NN IP Responsible Investing Framework

Because it matters. And it works.

NN investment partners

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1. Introduction

Responsible Investing (RI) lies at the heart of NN Investment Partners' (NN IP's) investment beliefs. We are convinced that responsible investing enhances risk-adjusted returns and believe that companies with sustainable business practices and high standards of corporate governance will become the success stories of the future.

As a result, we integrate environmental, social and governance (ESG) factors based on stringent criteria into more than two thirds of our assets under management. We do this by means of our Responsible Investing Framework, which defines the why and the how of our approach to responsible investing. With the resulting broad range of investment funds and solutions, we help our clients achieve their financial and sustainability objectives.

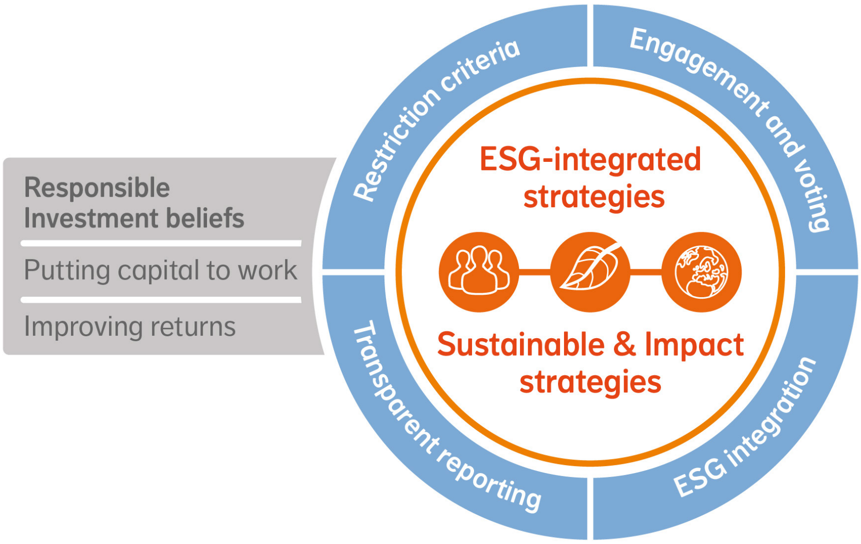
This document provides an in-depth overview of our Responsible Investing Framework, including our underlying RI beliefs, our four-pillar approach, and the result: our ESG-integrated, Sustainable and Impact investment strategies. This document also explains our governance structure, which safeguards proper management and monitoring. By closely following this framework, we are better placed to drive long-term value for our clients while contributing to a more sustainable world.

Scope of this document

This Framework applies to all assets under management. In some cases, the execution may deviate for proprietary assets of NN Group, in which case we will indicate that there is a difference. This Framework is in line with the NN Group RI Framework Policy

We strive to integrate ESG factors in all of our strategies, but acknowledge that in some asset classes, it is a challenge to do this in a consistent, systematic and auditable manner. We currently integrate our stringent ESG criteria throughout the investment process for the majority of our assets under management in a broad range of responsible investment strategies.

2. Responsible Investing Framework



Our responsible investing (RI) activities and ambitions are encapsulated in the NN IP responsible investing framework. It incorporates our beliefs, how we do things and what we offer.

The starting point is formed by our two RI beliefs: putting capital to work and improving returns. These beliefs simply explain why responsible investing is important to us. We are well aware of the challenges confronting the world today, and we have a responsibility to represent the numerous investors who have entrusted their money to us. Furthermore, we believe there is a strong link between the longer-term positive impact of ESG integration and improved risk-adjusted returns. Consistent ESG integration enables us to unlock potential value by identifying the associated risks and opportunities.

Meanwhile, our RI approach combines the four building blocks we use to implement responsible investing: restriction criteria, ESG integration, engagement and voting, and transparent reporting. By incorporating these four building blocks consistently within our investment process, we are better able to fulfil our clients' responsible investing ambitions, as well as their financial goals.

Our investment strategies are the tangible result of our RI beliefs and approach. We have chosen to distinguish three types of strategies **– ESG-integrated, Sustainable and Impact –** to cater to a variety of client needs across a broad range of asset classes. Section 2.3 of this document offers more information on our range of responsible investment strategies.

2.1. Our RI Beliefs

The global financial system has the proven ability to influence change. Managing EUR 280 billion of assets on behalf of our clients comes with a responsibility that reaches beyond short-term financial returns: a responsibility to **put the capital we manage to work**. As a global asset manager, we can and should play an instrumental role in influencing society to move towards a more sustainable future.

To do this, we form opinions on delicate topics and join forces with other institutional investors to strengthen our message. We approach companies via collaborations and initiatives to engage with them on complex problems like child labour and living wages. These are issues that cannot be solved overnight. Only a long-term collective approach with major industry players can help turn the tide.

