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change. NN IP leads the engagement with major companies in the European chemicals sectors.

We signed the **2018 global investor letter to governments on climate change**. This letter has been signed by 415 global investors, responsible for USD 32 trillion in assets.

We became a **member of the FAIRR Initiative** (Fair Animal Investment Risk & Return). This investor network focuses on the environmental and social risks and opportunities of intensive livestock production. It coordinates engagements with global food companies to improve performance on selected ESG issues.

We joined the **Platform Living Wage Financials (PLWF)** as one of its founder members in 2018. The PLWF members are financial institutions that collaborate to encourage, support, assess and monitor investee companies on their commitment to pay a living wage to the workers in their supply chains. We will focus its efforts on engagement with the food & agri industry.

We developed a **sustainable infrastructure debt strategy**, leveraging on our existing alternative debt platform, infrastructure debt strategy and team.

About NN Investment Partners

Helping people achieve their financial and sustainable goals

Our parent company NN Group is a financial services company headquartered in The Hague, the Netherlands. It employs 14,000 people worldwide and is active in 18 countries, with a strong presence in Europe and Japan.

NN Group includes Nationale-Nederlanden, NN, Delta Lloyd, NN Investment Partners, ABN AMRO Insurance, Movir, AZL, BeFrank and OHRA. Formerly part of ING Group, its roots lie in the Netherlands, with a rich history that stretches over 170 years. NN Group was listed as an independent company on Euronext Amsterdam on 2 July 2014.

‘We help people secure their financial futures’

NN Group is committed to helping people secure their financial future, through retirement services, insurance, investments and banking products. It aims to create long-term value for its stakeholders, be a positive force in people’s lives and responsibly manage the assets entrusted by its clients.

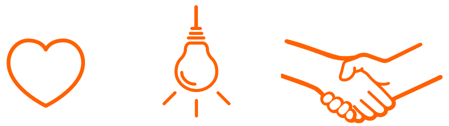
‘You Matter’

NN Group wants to be recognised as the ‘You matter’ company: a people-oriented financial service provider that is easy to relate to. ‘You matter’ is not just a slogan; it defines what we do at NN, influencing every department, every employee and every interaction with our customers.

‘Care, clear, commit’

At NN Group we base our work on three core values: care, clear, commit.

- **Care:** we empower people and respect each other and the world we live in.
- **Clear:** we communicate proactively and honestly. We are accessible and open.
- **Commit:** we act with integrity and we do business with the future in mind.



Care Clear Commit

NN Investment Partners is the independent asset manager of NN Group. We are an active investment manager with a global view and a proven track record. As at 31 December 2018, we manage EUR 246 billion (USD 281 billion) of assets for institutions and individuals worldwide, employ over 1,000 staff and are active in 15 countries across Europe, US, Latin America, Asia and the Middle East. Our broad scope and local presence enable us to offer our clients global, high-quality and reliable investment management services and products, tailored to local customs and needs. We are recognised for our strong fixed income, alternative credit, multi-asset, high dividend and responsible investment capabilities.

> NN Investment Partners is proud to be part of NN Group

Our commitment to partnership

Clients come first in everything we do. We cooperate closely with private individuals, pension funds, insurers, family offices, independent financial advisers and banks to achieve their financial goals. Our clients expect the best service. We strongly believe that we can give them this by engaging in continuous dialogue, being a true partner and making their challenges our challenges.

We help our clients achieve their responsible investing goals

Responsible investing matters and it works. We regard it as the best way to enhance risk-adjusted returns while contributing to society as a whole. We believe that companies with sustainable business practices and high standards of corporate governance will become the success stories of the future. Environmental, social and governance (ESG) factors are integrated into the investment process for most of our strategies to help fulfil our clients’ financial and sustainable objectives.

We see change as an opportunity

Constantly evolving market conditions, shifting client needs and increasingly stringent regulations offer opportunities to deliver value. We stimulate and embrace new ideas and innovation to meet our customers’ increasingly complex and constantly changing investment requirements.

Stewardship and Governance

Sound policies to ensure we discharge our fiduciary duty

As an asset manager we have the fiduciary duty to act responsibly on behalf of our end-beneficiary. The structural integration of environmental, social and governance (ESG) factors into the investment process forms the basis of our approach. This ensures we make better-informed decisions that optimise long-term risk-adjusted returns and have a positive impact on society as a whole.

We have regular discussions with the management (including board members) of the companies in which we invest. In doing this we improve our understanding of a company's corporate governance structures, and at the same time address concerns regarding its ESG practices. We also believe that exercising our rights as a shareholder contributes to the goal of providing an optimal return for our clients, and so we always make effective use of our voting rights, either by physically attending shareholder meetings or by using proxy voting. We have organised our ESG activities and approach in a structured way. We make sure the right proposals are shared, the right people are involved in decision-making, and the conclusions are efficiently implemented. We continuously seek to improve these practices. At NN IP, the executive team provides strategic direction and oversees the implementation of the RI framework in the investment processes. In order to do this, it receives information and recommendations from a number of sources.

Responsible Investment team

To support the investment teams in the integration of ESG within the investment process, and to further drive the development of responsible investing and engagement, NN IP has a dedicated Responsible Investment team. This is made up of ESG integration and corporate governance specialists, and analysts. The team guides our ambitions and commitment to delivering attractive returns in a responsible way and reports directly to the CIO of NN IP. In addition to this specialized team, we have a head of responsible investing in both the fixed income and equity domains to ensure ongoing ESG integration at strategy level.

The Controversy & Engagement Council

This council plays a key role in assessing controversies and giving their recommendation to the ESG Committee on the appropriate steps to take (engagement and/or exclusion). Acting in an advisory capacity, it meets every month to discuss engagement activities and updates, and determines the next steps required to achieve the engagement objectives at individual company level. The Controversy & Engagement Council is chaired by the Responsible Investment team, and its members include portfolio managers and analysts from NN IP as well as representatives of NN Group's Investment Office and Corporate Citizenship department. It makes recommendations to the ESG Committee. We record our engagement dialogues in a database. Our investment universe is also screened on a quarterly basis with a view to identifying companies that are violating (or at risk of violating) NN's norms-based RI criteria (see text box). The set of companies structurally monitored for potential violations is based on the investment universe of NN Group and NN IP.

ESG Committee

The ESG Committee is chaired by NN IP's CIO and comprises members of the Responsible Investment team, senior representatives of NN IP's business segments, as well as the CIO of NN Group and representatives of the Corporate Citizenship department. The committee meets on a quarterly basis and advises the board on NN IP's responsible investment framework and oversees its implementation. The Committee's objectives are to advise the board on NN IP's positioning in responsible investment initiatives, to facilitate PRI company assessment and to provide recommendations on NN Group-wide policies and restricted lists. The ESG Committee assesses whether there is a violation of NN's norms-based RI criteria. These criteria can apply at country, industry and company level. In the event of a violation, the committee decides whether to engage or to provide a recommendation to NN Group's Management Board to place the country, industry or company on the restriction list.

Restriction List

NN's norms-based responsible investment criteria reflect the organisation's values, relevant laws and internationally recognised standards such as the United Nations Global Compact and OECD Guidelines for Multinational Enterprises. We therefore exclude certain business activities in line with our ethics and principles.

Areas where violations can currently occur:
- Governance
- Human Rights
- Labour Rights
- Environment
- Bribery and Corruption

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

Companies involved in specific products or services
- Controversial weapons
- Arms trade with entities that are subject to arms embargoes
- Tobacco production
- Oil sands production and controversial pipelines

Controversial conduct
- Corporates
  Issuers that severely and systematically violate the UN Global Compact principles and/or the OECD Guidelines (and where we consider that engagement is not an effective method for changing the conduct of those companies)
- Countries
  Sovereign issuers involved in severe and systematic violations of human rights and countries against which arms embargoes have been issued by the UN Security Council

Our Responsible Investing Approach

We help our clients realise their responsible investing goals

Responsible investing is a key investment belief at NN IP. In our approach to responsible investing, we aim to realise sustainable and strong risk-adjusted returns. Our proximity to our clients plays a vital role in this process and we are often involved in strategic discussions on their responsible investing ambitions.

We engage in direct dialogues with the companies in which we invest, have solid connections with other institutional investors, and take an active approach in our engagements with international sustainable initiatives and NGOs. This helps ensure that we put our capital and that of our clients to work in the most sustainable way. Because it matters. And it works.

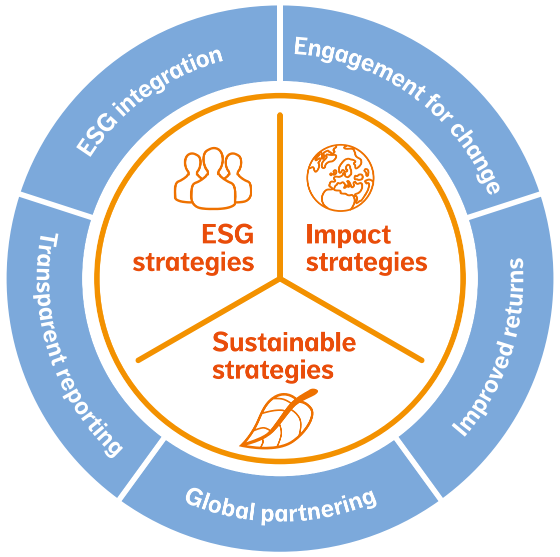
We use an integrated approach to help our clients realise their responsible investing goals. This incorporates five elements and supports a broad range of strategies to fulfil a wide range of sustainable requirements.

Chapters 5 to 9 are dedicated to how we implement our responsible investing strategy: ESG integration, Engagement for Change, Improved Returns and Global Partnering. Our fifth element, Transparent Reporting, forms the basis for this report as we outline our activities and achievements in 2018.

In Chapter 10 we present details on what we offer. We give details on our range of investment strategies and show how ESG factors play a role in each. We also illustrate our reporting at strategy level on a number of sustainable parameters.

> Responsible investing is a key investment belief at NN IP

NN IP Responsible Investing Framework



ESG Integration
ESG factors form an integral part of our investment process

Engagement for Change
Engagement and voting are the best ways to encourage better corporate behaviour

Improved Returns
Emphasis on material ESG data enhances risk-adjusted returns

Global Partnering
Joining forces on research, products and ESG initiatives maximizes our impact

Transparent Reporting
Responsible investing starts with clear reporting

ESG strategies
Embedding ESG data in our investment strategies to improve risk-adjusted returns

Sustainable strategies
Focusing on today's and tomorrow's sustainability leaders

Impact strategies
Targeting companies that make a clear positive contribution to the UN SDGs

ESG Integration

From analysis to investment case

We are convinced of the benefits of integrating environmental, social and governance (ESG) information into the investment process for our equity, fixed income and multi-asset strategies. ESG is relevant because it relates to both corporate competitiveness and the strategic choices companies make. Focusing on ESG factors enables our analysts to unlock potential value by identifying the associated opportunities and/or risks, which fund managers then use as the basis for their investment decisions.

