NN Enhanced Index Sustainable Emerging Markets Equity

Strategy Brief

Responsible Investing Approach

For more information about our responsible investing approach, please visit ri.nnip.com

Strategy Description

The NN Enhanced Index Sustainable Emerging Markets Equity strategy invests in a globally diversified portfolio of shares of companies that are part of the MSCI Emerging Markets Index. The strategy aims to invest in shares of companies that meet our criteria in terms of sustainability. The strategy screens companies on several Environmental, Social and Governance (ESG) criteria. From a sustainability perspective the strategy excludes amongst others investments in companies that are in breach of the UN Global Compact principles. The strategy also excludes companies with severe controversies related to human rights and labour rights, as well as companies involved in tobacco production and thermal coal mining. From a positive selection point of view we select companies on the basis of their governance score, current carbon emissions and carbon reduction ambition.

Objective

We aim to meet the financial returns of the benchmark MSCI Emerging Markets (Net) Index while enhancing the sustainable characteristics, by investing globally in securities that are part of this benchmark and meet our sustainability criteria.

Investment Process

The strategy follows a disciplined, systematic investment process consisting of three main steps:

1. Select ESG universe: We first screen companies in the MSCI Emerging Markets index on their ESG characteristics and behaviours. In this step we remove approximately 600 stocks of companies that do not meet our minimum sustainability criteria. The result is a portfolio with better sustainable characteristics than the Index.
2. Customise ESG universe. In this step we apply a model to adjust the weights of the remaining ESG eligible stocks in our universe to minimise sectoral, regional, size and style differences compared to the MSCI Emerging Markets Index. The result is a customised universe which has the ability to offer a financial return similar to the benchmark.
3. Closely track customised universe. In the final step we perform a physical replication of the customised universe in order to minimise performance difference versus the benchmark.

Key Elements of the Strategy

- **Innovative combination of index returns and enhanced sustainability**
- **Proven strategy managed by experienced team**
- **Transparent approach with physical replication**

NN Investment Partners at a Glance

NN Investment Partners is the asset manager of NN Group N.V., a publicly traded company. NN IP is headquartered in The Hague, the Netherlands and manages approximately EUR 295 bln* (USD 346 bln*) in assets for institutions and individual investors worldwide. NN IP employs around 1,000 staff and has offices in 15 countries, servicing clients across Europe, North America, Latin America, Asia and the Middle East.

* Figures as of 30 September 2020

For more information on NN IP's investment strategies or our mutual funds, please contact your sales representative or relationship manager. Or visit our website www.nnip.com

Reference performance for this strategy: NN Enhanced Index Sustainable Emerging Markets Equity Fund - I, gross of fees*

As of 31 December 2020	1 Month	3 Months	YTD	1 Year	3 Years (Ann.)	5 Years (Ann.)	Since Inception (Ann.)
Portfolio Return	5.41	14.03	9.74	9.74	6.76	11.03	7.03
Benchmark Return	4.95	14.72	8.54	8.54	5.51	10.16	7.51
Relative Return	0.46	-0.68	1.20	1.20	1.25	0.87	-0.48

* Source: NN IP Performance Measurement. Benchmark: MSCI Emerging Markets (NR) (S&P/IFC Composite (TR) until 1 May 2003). Returns are presented after all transaction costs, but before Ongoing Charges (consisting of Management Fee + Fixed Service Fee + Tax d'abonnement). Returns include the reinvestment of income. Fund was launched on 2 November 2000. Past performance is no guarantee of future results and the possibility of loss does exist. The Ongoing Charges vary per share class - please refer to the share classes' Key Investor Information Document.

Portfolio Developments

- **Coronavirus crisis and delays in vaccine rollout remain the biggest risk factors in the coming months**
- **Emerging Markets registered the best regional performance in Q4 2020**
- **During last quarter's rebalancing, we stepped out of several holdings that failed to meet our criteria on carbon and corporate governance**

Market Review

The Covid-19 pandemic dominated global economic developments again in the fourth quarter. Coronavirus infection growth picked up again, forcing authorities to implement new lockdown measures. Eventually, coronavirus infection growth has been declining in most emerging markets and mobility restrictions have been lifted. This has enabled a sharp recovery in economic activity in the quarter.

Some countries, mainly in the Middle East and emerging Europe, have continued to struggle with the virus. Institutional weaknesses and large fiscal imbalances mean that a large part of the emerging world will be vulnerable in the event of new waves of infection growth.

