Climate Change Policy

Global warming is causing far-reaching changes. If we do not take swift action, these could have irreversible consequences for ecosystems, agriculture, water resources, human health and security. NN Investment Partners (NN IP) acknowledges the potential impacts on society and on our investments, as well as the role we can play in limiting this impact. While honouring our investment objectives, we strive to optimise our contribution to the commitments laid out by the Paris Agreement and Dutch Climate Agreement. These commitments include limiting the global average temperature increase to well below 2 degrees above pre-industrial levels, and pursuing efforts to limit the temperature increase to 1.5 degrees.

As an investor we play a critical role in enabling mitigation and adaptation efforts. Our climate approach is underpinned by the following beliefs:

- To limit the impact on society and achieve our clients' ambitions, we commit to improving our understanding of how our investment activities contribute to climate change.
- Corporate and sovereign engagement is among the best ways of ensuring that corporate and sovereign issuers manage climate-related risks and take action on the transition to a low-carbon economy.
- Investors have a key role in financing the transition to a low-carbon economy. Through our products and investment decisions, we incentivise mitigation of climate change and adaptation to its effects.
- Climate change and environmental factors can bring material risks and opportunities to the countries and companies and therefore the securities we invest in. They therefore play an important role in our ESG integration efforts and resulting investment decisions. Moreover, we put capital to work to accelerate the transition to a low-carbon economy, and we prefer approaches and/or methods that provide the best opportunities to deliver impact in the real economy.

Managing and mitigating climate-change-related risks is aligned with our long-term objectives. To this end, we address the **causes of climate change (mitigation)** and the **consequences (adaptation)**. **Mitigation** addresses the causes of climate change by curbing emissions in line with the Paris Agreement. **Adaptation** describes activities that deal with the consequences of climate change. This includes reducing susceptibility to its negative effects and making productive use of any potential positive effects. We identify both risks and opportunities arising from the energy transition and physical climate change for the countries, sectors and activities in which we are involved. We view it as our fiduciary duty to take into account financially material climate change risks and to manage our portfolios in the optimal way on behalf of our clients.

Climate change governance

NN IP has implemented governance structures that ensure proper support and implementation of this policy.

We have identified key roles and responsibilities in order to create ownership of climate issues. The Strategy and Implementation Steering Committee is responsible for driving and overseeing RI developments and ensuring that we integrate climate-related risks/opportunities into our strategy. This committee also ensures involvement at the senior management level on the topic and implementation of described business practices related to climate change.

In 2021 we will set up a cross-functional task force that will drive the development and roll-out of our climate change approach. This task force will report its progress on a monthly basis to the Strategy and Implementation Steering Committee, which will in turn update NN IP's board on a quarterly basis on ongoing implementation. This oversight is in addition to the ESG committee, which works to integrate climate-related risks and opportunities into our investment strategies.

This statement is closely linked to the NN IP Responsible Investment Policy, which can be found on our RI policies page.

We put our views into practice by:

1. **Integrating climate change in our investment process** by using our materiality framework and ESG Lens and by measuring the carbon footprint of our funds where deemed relevant.

NN investment partners

2. **Incentivising investee companies to stimulate the transition to a low-carbon economy**

We aim to find the right mix between encouraging corporations to make the transition to a low-carbon economy and further stimulating those that are already contributing.

Our sustainable and impact strategies do this by:
- Investing in companies that already contribute to reducing carbon intensity.
- Investing in solution providers that support the transition to a low-carbon economy.

3. **Using active ownership to create corporate change**

In our active ownership activities, we incentivise companies to align with the Paris Agreement, implement a strong governance framework, and disclose their emissions, targets and progress on climate change issues. In the future we also aim to engage with countries on the need to align with the Paris Agreement.

Through voting and engagement, we use our influence to generate a positive impact while contributing to the transition to a low-carbon economy. We do this for example through the following means:

- We engage with oil and gas companies on the risks of climate change and the need to transition to a low-carbon economy. In this, we collaborate with PRI and the Climate Action 100+ initiative.
- We engage with electric utilities on the need to transition to a low-carbon economy, either directly or through collaborative efforts with PRI and the Climate Action 100+ initiative.
- We engage with palm oil growers, traders and regional banks on the risks associated with deforestation.
- We engage with companies in the soy sector on deforestation-related risks in their supply chain.
- We engage with Indonesia and Brazil on the crucial role of tropical rainforests in tackling climate change and protecting biodiversity.

We use our voting rights on climate change by:

- Voting against re-election of board members from companies that do not disclose their carbon emissions.
- Voting for proposals for disclosures on climate change risks and opportunities following guidelines from the Task Force on Climate-related Financial Disclosures (TCFD).
- Supporting proposals that request a company to consider energy efficiency and renewable energy sources in its business strategy.
- Voting in favour of proposals for the development of a climate change strategy.
- Voting in favour of value-enhancing resolutions that ask businesses to reduce greenhouse gas (GHG) emissions.
- Voting against re-appointment of the incumbent directors if no short-, medium- and long-term targets are disclosed for at least Scope 1 and 2 GHG emissions[1].
- Not supporting a company's annual report and account if it fails to disclose non-financial ESG information that we consider material to the company.