1. Identify material ESG issues → **2. Assess** company performance indicators → **3. Integrate** into financial analysis

1. Focus on materiality

The first step in our due dilligence is to identify which ESG factors are material for the securities in which we invest. This can be at country, company and even at individual bond issue level (for example, if a company issues both vanilla and green bonds there are different factors to take into account). We focus on the impact these factors have on a company's valuation, future business potential and its stakeholders – their materiality – to help improve the risk-reward profile of our investments.

For companies, we identify these material issues at industry group level, and then examine to what extent they apply to the individual companies we invest in or lend to. We then combine their internal assessments with those of other ESG data providers and our own quantitative and qualitative evaluation of ESG materiality from an investment perspective to arrive at a well-founded evaluation.

In our responsible investing policy, we stipulate that we expect our investee companies to comply with a number of sustainable guidelines, including the UN Global Compact principles and the OECD Guidelines for Multinational Enterprises. We also encourage them to adopt standards, policies and management processes to tackle any potential ESG risks that could impact their business, both now and in the future.

2. Linking materiality, ESG and performance indicators

Next, we assess the potential of a company or issuer by linking material ESG issues with specific performance indicators. For example, product risk in the consumer industry segment is reflected in an indicator which monitors the number of product recalls for any individual company.

We then seek to understand a company's absolute and relative performance on an ESG issue that has been identified. In order to do this, our analysts look at data taken from corporate disclosures and external data providers. These data reveal how each company scores on different ESG factors compared to its sector average and shows if there are any controversies relating to people, planet and society. This analysis enables us to enrich our own data with ESG information, in order to make a better-informed investment decision.

3. From analysis to investment case

The analysts incorporate these analyses into their investment cases, while also looking at 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.

By explicitly and systematically integrating ESG factors into all phases of the investment process, including portfolio construction, we are better able to develop a complete understanding of the viability of a company's business model. Combining traditional financial analysis with ESG analysis offers powerful insights that help identify attractively valued and better-managed companies, reducing the risks and improving the upside potential.

Proprietary methodology to compare the governance policies and practices of small caps

There is little in-depth ESG analysis available for small-cap companies. As governance policy and practice play a vital role in our strong-conviction European small-cap strategy, we developed our own methodology to evaluate this in 2018. By having insightful conversations with management, focusing more closely on governance, we are better able to determine our long-term view regarding both a company's management and its business model. Our own analysis makes it easier to detect progress and ensure that engagement results in a meaningful improvement in management and business continuity.

Focus on corporate preparedness for change

Finding today's ESG leaders is one thing, but finding those companies that are moving to a more sustainable business model is equally important, as this often enhances returns in the long run. Companies that show "momentum" in improving their sustainability performance – that are preparing for change – might not yet have a high ESG score. But they may still be actively pursuing a transition to renewable energy and cleaner transportation. In addition to momentum, the management's behaviour towards change is more important than just checking a company's policies in our ESG analysis. Our approach incorporates a strong focus on forward-looking variables to ensure we find the winners of tomorrow, rather than just the success stories of today.

Engagement for Change

Inclusion over exclusion

We are convinced that engagement is one of the best ways to stimulate corporate change. Constructive and regular dialogue on material issues enables us to help the companies in which we invest to tackle a wide range of issues and adapt business strategies to improve their ESG performance. Voting and engagement activities enable investors to use their influence to generate a positive impact on the business and its environment.

Engagement

Engage or exclude?

Exclusion not only means not investing or divesting, it also means we stop having influence as an owner to tackle environmental, social and governance (ESG) issues. This is why we take an engagement-led divestment approach and only restrict companies when engagement is not going to change a company's conduct or involvement in specific business activities.

Due to the active nature of our investment strategies, our analysts, portfolio managers and ESG specialists are in frequent dialogue with investee companies. Our analysts and portfolio managers prepare a thorough bottom-up analysis for each of their investment cases, sometimes incorporating a company dialogue, and are thus involved in the engagement process at the individual company level. Our Responsible Investment team and ESG specialists focus more on NN IP's overall approach and work on top-down engagement themes and larger collaborative initiatives.

International collaboration

For engagement purposes we use internationally accepted standards of corporate behaviour – such as the guidelines/principles developed by the UN Global Compact, the International Corporate Governance Network (ICGN) and the OECD – as a starting point for our dialogue and engagement. We engage in a number of ways. For example, we work collaboratively through initiatives such as the

Principles for Responsible Investing (PRI) and Institutional Investors Group on Climate Change (IIGCC), on specific focus areas such as the oil and gas sector and palm oil. This enables us to achieve maximum investor influence and pool resources and expertise. We also cooperate with other institutional investors, via multi-stakeholder initiatives and investor networks. Together we engage with policymakers, legislators and regulators to work on the development of sustainable government policies and financial systems.

In addition to our own efforts via direct conversations with companies, in 2018, we also used the services of Global Engagement Services (GES), one of Europe's leading providers of responsible investing and engagement services. GES represents more than EUR 1.7 trillion of investments worldwide and evaluates ESG risks in client portfolios, engages with company representatives and provides voting support. For more information on our partnerships and the engagement initiatives in which we are involved, please refer to Chapter 9, Global Partnering.

Monitoring engagement efforts

During the year we monitor our investee companies and keep track of our engagements in an ESG dialogue database. This approach requires careful oversight to ensure alignment and consistency, and to avoid duplication of work. The Responsible Investment team coordinates our engagement activities. We typically engage with a company for up to three years, unless major events occur within that period that materially change the engagement's feasibility, or if the company is no longer in violation of NN's norms-based RI criteria. Sometimes during the engagement term, a holding may be divested because of financial considerations. In such cases we still prefer to continue with the engagement until it is successfully concluded.

Material impact

Engagement can relate to a wide range of topics, ranging from general business issues to ESG performance and contribution to the Sustainable Developments Goals (SDGs). We focus on the most material topics, which can vary significantly from one sector to another. For example, safety standards, environmental impact, and resource access are key factors in the mining industry, while social and labour issues are important in the consumer sector, and product liability and bribery in healthcare. One area that applies to all sectors is that of governance and the alignment of management and stakeholder interests.

The insights we gain as a result of engagement are reflected in the investment case for a particular company. If we have strong concerns about a company's ESG practices, and management is not receptive to our engagement efforts, we may be forced to reconsider our investment. However, most companies are open to our concerns and willing to enter into discussions.

Reporting

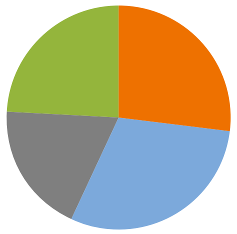
We have set up a detailed engagement database in which we keep track of our dialogue and engagement activities for our internal and external investment managers. This information includes the discussion topics, the outcome of the discussion and the follow-up. In addition, we include dialogues conducted by GES and collaborative thematic engagements such as that in the palm oil sector. This detailed engagement scorecard overview enables us to systematically track our progress and focus our efforts to realise the best results for our clients.

Engagement policy update

The following chart shows the breakdown of our ESG dialogues with issuers in 2018. We had 512 dialogues during the year; the increase versus 2017 reflects changes in the way we collect the information. In addition to engagements conducted by our equity analysts, portfolio managers and ESG specialists, we also started to track the dialogues that fixed income analysts and portfolio managers had with corporate and sovereign issuers.

We extended our collaboration with the service provider, GES, and carried out engagements with 119 companies, focusing on compliance with internationally recognised conventions and guidelines on ESG issues.

512 dialogues on ESG with issuers*



* The total number of company dialogues and engagements carried out by NN IP's analysts and engagement specialists.
Reference period: calender year 2018

Voting

Exercising shareholder rights

Voting is one of the best ways of exercising our rights as a shareholder on behalf of our clients and it plays an important role in ensuring there are checks and balances on the companies in which we invest. Our client base consists of large and small investors worldwide, with a very diverse selection of values and preferences. Therefore, we base our proxy voting policy on generally accepted corporate governance best practices. These include, for example, the OECD Principles of Corporate Governance and the Global Corporate Governance Principles (Revised 2009) of the ICGN.

This policy serves as a framework for exercising voting rights at shareholder meetings. In our voting, we pay particular attention to the quality of board members, corporate governance and how this impacts a company's financial and non-financial performance. We also leverage our impact by collaborating with other investors (e.g., through PRI and Eumedion).

Proxy Voting

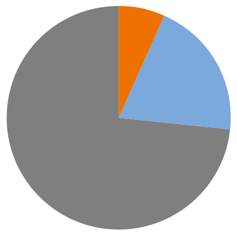
Some of the voting is outsourced to a proxy service provider who votes according to our proxy voting guidelines. We monitor our outsourced activities and always make internal voting decisions on a case-by-case basis for NN Group's proprietary assets, for companies on our engagement list and in NN IP sustainable and impact funds. From 2019, we will use the services of the proxy voting advisory firm Glass Lewis (up to the end of 2018 we used Institutional Shareholder Services). Glass Lewis has an electronic voting platform where we can exercise our voting rights and access our proxy voting research. The platform offers two types of proxy research: voting advice based on Glass Lewis's standard voting policy or on NN IP's customised voting policies.

The Responsible Investment team is responsible for the execution of voting rights at shareholder meetings on behalf of the Dutch, Belgian and Luxembourg funds (equity and multi asset) with at least EUR 100 million of assets under management. In addition, we help exercise the voting rights for NN Group's proprietary holdings. As we maintain information barriers between the different types of assets we manage, we also have two proxy voting committees: one for client assets and one for proprietary assets. We publish our voting activity for client assets held in Dutch, Belgian and Luxembourg funds and for proprietary assets. All votes cast can be accessed through our website.

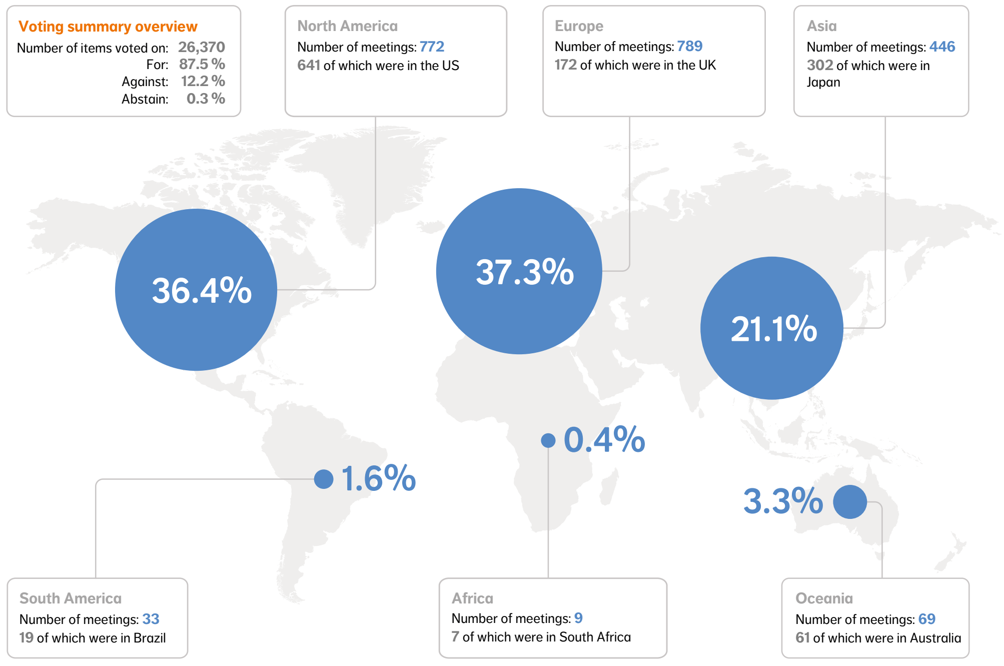
During 2018, we voted at 2,118 shareholder meetings on 26,839 agenda items (compared with 1,507 meetings and 19,342 agenda items in 2017). The increase in voting activity compared with 2017 partially reflects the addition of Delta Lloyd funds and assets. Some of the agenda items

we voted on were shareholder resolutions (see pie chart), these are agenda items put forward by the shareholders themselves rather than the management and therefore form an important part of our overall voting activity. We also voted more often against management proposals, partly as a result of our emphasis on climate change. We voted against the election of board members at companies in carbon-intensive industries that did not disclose their carbon emissions, and in some cases we asked the board to commit to the Climate Action 100+ program. In addition, we supported many shareholder resolutions linked to social and environmental topics (73% and 95%, respectively).