In addition to making a positive contribution to society, our focus remains on financial performance. Our second belief is that **responsible investing improves risk-adjusted returns.** Examining ESG criteria enriches our understanding of a company's business strategy and ambitions. This complements thorough financial analysis and aids decision-making, in turn driving long-term risk-adjusted returns. In addition, there is growing evidence that sustainable policies and practices create more value in the long run. This trend can also stimulate companies and governments to allocate capital more sustainably.

2.2. Our RI Approach

Our approach to responsible investing is based on four essential building blocks, which are discussed in more detail on the following pages:

- Our **restriction criteria** enable us to take a stance on activities and behaviour that do not match with our ethics, principles and regulations. Decisions on restriction are the starting point in defining the initial investment universe for our strategies.
- We consistently **integrate ESG factors** by defining the materiality of ESG issues linked to both companies and sovereigns for all our responsible investment strategies. We integrate the additional insights we gain from ESG data to mitigate risks and leverage new opportunities.
- As share- and debtholders, we are fully aware of our potential to drive change for the better through **engagement and voting.** We collaborate with international entities and with other institutional investors to strengthen the impact of our efforts.
- We offer **transparent reporting** wherever possible, particularly for our Sustainable and Impact strategies. These reports cover exposure to potential controversies, climate emissions figures and other ESG performance metrics. We promote transparency by sharing as much available ESG-related information as possible with clients, and by encouraging our investee companies to also follow a policy of transparent disclosure.

By consistently implementing these building blocks within our investment process, we are better able to deliver attractive investment returns and contribute to a sustainable future, thereby fulfilling our responsible investing beliefs.

2.2.1. Restriction criteria

A key element of our approach is our belief in inclusion over exclusion. However, before we start analysing and selecting individual investments, we form an opinion on the investable universe in general and apply this to all of our assets under management. These **norms-based responsible investing criteria** reflect our investment beliefs, the organisation's values, relevant laws, and internationally recognised standards from the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises.

We determine our eligible investment universe by excluding controversial activities (category 1) and controversial behaviour (category 2) that are not in line with our norms-based responsible investing criteria. NN IP applies an engagement-led divestment approach and therefore first assesses engagement potential with companies to address the violation. Only when engagement is not considered feasible (such as in most cases of involvement in controversial weapons) will we decide to remove the issuer from our eligible universe and place it on the public Exclusion List. The Exclusion List is available to download on our RI policies page.

If engagement to address the violation is considered feasible, a formal engagement process must be started in order for the company to remain eligible for investment. If after a (typically) three-year period this engagement process has not led to the desired changes, we might consider the company ineligible for investment and can remove it from our investment universe.

Violation areas and criteria

Violations can currently occur in relation to the following areas:

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

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

1. 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
- Thermal coal mining

NN IP Investment restrictions

2.Controversial Conduct

- **Corporates:** Corporate issuers that severely and systematically violate the UN Global Compact principles and/or the OECD Guidelines for Multinational Enterprises (and where we consider that engagement is not or no longer feasible to change 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

The following section sets out the rationale behind these norms-based criteria and explains our methodology for restricting companies and issuers that are in violation.

Development, production, maintenance or trade of controversial weapons

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

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

Separate criteria have been developed for nuclear weapons in addition to the criteria above, since they have a different character from other weapon types. NN IP restricts companies that are involved in nuclear weapon activities and that: (i) are domiciled in countries that are not a signatory to the Non-Proliferation Treaty, or (ii) contribute to nuclear weapons programmes of non-NATO member states.

The controversial supply of arms

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

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

Tobacco production

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

We apply a stricter threshold in our Sustainable and Impact strategies, as described on page 10.

Oil sands production and controversial pipelines

Oil sands, also known as tar sands or crude bitumen, is a form of heavy oil found in sand and rock. Oil sands can be mined and processed to extract the oil-rich bitumen, which is then refined into oil. NN IP recognises that oil sands development poses serious environmental and social challenges, as it leads to higher greenhouse gas emissions than conventional crude oil. Furthermore, the production of oil sands and its transport via pipelines generates significant human rights concerns and is a serious contributor to local environmental pollution. NN IP has assessed the engagement potential for companies in the sector and has concluded that engagement is not expected to achieve the desired results.

We therefore restrict companies whose business models are dependent on the extraction of oil sands. This is defined as a share of oil sands higher than 30% of the total oil and gas average production in barrels-of-oil equivalent per day. Companies with less than 30% share of oil sands will be monitored and evaluated over a period of two years. In addition, we restrict on a firm-wide basis pipeline operators that are involved in oil sands transportation projects that are in dispute, and when engagement is not expected to achieve the desired results. These restrictions significantly contribute to de-risking our portfolios in terms of our carbon footprint.

We apply a stricter threshold in our Sustainable and Impact strategies, as described on page 9.

Mining of thermal coal

Thermal coal is predominantly used for power and heat generation. Of all fossil fuel energy sources, thermal coal generates the highest volume of greenhouse gas emissions when combusted. NN IP recognises that meeting the ambitions set out by the Paris Agreement will require the world to replace fossil fuels with low-carbon energy sources. We therefore on a firm-wide basis restrict companies whose business models are dependent on the mining of thermal coal. This is defined as deriving more than 30% of their revenues from mining thermal coal. Metallurgical coal or coking coal (a key raw material in steel production) is not governed by this criteria.

