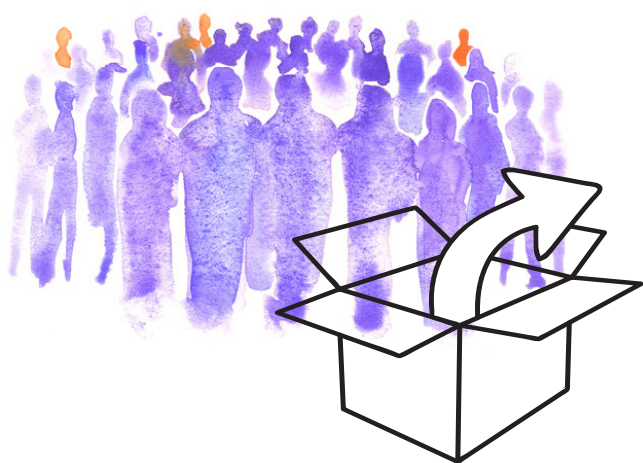


NN IP Engagement Approach

Constructive and regular dialogue with investee companies on sustainability issues enables us to help them tackle a wide range of issues. Corporate management is often aware of the need to change and willing to do so, but the support of strategic stakeholders – both share- and debt holders – enables them to justify taking concrete steps.

This support and in some cases pressure is often a key factor in bringing about change, as it stimulates companies to adapt their business strategies to improve their environmental, social and governance (ESG) performance. We engage on behalf of our clients to put their money to work towards creating a better world and to maximise the value of their investments. We believe more sustainable behaviour also enhances the risk-return profile of our investments.



Engage or restrict?

We consider the restriction of an individual company as a result of its corporate behaviour to be a last resort, but in some cases it is unavoidable. Excluding a company from our investable universe means we stop having the influence to tackle ESG issues. For this reason, where possible, we take an engagement-led divestment approach, only restricting companies when engagement is either not deemed feasible or is unlikely to change a company's conduct or involvement in specific business activities.

The power of share- and debtholders

Engagement is in our view not limited to shareholders only: we believe that debt holders have an important role to play as well. When engaging with companies, we combine the knowledge and expertise of both our equity and fixed income teams, sometimes in joint meetings and always sharing the outcomes. For bonds specifically, we put additional effort into attending roadshows for new issues, asking questions (for example, on the use of proceeds) or encouraging companies to improve on their reporting and transparency.

Types of engagement

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

- 1. Controversy engagement** focuses on companies that severely and structurally breach NN IP's norms-based criteria in the areas of governance, human rights, labour, environment, and bribery and corruption. This type of engagement is initiated and assessed by NN IP's Controversy and Engagement Council.
- 2. Thematic engagement** focuses on different themes that have a material impact on society, and where we believe our engagement efforts can achieve beneficial change. These themes share objectives as defined by the Sustainable Development Goals (SDGs) and deal with material risks as defined by the World Economic Forum. The exact engagement themes are selected in consultation with portfolio managers/analysts and external stakeholders.

Both the controversy and the thematic engagements are conducted for all asset classes, including equity as well as debt.

Investment dialogue

In addition to the two approaches outlined above, our analysts and portfolio managers maintain a regular bottom-up dialogue with investee companies on ESG subjects that are believed to have a material impact on their value.

NN IP's current engagement themes

Corporate governance	SDG 10 & SDG 16	Board composition and responsibility
Decent work	SDG 1 & SDG 8	Living wage Child labour Modern slavery
Natural resources & climate change	SDG 12 & SDG 13	Utilities Oil & gas Deforestation Plastics

Engagement in practice

Our engagement approach is tailor-made for each specific theme and each individual company. In order 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.

Some themes require a more industry-wide approach where it may take years to fundamentally change a system that is woven into the fabric of society and where it is difficult to measure results (living wage). In other industries, the case is more black and white and a direct focus with company-specific goals can deliver more quantifiable impact (oil and gas).

Our engagement usually lasts for a three-year period. After 1.5 years, or sooner if necessary, we evaluate progress to recalibrate our engagement objectives, for example, in the light of market developments and stakeholder expectations. We also assess progress and determine what further steps might be required or possible consequences if insufficient progress has been made. Our stages of engagement are outlined below.

Engagement stages

- 1. Initial communication.** We contact the company to inform them that we would like to engage on a specific topic. We also inform them of why they have been selected, the parties involved (if it is a collaboration) and what the objectives are.
- 2. Dialogue established.** Our first contact with the company aims to discuss the engagement objectives in more detail and gather information on the status of these objectives.
- 3. Company commitment.** The company commits to address a part or all of the objectives we have identified. Initially the focus is often on the low-hanging fruit and we take a step-by-step approach to achieve the set objectives.
- 4. Company strategy.** The company develops a strategy to address issue(s), including a plan with clear activities and targets. Preferably this plan/strategy is published, or we have received a copy in writing.
- 5. Progress on commitments is tracked and validated.** Through meetings and information gathering we

support the company, track progress and assess if results are on track. If progress is insufficient or the company is unwilling to collaborate, we may take additional measures – for example, by a filing a resolution or restricting an issuer in the event of a controversy.

- 6. 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/restricting investment.

NN IP focuses its engagement efforts on a select group of companies. In practice, this means that there will be multiple interactions with a company each year. Our investee companies are monitored throughout the year and we keep track of our engagements in our internal engagement database.

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

Collaboration in engagement

Engagement meetings are carried out by various teams and individuals, both in-house and through external providers. NN IP collaborates with other investors through initiatives on specific focus areas such as climate, 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. NN IP's Responsible Investment team acts as the main coordinator to ensure alignment and consistency, and to avoid duplication of work.

Our partnerships

In order to increase the impact of the capital we can put to work, NN IP takes an active role in a number of international sustainability initiatives. Examples of these initiatives are the UN Principles for Responsible Investment (PRI), Eumedion, the Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+ and the Roundtable on Sustainable Palm Oil (RSPO).

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