596 shareholder resolutions on which we voted (by topic)



How and where we voted in 2018



Meeting date range from 1 January 2018 to 31 December 2018

Engagement Activities

Investment themes that have a long-term material impact

Our engagement efforts are centred around a variety of ESG-related topics that can have a material impact on companies in the long term.

We have identified several engagement themes that have a material impact on society, and where we believe we can achieve beneficial change. These themes are selected in consultation with stakeholders – these are clients, employees and other external stakeholders. We also look at the material risks as defined by the World Economic Forum, and the SDGs, and use these parameters to narrow our focus and ensure we have an impact.

Corporate Governance
Key to sustainable success

Tobacco
Huge burden on society - Divestment

Oil Sands
Reduce climate impact & protect ecological systems - Divestment

Palm Oil
Engagement throughout the supply chain

Food and Nutrition
From antibiotics in animal feed to child labour in cocoa

Oil and Gas
Survival in a low-carbon world

Climate Resilience
Making companies future-proof

Technology
Disclosure on cyber security

Corporate Governance

Key to sustainable success

Good corporate governance enhances the stability and performance of a company and supports its long-term strategy. A properly established corporate governance system also balances the interests of all stakeholders. We use two main approaches to address corporate governance issues: voting and engagement.

The NN IP approach

As corporate governance provisions can differ between countries, we adhere to internationally accepted guidelines, such as those of the International Corporate Governance Network (ICGN) and the UN Global Compact. We want companies to implement these to the best of their ability.

We expect our investee companies to respect the following principles:

- **Ensure transparency in their organisations.** Decision-making procedures, business models, strategies and risk appetite should all be disclosed.
- **Comply with generally accepted corporate governance best practice.** This should be done in the context of the corporate governance standards applicable in the country of domicile.
- **Be accountable to investors.** Both management boards and supervisory boards should be composed in such a way that they base their decisions on the long-term interests of the company and its owners.
- **Implement proper risk management procedures.** Companies need an effective risk management structure to mitigate all forms of business ethics controversy.
- **Act responsibly.** In order to ensure long-term performance, companies need to act responsibly, which includes recognising the impact of business decisions on the environment and on social and human rights issues in the regions where they do business.
- **Long-term alignment of interests.** Management interests should be aligned with the long-term interests of the company and its stakeholders, also when it comes to executive compensation.

We now focus on two areas where we implemented this approach in 2018: quality of management and organisation, and bribery and corruption.

Quality of management and organisation

In order to act responsibly and be accountable, companies must appoint capable executive and non-executive directors who can engage in all aspects of a company's operations. We also expect a management board to have processes in place to assess its own effectiveness. These should be disclosed, and any evaluations should be well-documented and the results recorded. This exercise helps us to evaluate nominated directors and assess whether the board is sufficiently diverse and effective.

The non-executive board oversees executive compensation, which is one of the most debated topics at shareholders' meetings (AGMs). The remuneration policy for the executive board should stimulate long-term value creation and align the interests of executives with those of the stakeholders.

The results

NN IP exercises its voting rights and forms an opinion on whether a company's board and its individual members act effectively and whether it is well-aligned with the company's long-term strategy. In 2018, we attended and voted at 15 AGMs in person and voted at 2,118 meetings in total. As a result of our emphasis on climate change, we often voted against management proposals. For example, we voted against the election of board members at companies that operate in carbon-intensive industries and do not disclose their carbon emissions. At several AGMs we also asked the board in person to commit to the Climate Action 100+ program.

Bribery and corruption

In 2018 we were involved in several engagements relating to bribery and corruption issues. This is a material risk for many companies, especially in emerging markets. In recent years, the Chinese government has placed significant emphasis on anti-corruption measures. Allegedly more than one million Chinese officials have been disciplined for bribery and corruption, and many high-level government and corporate executives have been prosecuted. In recent years, Brazil and South Korea have also regularly been witness to high-profile corruption scandals.

The results

The focus on corruption has resulted in momentum for change, and we deliberately leverage on this in our engagement with companies. The biggest success story is Brazil, where companies have significantly improved policies and management systems to address corruption risk and improved transparency on performance. For example, Petrobras[1] is now prepared to disclose the number of whistleblowing reports that have been filed relating to bribery and corruption, even if this shows there are a staggering 1,000+ reports specifically related to these issues.

[1] For illustration purposes. Company name, explanations and arguments are given as an example and do not represent any recommendation to buy, hold or sell the stock.

Tobacco

Huge burden on society - Divestment

The tobacco sector is exposed to a significant number of ESG-related risks and increasingly stringent regulation. After a thorough evaluation, NN Group took an important step in further implementing its responsible investment policy in 2018. Together with NN IP, it decided to exclude tobacco from all its investments: all proprietary and client funds and mandates. Prior to this decision, tobacco had already been excluded from the sustainable and impact products, which we manage on behalf of our clients.

The challenge

The tobacco industry has a negative impact on 13 of the 17 SDGs. Companies operating in the sector are generally exposed to commercial risks such as brand damage and production disruption, due to the negative reputation of tobacco and cigarettes. Many individual companies are also involved in lawsuits and class actions, which can result in considerable additional financial risks.

> Currently more than 1.1 billion people smoke worldwide

Environmental impact

Tobacco agriculture creates environmental damage as it leads to deforestation and the heavy use of pesticides causes pollution. Tobacco manufacturing produces chemical and non-recyclable nicotine-containing waste. Cigarette butts are the most commonly discarded piece of waste globally and are the most frequent item of litter picked up on beaches.

Social Impact

The most prevailing concern is tobacco's negative impact on human health. Although in recent years there has been a decline in smoking in the developed world, between 1970 and 2000 smoking tripled in developing countries.

Currently more than 1.1 billion people smoke worldwide. According to studies carried out by McKinsey and the World Health Organization (WHO), health costs and lost productivity due to premature death and disability make smoking one of the greatest economic burdens on society. Human rights violations like child labour and poor labour standards are also common in the supply chain, with 33 million people engaged in tobacco farming.

Regulation

In 2005, the WHO established its Framework Convention on Tobacco Control (FCTC). This treaty has been ratified by 181 countries that have committed to implementing a broad range of tobacco control measures. It is one of the most widely embraced treaties in United Nations' history. The Netherlands implemented the WHO FCTC in 2005 and has implemented new regulations on marketing and taxation as a result. It also includes a provision that requires governments, including sovereign wealth funds and public pension funds, not to invest in the tobacco industry. A number of countries have already implemented this part of the treaty, including New Zealand, Norway, Australia, France and Ireland. Numerous international health organisations (including the WHO) are also actively working with governments to enhance tobacco control regulation and reduce tobacco consumption.

The NN IP approach

Engagement with the sector has not proved to be successful, as the overarching concern remains the impact of the product. Furthermore, individual corporations within the industry have shown little advancement in terms of addressing tobacco's negative societal footprint. As a result of all the wide-ranging risks relating to tobacco, large well-known international and domestic financial institutions are also increasingly excluding the sector altogether.

NN Group and all its related entities have close links to the healthcare industry, with NN offering insurance for healthcare and disability. This is often also combined with programs emphasizing prevention and staying healthy. NN Group also focuses on the vitality and wellbeing of its own employees and sponsors international running teams and events. This strengthens the argument for divestment, given that healthcare concerns are such a major factor in the tobacco industry.

The result – divestment

As a result of the decision in 2018, we aim to divest all equity and fixed income holdings of tobacco manufacturers within one year. This will apply to all mutual funds managed by NN IP. For client assets that are managed in a discretionary way, we will not divest without prior consultation. With regard to NN Group's general account assets, the existing tobacco investments are all corporate bonds and will be divested immediately or when they mature.

Oil Sands

Reduce climate impact & protect ecological systems - Divestment

Oil production from oil or tar sands creates high levels of greenhouse gases, damages ecosystems and negatively affects communities in the areas where the oil is processed. NN Group, together with NN IP, has decided to restrict investments in companies that are involved in the production of oil sands.

The challenge

Oil sands, also known as tar sands or crude bitumen, are a form of heavy oil found in sand and rock. They can be mined and processed to extract the oil-rich bitumen, which is then refined into oil. Canadian oil sand resources alone are estimated to be in excess of 2 trillion barrels, almost equal to global recoverable conventional oil resources. Those that are currently economically and technically recoverable are estimated at 170 billion barrels, which makes Canada number two in the world in terms of recoverable oil reserves.

Environmental impact

Producing fuel from oil sands is a very carbon-intensive form of energy, second only to thermal coal generation. The development of oil sands and the transportation via pipelines is a serious cause of local environmental pollution. And although, as with other fossil fuels, a large proportion of the greenhouse gases associated with oil sands' life cycle are emitted at the combustion stage, the oil quality is lower. This means the exploration, production and refining phases require more energy, generating roughly 21% more greenhouse gas than average conventional oil production. Oil sands development often occurs in areas of ecological significance (such as peatlands) and can have adverse effects on natural landscapes, resulting in habitat fragmentation for certain species of birds, fish and animals. It is also a water-intensive industry that can negatively impact water quality and availability.

Social Impact

Oil sands projects and pipelines are often located in or pass through regions where local native communities are using the land, jeopardising their traditional resources. The demographic effects of development projects also place a burden on local infrastructure (housing, education).

Furthermore, the results of several academic studies claim that oil sands development has a negative effect on human health and can be linked to cancer and respiratory disease.

The NN IP approach

Our preferred approach is to engage with companies to support them in the transition to a low-carbon economy. We direct our efforts to those sectors where we believe engagement can be most effective. Our commitment to engagement to address the risks in the oil sands industry is reflected in our membership of the Principles for Responsible Investment (PRI), and our support for initiatives such as the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+.
We have assessed the engagement potential for companies in the production process as well as in pipeline projects, and the results are described below.