The statement on coal describes all the steps that NN and NN IP are taking to address the risks and environmental concerns associated with coal. These steps will further strengthen our efforts to support the transition to a low-carbon economy. The coal statement can be found on our RI policies page.

We apply a stricter threshold in our Sustainable and Impact strategies, as described on page 10.

Controversial Conduct – Corporates

We expect the companies in which we invest to act in accordance with relevant laws and internationally recognised standards such as the UN Global Compact principles and OECD Guidelines for Multinational Enterprises. Based on these internationally accepted standards and underlying principles, we expect adherence in the areas of proper governance, respecting human rights and labour rights, protecting the environment and prevention of bribery and corruption.

If there are strong indications that an issuer may be in violation of any of the minimum requirements, a decision needs to be taken on whether we consider this a violation of our criteria. Examples of such indications include research from external ESG research or engagement provider(s), inputs from our own (investment) staff or information from nongovernmental organisations or media sources. If we assess that a company is severely and systematically violating these standards, we will begin an engagement process in order for the company to remain eligible for investment. If after a three-year period the engagement process fails to lead to the desired changes, NN IP might consider the company ineligible for investment and can remove it from its investment universe.

Note: For corporate issuers, the corporate tree needs to be analysed in order to decide which issuing parties are deemed to be in violation:

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

For involvement in controversial weapons, the ownership threshold under (2) is set at 25% or more.

Controversial Conduct - Countries

We restrict sovereign issuers involved in severe and systematic violations of human rights, against which arms embargoes have been issued by the UN Security Council.

Additional restrictions for Sustainable and Impact strategies

Additional for Sustainable and Impact strategies

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

The below applicable thresholds are compliant with the Belgian Finance Federation's Quality Standard Requirements. For more details on the specific rationale behind these additional restrictions, please refer to the NN IP Viewpoint Policy. The Viewpoint Policy is available to download on our RI policies page.

Adult entertainment

The adult entertainment sector can be contradictory to the principle of respecting human dignity and could be in violation of human rights. Issues faced by this sector include sexual violence, human trafficking, violation of health and safety standards, substandard wages, links with organised crime and discrimination. For our Sustainable and Impact fund range, we apply a maximum of 5% of revenues on the production of adult entertainment and a 10% limit on the distribution.

Arctic drilling

Arctic drilling is considered part of the unconventional oil & gas sector and particularly poses higher risks of oil spills than conventional oil & gas. This has the potential to affect biodiversity, including local wildlife, and people in a destructive and irreversible way. Once an oil spill occurs, it is difficult to clean up and defuse. Safety is also an important issue, given the remote location of these activities.

For our Sustainable and Impact fund range, we apply a maximum of 10% of revenues of combined exposure to all forms of unconventional oil (defined as shale oil & gas, oil sands and Arctic). The Sustainable and Impact strategies also do not finance companies with expansion plans for unconventional oil & gas extraction.

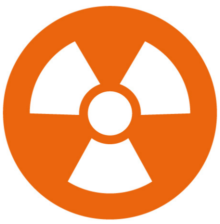
Fur & specialty leather

For our Sustainable and Impact fund range, we restrict investments in companies with involvement in fur and specialty leather, because the production of fur and leather can be linked to violation of animal welfare. We apply a maximum of 5% of revenues on the production of fur and specialty leather and a 10% limit on distribution or retail activity.

Gambling

Investments in gambling are restricted for our Sustainable and Impact fund range, as this industry is often linked to addiction, compliance issues with underage gambling, bribery and corruption and organised crime. As such, the gambling industry does not contribute to and may detract from enabling people to secure their financial future. We apply a maximum of 5% of revenues on gambling operations.

Nuclear energy



In our Sustainable and Impact strategies, we exclude utility companies involved in constructing additional nuclear-based power production installations. Companies and countries that are exposed to nuclear power generation should be capable of meeting essential requirements regarding safety and protection of populations and the environment (for details, see the NN IP Viewpoint Policy, which is available to download on our RI policies page). We closely follow developments and ESG issues relating to nuclear energy.

Oil sands production and controversial pipelines – additional restrictions for Sustainable and Impact funds

NN IP recognises that oil sands development poses serious environmental and social challenges, as it leads to higher greenhouse gas emissions than conventional crude oil. Furthermore, the production of oil sands and its transport via pipelines generates significant human rights concerns and is a serious contributor to local environmental pollution.

For our Sustainable and Impact fund range, we apply a revenue threshold of 5% of revenues from oil sands production. We also apply a maximum of 10% of revenues of combined exposure to all forms of unconventional oil (defined as shale oil & gas, oil sands and Arctic drilling).