In China, the biggest emerging market, the economic recovery has been stronger than expected, with household consumption rapidly catching up with fixed investments and export growth. The strength of the housing market has been a key driver of growth throughout the year. Recent data suggest that activity in this sector has started to slow somewhat. The strong global demand for goods, and the fact that China's industry was able to normalize quickly, explain why Chinese export growth has been in double-digit territory. Policy stimulus remains mainly on the fiscal side. The authorities have kept their focus on financial system stability, which means that broad credit growth is likely to decline in the coming quarters.

The strong global goods demand and higher commodity prices have provided much-needed support for growth in countries that were hit very hard by the pandemic. South American countries in particular have benefited. Fiscal imbalances continue to widen rapidly in countries including Brazil, South Africa and Turkey, which is likely to create market pressures in the coming quarters.

All in all, Emerging markets registered the best regional performance in Q4 2020, being up 14.8%, and ending the year on high double digit growth.

Technology and communication services underperformed the more value-driven sectors like financials and energy. The typical defensive sectors like healthcare, utilities and consumer staples were the laggards. On a regional level, the more cyclical and value-driven markets like non-Asian emerging markets outperformed growth-heavy markets like the US.

Positioning

Amongst the names that made it into our eligible universe during the last rebalancing by meeting our screening on environmental and governance criteria: telecom China Mobile, which showed positive momentum on carbon emissions, and Thai electronic component producer Delta Electronics, which was recently added to the index.

One of the companies that did not pass our screening on environmental criteria, and more in particular, due to their waste footprint was South African gold miner Gold Fields. The company also registered a history of moderate controversies related to strikes and labour rights.

Another company that was excluded from the eligible universe as its activities do not meet our sustainable standards and has therefore been placed on our restricted list is Chinese tobacco producer Smoore International Holdings.

Going forward, we aim to maintain the fund's sector neutral approach and mimic the MSCI Emerging Markets Index as much as possible, while enhancing the sustainable features of the universe by screening companies on the basis of their ESG characteristics and behaviours.

Outlook

Several weeks after the first countries launched their coronavirus vaccination programmes, the optimism that accompanied the approval of new vaccines has clearly declined. The reality of the challenge involved in vaccinating a meaningful part of the global population in a short time span has sunk in. A number of factors have already made it clear that most governments will miss their initial vaccination targets. These factors range from shortages of vaccine doses to health authorities' ineffectiveness in organizing mass vaccinations quickly and the IT constraints involved in monitoring and logging vaccine recipient data.

This observation, coupled with the still-high infection growth rates that are forcing authorities across the globe to extend or even tighten existing lockdowns, reminds us that the coronavirus crisis will likely remain the single most important risk for the global economy (both developed and emerging) and financial markets over the coming quarters. Nevertheless, investor risk appetite so far remains largely insulated from the disappointments about the speed of vaccinations and the effectiveness of mobility restrictions in containing the virus.

Investors are apparently still confident in the scenario where companies can start recovering, banks will no longer have to provide bridge financing, and balance sheets can start improving again in 2021.

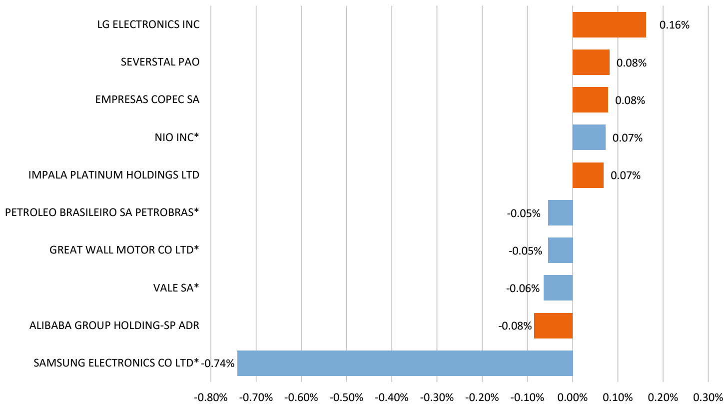
Portfolio Highlights***

Portfolio Characteristics	
Strategy Assets under Management	€1,278 mln
Ex-Post Tracking Error**	2.95%
Beta of the Portfolio**	1.00
Volatility**	16.56