The result – divestment

For oil sands companies active in the production process, we strongly believe that engagement will not have the desired outcome. The climate impact of oil sands will remain negative and this will not change through engagement, so we have decided to exclude these companies. We believe this will contribute to reducing the carbon footprint of our portfolios and to the overall transition to more renewable sources of energy. Our policy applies investment restrictions to companies whose business models are dependent on the extraction of oil sands. This is defined as companies where the contribution from oil sands exceeds 30% of the total average oil and gas production in barrels of oil equivalent per day. Companies where this figure is less than 30% will be monitored and re-evaluated after a period of two years.
We have also restricted investment in several companies that are involved in controversial pipeline projects, where we do not expect engagement to achieve the desired results. These are projects which have, for example, failed to take into account the opinions and interests of different stakeholders, causing delays, protests and objections. Others have experienced oil spills, most likely due to maintenance issues and have not taken the necessary steps to improve their behaviour and policies.

We have placed 13 companies on our publicly available restriction list, ten of which are involved in the production process and three in the transportation of oil sands. This means that we are divesting the equity and fixed income holdings that are held within mutual funds managed by NN IP. With regard to NN IP's client assets that are managed in a discretionary way, we will encourage our customers to follow our decision. The restrictions also apply to NN's general account assets, which had no oil sands exposure at the time of our decision.

Palm Oil

Engagement throughout the supply chain

Palm oil is a vegetable oil which is cultivated from the oil palm, which grows mainly in humid tropical climates. It is cheap to produce and is used in a wide range of products worldwide, such as pre-packaged food, cosmetics, cleaning products, and personal care products. The oil can also be used as a biofuel and has become the green fuel option for transportation.

The challenge

The list of controversies associated with palm oil is a long one – deforestation; air, soil and water pollution; climate change; human rights challenges; and negative health effects. These issues have raised awareness of some of the problems facing the sector, and many NGOs are targeting stakeholders to improve environmental and social standards.

Environmental impact

The biggest environmental impact of palm oil production is large-scale deforestation. Indonesia and Malaysia produce around 90% of the world's palm oil, and it is crucial to their economies. In these countries, there is a direct relationship between the increase in oil palm estates and deforestation. Clearing land for plantations destroys forests, causing elephants, orangutans, rhinos and tigers, for example, to lose their habitats. This process also reduces the quality of the remaining forests and the chopping and burning of trees intensifies climate change, while the additional infrastructure that the plantations require (mills, roads, workers' housing) leads to even more intense deforestation.

Social impact

There are also extensive human rights challenges associated with the industry. Land rights are not always clear and local communities can claim ownership rights. However, some groups have been forced off their land to enable plantations to be developed, creating conflicts between companies, communities and governments. Plantation work also exposes the sector to labour issues. Low pay, poor and dangerous working conditions, long

hours, unreasonable targets and forced, bonded and child labour are all common within the sector.

Sustainable palm oil

Palm oil is a popular commodity in consumer-related products. The supply chain is long and complex, and the growers, mills, traders, refiners/processors and retailers/manufacturers are often different companies. Crude palm oil goes through several stages of processing and, due to an overall lack of transparency at the refinery stage, the growers and mills are largely undetectable for the end consumers.

The Roundtable on Sustainable Palm Oil (RSPO) is a multi-stakeholder forum that has become the globally recognised standard for sustainable palm oil. It represents the entire supply chain and has established a certification system for the different stakeholders to ensure that palm oil is both sustainably produced and transparently traded. Producers, growers and millers are certified based on their application of the RSPO's production principles, while the sustainable palm oil trade, from the mill to the retailer, is tracked and certified through its supply chain certification system.

The NN IP engagement approach

Through its investments, NN IP is exposed to palm oil. Due to the complexity of the supply chain, we do not believe that exclusion is the answer and prefer to use our influence as an investor to improve standards in the sector. Engagement with all parties throughout the supply chain – from palm oil producers to retailers – is our preferred approach.

NN IP is a member of the PRI working group on Sustainable Palm Oil. This group focuses on palm oil growers, traders and processors. Since 2013, it has engaged with a target list of 14 companies, with the aim of improving disclosure, policies and performance. The working group also engages opportunistically with other parts of the palm oil supply chain, regulators and bodies like the RSPO. NN IP leads several important engagements with growers.

The working group has also recently decided to engage with several regional banks. During a trip in November 2018, the group met with several of them to learn more about their current financing policies for the palm oil sector, and what role they can play to improve standards.

NN IP has established a number of RSPO-aligned engagement objectives for growers, traders and processors:

- Improve traceability of palm oil, including certification for producers, traders and processors.
- Support and respect human rights and improve labour standards on oil palm plantations and their approach to community involvement.
- Implement sustainable agriculture practices: reduction of hazardous pesticides, commitments to zero deforestation, zero peat and conservation of natural resources/ biodiversity.
- Help small farmers to develop to improve their standards and knowledge.

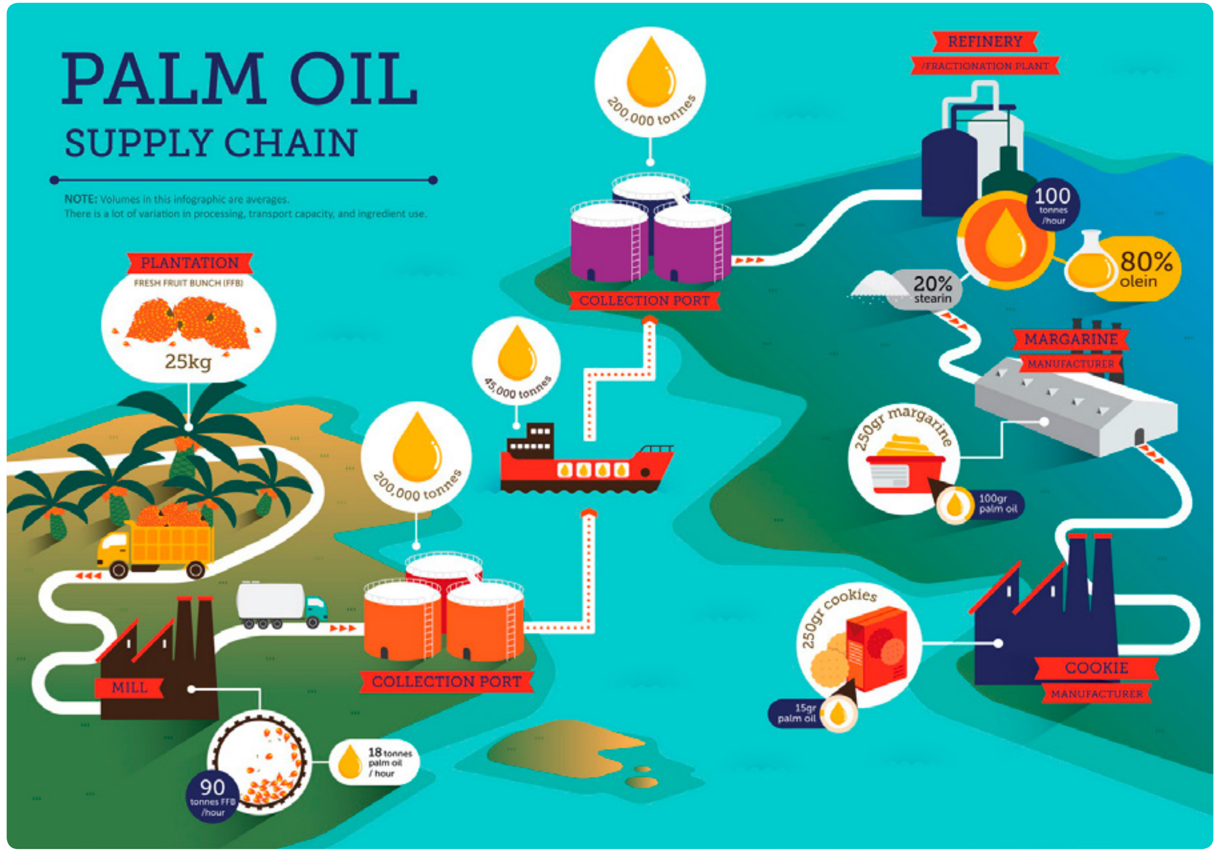
The results so far

Several companies that we engage with have shown commitment to sustainability and most have established a detailed palm oil policy. We lead engagements with major plantation companies including IOI, IJM and Genting Plantations[1]. IOI had been under heavy scrutiny but has now implemented a sustainability policy that includes NDPE (no deforestation, no peat, no exploitation) and committed not to develop high conservation value areas. Further implementation of policies like this and improving transparency will be the next challenges for many players.

[1] For illustration purposes. Company name, explanations and arguments are given as an example and do not represent any recommendation to buy, hold or sell the stock.

The role of the RSPO is also important. The certification process and the audits for compliance help maintain standards. Banks and other financiers also use the RSPO as a tool to evaluate corporate risk, and some no longer even offer loans to companies that are not RSPO members. During 2019, NN IP will expand its engagement efforts to several regional banks in Asia. The aim will be to improve financing arrangements and make sure that sustainability agreements are being upheld.

We will continue to monitor progress and use our influence to push for commitments from all parties in the supply chain to transform the sector. We have developed a scorecard for the companies we engage with, and we use tools like the free, online platform SPOTT (Sustainable Palm Oil Transparency Toolkit) and general ESG research to monitor and engage with these companies to ensure improvement.



Source: Roundtable on Sustainable Palm Oil (RSPO), 2019

Food and Nutrition

From antibiotics in animal feed to child labour in cocoa

By 2025, an estimated USD 1.2 trillion per year will be needed to treat the consequences of obesity worldwide, while the total cost of addressing undernutrition is expected to be almost double that at USD 2.1 trillion. A large proportion of the global population does not have a balanced diet, and this can have a significant negative societal, economic and personal impact.

Since investment in nutrition is an important way of making socio-economic gains in this area, the issue now has a prominent place in the UN's SDGs.

Malnutrition is a universal social and economic problem that has many forms and results in ill health and higher levels of mortality. Those particularly at risk include young children, adolescent girls, pregnant and lactating women, the elderly, people who are ill or immuno-compromised, indigenous people and those who live in poverty. Estimates suggest that malnutrition in all its forms could cost society up to USD 3.5 billion per year.

Furthermore, three of the four noncommunicable diseases (NCDs) that cause the most deaths worldwide have diet-related and nutritional causes (cardiovascular disease, diabetes and some cancers).

Engagement – food & beverage companies

We believe food & beverage companies with strong global nutrition policies and practices are in a better position to cope with the risk of increasing industry regulation and can take full advantage of changing consumer lifestyle trends. They also play a vital role in achieving the second and third SDGs – to end hunger, and to improve health and wellbeing through better nutrition.

In 2018, NN IP joined the Access to Nutrition Index (ATNI) Investor Collaborative Engagement group. The group actively engages with 17 publicly listed food & beverage companies in the ATNI.

The aim of the group is to encourage food companies to:

- Participate in the ATNI research process by providing up-to-date and complete information on their policies, practices and performance.
- Publicly report on nutrition, including clear updates on how addressing nutrition issues benefits their business.
- Review current policies, practices and product portfolios in the light of best practices, with evidence of effective measures to remedy weaknesses.
- Proactively collaborate with health professionals, governments, policymakers, consumers, industry associations and other stakeholders to find solutions to nutritional challenges.