Shale oil & gas[1]

Shale oil, also known as tight oil, and shale gas are types of unconventional oil and gas which are trapped in shale formations that must be hydraulically fractured to extract. Producing shale oil & gas thus has a more destructive environmental impact than the production of conventional oil & gas. Examples of environmental and social risks

[1] The restriction on shale oil & gas does not apply to all of the Enhanced Index Sustainable Equity funds.

associated with shale oil production are water stress, the risk of land contamination, pollution, leakage of greenhouse gas emissions, safety, and community impacts. The exploration of shale gas requires a large number of wells, leading to atmospheric pollution, air pollution, methane movement, high level of noise and water contamination.

For our Sustainable and Impact fund range, we apply a maximum revenue threshold of 10% of combined exposure to all forms of unconventional oil (shale, oil sands and Arctic). Additionally, the Sustainable and Impact strategies do not finance companies with expansion plans for unconventional oil & gas extraction.

Thermal coal mining – additional restrictions for Sustainable and Impact funds

Thermal coal is predominantly used for power and heat generation. Of all fossil fuel energy sources, thermal coal generates the highest volume of greenhouse gas emissions when combusted. NN IP recognises that meeting the ambitions set out by the Paris Agreement will require the world to replace fossil fuels with low-carbon energy sources. We therefore restrict companies whose business models are dependent on the mining of thermal coal. For our Sustainable and Impact fund range, the revenue threshold is stricter and accounts for a maximum of 5% of revenues from coal extraction.

Tobacco - additional restrictions for Sustainable and Impact funds

NN IP has concerns regarding public health as well as the economic burden that smoking places on society. We therefore restrict companies that are involved in the production of tobacco products.

For our Sustainable and Impact fund range, a tighter threshold of 5% applies, hence we restrict tobacco producers when tobacco products account for 5% or more of their revenues. We also apply a maximum of 10% of revenues on distribution or retail activity and on related products and services.

Weapons – additional restrictions for Sustainable and Impact funds

In addition to the restrictions on controversial weapons and the controversial supply of arms, for our Sustainable and Impact fund range, involvement in small arms and military contracting is also restricted because of their link to violence, crime and corruption. For our Sustainable and Impact fund range, we apply a maximum revenue threshold of 5% for production of weapons or the supply of key and dedicated components.

Further reading

For further information on how we implement our restriction criteria, please see the following documents, which are available on our **RI policies page**:

NN Exclusion List: a comprehensive overview of all excluded companies and sovereigns, including the reason for exclusion

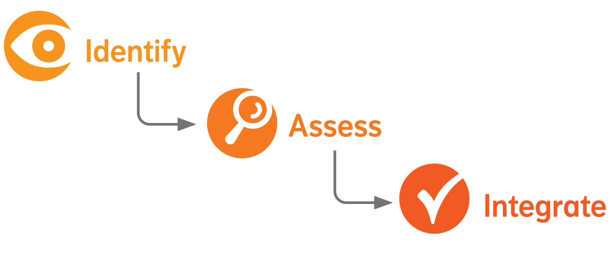
NN Investment Partners Responsible Investment Viewpoint Policy: an in-depth overview of the ESG criteria applied to our Sustainable and Impact strategies, as well as our perspective on potentially unsustainable practices and issues

NN IP Responsible Investing Report 2019: the latest edition of our annual Responsible Investing Report, which provides an in-depth overview of all our responsible investing activities

2.2.2. ESG Integration

The second pillar of our RI approach is the integration of environmental, social and governance (ESG) criteria into our investment process. We believe that integrating ESG factors enhances our decision-making. By taking both financial and non-financial information into account in managing our portfolios, we are better able to optimise both short- and longer-term risk-adjusted returns. We strive to integrate ESG factors in all of our strategies, but acknowledge that in some asset classes, it is a challenge to do this in a consistent, systematic and auditable manner. We currently integrate our stringent ESG criteria throughout the investment process for the majority of our assets under management in a broad range of responsible investment strategies.

Our definition of an ESG-integrated strategy stipulates that for each investment, all three ESG components must be demonstrably and consistently integrated where applicable throughout the investment process. This holistic approach enables us to offer ESG strategies across a broad range of asset classes. These include not only public fixed income and equity markets, but also multi-asset and private-debt strategies, in both developed and emerging markets.



We have a three-step approach to ESG integration: identify, assess, and integrate. By consistently following this approach for all our ESG-integrated strategies, we ensure that all our investment decisions take into account material ESG issues and opportunities wherever possible.

1. **Identify material ESG issues**
   Our investment experts first identify material ESG issues at company, sector and country level.
2. **Assess performance indicators**
   In the case of companies: they then evaluate each company's performance on each material ESG issue. Next, they examine how well these translate into the business strategy and what opportunities they offer. Finally, they discuss and analyse potential controversies and their material impact.
   In the case of sovereigns: they analyse and evaluate a country's performance based on ESG factors and potential controversial issues. They then use this information to compare different countries against each other.
3. **Integrate analysis into the investment case**
   Finally, they incorporate these ESG analyses into their investment cases, to be taken into account throughout the investment process.

