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 287 bln* (USD 313 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 2019

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 Enhanded Index Sustainable Equity Fund - T, gross of fees*

As of 31 December 2019	1 Month	3 Months	YTD	1 Year	3 Years (Ann.)	5 Years (Ann.)	Since Inception (Ann.)
Portfolio Return	1.11	5.37	30.70	30.70	10.71	10.73	12.41
Benchmark Return	1.17	5.43	30.02	30.02	10.26	10.38	12.02
Relative Return	-0.06	-0.06	0.68	0.68	0.45	0.35	0.39

* Source: NN IP Performance Measurement. Benchmark: MSCI World (Net). Returns are presented after all transaction costs, but before management fees. Returns include the reinvestment of income. Inception date: April 2011. Past performance is no guarantee of future results and the possibility of loss does exist. The management fee of this fund is 0.175% per year.

Main Points

- **Global equities were up more than +5% in Q4, closing a yearly performance at +30%**
- **Lower political uncertainty supports risky assets**
- **All eyes on political tail risks and monetary and fiscal policy in 2020**

Market Review

Global equities extended the streak of positive returns into the fourth quarter of 2019. The MSCI World Net index rose another 5.4% - i.e. similar rate of growth as the previous quarter. This brought the year to date absolute return for the index to an astonishing 30.0%.

The year 2019 was characterized by a tug of war between political risks and the policy response. Throughout the year, political risks waxed and waned, but in contrast to 2018 the Fed made a strong dovish pivot, followed by a series of three insurance cuts. As a result, risky assets performed very well. Growth in the real economy is showing signs of bottoming out as industrial production and cap expenditure stabilize. Meanwhile, the negative spill-over of weakness in these areas to labour markets appears to be abating, which boosts confidence that consumer spending will remain resilient. If political uncertainty remains muted, there is some room for a pick-up in business confidence and capex.

Some of the main political risks that worry investors moderated during the fourth quarter, even though the underlying problems have not disappeared. A first-phase US-China trade deal could lead to a prolonged period of trade truce and the Conservative victory in the UK means that the Withdrawal Agreement is very likely to get through Parliament. The Bank of Japan retains an easing bias but remained on hold this quarter. The scope for additional easing is limited, unless the bank wants to cross the line of more explicit coordination with fiscal policy.

In Q4, investor sentiment started to improve sharply thanks to easing trade tensions and clarity on Brexit. Also strong earnings and signs of stabilization in manufacturing data earlier in the quarter added to the positive sentiment. This led to a jump in global equities.

The Health Care and Information Technology sectors performed well, these sectors favoured the most from the loose monetary policy. Noteworthy was the rebound in Energy in December, thanks to higher commodity prices. The only sectors underperforming this quarter were Utilities (down 0.9%) and Real Estate (down 1.7%).

In terms of style, small caps performed better than large cap stocks, and Growth outperformed Value style throughout the quarter, despite the style reversal experienced in the month of September.

Positioning

During our rebalancing this quarter names that we removed from the portfolio include Pembina Pipeline, a North American transportation and midstream service provider, since the stock failed to meet our screening on carbon emissions and ambitions.

We also exited our position in financial-service holding Capital One, since the company experienced a material controversy around a severe personal data breach which affected 106 million people in North America: as a consequence, the stock failed our screening on ESG behaviour.

Another company that experienced a high controversy risk which resulted in the sale of the stock was Arcelormittal, which reported a number of fatalities involving contractors and employees at one of their global operations in Quebec, Canada. The latest incident in September 2019 follows a trend of similar incidents having taken place earlier in 2019 and 2018.

During the period, new names were added to the index: of those, examples of companies that passed our screening were US insurer Brown & Brown, Match (owner of dating sites such as Tinder), biotech company Neurocrine Bioscience and fitness fashion retailer JD Sports.