Animal Welfare and Antibiotics

In addition to our nutrition engagement, in 2018, we also joined FAIRR (Farm Animal Investment Risk and Return). This is a collaborative investor network that raises awareness of the material ESG risks and opportunities caused by intensive livestock production. NN IP has joined several collaborative engagements, one of which is related to the use of antibiotics in animal feed.

Antibiotic resistance is one of the world's most rapidly emerging public health threats, already responsible for around 700,000 deaths per year. Without effective antibiotics, even common infections and minor injuries become risky, and perhaps even fatal. It is estimated that antibiotic resistance could cost the world USD 100 trillion in lost output between now and 2050. The EU estimates that each year it accounts for more than USD 1.5 billion in healthcare expenses and productivity losses in Europe alone.

In this engagement, 20 global food companies were asked to limit the use of antibiotics in their supply chains to protect public health and ensure long-term value creation by:

- Establishing a policy to phase out routine prophylactic use of antibiotics in all supply chains
- Specifying clear targets and timelines for implementation
- Increasing transparency by reporting on implementation and data verification

Child labour in the food supply chain

In 2018, we joined the Food Supply Chain Engagement, which is a three-year investor initiative, running until the end of 2020 and managed by GES. Twenty food & beverage and food retailing companies have been invited to take part in a dialogue with a group of investors. The objective is to address the risks associated with child and forced labour in their supply chains and to remedy the potentially adverse effects of labour rights initiatives on their businesses. This engagement also seeks to move companies towards providing a living income for the agricultural workers and smallholders in their supply chains.

Since the start of the engagement early last year, we have held several meetings with companies. On the whole, they are open and willing to enter into a dialogue with investors on this topic and to varying degrees are prepared to manage labour and human right risks in their supply chains. One general observation is that many companies we spoke to shared far more information on their activities in this area than they publicly disclose. Most have some sort of policy commitment on labour rights and some have also conducted risk assessments to identify where the critical labour rights risks are in their supply chains.

However, risk mitigation and industry collaboration are generally much less developed. The investor group has now been in contact with a number of external stakeholders. They were recently invited to speak at ILO-IPEC's Child Labour Platform, a forum that brings together companies at the forefront of child labour elimination. Some good practice examples are now emerging from among the best-performing companies, and as the initiative moves forward, it will draw on these to try to raise industry-wide standards.

Child labour in cocoa

A staggering 100+ million children worldwide are working in agriculture. Two million of these are in the world's top two cocoa-producing countries, Côte d'Ivoire and Ghana. We are participating in a long-term collaborative engagement with the cocoa industry, coordinated by GES. A significant development in the past year is the increased adoption of child labour monitoring and remediation systems (CLMRS) in cocoa-growing communities and the fact that these systems have become mainstream among larger cocoa and chocolate producers.

Recent research has provided important data on income levels in cocoa-growing communities, and one study indicates that average actual income in Côte d'Ivoire represents only 37% of a living income. A large-scale survey commissioned by the US Department of Labor in 2015 showed the prevalence of child labour in the cocoa industries of Côte d'Ivoire and Ghana. In the 2018/2019 harvest season, a follow-up survey will be conducted, which should demonstrate whether efforts by the cocoa industry and others have in fact been effective.

Oil and Gas

Survival in a low-carbon world

The oil and gas sector is a leading contributor to climate change. Through its investments in this sector, NN IP is also exposed to climate-related risks. We acknowledge our role as a responsible investor and have developed a holistic set of targets that focus on energy transition. These encourage the companies with which we engage to formulate strategies for a low-carbon future.

The challenge

Global warming – the rise in the average temperature and the resulting effects – is largely driven by an increase in greenhouse gases entering the Earth's atmosphere. Numerous human activities such as deforestation, transportation, land-use changes and burning fossil fuels contribute to this. The potential risks associated with climate change have prompted action at national and international level and increased the momentum of the energy sector transformation and the speed at which this progresses. The ratification of the Paris Agreement and the implementation of the UN SDGs indicate the level of global support for tackling climate change and other environmental concerns. The complexity of the industry is an additional challenge. Although the integrated oil and gas companies are most vulnerable, climate-related risks impact business models and regulations throughout the supply chain. Some companies focus on increasing energy efficiency and displaying greater social responsibility but have no plans for transitioning to cleaner forms of energy. Others are taking steps to diversify their energy mix and invest in low-carbon technologies. However, as commodity prices recover, there is more commercial incentive to continue investing in developing still plentiful reserves. This means some form of demand destruction – in the form of heightened regulation or punitive pricing – may well be required to reduce the incentive for producing fossil fuels.

The NN IP approach

We have developed a framework of engagement targets to ensure a consistent approach. We do not seek to set

targets for individual entities; rather, we aim to ensure our policy approach is universally applicable to all the companies with which we engage. In light of this, we have developed several engagement targets that we monitor and evaluate on a yearly basis.

On governance issues, we expect companies to be transparent, to ensure there is adequate oversight at management level. This includes accountability mechanisms and key indicators related to climate performance. We play an important role here by voting at annual general meetings on the election of board members and compensation.

Investors are also increasingly requiring companies to outline scenario analyses to demonstrate how well-positioned they are to survive in a low-carbon world. Such strategies focus on the outlook for future energy demand, the potential effects of public policy and the impact of new technologies, such as electric vehicles or renewable energy sources.

The increased use of sustainability and climate reports for transparency and disclosure is a welcome development. We encourage companies to integrate these into their annual reporting, disclosing their views of, and responses to, material climate-related risks and opportunities. We support self-regulatory initiatives such as the Task Force on Climate Related Disclosure (TCFD) and companies that incorporate these into their business plans.

Self-regulation alone will not be enough to tackle these risks. So we back companies that actively engage with public policymakers and make constructive suggestions as to how policy measures can support their plans to accommodate climate-related risks in their business models.

The results so far

In 2018, we analysed 49 companies involved in all aspects of this industry (equipment, services, exploration, production, refining, marketing, storage and transportation and integrated oil and gas companies) to understand the different risks we face. We found that 40 out of the 49 companies had an annual climate or sustainability report that outlined their policies on climate change.

While the number of companies reporting is encouraging, there are significant differences in the level of disclosure in terms of the details and targets of their climate ambitions.

In a broader sense, we collaborate with other investors to strengthen our message to companies. Our commitment to addressing climate-related risks is reflected in our membership of the UN PRI and membership of the Institutional Investors Group on Climate Change (IIGCC), which provide effective collaborative frameworks for addressing these issues. We participate in IIGCC's corporate programme, where we discuss the climate-change risks and opportunities faced by companies, as well as their strategies and performance in addressing and disclosing them. We are also a member of the Climate Action 100+ group.

Voting for carbon reduction targets

We voted in favour of a resolution at the shareholders' meeting of Royal Dutch Shell[1] to request the company to adopt carbon reduction targets in line with the Paris Agreement. Although only 5.5% of the votes cast supported the resolution and it was rejected by the meeting, we nevertheless believe it gave a strong signal to the company to take a more active role in leading the transition to low-carbon energy sources. We were positive on Shell's December 2018 announcement that it would adopt short-term climate targets and link executive pay to its carbon ambitions. The announcement was made in a joint statement with institutional investors on behalf of Climate Action 100+.

1 For illustration purposes. Company name, explanations and arguments are given as an example and do not represent any recommendation to buy, hold or sell the stock.

Climate Resilience

Making companies future-proof

Climate change already has a wide-ranging impact in many areas including agriculture, ecosystems, water resources and human health, and this is likely to increase. Soil degradation, local water stress and extreme weather events are likely to increasingly affect the economic performance of companies and countries.

The main focus of the Paris Agreement of December 2015, signed by 195 United Nations Framework Convention on Climate Change members as of February 2018, is to strengthen the response to the threat of climate change. Its signatories aim to keep the temperature increase this century to well below 2 degrees Celsius above pre-industrial levels and pursue efforts to limit this increase even further to 1.5 degrees. While it does not set strict regulations, it is the world's first comprehensive climate agreement and an incentive for achieving carbon neutrality by the end of the century.

The NN IP approach

We expect companies to monitor and manage the carbon intensity of their operations, and where relevant, of their entire value chain. Stricter regulations in some jurisdictions are stimulating companies to prepare for a carbon-constrained future, a trend we expect to continue.

We encourage companies to report on their carbon emissions and targets via the CDP (Carbon Disclosure Project). We support the CDP's mission to transform businesses, to prevent climate change and to protect the world's natural resources. To this end, we engage in dialogue with our investee companies to encourage them to adopt renewable and low-carbon strategies and to measure, disclose and reduce emissions. The following three examples illustrate how we engage with companies to promote the transition to a low carbon economy.

Utilities – conclusion of three-year carbon risk engagement

From June 2015 to June 2018, we participated in a three-year investor initiative carbon risk engagement. Twenty public power utility companies were invited to enter a dialogue with a group of investors, including NN IP. The objective of this engagement, which started prior to the Paris Agreement, was to move companies forward in terms of their carbon risk levels, reporting of greenhouse gas emissions, inventories, targets, their action plans for reducing emissions and finally their climate risk assessments and mitigation strategies.

The results

During this period, there were overall improvements in the companies' proactive stance on climate issues and especially in their reporting of greenhouse gas inventories. Several of the Asian companies in our engagement showed increasing interest during the final year of engagement, partly reflecting growing regulatory reporting requirements and government pension fund demands.

There was also progress on emissions reduction targets and action plans, as companies are increasingly being evaluated on their adherence to science-based targets or similar disclosures. However, results remained unchanged in areas such as risk assessment and mitigation strategies for over half of the engagement companies, indicating that there is more work to be done in this area. We will continue with our engagement.

Climate Action 100+ – dialogue with chemicals companies

At the end of 2017, we joined the global Climate Action 100+ initiative. This is a five-year investor initiative to engage with the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosure and improve governance on climate change. In the Climate Action 100+ initiative, different regional investor climate-change platforms – including the Institutional Investor Group on Climate Change (IIGCC) – join forces with the PRI. NN Group has been a member of the IIGCC since July 2017, and NN IP has been a member of the PRI since 2008.

The results

By joining this initiative, we strive to implement the commitment expressed in the Global Investor Statement on Climate Change of the Paris Climate Change Conference in 2015. A clear engagement agenda is set for all companies involved in the initiative and each year a progress report is published. We entered into dialogue with two major companies in the chemicals sector, Bayer and BASF[1].

We attended both companies' AGMs and asked the boards of directors for their commitment to the program. We also had several meetings with both companies. Given the size and complexity of both firms, we asked for more transparency and more alignment, as it was unclear what their long-term targets were for reducing their carbon footprints and how these were embedded in the organisation. One of the companies has published a new strategy and provided more transparency. We are in ongoing discussions with the other.

[1] For illustration purposes. Company name, explanations and arguments are given as an example and do not represent any recommendation to buy, hold or sell the stock.

Poland – engagement with metals and energy firms

In the autumn of 2018, our desire to raise awareness on climate risks and better understand the positioning and strategy of companies on this topic encouraged us to participate in a collaborative engagement trip to Krakow, to engage with Polish companies in the metals and energy sector.