While our approach always includes these three steps, implementation differs between our strategies, for various reasons. The type and quality of data and its availability varies from public to private asset classes and in developed and emerging markets. ESG integration for sovereigns also uses different data sources from those we use for analysing companies.

Unlocking corporate value by focusing on material ESG topics

The ability to link a company's capacity for value creation to the material, long-term issues and opportunities that it may face is crucial. Our proprietary materiality framework optimises how we identify and interpret corporate ESG factors across sectors. This approach unlocks potential value by identifying the associated risks and opportunities. This framework was developed in close cooperation with analysts and portfolio managers to ensure we effectively identify issues that are truly material and to optimise our approach to ESG integration.

Sovereigns

While the materiality framework is very well suited to analysing companies, our approach for sovereigns is different, since most ESG factors are "material" for every country. Examples include the quality and availability of education and healthcare, political stability, and the energy sources a country relies on. We therefore score all countries using the same factors to determine how they compare with each other from an ESG point of view. This analysis also enables us to identify issues that might cause us to refrain from investing in a specific country.

Next steps in ESG integration

The landscape is constantly changing as new information on ESG is made public through a growing number of providers and as corporate behaviour adapts to a more sustainable future. We strive to bring additional strategies into scope for stringent ESG integration, as part of our ambition to put the assets we manage to work in an effective manner. We will also continue to invest our time and energy into finding and incorporating high-quality ESG information, in order to ensure the best results for investors and society at large.

Further reading

For further information on our ESG integration practices, please see the following documents, which are available on our **RI policies page**:

NN Investment Partners Stewardship Policy: an overview of the eight overarching principles that we follow in managing client assets

NN IP Responsible Investing Report 2019: the latest edition of our annual Responsible Investing Report, which provides an indepth overview of all our responsible investing activities

2.2.3. Engagement and voting

The third pillar of our RI approach, engagement and voting, refers to the tools we use to influence companies towards more sustainable behaviours and practices. By actively engaging with companies and exercising our voting rights, we can truly put our clients' capital to work in generating a more positive environmental and social impact.

We actively engage with investee companies

Constructive and regular dialogue with investee companies on ESG factors enables us to help them tackle a wide range of issues. Management is often aware of the need to change and willing to do so, but the support of share- and debtholders enables them to justify taking concrete steps.

Support and in some cases pressure from stakeholders stimulates companies to adapt their business strategies to improve their environmental, social and governance (ESG) performance. We engage on behalf of our clients, to put their money to work towards creating a better world and to maximise the value of their investments. We believe more sustainable behaviour also enhances the risk-return profile of our investments.

We use internationally accepted standards of corporate behaviour – the guidelines/principles developed by the United Nations, the International Corporate Governance Network (ICGN) and the Organisation for Economic Cooperation and Development (OECD) – as the starting point for our engagement. We engage on specific ESG targets in the two ways outlined below.

Controversy engagement

Controversy engagement focuses on companies that severely and structurally breach our norms-based criteria in the areas of governance, human rights, labour, environment, and bribery and corruption. This type of engagement can be referred to as reactive and is initiated and assessed by NN IP's Controversy and Engagement Council.

Thematic engagement

Thematic engagement focuses on different themes that have a material impact on society, and where we believe our engagement efforts can achieve beneficial change. This type of engagement can be referred to as proactive. Our engagement themes share objectives as defined by the Sustainable Development Goals (SDGs) and deal with material risks as defined by the World Economic Forum. The engagement themes are selected in consultation with portfolio managers/analysts and external stakeholders, and may change over time due to changing market developments and stakeholder expectations.

In addition to the two engagement programmes outlined above, our analysts and portfolio managers maintain regular bottom-up dialogues with investee companies on ESG subjects that we believe have a material impact on their value.

Engagement in practice

Our engagement approach is tailormade for each specific theme and each individual company. To ensure we can have the most impact, we first carefully analyse a problem in detail to determine our engagement theme. We then identify the value chain linked to that theme in order to select those companies where engagement is most needed and can be most effective. Before we contact our engagement candidates, we create a theme-specific methodology with objectives and milestones for each company.

We have a six-stage process for engaging with companies. We usually carry out these engagement efforts over a three-year period. After 1.5 years, or sooner if necessary, we evaluate progress and adjust our engagement objectives, for example in the light of market developments and stakeholder expectations. We also assess progress and determine what further steps are required or possible consequences if insufficient progress has been made.

Below are the six stages of our engagement process:

- **Initial communication:** We contact the company to inform them that we would like to engage on a specific topic.
- **Establish dialogue:** In our first contact with the company, we discuss the engagement objectives in more detail and gather information on the status of these goals.
- **Company commitment:** The company commits to addressing some or all of the objectives we have identified.
- **Company strategy:** The company develops a strategy to address issues, including a plan with clear activities and targets.
- **Progress and commitments:** Through meetings and information-gathering we support the company, follow progress and assess whether results are on track.
- **Finalisation, extension or cancellation:** If all objectives have been met, the engagement process can be finalised. If sufficient progress has been made but not all the objectives have yet been met, it can be extended. If too little progress has been made, other steps can be taken such as cancelling the engagement or restricting investment.