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

Trade uncertainty remains the biggest risk to the macro outlook, though the initial US-China agreement offers a positive signal. While the Brexit-related risk factor has eased, caution on UK assets is still warranted given the nation's need to negotiate a new trade agreement with Europe.

In 2020, the short-term fundamental outlook for global equities remains challenging but there are glimmers of hope. Global manufacturing confidence is showing some signs of stabilization, the slowdown in the service sector is ending and the consumer sector is receiving support from a strong labor market.

After successfully implementing three insurance cuts, the Fed now signals it will not ease further unless there is a "material reassessment" of the outlook. The hurdle for a rate hike is much higher and requires that core inflation rises moderately but sustainably above 2%.

Easing trade and political tensions and signs of stabilization in global industrial production and capex momentum increase the probability that the current soft patch will make way for a mild growth acceleration in 2020.

The bull-to-bear ratio is currently at euphoric levels and the latest investment surveys also show more optimism among institutional investors. Cash levels are dropping rapidly and the preference is shifting from defensive towards more cyclical and value sectors.

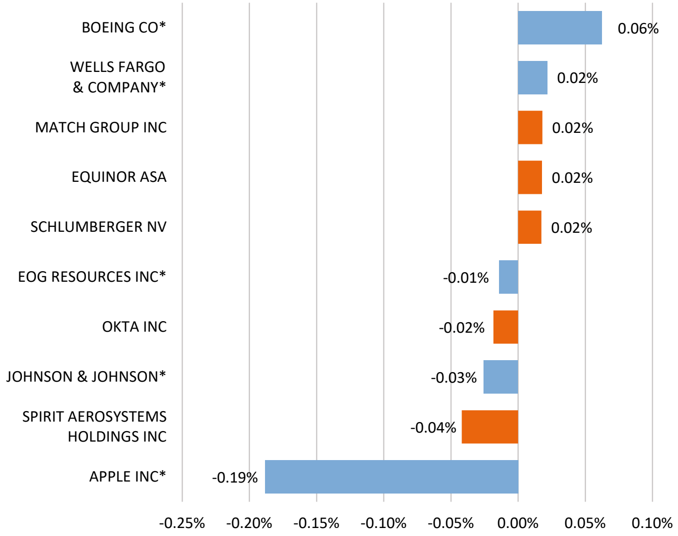
Portfolio Highlights***

Portfolio Characteristics	
Strategy Assets under Management	€3.9 bn
Ex-Post Tracking Error**	0.72
Beta of the Portfolio**	1.00
Sharpe Ratio**	1.04
Volatility**	10.76

** 3 years

Portfolio Characteristics	Fund	Benchmark
Dividend Yield FY1	2.4%	2.4%
Number holdings	845	1,646
Large Caps	92.8%	93.2%
Mid Caps	6.8%	6.8%
Small Caps	0.0%	0.0%

Top and Bottom Quarterly Contributors (%)

