

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 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

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Reference performance for this strategy: NN Enhanced Index Sustainable Emerging Markets Equity Fund - I, 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	5.44	8.93	20.88	20.88	11.62	8.77	6.89
Benchmark Return	5.56	8.62	20.60	20.60	9.28	7.21	7.46
Relative Return	-0.11	0.31	0.28	0.28	2.33	1.56	-0.56

* 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 management fees. Returns include the reinvestment of income. Inception date: November 2000. Past performance is no guarantee of future results and the possibility of loss does exist. The management fee of this fund is 0.25% per year. During the month of February 2019 the investment approach changed from fundamental active management to an enhanced index sustainable equity style. The track record prior to 1 March 2019 is not reflective of the current investment approach.

Main Points

- Emerging Markets rose by almost 9% in Q4
- Eastern Europe was the best performing region
- All eyes on political tail risks and monetary and fiscal policy in 2020

Market Review

Emerging markets (EM) equities were up 8.7% in the fourth quarter of 2019. A big portion of this increase occurred in December, where EM registered the biggest bounce in equities; smaller increments occurred in October and November. Some of the main political risks that worry investors moderated during the fourth quarter, even though the underlying problems have not disappeared. This had a positive impact on risky assets' performance.

Emerging markets went through great uncertainty during the period. The main causes were weak Chinese data, limited stimulus, violent protests in Hong Kong and social unrest in many countries, as well as a stronger USD that limited the room for rate cuts in EM. Japan also lagged as the country digested weaker-than-expected macro data.

In China there were some tentative signs of a growth through the end of the quarter, but going forward, economic growth is likely to remain close to 6%. A first-phase trade deal with the US could lead to a prolonged period of trade truce. Macroeconomic data in other EM has shown a cautious improvement, particularly in the manufacturing economies in East Asia. In Latin America and the Middle East, however, policy uncertainty has negative implications for the immediate growth outlook and capital flows.

Amongst the regions, Eastern Europe registered a very good performance, led by Hungary and Russia. Taiwan and Argentina were also up double digit during the quarter. On a sector perspective, Information Technology continued the trend set in Q3 as best performer, while Real Estate recovered to second-best performing sector after trailing in the previous quarter.

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

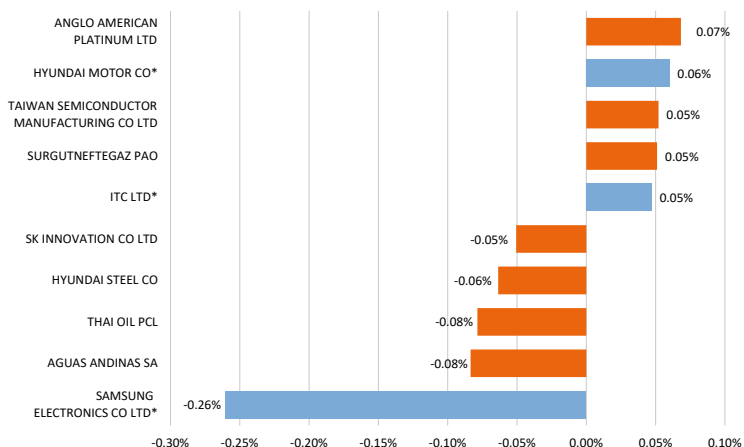
Strategy Assets under Management	€702 mln
Tracking Error**	3.06%
Beta of the Portfolio**	0.99
Volatility**	11.80

** ex-ante

Portfolio Characteristics

	Fund	Benchmark
Dividend Yield FY1	2.8%	2.8%
Number holdings	500	1,366
Large Caps	69.2%	74.3%
Mid Caps	29.4%	25.1%
Small Caps	0.6%	0.6%

Top and Bottom Quarterly Contributors (%)

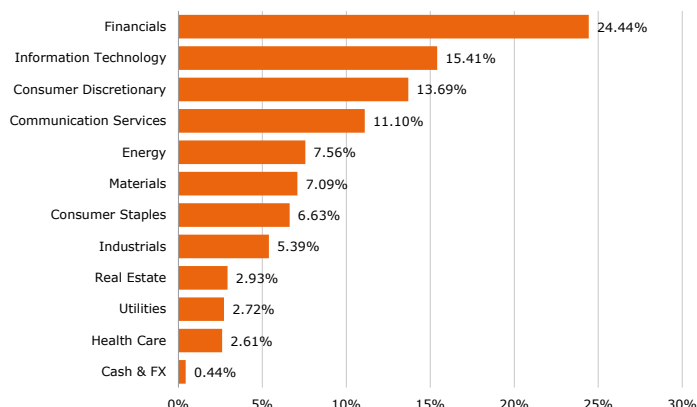


* Not included in the portfolio

Largest Portfolio Positions (%)