Collaboration in engagement

Engagement meetings are carried out by various teams and individuals, both in-house and through external providers. We collaborate with other investors through initiatives on specific focus areas such as climate change, the oil and gas sector and palm oil. This enables us to achieve maximum investor influence and pool resources and expertise. Together, we engage with policymakers, legislators and regulators to work on the development of sustainable government policies and financial systems. Our Responsible Investment team acts as the main coordinator to ensure alignment and consistency, and to avoid duplication of work.

We exercise our voting rights

Voting is one of the best ways for shareholders to express their opinion about performance and strategy. It is a tool to encourage companies to change for the better and it plays an important role in holding management accountable to shareholders.

Our clients include large and small institutional investors from all regions of the world. Together they represent a very diverse selection of norms, values and preferences. Consequently, we have decided to base our corporate governance and proxy voting policy on generally accepted best practices. These best practices are (among others) reflected in the OECD Principles of Corporate Governance and the Global Corporate Governance Principles of the International Corporate Governance Network (ICGN). While we believe that there are some overarching principles of corporate governance that apply globally, we recognise that practices vary internationally.

In order to effectively represent our clients in their role as shareholders, we vote at as many shareholder meetings worldwide as we possibly can. We cast proxy votes in a way that best serves the beneficial owner of the assets, while also taking into account the interests of companies' stakeholders. To this end, we have set up a customised proxy voting policy for exercising voting rights at shareholder meetings on behalf of client assets. This policy is implemented by the proxy voting provider Glass Lewis in order to ensure that all management and shareholder proposals are voted on, in line with our policy. We also actively review the customised voting advice that is provided by Glass Lewis, in order to assess voting matters in light of a company's unique circumstances.

Note on proxy voting for client assets: Because we maintain information barriers between the management of proprietary assets and that of client assets, we have set up one proxy voting committee that is tasked with voting on client assets and another proxy voting committee responsible for voting on proprietary assets. In limited circumstances, and based on a contractual agreement, it may occur that client assets are managed by the investment team responsible for managing the assets for NN Group. If such a situation occurs, the voting rights of such client assets will also be exercised by the proxy voting committee for proprietary assets. This procedure ensures that the Chinese wall between client assets and proprietary assets is maintained.

Below, we outline several underlying principles of our proxy voting policy. Further detail on how we apply these principles in practice can be found in our **Proxy Voting Policy Client Assets.**

Principles followed by NN IP as asset manager

- NN IP will exercise the voting rights attached to the assets it manages, unless exercising these rights is not in the interest of the beneficial owner of the assets or is not allowed under local regulation. In case of disproportionate costs or impracticability, NN IP may refrain from exercising the voting rights at its sole discretion.

- NN IP will vote in a way that best serves the interests of the beneficial owner of the assets. This may include deviating from this policy, if doing so would best serve the interests of the beneficial owners of the assets.

- Voting rights attached to individual clients' assets will be exercised in the exclusive interest of the client.

- When appropriate, feasible and in the best interest of our clients, NN IP will enter into a dialogue with investee companies in order to discuss material ESG risks and opportunities that are considered critical for the long-term profitability of the company.

- NN IP reports on the execution of the voting policy on a continuing basis (accessible through our website).

Principles we expect the investee companies to respect

- All shareholders should be given the opportunity to participate effectively, and on an informed basis, in shareholder meetings. The exercise of ownership rights by all share-holders should be facilitated, including giving shareholders timely and adequate notice of all matters proposed for a shareholder vote.

- Investee companies should maintain transparency in their organisation and decisionmaking procedures, business model, strategy and risk oversight. They should disclose information necessary to enable shareholders to make an informed decision on voting issues and on whether to buy, hold, or sell a security issued by the company.

- Investee companies should comply with generally accepted corporate governance best practices as well as the corporate governance standards that are applicable in the country of domicile.

- Investee company management should always be accountable to shareholders and stakeholders. Both management/executive directors and supervisory board/non-executive directors should base their decisions on the long-term interests of the company, its shareholders and its stakeholders.

- Merger and acquisition proposals should be considered in the interest of enhancing long-term shareholder value.

- To ensure long-term performance for the shareholders, investee companies should act responsibly to all stakeholders. This includes recognition of the impact of business decisions on the environment, as well as recognition of the – positive and negative – impact of their business decisions on social and human rights issues in the regions in which they operate.

- The interests of management should be aligned with the long-term interests of the company and its shareholders, also when it comes to executive compensation. To ensure alignment of executive and shareholder interests, executive compensation should be adequately matched with key performance indicators (KPIs).

