NN Enhanced Index Sustainable 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 Equity strategy invests in a globally diversified portfolio of shares of companies that are part of the MSCI World 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 overall ESG score, current carbon emissions and carbon reduction ambition.

Objective

We aim to meet the financial returns of the benchmark MSCI World (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 World index on their ESG characteristics and behaviours. In this step we remove approximately 500-600 stocks of companies that do not meet our minimum sustainability criteria. The result is a portfolio with better sustainable characteristics than the MSCI World 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 and style differences compared to the MSCI World 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 full 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 Equity Fund - T, 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	2.11	9.14	7.88	7.88	10.79	10.11	11.93
Benchmark Return	1.91	9.22	6.33	6.33	9.85	9.51	11.42
Relative Return	0.20	-0.08	1.55	1.55	0.94	0.60	0.52

* Source: NN IP Performance Measurement. Benchmark: MSCI World (Net). 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 27 April 2011. 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

- **Global equities end pandemic-hit year with a strong quarter**
- **US fiscal agreement and Brexit deal avert short-term uncertainty**
- **Vaccine momentum spurs market rotation**
- **Rio Tinto and Antofagasta are removed from the portfolio**

Market Review

The Covid-19 pandemic dominated global economic developments in the fourth quarter. Coronavirus infection growth picked up again, forcing authorities to implement new lockdown measures. Although infection figures continued to rise, investors opted to look past the second wave towards a potential return to normalcy. Supported by better-than-expected vaccine efficacy, global equities recovered from early jitters to rally strongly during the period. The results of the US elections were also positively digested by equity markets. The MSCI World Net Index ended Q4 with a gain of +9.2%, which gave it an annual return of +6.3% for a pandemic-hit 2020.

On a regional level, the more cyclical and value-driven markets like Europe and Japan outperformed the growth-heavy markets like the US. With a week to go before the 31 December deadline, the UK and the EU struck a deal on their post-Brexit relationship. A compromise was found on the key issues of level-playing-field regulations, dispute mechanism and fisheries. In the US, Congress finally reached a deal on a $900 billion fiscal stimulus package. Japanese stocks were also helped by the announcement of another fiscal stimulus plan. In emerging markets, equities were bolstered by the weaker US dollar, synchronized global growth expectations for next year and rising commodity prices. 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 positive vaccine announcements triggered a major rotation, which was clearly visible on a sector level. 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 during the quarter. Despite value's strong outperformance in Q4, the style picture for 2020 remained very much in favour of growth.

Positioning

During our rebalancing this quarter, we removed Rio Tinto. The mining giant was added to our exclusion list due to its involvement in a severe controversy related to a site blast that occurred in May 2020: the site contained 46,000-year-old caves in the Juukan Gorge in Western Australia, an Aboriginal cultural heritage area of high archaeological significance. Rio Tinto was advised of the high significance of the site in 2014 and 2018 but did not re-evaluate its plans.

We exited our position in British miner Antofagasta, as the company did not meet our screening based on its corporate waste footprint.

Oil & gas Japanese company Idemitsu Kosan was also excluded from the eligible universe after not meeting our governance screening due to a recent remittance fraud at its chemicals unit Idemitsu Chemicals in Hong Kong.

Examples of positive selection as a result of good momentum in carbon ambition and governance respectively were Pembina Pipeline, a Canadian oil & gas storage company, and US industrial machinery company Ingersoll Rand.

Going forward, we aim to maintain the fund's sector neutral approach and mimic the MSCI World 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.

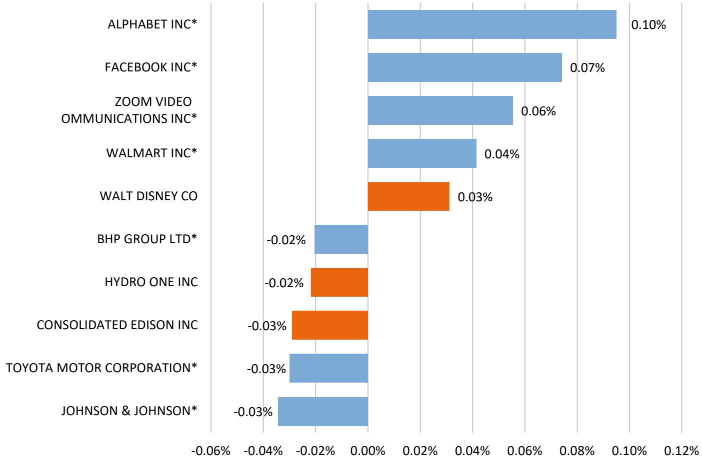
Portfolio Highlights***

Portfolio Characteristics	
Strategy Assets under Management	€4.6 bn
Ex-Post Tracking Error**	0.88
Beta of the Portfolio**	0.98
Sharpe Ratio**	0.72
Volatility**	16.02

** 3 years

Portfolio Characteristics	Fund	Benchmark
Dividend Yield FY1	1.9%	1.9%
Number holdings	891	1,585
Large Caps	94.3%	95.4%
Mid Caps	5.3%	4.6%
Small Caps	0.0%	0.0%

Top and Bottom Quarterly Contributors (%)