** 3 years

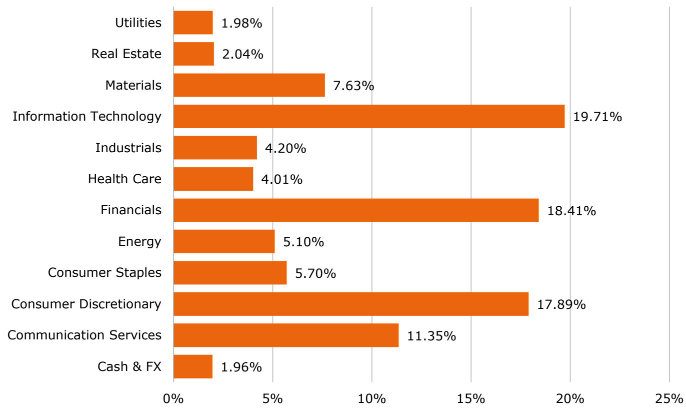
Portfolio Characteristics	Fund	Benchmark
Dividend Yield FY1	2.1%	2.1%
Number holdings	523	1,397
Large Caps	75.4%	79.7%
Mid Caps	22.5%	20.2%
Small Caps	0.1%	0.1%

Top and Bottom Quarterly Contributors (%)



* Not included in the portfolio

Sector Allocation (%)



Largest Portfolio Positions (%)

Top 10	Portfolio
Alibaba Group Holding-Sp Adr	6.71%
Taiwan Semiconductor Manufacturing Co Ltd	6.19%
Tencent Holdings Ltd	5.77%
Meituan	1.89%
Ping An Insurance Group Co Of China Ltd	1.32%
Reliance Industries Ltd	1.27%
SK Hynix Inc	1.21%
China Construction Bank Corp	1.17%
Jd.com Inc	1.00%
Infosys Ltd	0.96%

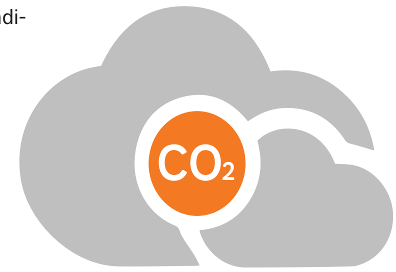
Quarterly Performance Attribution (%)

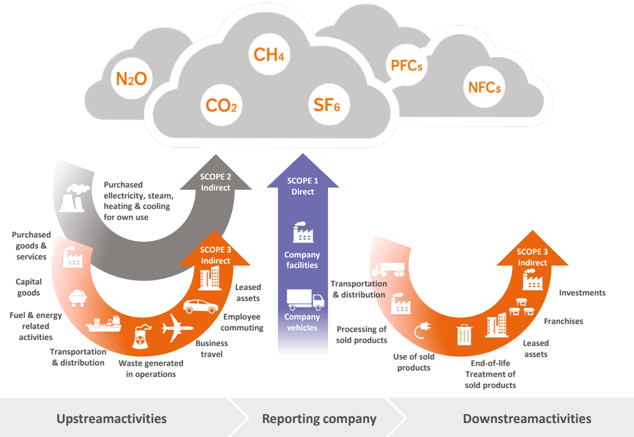
Country	Country Allocation	Stock Selection	Total Effect
Argentina	0.00%	0.01%	0.01%
Brazil	-0.01%	-0.09%	-0.11%
Cash & FX	-0.03%	0.00%	-0.03%
Chile	0.01%	0.07%	0.07%
China	-0.06%	0.15%	0.09%
Colombia	0.04%	0.00%	0.04%
Cyprus	0.01%	0.00%	0.01%
Czech Republic	0.00%	0.00%	0.00%
Egypt	0.00%	0.00%	-0.01%
Greece	0.00%	-0.01%	-0.02%
Hong Kong	0.00%	0.02%	0.02%
Hungary	0.00%	0.00%	0.00%
India	0.01%	0.02%	0.03%
Indonesia	0.00%	0.01%	0.02%
Korea (South), Republic of	-0.08%	-0.42%	-0.50%
Kuwait	0.01%	0.01%	0.03%
Luxembourg	0.00%	0.00%	0.00%
Malaysia	-0.01%	-0.04%	-0.05%
Mexico	0.00%	-0.01%	-0.01%
Netherlands	0.02%	0.00%	0.02%
Pakistan	0.00%	0.00%	0.00%
Peru	0.00%	0.00%	0.00%
Philippines	0.00%	0.00%	0.00%
Poland	0.00%	0.04%	0.05%
Qatar	0.00%	0.01%	0.01%
Romania	0.01%	0.00%	0.01%
Russian Federation	0.02%	0.07%	0.09%
Saudi Arabia	0.20%	0.00%	0.20%
Singapore	-0.01%	0.00%	-0.01%
South Africa	-0.01%	0.15%	0.13%
Taiwan (Republic of China)	0.04%	0.10%	0.13%
Thailand	0.00%	0.01%	0.01%
Turkey	0.02%	0.03%	0.05%
United Arab Emirates	-0.02%	0.02%	0.00%
United States	0.02%	0.00%	0.02%
Total	**0.16%**	**0.14%**	**0.30%**

*** Source: NN Investment Partners. All data are expressed as of 31 December 2020. The above attribution data may present somewhat of a discrepancy with top-level performance return data for the fund, due to fair value adjustments applied to the fund's NAV during the period.