4. **Reducing the CO_2 footprint of our portfolio**

We measure and report on the CO_2 emissions of our sustainable and impact corporate strategies. Further, we take an engagement-led (dis)investment approach in stimulating the transition to a low-carbon economy. In some cases, however, engagement is not deemed feasible and is unlikely to change a company's conduct or involvement in specific business activities. In those cases, we have set the following restrictions:

- We restrict investments in companies that derive more than 30% of their revenue from thermal coal mining.
- We restrict investments in companies that have a share of oil sands higher than 30% of total oil and gas average production in barrels of oil equivalent per day.

For our sustainable and impact strategies we have set stricter criteria:

- For thermal coal, the threshold is set at 10% of revenue. Furthermore, these strategies will not finance electricity utilities involved in constructing additional coal- or nuclear-based power production installations.
- For unconventional oil and gas, we apply a maximum revenue threshold of 10% of combined exposure to all forms of unconventional oil (shale, oil sands and Arctic). These strategies also do not finance companies with expansion plans for unconventional oil and gas extraction.

5. **Support transparency, commitments and advocacy on climate change**

By endorsing and actively participating in international initiatives, we underline our ambition and approach to responsible investing and corporate governance. We do not simply sign up as a passive member of these initiatives; rather, as a global asset manager we recognise our responsibility to invest time and effort into supporting their ambitions and achieving well-aligned results. We support and endorse the following affiliations and associations focused on topics related to climate change:

- We formally support the Task Force for Climate-related Financial Disclosures (TCFD) and will start reporting following the recommendations of the TCFD.
- We support the annual climate change information request from the Carbon Disclosure Project (CDP) and ask companies to improve the disclosure of their CO_2 emissions in line with the CDP and TCFD.
- We report to the Dutch regulator on how climate risks are incorporated in our corporate risk framework.

1 Scope 1 emissions refer to the direct emissions from the company. Scope 2 emissions are indirect emissions stemming from the company's energy purchases. Scope 3 emissions are emissions from elsewhere in the value chain, including upstream and downstream operations.

- NN Group is a member of the Institutional Investors on Climate Change Group (IIGCC). Through this membership, NN IP is involved in several working groups and collaborative engagements.
- In 2019, we signed the Global Investor Statement to Governments on Climate Change.
- We co-lead the IIGCC infrastructure asset class working group, which includes many of the largest global managers in the infrastructure debt market, with the goal of expanding the scope of the Net Zero Investment Framework to include infrastructure as an additional asset class for the Paris Alignment Investment Initiative.
- We are a member of the Climate Action 100+ initiative. We currently (co-)lead the engagement with several companies such as CEZ, PGE, Rosneft and BASF[2].
- We are a member of the Farm Animal Investment Risk & Return (FAIRR) Initiative and are involved in several engagements on deforestation for the production of palm oil, which is among the leading causes of global warming.

We consistently challenge companies on integrating environmental and climate-related risks into their annual reporting. Further, we expect them to report on and develop targets for Scope 1, 2 and 3 emissions, in line with TCFD recommendations. We are committed to monitoring and reporting on our ESG and specific climate-related activities. We currently report on our progress in our annual Responsible Investing Report.

Next steps

In recognition of the urgency of climate change, we are working on increasing our contribution to the goals laid out by the Paris Agreement and Dutch Climate Agreement.

- In 2021, we will introduce explicit targets for our sustainable and impact strategies to reduce the carbon footprint of their portfolios below the benchmark. We aim to report on emissions for our strategies where deemed relevant and to contribute to a 49% overall emissions reduction by 2030. To this end, we are working towards setting clear targets for decreasing the emissions of our portfolios, participating in active ownership efforts and investing in projects and companies that contribute to reducing emissions.
- We intend to carry out a climate change scenario analysis for strategies and at the fund level where this is feasible and deemed relevant. Based on the findings of this scenario analysis, we will explore the possibilities for next steps.
- We will assess how to further implement and measure these incentives to transition to a low-carbon economy.
- We will consider introducing products specifically tailored to contributing to reducing climate risks or supporting climate solutions.

Update

This climate statement is part of our ambition to be a leader in responsible investing. The above text fits with NN IP's values and responsible investment policies, as well as our support for the ambitions of the Paris Agreement. The measures included in this document align with these commitments, the Dutch Climate Agreement and the OECD Guidelines for Multinational Enterprises.

The content of this statement was updated in February 2021. To ensure its effectiveness and its continued applicability, this statement will be re-evaluated in 2021.

2 For illustration purposes only. Company names, explanation and arguments are given as an example and do not represent any recommendation to buy, hold or sell the stock.