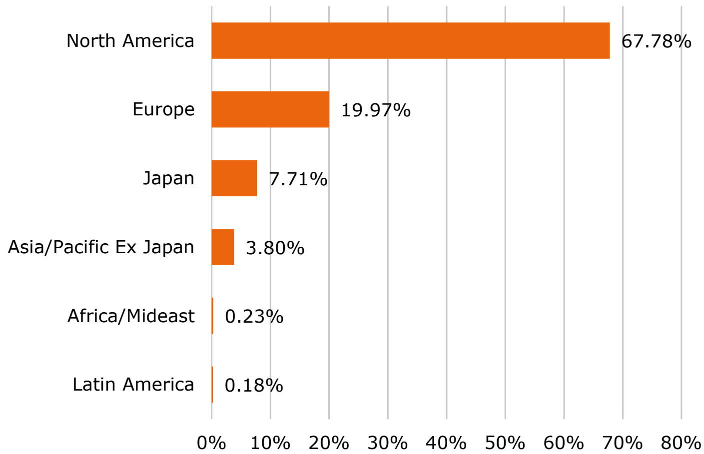


* Not included in the portfolio

Quarterly Performance Attribution

Sector	Sector Allocation	Stock Selection	Total Effect
Cash & FX	-0.01%	0.00%	-0.01%
Communication Services	0.00%	0.22%	0.22%
Consumer Discretionary	0.00%	-0.01%	-0.01%
Consumer Staples	0.00%	0.01%	0.02%
Energy	0.00%	0.00%	0.01%
Financials	0.00%	0.01%	0.01%
Health Care	0.00%	0.01%	0.01%
Industrials	0.00%	0.00%	0.00%
Information Technology	0.00%	0.01%	0.02%
Materials	0.00%	-0.06%	-0.06%
Real Estate	0.00%	-0.02%	-0.02%
Utilities	0.00%	-0.02%	-0.02%
Unassigned	0.00%	0.00%	0.00%
Total	**-0.01%**	**0.16%**	**0.15%**

Regional Allocation (%)



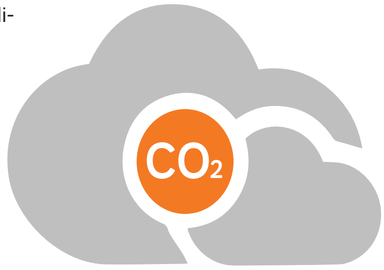
Largest Portfolio Positions (%)

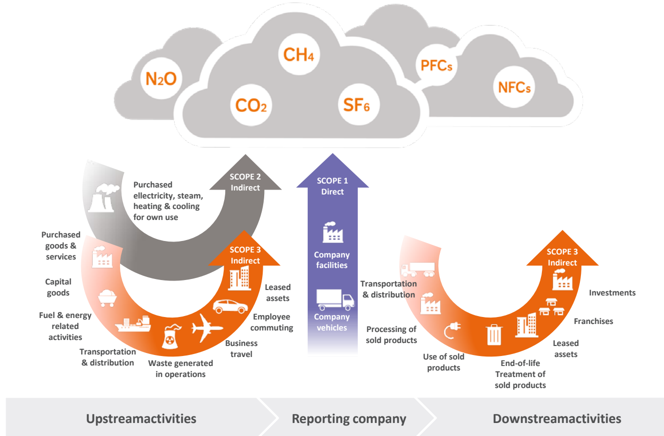
Top 10	Portfolio
Apple Inc	4.51%
Microsoft Corporation	3.23%
Amazon.com Inc	2.76%
Tesla Inc	1.07%
Jpmorgan Chase & Co	0.90%
Nestle SA	0.87%
Walt Disney Co	0.85%
Visa Inc	0.82%
Procter & Gamble Co	0.78%
Nvidia Corporation	0.70%

*** Source: NN Investment Partners. All data are expressed as of 31 December 2020.

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 4.5 bln (includes direct and indirect emissions):

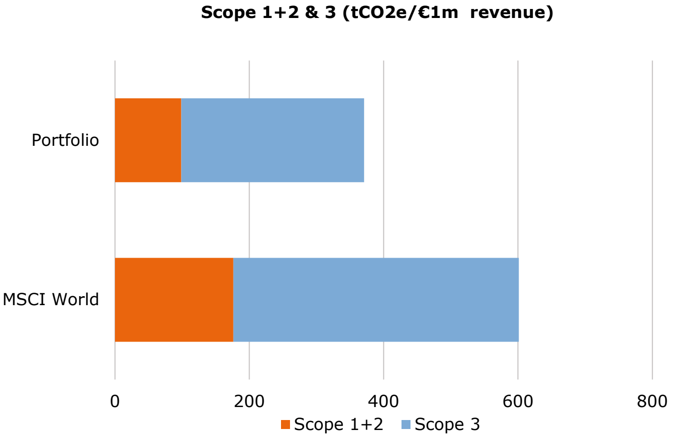
140,958 tonnes CO_2e

or

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

8,543 households

Carbon Intensity



ESG Risk

ESG Risk Score per cluster

	E Risk	S Risk	G Risk	ESG Risk
Portfolio	3.84	9.69	7.47	21.01
Benchmark	4.16	10.13	7.90	22.21
Active	-0.32	-0.44	-0.43	-1.20

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

Share Classes	ISIN	Currency	Max Management Fee (%)	Fixed Service Fee (%)	Ongoing charges including management fee (%)	Minimum Investment
T	NL0009712488	EUR	0.175%	N/A	0.175%	-
DPF-I	NL0012125728	EUR	0.175%	N/A	0.175%	€ 100,000
A-P	NL0012125736	EUR	0.175%	N/A	0.175%	-
I Capitalisation	LU2037300980	USD	0.08%	0.10%	0.19%	€ 250,000
P Capitalisation	LU2037301012	USD	0.35%	0.15%	0.55%	-

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 DM World Index with better sustainability characteristics
Benchmark	MSCI DM World index (net)
Ex-ante tracking error	Target max. 1%

Other Characteristics	
Investment universe	Global developed market equities
Maximum industry group deviation	+/- 1%
Maximum regional deviation	+/- 1%
Maximum stock deviation	+/- 3%
Securities lending	Not allowed
Other (internal) guidelines	Max. 10% cash