This was our first ever official climate risk-oriented collaborative engagement focused on Polish companies active in these sectors. The main focus of our discussions was the approach to climate risk in their business strategies and climate resilience in their business operations.

The results

There were differences in the level of awareness on the impact of climate change on a company's operations and how this risk should be addressed, along with its overall consequences for strategy and disclosure. It became clear that companies still have problems in responding to the growing demands for disclosure and providing relevant emission-related information, as data are not always available in all parts of the organisation.

Poland is still dependent on coal as an energy source. In our role as investor, we take this into account when assessing the risks and opportunities for these companies to adopt climate-risk guidelines and successfully adapt their processes and investment agenda. We will continue the dialogue and further build on these insights.

Technology

Disclosure on cyber security

The role of technology is one of our key engagement themes. In the broadest terms, it covers the interaction between technology and society. Subthemes include data privacy and cyber security, the Internet of Things, automation and the role of human creativity, and disruption of business models.

The challenge

This engagement theme has links with two of the three ESG pillars: the social pillar, particularly in the area of product responsibility; and the governance pillar, in terms of management and board quality, and corporate reporting. This underscores the importance of this topic and the degree to which it can expose companies and government entities to both risks and business opportunities.

For example, to what extent are companies and countries really in control? Technological advancements can affect the companies in which we are invested in many ways: they impact corporate business models, strategy and governance in terms of technology-related management skills and risk and regulation management. Technology can disrupt existing business models but also result in new ones. It can enhance the client experience, but the complexity of the algorithms that drive customer interaction can be difficult to understand and report on. Finally, there is also the impact of the interaction between man and machine and how this affects organisations.

The NN IP approach

We discuss these technology engagement themes at different levels in the investment process. Many of the issues are brought up by our investment experts in regular dialogues with companies and non-corporate entities. In these discussions, we do not just assess the risks that the changing role of technology represents; we also look at the opportunities for the present and the future. In addition to the direct meetings between our portfolio managers and corporate entities, the area on which we focus additional engagement effort is cyber risk. Since its launch in 2017, we have been an active participant in a PRI-coordinated global collaborative engagement on cyber security governance involving over 50 investors and targeting

about 65 companies in the consumer, healthcare and financial services sectors. How can investors encourage companies to improve their disclosure on cyber risk and increase transparency on their relative preparedness and level of resilience? We currently act as co-lead engager for four banks, a pharmaceutical company and a car manufacturer. As part of the engagement, we tap into the technical expertise at these companies, through conference calls and direct meetings with staff to familiarize ourselves with the business aspects.

The results so far

The interim conclusion of our PRI cyber engagement is that while companies generally perceive cyber security as a key organisational risk, very few communicate that they have effective policies, governance structures and processes to tackle cyber threats.

What has become clear is that boards need to set the tone regarding the management of cyber risk. This includes determining oversight responsibility and ensuring that the board is sufficiently experienced and competent to assess cyber risk both from a business and an IT angle. On the other hand, companies included in the wider engagement on cyber security that do not publicly disclose data should give some assurance in the engagement dialogues that good practices exist.

There is a growing realisation that investors need better information if they are to effectively assess the potential impact and resilience of cyber events on the companies in which they invest. This is partly being fuelled by regulatory developments that took place last year, such as Australia's Notifiable Data Breaches scheme (NDB) and the EU's General Data Protection Regulation and related reporting requirements.

We place considerable emphasis on the technology theme from a variety of different angles and we will continue to participate in the PRI engagement on cyber security in 2019. In order to better understand how ready companies and issuers are to handle the risks and opportunities that accompany these changes, we will also address material technological issues in our dialogues with them.

Improved Returns

Finding the winners of tomorrow

We believe there is a strong link between the longer-term positive impact of ESG integration and improved risk-adjusted returns, in addition to its effects on the well-being of both society and the environment.

How we commit to continuously improve returns

- **ESG data and integration** – innovative data and academic and industry-based research
- **Customised voting and active corporate engagement** – driving progress through dialogue and by exercising voting rights and disclosing restrictions
- **Active role in partnerships/initiatives** – active approach as an asset manager; aiming to influence companies to act more responsibly
- **Focus on change** – improving ESG performance has a larger impact on investment returns than absolute scores and forms the basis for our eligible investment universe

Ongoing focus on ESG integration with research institute ECCE

We have a multi-year partnership with the European Centre for Corporate Engagement (ECCE), a leading academic research institute on sustainable finance and responsible investing linked to the University of Maastricht.

> Our aim is to incorporate academic research into our ESG assessments to keep improving the alpha generation potential of our products

Our aim is to incorporate academic research into our ESG assessments to keep improving the alpha generation potential of our products, through both risk reduction and return enhancement. We implement the findings of this research into our investment processes where possible.

In this partnership we aim to:

- Investigate the relationship between a wide range of sustainability factors and the key value drivers associated with equity and corporate bonds
- Generate insights into how various ESG factors influence investment returns
- Sponsor academic research that is relevant to our investment processes
- Stimulate thought leadership in ESG research

Numerous surveys by reputable financial and academic entities support the theory that there is a strong global positive correlation between solid ESG policy and practice, and corporate financial performance. Our research with ECCE confirms this.

The results show a clear positive relationship between incorporating ESG factors into the investment process and performance. This can take the form of risk mitigation, for example, by avoiding controversial holdings. But a second key conclusion is that looking beyond companies' absolute ESG scores and focusing on the incremental changes – or momentum – can also enhance returns. A portfolio of stocks with medium ESG scores (high ESG momentum) generates a more attractive Sharpe ratio (a risk-return metric) than one with high or low ESG scores (low ESG momentum). This conclusion underpins our focus on finding the winners of tomorrow, rather than just analysing the success stories of today.

> Responsible investing is an embodiment of our belief that a long-term view benefits our clients' returns and society at large. The incorporation of ESG factors is an integral aspect of our fiduciary role towards our clients and a key element in the way we invest. It helps us achieve a more complete approach to investing, one that provides deeper insights, improves the risk-reward balance of our clients' portfolios and contributes to society in a constructive way.
>
> Valentijn van Nieuwenhuijzen
> Chief Investment Officer at NN Investment Partners

Global Partnering

It is all about what we can achieve together

We have extensive experience in working in partnership with key clients and other leading organisations with the aim of improving our research, expertise and impact and to ensure the best investment results. We have extended and enhanced our responsible investing partnership approach to generate and access the best possible environmental, social and governance (ESG) information, develop strong investment products, and finally, to have a more positive sustainable impact on society at large.

- Partnership with leading academic organisations
- Partnerships with recognised investment entities
- Supporting international sustainability initiatives
- Partnership to promote ESG research and reporting

Partnerships with leading academic organisations

Our partnerships with academic organisations and direct involvement in research initiatives give us the opportunity to enrich the ESG data used in our investment decisions, and to enhance our own in-house ESG integration approach with new insights.

ECCE University Maastricht

Our long-term partnership with ECCE (see Chapter 8, Improved Returns, for more detail) enables us to collaborate on research into the impact of environmental, social, and governance standards on the pricing of assets in financial markets and studies the different ways investors can engage with the companies they invest in. The findings of our 2016 study on the materiality of ESG scores have been fully implemented into NN IP's ESG integration approach.

Yale Initiative on Sustainable Finance

NN IP and the Yale Initiative on Sustainable Finance (YISF) have recently announced their partnership in a new research stream called 'Delivering value to investors from sustainability'. This academic research program explores whether and how the integration of environmental, social and governance (ESG) aspects in the investment process improves the risk-return of investment portfolios. The results of this research program aim to support NN IP and the broader investment community in developing tools to achieve financial and sustainable goals.

Partnerships with recognised investment entities

Joining forces with other investment institutions enables us to pool our resources and expertise and offer cutting-edge investment products to fulfil our clients' sustainable and impact investing needs.

FMO Investment Management

FMO Investment Management is the investment arm of the Dutch development bank. FMO has been investing in the private sector in developing countries and emerging markets for more than 48 years. It invests in sectors where it believes its contribution can have the highest long-term impact: financial institutions, energy and agribusiness. With an investment portfolio of EUR 9.2 billion spanning 85 countries, FMO is one of the larger bilateral private sector development banks in the world.

NN IP and FMO Investment Management have partnered to launch an emerging markets loans fund, enabling investors to co-invest alongside FMO in loans to financial institutions, renewable energy projects and agribusiness companies in emerging and frontier markets. This impact investment solution contributes to a number of UN Sustainable Development Goals (SDGs), such as reducing poverty and hunger, providing affordable, clean energy and creating jobs.

Supporting international sustainability initiatives

By endorsing and being actively involved in international sustainability initiatives, we underline our ambition and approach to responsible investing and corporate governance. We do not just sign up for memberships but take responsibility as a global asset manager to put time and effort into supporting their ambitions and achieving well-aligned results.

PRI (Principles for Responsible Investment) (Signatory since 2008)
The PRI's goal is to understand the implications of sustainability for investors and support signatories in incorporating the six principles into their investment decision-making and ownership practices. NN IP is a member of the PRI coordinated collaborative engagement on cyber security, oil and gas, sustainable cattle, and soy and palm oil.

Eurosif European SRI Transparency Code (signatory)
The European Social Investment Forum (Eurosif) promotes transparency on the use of qualitative investment criteria to enable consumers (investors) to make a more informed choice, by clarifying the principles and processes used by SRI mutual funds in their investment processes.

ICGN (International Corporate Governance Network) (member)
This organisation has the mission of promoting effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. Our governance positions are guided by the ICGN Global Governance Principles and Global Stewardship Principles. NN IP is a member of the Disclosure and Transparency Committee.

Eumedion (member)
Dutch corporate governance forum Eumedion represents institutional investors' interests in the field of corporate governance and related sustainability performance and aims to advance the acceptance of, and compliance with, generally accepted corporate governance standards. NN IP is an active member of the investment, legal and research committees and also lead investor for several Dutch listed companies.

IIGCC (Institutional Investors Group on Climate Change) (NN Group member)
IIGCC is an investor network that collaborates on climate change. It has 140 members in nine European countries, representing over EUR 18 trillion in assets under management. IIGCC's purpose is to provide a collaborative platform for investors to encourage public policies, investment practices and corporate behaviour that address long-term risks and opportunities associated with climate change.

Climate Action 100+
Climate Action 100+ is a five-year initiative led by investors to engage systemically important greenhouse gas emitters and other companies across the global economy that could help drive the clean energy transition and help achieve the goals of the Paris Agreement. NN IP is the sector lead for the chemicals sector.

CDP (Carbon Disclosure Project) (NN Group member)
CDP is an international organisation that aims to transform the way the world does business to prevent climate change and protect our natural resources. It has incentivised thousands of companies to disclose their environmental performance. This information is then made available to investors.

ICMA (International Capital Market Association) Green Bond Principles (member)
The Green Bond Principles (GBP) are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. This information offers guidance to issuers, investors and underwriters.

GRESB Green Bond Working Group (member)
This group brings together property companies, underwriters and fixed income investors to share information, evolve best practices, and promote the greater use of green bond financing in the real estate market.