Further reading

For further information on how we implement our engagement and voting activities, please see the following documents, which are available on our **RI policies page**:

NN IP Engagement Approach: an overview of our engagement activities and strategy

Proxy Voting Policy Client Assets: an in-depth explanation of the reasoning behind our voting policies and how these are implemented

NN Investment Partners Stewardship Policy: an overview of the eight overarching principles that we follow in managing client assets

NN IP Responsible Investing Report 2019: the latest edition of our annual Responsible Investing Report, which provides an in-depth overview of all our responsible investing activities

An overview of all our voting activities can be found **here.**

2.2.4. Transparent reporting

Transparent reporting is the fourth and final pillar of our responsible investing approach. We regularly report on our Sustainable and Impact strategies in the context of ESG factors, such as carbon footprints and intensity. Other widely accepted reference points for measuring 'impact' are the United Nations' 17 Sustainable Development Goals (SDGs), which have heightened the focus on the non-financial impact of investments. We report on the SDG exposure of our impact investing strategies using both our in-house developed methodology and external reporting partners.

We update our clients on all our RI-related activities and results via our annual Responsible Investing Report. As an active signatory of the Principles for Responsible Investment (PRI), we also report on our responsible investing approach in the PRI annual assessment.

We also seek to ensure that companies recognise the importance of transparent disclosure as part of our engagement approach. They are accountable to their stakeholders and must show how they are tackling ESG issues. They also need to be transparent on the policies and processes they have in place to make their business more sustainable.

Further reading

For further information on our reporting practices, please see the following documents, which are available on our **RI policies page**:

NN Investment Partners Stewardship Policy: an overview of the eight overarching principles that we follow in managing client assets

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Investment strategies integrating ESG factors[2]

Traditional strategies	ESG-integrated strategies	Sustainable strategies	Impact strategies
EUR 87.4 bln	EUR 166.1 bln	EUR 19.3 bln	EUR 3.5 bln
Applying NN's norms-based RI criteria, voting and engagement	Embedding ESG data in our investment processes to improve risk-adjusted returns	Focusing on today's and tomorrow's sustainability leaders	Targeting companies that make a clear positive contribution to the UN SDGs

Voting, engagement and exclusions based on NN's norms-based RI criteria

2.3. Our Responsible Investing range

Based on the building blocks within our responsible investing framework, we offer a broad selection of responsible investment strategies, reflecting our diverse fields of expertise. These range from listed equity and fixed income strategies to multi-asset and alternative credits. The diversity of our range enables us to offer our clients four types of investing solutions to match a broad spectrum of needs.

ESG-integrated Strategies

As ESG criteria play a very important role in our investment process, we offer a broad range of ESG-integrated strategies in a number of different asset classes. These strategies restrict certain activities and behaviour from their portfolios, and vote on and engage with the companies and issuers in portfolio where relevant.

Based on our own beliefs and client demand, we have chosen an approach based on stringent environmental, social and governance (ESG) integration. For more information, please refer to **Section 2.2.**

We apply stringent ESG analysis throughout the investment process for all our ESG-integrated strategies. This enables us to take into account a far broader range of factors – many of which are outside the scope of traditional financial analysis. These ESG criteria reveal much more about how a company's business strategy is positioned for future challenges and opportunities, and highlight issues that can have a significant impact on long-term performance.

For more information on our ESG-integrated range, see: **https://www.nnip.com/en-INT/professional/themes/esg**

[2] Data as per 31/12/2019. ESG factors are consistently integrated into 68% of NN IP's AuM (EUR 189 billion).

Sustainable Strategies

Our Sustainable strategies also integrate ESG factors throughout the investment process and pursue a similar engagement and voting policy to our ESG strategies, but with a stronger focus on contributing to sustainable development. They offer alpha potential by investing both in companies that already have sustainable operations and those that are working to make their business models more sustainable. We look at a company's underlying ESG momentum and material building blocks, not just at its current ESG score and performance. In these strategies, we have raised the bar for product involvements and behaviour, hence we apply stricter criteria for exclusion. For more information, please refer to **Section 2.2.1.**

Although their specific products and solutions do not need to specifically target the UN Sustainable Development Goals (SDGs), these are companies that support the transition to a more sustainable society in their specific area of business and can develop a competitive advantage as a result. Renewable energy is perhaps the most obvious and high-profile area for transition, but in every industry, companies need to adjust and find solutions that enhance efficiency if they are to survive and flourish.

For more information on our sustainable range, see **https://www.nnip.com/en-INT/professional/themes/sustainable-investing**

Impact Strategies

Our Impact strategies target companies whose products or solutions demonstrate an intentional and measurable impact and make a clear, positive contribution to the United Nations' Sustainable Development Goals (SDGs). These 17 ambitious goals have been adopted by all UN member states and provide a blueprint for tackling issues in three key areas: social inclusion, environmental protection and economic fulfilment of lives. NN IP has linked this to the three broad themes of People, Planet and Prosperity.

The Impact range addresses the world's most pressing environmental and social challenges in sectors such as energy, agriculture, healthcare and education. These strategies report in detail on their exposure to the SDGs and other sustainability factors such as carbon footprint. In addition to measuring impact, we use the UN SDGs to provide insights into the type of contributions that are made through our investments.