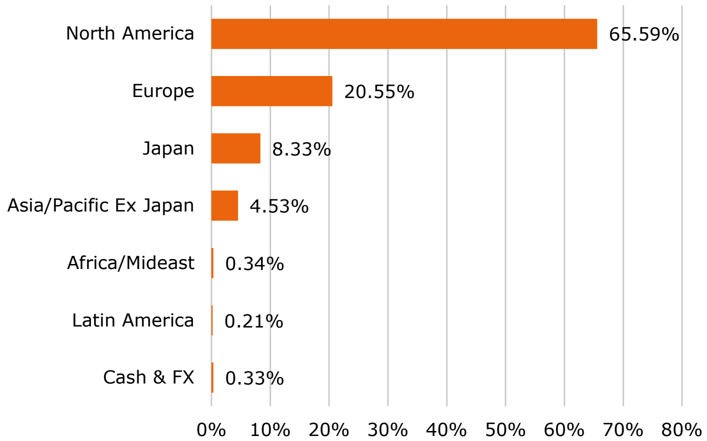


* Not included in the portfolio

Quarterly Performance Attribution

Sector	Sector Allocation	Stock Selection	Total Effect
Cash & FX	-0.01%	0.00%	-0.01%
Communication Services	0.00%	0.05%	0.05%
Consumer Discretionary	0.00%	0.01%	0.01%
Consumer Staples	0.00%	0.01%	0.01%
Energy	0.00%	-0.04%	-0.04%
Financials	0.00%	-0.05%	-0.05%
Health Care	0.00%	-0.03%	-0.03%
Industrials	0.00%	0.10%	0.09%
Information Technology	-0.01%	-0.18%	-0.19%
Materials	0.00%	0.03%	0.03%
Real Estate	0.00%	0.03%	0.03%
Utilities	0.00%	0.03%	0.03%
Unassigned	0.00%	0.00%	0.00%
None	0.00%	0.00%	0.00%
Total	**-0.02%**	**-0.04%**	**-0.06%**

Regional Allocation (%)



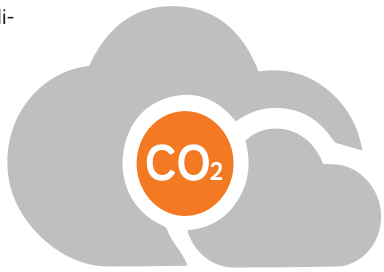
Largest Portfolio Positions (%)

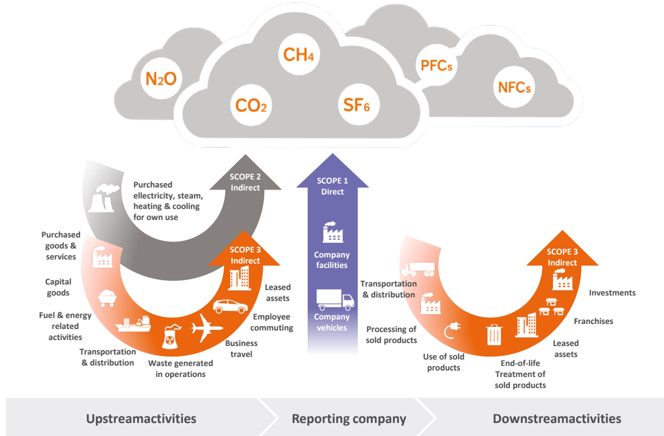
Top 10	Portfolio
Microsoft Corporation	2.72%
JPMorgan Chase & Co	1.22%
Nestle SA	0.92%
Visa Inc	0.92%
Bank Of America Corp	0.89%
Procter & Gamble Co	0.83%
Total SA	0.77%
BP Plc	0.76%
AT&T Inc	0.75%
Walt Disney Co	0.72%

*** Source: NN Investment Partners. All data are expressed as of 31 December 2019.

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 3.4 bln (includes direct and indirect emissions):

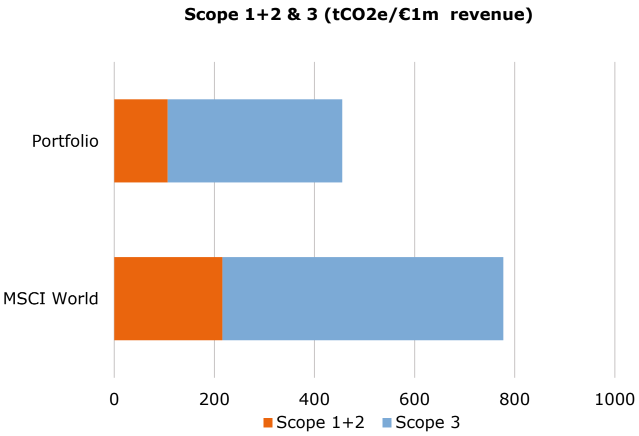
297,038 tonnes CO_2e

or

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

18,002 households

Carbon Intensity



Sources: NN IP, ISS Ethix Climate Solutions, EEA and Eurostat
All figures as of 31/12/2019

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