FAIRR (Farm Animal Investment Risk & Return) (member)
FAIRR aims to ensure that investors understand the risks and opportunities that relate to intensive livestock farming and poor animal welfare standards, and to support investors to assess these issues as part of their investment processes. NN IP has joined collaborative engagements on sustainable protein and antibiotics.

ATNI (Access to Nutrition) (signatory)
ATNI is the first independent, multi-stakeholder and systematic initiative aimed at enhancing investors' understanding of how food & beverage manufacturers address nutrition-related risks and opportunities. It assesses the nutrition policies, practices and performance of the largest manufacturers in developed and emerging markets. NN IP is co-leading four engagements.

PLWF (Platform Living Wage Financials) (member)
A group of financial institutions collaborate to encourage, support, assess and monitor investee companies on their commitment to paying a living wage to the workers in their supply chains. NN IP supports a number of engagements in the garment and textile industry and leads several in the agri/food sector.

EFAMA (European Fund and Asset Management Association) (member)
EFAMA is the representative association for the European investment management industry. NN IP is a member of its Stewardship, Market Integrity & ESG Investment Standing Committee.

Investor Alliance for Human Rights (member)
The Investor Alliance for Human Rights provides a collective action platform that will consolidate and increase investor influence and maximize the collective impact of the global investment community on business and human rights.

Climate Bonds Initiative (partner)
The Climate Bonds Initiative is an international organisation working solely to mobilize the largest capital

market of all, the USD 100 trillion bond market, for climate change solutions. The organization promotes investments in projects and assets necessary for a rapid transition to a low-carbon and climate-resilient economy.

GIIN (Global Impact Investing Network) (member)
The Global Impact Investing Network is a non-profit organization dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education and research that help accelerate the development of a coherent impact investing industry.

Global investor letter to G7 and G20 governments on climate change (signatory)
NN IP signed the global investor letter to G7 and G20 governments on climate change. Around 200 global investors have signed the letter, managing USD 26 trillion in assets.

ISG (Investor Stewardship Group) (signatory)
The ISG was formed to bring all types of investors together to establish a framework of stewardship principles for institutional investors and corporate governance principles for US listed companies.

Workforce Disclosure Initiative (signatory)
NN IP signed an investor statement from the Workforce Disclosure Initiative to ask several companies to reveal more information about their workforce and social policies.

UN Guiding Principles Reporting Framework Investor Statement (endorser)
The UNGP Reporting Framework was launched on 24 February, 2015 This framework can serve as a useful guide for investors on identifying human rights risks in individual companies, reviewing improved disclosure on human rights performance, and engaging on human rights issues.

Alignment with the Task Force on Climate-related Financial Disclosures (TCFD) (signatory)
NN IP has co-signed a letter to 62 global companies asking them to disclose climate-related information aligned with the Task Force on Climate-related Financial Disclosure (TCFD) in the following key areas:

- Risk assessment and management
- Strategy and implementation
- Low-carbon products and services
- Policy engagements and collaboration with other actors

Access to Medicine Index (signatory)
The Access to Medicine Index independently ranks pharmaceutical companies' efforts to improve access to medicine in developing countries. Two billion people in the world have no access to medicine. The index gives insight into what the pharmaceutical industry is doing to improve this situation.

Dutch Association of Investors for Sustainable Development (VBDO) (NN Group member)
The VBDO aims to create a more sustainable capital market by raising awareness with multinational corporations and investors about the contributions they can make towards a sustainable capital market.
VBDO is the only association in the Netherlands representing institutional and individual investors.

Partnerships to promote ESG research and reporting

We also partner with leading data, research and engagement service providers in the field of ESG.

Sustainalytics
Sustainalytics provides ESG policy, performance and behaviour information for more than 5,000 issuers and companies; we have access to the full data set.

ISS Ethix Climate Solutions
ISS Ethix Climate solutions is a specialist research provider on carbon footprint, waste and water use data on over 25,000 companies.

Bloomberg
Bloomberg is a leading data provider on companies and markets.

HOLT
HOLT provides quantitative data on more than 3,000 European companies on operational quality, valuation, momentum and governance.

CGLytics
CGLytics (formerly called Director-Insight), is a specialist research provider with an extensive set of governance data on 3,000 companies.

Equileap
Equileap is a specialist research provider on gender equality data of over 3,000 companies.

TruValueLabs (TVL)
TVL is different in that it applies artificial intelligence to unstructured ESG data, tapping into information from non-company reported resources. This supplements the ESG data we receive from our existing providers and gives us a new angle on ESG performance.

ESG Screen 17
ESG Screen 17 provides premium multi-source ESG data analysis to help investors make the 17 UN Sustainable Development Goals investable.

Refinitiv
Refinitiv (formerly Thomson Reuters) has a dataset that enables us to tap into a wealth of observable ESG datapoints, metrics and scores. The data is collected from publicly available information and allows us to form an opinion on how issuers perform on important topics such as corporate governance, corporate behaviour, climate change, resource use and human rights and human capital.

Global Engagement Service (GES)
GES is a leading provider of responsible investing and engagement services. (Recently acquired by Sustainalytics).

Investment strategies

We are active and responsible investors

NN IP is a global institutional investor with a long investment horizon. We have a duty to act in the best interests of our beneficiaries. To fulfil this duty, we acknowledge the importance of integrating ESG factors into our investment process. This ensures better-informed investment decisions and helps us to optimise the risk-return profile of our portfolios. It also helps reflect NN's values in the investment process and better aligns our business with the broader objectives and expectations of society.

We integrate ESG criteria into a large number of assets and we are continuously improving the way this is done. In addition, we have Sustainable and Impact strategies which have an even stronger focus on ESG. The different approaches applied to our ESG, Sustainable and Impact Strategies are illustrated in the table below.

The table on page 49 shows that in addition to ESG integration, we also carry out voting and engagement activities for a broad range of our assets, where relevant. The NN Group exclusion list is applicable to all the assets we manage, and our Sustainable and Impact strategies also apply additional exclusion criteria.

Examples of NN IP investment strategies in which ESG is not yet fully embedded include liability driven investments (LDI), residential mortgages and some multi-asset and derivatives portfolios. We are reviewing whether future ESG integration approaches are possible for these assets. Restrictions that arise from regulations and/or the NN Group exclusion list are always applicable.

Assets under management in Sustainable and Impact strategies (EUR)

Sustainable strategies	15.388 billion
Impact strategies	1.161 billion

Figures as at 31 December 2018.

	ESG strategies Embedding ESG data in our investment strategies to improve risk-adjusted returns	Sustainable strategies Focusing on today's and tomorrow's sustainability leaders	Impact strategies Targeting companies that make a clear positive contribution to the UN SDGs
ESG Integration	Ongoing ESG data enrichment and integration		
Engagement for Change	Engagement on industry themes and bottom-up company dialogues		
	NN IP voting policy		
	NN Group exclusion list	NN Group exclusion list plus exclusion of additional industries at portfolio managers' discretion	
Improved Returns	Emphasis on material ESG data in our research and development efforts as well as in portfolio implementation enhances risk adjusted returns for all strategies		
Global Partnering	Partnering with research and data institutes, and international initiatives		Additional partnering with strategy leader in impact investing
Transparent Reporting	• Engagement results • Voting activities	• Engagement results • Voting activities • Carbon, Waste • Controversy scores	• Engagement results • Voting activities • Carbon, Waste • Controversy scores • SDG exposures

ESG strategies

Embedding ESG data in investment strategies to improve risk-adjusted returns.

ESG factors are important intangible value drivers that identify the current and future winners for our investment portfolios. We embed ESG factors into the investment process of equity, fixed income and multi-asset strategies. ESG factors are evaluated at country, sector, company and even issue level, and analysis is carried out from both a top-down and bottom-up perspective. Our investment cases include an overview of those ESG issues that may be material for the company in question. Embedding ESG factors also extends to the portfolio-construction phase of the investment process.

Engagement and Voting

We have chosen to be active investors, both as equity and debt holders, and to engage with the companies in which we invest. Our aim is to support them in taking a more sustainable approach. This can range from sharing best practices to managing shareholder expectations. This makes the companies we invest in more resilient and enhances their performance potential. It also increases our positive impact on society at large.

We implement engagement and voting activities where possible. Voting is one of the most powerful active ownership tools, and so we vote at the shareholder meetings related to our holdings – both for our proprietary assets and for those of our clients. We publish our voting activities on nnip.com throughout the year. During 2018, NN IP voted at 2,118 shareholder meetings on 26,839 agenda items. We also supported a large number of shareholder resolutions linked to social and environmental topics (73% and 95%, respectively).

For more detail, refer to Chapter 6 on Engagement for Change.

Sustainable strategies

Focusing on today's and tomorrow's sustainability leaders

Our Sustainable strategies integrate ESG factors throughout the investment process and pursue a similar engagement and voting policy to our ESG strategies. In addition, they offer diversified alpha potential by investing in companies with sustainable business models.

In our assessments of investment candidates, we value ESG improvement. This ensures that the companies we select are dealing with ESG challenges and working to improve their business models in a sustainable manner. In order to reduce risk and drive positive change, we also make sure to avoid material controversies. These can relate to environmental, social and governance issues. When focusing on environmental impact, we aim to invest in securities that have lower carbon footprints, use less energy or create less waste than the average market index.

We offer a broad range of sustainable equity, fixed income and multi-asset strategies:

Equity	Global Sustainable Equity
	European Sustainable Equity
	Enhanced Index Sustainable Equity
Fixed Income	Euro Sustainable Credit (incl. and excl. financials)
	Sustainable Infrastructure Debt (first closing 2019)
Multi Asset	Balanced European Sustainable

Impact strategies

Targeting companies that make a clear positive contribution to the Sustainable Development Goals (SDGs)

Our Impact strategies are primarily designed for investors who want to make a clear impact on one or more of the SDGs. We identify those industries, companies and projects that, as a result of their investment philosophies and universes, combine attractive financial returns with a clear and measurable positive impact on people, planet or prosperity.

ESG factors are also integrated throughout the investment process and we pursue a similar voting and engagement policy to our other strategies.

The impact strategies we offer are:

Equity	Global Equity Impact Opportunities
Fixed Income	Green Bonds
	Emerging Markets Loans (NN FMO)

Elements of fund reporting

We report on the ESG status for our individual Sustainable and Impact strategies. This relates to carbon and waste intensity, controversy scores and/or SDG exposures. We are working to further expand the extent of our reporting in the coming period.
In this report we present two examples. One relates to a Sustainable strategy and another to an Impact strategy. Information on our full range of strategies and funds, can be found on nnip.com.

Carbon Intensity

A corporate carbon footprint is the amount of carbon dioxide that an organisation releases directly or indirectly into the atmosphere, measured in tonnes. This can then be translated into an intensity figure by dividing it by the company's revenue, typically expressed as tonnes per EUR 1 million.

Three types of emission source can be used in the calculation:

- Scope 1 – also referred to as Direct GHG (greenhouse gas), are emissions from sources that are owned or controlled by the organization:
- Scope 2 – or Energy Indirect GHG, are emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream;
- Scope 3 – or Other Indirect GHG, are emissions resulting from an entity's operations, but are not directly owned/controlled by it. Scope 3 forms the largest part of most corporate carbon footprints.