Top 10	Portfolio
Alibaba Group Holding-Sp Adr	5.46%
Taiwan Semiconductor Manufacturing Co Ltd	4.76%
Tencent Holdings Ltd	4.46%
China Construction Bank Corp	1.65%
Ping An Insurance Group Co Of China Ltd	1.48%
Reliance Industries Ltd	1.31%
Naspers Ltd	1.24%
China Mobile Ltd	0.98%
SK Hynix Inc	0.92%
Housing Development Finance Corporation Ltd	0.91%

Sector Allocation (%)



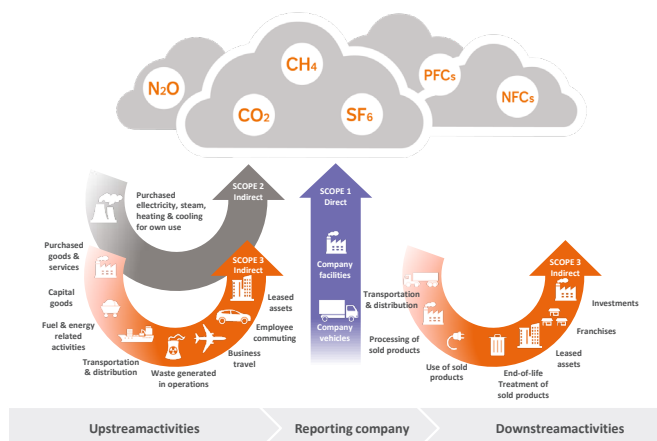
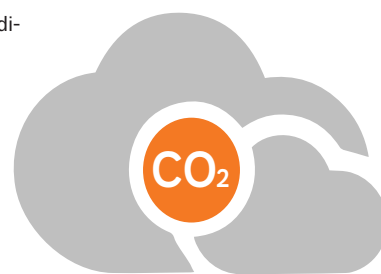
Quarterly Performance Attribution

Country	Country Allocation	Stock Selection	Total Effect
Argentina	-0.01	0.01	-0.01
Brazil	0.02	0.09	0.11
Chile	-0.07	0.02	-0.06
China	0.00	-0.06	-0.06
Colombia	0.01	-0.01	0.00
Czech Republic	0.00	0.01	0.01
Egypt	0.00	0.00	0.00
Greece	-0.01	-0.02	-0.02
Hong Kong	0.00	0.04	0.04
Hungary	0.01	0.00	0.00
India	-0.03	0.04	0.01
Indonesia	0.00	-0.01	-0.01
Korea (South), Republic of	-0.05	-0.42	-0.47
Luxembourg	0.00	0.00	0.00
Malaysia	-0.06	0.02	-0.04
Mexico	-0.02	-0.03	-0.05
Pakistan	0.00	0.00	0.00
Peru	-0.02	0.01	-0.01
Philippines	-0.01	0.04	0.03
Poland	-0.03	-0.04	-0.08
Qatar	0.01	-0.02	0.00
Romania	0.00	0.00	0.00
Russian Federation	-0.01	0.04	0.03
Saudi Arabia	0.23	0.00	0.23
Singapore	0.00	0.00	0.00
South Africa	-0.01	0.07	0.06
Spain	0.00	0.00	0.00
Taiwan (Republic of China)	0.07	0.13	0.21
Thailand	-0.03	-0.17	-0.20
Turkey	0.00	0.03	0.03
United Arab Emirates	-0.04	-0.02	-0.06
United States	0.05	0.00	0.05
Unassigned	0.00	0.00	0.00
Cash & FX	-0.35	0.00	-0.35
Total	-36.18	-24.27	-60.45

* 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 1,779 mln (includes direct and indirect emissions):

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

143,035 tonnes CO₂e



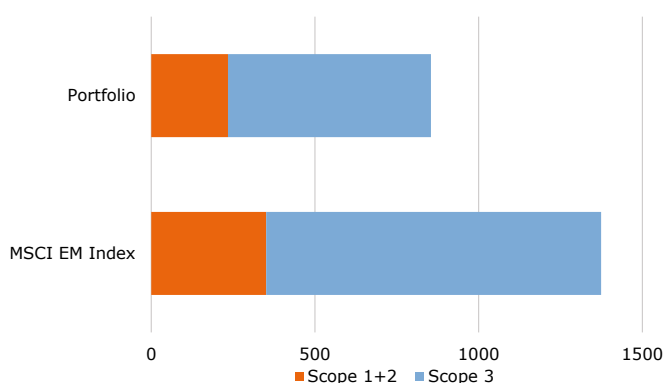
or

8,669 households



Carbon Intensity

Scope 1+2 & 3 (tCO₂e/€1m revenue)



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
P	NL0006311771	EUR	0.30%	N/A	0.30%	-
I	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	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

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