For more information on our impact strategies, see **https://www.nnip.com/en-INT/professional/themes/impact-investing**

Further reading

For further information on our ESG-integrated, Sustainable and Impact strategies, please see the NN IP Responsible Investing Report 2019, the latest edition of our annual Responsible Investing Report, which provides an in-depth overview of all our responsible investing activities. The Responsible Investing Report is available to download on our **RI policies page**.

3. Governance of responsible investing

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

NN IP's day-to-day approach to responsible investing (RI) is organised in a structured way. We make sure the relevant people are involved in decision-making, that recommendations are shared and decisions are efficiently implemented. The NN IP Management Board provides strategic direction and the RI Leadership Team oversees the implementation of the RI framework in investment-related processes. In order to do this, they receive information and recommendations from a number of sources.

RI Leadership Team

This team was established in 2018 to drive and oversee responsible investing developments and ensure ongoing ESG integration at strategy level, with the overarching goal of prioritising and supporting NN IP's responsible investing activities. Its members are also responsible for supporting innovation, particularly in enriching data and in reporting. The team consists of four senior managers. These are the Head of Fixed Income, Head of Equity, Head of Responsible Investing & Innovation Platform and the Principal Responsible Investing. Together, they drive our ambition to be a leader in responsible investing and our commitment to deliver attractive returns in a responsible manner to clients.

Responsible Investment Team

This team's role is to empower and support the investment teams in integrating ESG factors into the investment process and to strengthen and oversee our active ownership activities. Its members also provide advice and give their expert opinion on RI-related matters in the global context of our investment practices. This team currently comprises ten experts, made up of a mix of experienced and young professionals with diverse backgrounds. Some have gained experience at nongovernmental organisations, others in commercial entities and in areas ranging from sustainability and finance to anthropology and engineering.

Their focus areas include voting and engagement activities and ESG integration. They are also responsible for RI thought leadership. In the company's organisational structure, they are located at the core of the investment teams, reporting directly to the Chief Investment Officer (CIO) of NN IP.

The Controversy & Engagement Council

The Council plays a key role in our active approach as share- and debtholders. Its role is to monitor engagements, assess controversies and provide recommendations to the ESG Committee on the appropriate steps to take. They also monitor progress made by companies who are in the process of remedying past controversies. Acting in an advisory capacity, the Council meets on a regular basis 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 a member of the Responsible Investment team. Its members include portfolio managers and analysts, as well as representatives from NN Group's Investment Office and Corporate Citizenship department. The Council makes recommendations to the ESG Committee and maintains a database of all our engagement dialogues and the progress made, which is accessible to all the investment teams.

ESG Committee

The ESG Committee is chaired by NN IP's CIO and comprises members of the Responsible Investment team, the RI Leadership team and senior representatives of business segments such as risk management and product management and development. The CIO of NN Group and representatives of the NN Corporate Citizenship department are also members of this committee. It meets on a quarterly basis and advises NN IP's management board on the implementation of the responsible investing framework.

The Committee's objectives are to advise on NN IP's positioning in responsible investing initiatives, to provide assistance and input on any requirements relating to our memberships and affiliations (such as the PRI assessment) and to make recommendations regarding the **Exclusion List**. This entails assessing whether a violation of NN IP's norms-based RI criteria has occurred, based on a quarterly screening of our investment universe for controversial activity and controversial conduct. If a violation is determined to have occurred, the Committee decides whether to engage or to make a recommendation to NN Group's management board to place the country, industry or company on the Exclusion List.

Further reading

For further information on the governance of our responsible investing activities, please see the following documents, which are available on our RI policies page.

NN Investment Partners Stewardship Policy: an overview of the eight overarching principles that we follow in managing client assets

NN IP Responsible Investing Report 2019: the latest edition of our annual Responsible Investing Report, which provides an in-depth overview of all our responsible investing activities

Further reading

This document is intended to be a comprehensive guide to how and why we invest responsibly. For further reading on certain topics, please see the following documents, which are available on our RI policies page:

NN IP Responsible Investing Report 2019: the latest edition of our annual Responsible Investing Report, which provides an in-depth overview of all our responsible investing activities

NN Investment Partners Stewardship Policy: an overview of the eight overarching principles that we follow in managing client assets

NN Exclusion List: a comprehensive overview of all excluded companies and sovereigns, including the reason for exclusion

NN IP Statement on Climate Change: an overview of our beliefs and activities as they relate to climate change mitigation and adaptation

NN Investment Partners Responsible Investment Viewpoint Policy: an in-depth overview of the ESG criteria applied to our Sustainable and Impact strategies, as well as our perspective on potentially unsustainable practices and issues

NN IP Engagement Approach: an overview of our engagement activities and strategy

Proxy Voting Policy Client Assets: an in-depth explanation of the reasoning behind our voting policies and how these are implemented