Source: GHG Protocol, 2018

Waste intensity

ISS ESG data coverage of waste comprises waste reported in tonnes; this is based on the figures in the Global Reporting Initiative. The waste intensity is expressed as tonnes waste per EUR 1 million of revenue.

Controversy scores

We use the Sustainalytics controversy scores to manage issuer risk. A controversy is an event or aggregation of events relating to an environmental, social or governance topic. Sustainalytics' research measures an issuer's performance relative to its ESG commitments. The score is based on the outcome of this research and ranges from category 1 – low (an event that has a low impact on the environment and society, posing negligible risks to the company) to 5 – severe (an event that has a severe impact on the environment and society, posing significant risks to the company).

SDG exposures

For measuring SDG exposure, we use both internal and external methodologies. ESG Screen17 is our external provider for reporting purposes. Their proprietary SDG scores for each company are derived from a selection of available ESG input datapoints that are assigned to specific SDGs and pertain to one or more of their targets. These are then weighted according to their relevance and the quality of the data.

Two examples of fund reporting

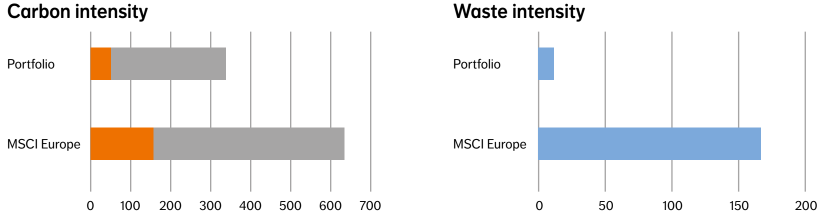
NN (L) Patrimonial Balanced European Sustainable

All-in-one solution to grow your wealth responsibly, without compromising financial gains.

This diversified multi-asset strategy aims to deliver long-term capital growth by investing in a portfolio of European stocks and euro-denominated bonds from companies and issuers pursuing sustainable policies.

Impact report sub-portfolio equities within the NN (L) Patrimonial Balanced European Sustainable:

Carbon intensity **Waste intensity**



Scope 1 & 2
Scope 3

Sources: NN IP, ISS Ethix Climate Solutions. Milieu Centraal emissions average household and Eurostat. All figures as of 31/12/2018

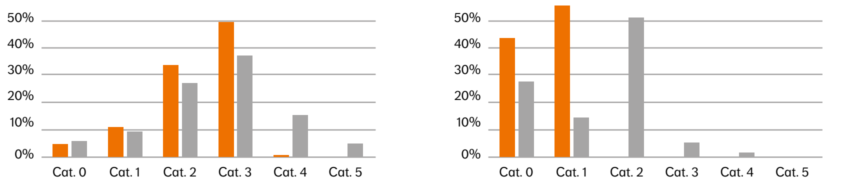
Assets managed in NN (L) Patrimonial Balanced European Sustainable: EUR 346 million
Total assets managed in the Balanced European Sustainable strategy: EUR 4.28 billion

The annual CO_2 saved by this fund versus its benchmark as at 31 December 2018 is **108,093 tonnes** which is equivalent to the carbon footprint of approximately **4,804 households**.

Waste avoided relative to the its benchmark over the same period is **55,123 tonnes**. This is equivalent to the waste footprint of approximately **52,749 households**.

Controversy scores

Exposure per Controversy Category - Credits **Exposure per Controversy Category - Green Bonds**



Sub portfolio
Bloomberg Barclays Euro Agg Corp

% calculated based on total number of securities in portfolio: 876 (66.7% of total weight) benchmark: 2376 (81.6% of total weight).

% calculated based on total number of securities in portfolio: 66 (9.6% of total weight) benchmark: 1191 (6.7% of total weight).

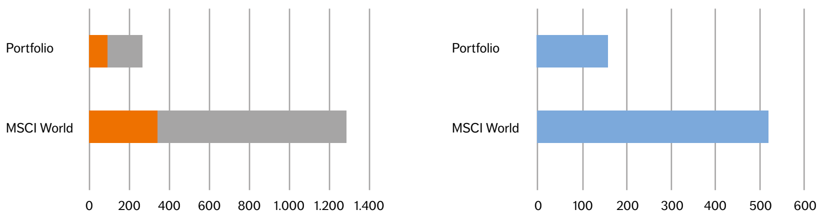
NN (L) Global Equity Impact Opportunities

The advantages of impact investing via listed equities: liquidity, scale and transparency.

The strategy combines thematic selection, fundamental analysis and ESG integration to select listed equities that offer attractive financial returns and a positive social and environmental impact.

Impact report sub-portfolio equities within the NN (L) Global Equity Impact Opportunities

Carbon intensity **Waste Intensity**



Scope 1 & 2
Scope 3

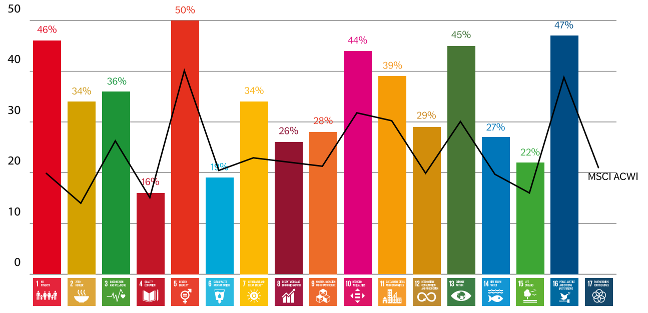
Sources: NN IP, ISS Ethix Climate Solutions. All figures as of 31/12/2018

Total assets managed in NN (L) Global Equity Impact Opportunities: EUR 284 million
Total assets managed in the Equity Impact Opportunities strategy: EUR 488 million

The annual CO_2 saved by this fund versus its benchmark as at 31 December 2018 is **131,298 tonnes** which is equivalent to the carbon footprint of approximately **5,835 households**.

Waste avoided relative to the MSCI World AC index over the same period (based on AuM of EUR 283 million) is **41,742 tonnes**. This is equivalent to the waste footprint of approximately **39,944 households**.

SDG exposure NN (L) Global Equity Impact Opportunities (%) versus MSCI ACWI



NN (L) Global Equity Impact Opportunities average score is the mean company SDG score weighted by portfolio composition; scores for MSCI ACWI are simple means. 31 December 2018. Data source: ESG Screen17

Client Perspectives in 2018

Interview with Adrie Heinsbroek, Principal Responsible Investing

In recent years, awareness of responsible investing has really gained momentum, with investors worldwide establishing responsible investment policies for their portfolios. Our rich history of environmental, social and governance (ESG) investing equips us to respond to our clients' ESG requirements and navigate the challenges specific to responsible investing. We sat down with Adrie Heinsbroek, Principal Responsible Investing at NN IP, to hear the latest developments regarding our clients' needs and concerns when it comes to responsible investing.

Responsible investing has gone from strength to strength in terms of awareness. How have we seen this play out on the client side in the last year?
Over the past few years, we've seen a marked change in rhetoric regarding responsible investing, which has coincided with significant increases in RI policies across all our business regions. Many of our clients have also implemented climate intentions and engagement activities alongside these policies, and we've received requests for increased reporting on ESG parameters. Additionally, ESG integration is becoming more central to the due diligence process. Particularly when it comes to strategies where there are many products to choose from, we find that strong ESG integration is a prerequisite for many of our clients.

Responsible investing is a wide-ranging topic, with many angles. Where have we seen the most client interest?
We've seen a wide range of requests for increased reporting on ESG factors, from CO_2 emissions figures to engagement results and board diversity, particularly in terms of gender representation. We promote full and accurate reporting because we believe that this alone can prompt change. Requiring companies to divulge

information about their environmental practices or diversity statistics encourages them to improve, even if they are not legally obliged to do so. And that's what responsibility means in responsible investing.

We've also noticed an uptick in interest in impact investing – that is, investing for a specific measurable impact, with the goal of making a positive change in the world. Since the UN established its Sustainable Development Goals (SDGs) in 2015, impact investing has started to really take off, and our own impact funds have seen inflows increase dramatically.

What are the challenges we've encountered in responding to these client requests?
One challenge we've encountered stems from the wide array of ESG approaches and requirements, given the global landscape and the sheer diversity of data. There's no standard for reporting on SDGs, for example, so it's difficult to measure the contribution of one particular impact project. We believe that a more innovative reporting methodology, with a focus on measuring progress on the SDGs, would be a great boon to the impact investing world. In the coming years, we think the establishment of a European taxonomy is likely, which would create common ground for assessing the current situation and future progress.

Another challenge we've faced is the difficulty of defining ESG ambitions. Many of our clients would agree that they want a significant ESG focus, but that could refer to many things – such as shrinking their portfolio's carbon footprint or tobacco exposure, promoting diversity, or improving access to clean water in developing countries. Additionally, the dividing line between "ESG integration", "sustainable investment" and "impact investment" is increasingly blurred, and it's necessary to draw clear distinctions so we can be sure clients really get what they want.

NN IP has spoken openly about its policy on exclusion as opposed to engagement, and we've made it clear that we prefer to engage where we think it can lead to positive results. What have we seen from our clients in terms of restrictions?
We've found that many of our clients prefer to make basic and selective restrictions within a broader theme of engaging for change. For example, some of our French clients have requested selective divestment of fossil fuels. In practice, this might mean divesting the bonds and stocks of international oil producers but retaining holdings in European oil companies so as to engage more effectively. However, there are certainly cases where engagement isn't an option, and we've received many requests for restrictions in response to regulations and international conventions. Child labour and weapon production have been prominent examples, as have violations of the UN Global Compact principles.

Does client interest in ESG investment depend on the type of product, or does it extend to all asset classes?
For the most part, requests for ESG products aren't limited to specific types of products or funds. Instead, ESG integration is becoming the "new norm", with requests across all asset classes. That said, there are areas where client interest varies. In France, we've seen increased interest in illiquid products, as clients feel that they can have more of an impact on smaller companies and through financing specific projects. On the fixed income side, ESG integration really made its way into mainstream client requests last year, with a strong upsurge in client demand on governance issues.

Where do we see RI becoming more of a focus in the near future?
Although responsible investing has gained significant momentum over the past few years, we believe it could still expand much further, particularly in emerging markets. In Peru, for example, we're evaluating a partnership with the Peruvian Programme for Responsible Investing. Its goals include educating all stakeholders, from the government and regulators to companies and individual investors; implementing RI reporting for major local firms; and encouraging local investors to include RI factors in their investment processes. We're big believers in the power of localized change, and in our impact funds, we've seen first-hand how effective it can be.

Within Europe, we also think Germany offers many opportunities in the field of ESG investment, but for these to come to fruition, a shift in opinion will be needed as there is room for improvement in a number of areas. So far, developments there have been far behind the curve compared with the rest of Europe. Most insurance companies and pension funds have a critical opinion on new EU regulations, which could lead to increased reporting and documentation requirements and associated costs. But we also see significant interest from German clients in the way we engage with companies, and we're excited to see how the German ESG landscape will develop.

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:

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ri.nnip.com