What is a carbon footprint?

A corporate carbon footprint is the amount of carbon dioxide that an organization 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 emissions – also referred to as Direct greenhouse gas (GHG) – are defined as emissions from sources that are owned or controlled by the organization; Scope 2 emissions, or Energy Indirect GHG, are emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream from the organization; Scope 3 emissions, also known as Other Indirect GHG, are emissions that are a consequence of the operations of an organization, but are not directly owned or controlled by the organization. Scope 3 emissions are by far the largest component of most corporate carbon footprints.





Difference portfolio vs benchmark based on financed emissions of EUR 704 mln (includes direct and indirect emissions):

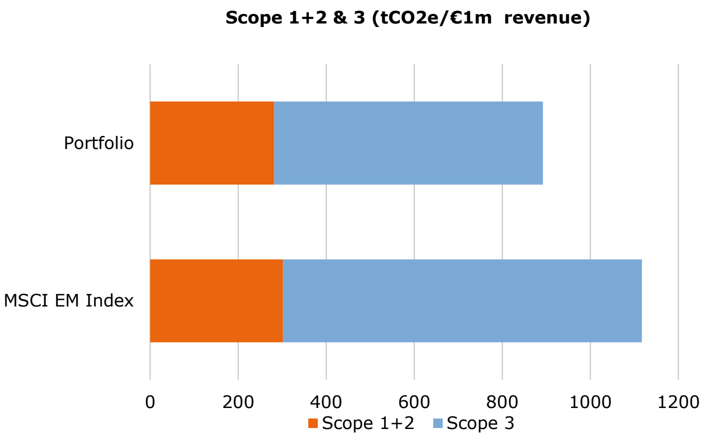
248,116 tonnes CO_2e

or

Equivalent to the carbon footprint (direct and indirect) of approximately:

15,037 households

Carbon Intensity



ESG Risk

ESG Risk Score per cluster

	E Risk	S Risk	G Risk	ESG Risk
Portfolio	6.30	10.10	9.02	25.41
Benchmark	6.49	10.54	9.75	27.03
Active	-0.19	-0.44	-0.73	-1.62

E – Environment
S – Social
G – Governance

Source: Sustainalytics, NN IP. Data as of December 2020

Sources: NN IP, ISS Ethix Climate Solutions, EEA and Eurostat
All figures as of 31/12/2020

NN investment partners

Share Classes	ISIN	Currency	Max Management Fee (%)	Fixed Service Fee (%)	Ongoing charges including management fee (%)	Minimum Investment
P share class	NL0006311771	EUR	0.30%	N/A	0.30%	-
I share class	NL0010623310	EUR	0.25%	N/A	0.25%	€ 100,000
I Capitalisation (hedged i)	LU0430559418	PLN	0.10%	0.15%	0.28%	€ 250,000
P Capitalisation	LU0051128774	USD	0.35%	0.20%	0.60%	-
P Capitalisation	LU0273689645	EUR	0.35%	0.20%	0.60%	-
I Capitalisation	LU1074963197	EUR	0.10%	0.15%	0.26%	€ 250,000
I Capitalisation	LU0303706948	USD	0.10%	0.15%	0.26%	€ 250,000
X Capitalisation	LU0509951603	HUF	0.85%	0.20%	1.10%	-
X Capitalisation	LU0113302664	USD	0.85%	0.20%	1.10%	-
P Distribution	LU0051128931	USD	0.35%	0.20%	0.60%	-
N Capitalisation*	LU0953790523	EUR	0.10%	0.20%	0.35%	-

* only available for the Dutch market

Key Characteristics of the Strategy

Objectives	
Investment objective	By focusing only on stocks that meet our ESG criteria, we aim to replicate the performance of the broad MSCI EM Index, with better sustainability characteristics
Benchmark	MSCI EM index (net)
Ex-ante tracking error	Target max. 1.5%

Other Characteristics	
Investment universe	Global emerging markets equities
Maximum sector deviation	Target +/- 1%
Securities lending	Not allowed
Derivatives	Not allowed
Other (internal) guidelines	Max. 10% cash