

CASE STUDY

SUSTAINALYTICS & NN INVESTMENT PARTNERS

ESG Innovators in the ever-changing world of investment solutions

Introduction

NN Investment Partners (NN IP) is the asset manager of NN Group N.V., a publicly traded corporation, headquartered in The Hague, the Netherlands. NN Investment Partners manages in aggregate approximately EUR 187 bln¹ (USD 204 bln) in assets for institutions and individual investors worldwide. NN IP employs over 1,100 staff and is active in 16 countries across Europe, the Middle East, Asia and the U.S. NN Investment Partners offers specialized SRI funds and tailor-made responsible investment solutions that meet the growing demand for products that generate good financial returns and at the same time have positive impact on society. The firm's continued success can be attributed to providing an arena of innovation where the focus is on nurturing and developing new ways of viewing the market, committing to research and best practice.

This responsibility falls largely to the Responsible Investment team. Nina Hodzic, Senior ESG Specialist on NN IP's Responsible Investment team, is an ESG thought leader in sustainable and responsible investing with more than 10 years of experience in the asset management industry. "NN IP has a long heritage in sustainable investing. Last year we celebrated the fifteenth anniversary of our global sustainable equity fund and the tenth anniversary of our European sustainable equity strategy, which we are very proud of.

"We have over EUR 4 billion in assets invested in our sustainable equity and fixed income strategies. This is a result of a sustained interest shown by our clients, combined with a strong investment performance. These funds have a clear focus on companies with sustainable business models combined with investment restrictions. We have many different types of clients, from religious institutions and foundations to pension funds, insurers and banks. It just shows the whole responsible investing market is changing, moving from a niche market to more mainstream."

Continuous improvement

Since NN IP signed up to the United Nations PRI initiative in 2008, it has collected and included ESG data in its "mainstream" investment research. NN IP raises ESG issues when meeting with companies in which it invests. The strength of ESG integration is that risk and opportunities are properly assessed across all aspects of a company's operations. This leads to an improved, thought-out

investment decision process and eventually better valuation of a share or bond. Nina said, "ESG integration is core to our investment philosophy at NN IP...and it has been great to be able to work together with Sustainalytics since we embarked on our ESG journey."

NN IP attributes its success in large part to a solid organization that reflects a full commitment to responsible investing, starting at the top of the company. NN IP has an ESG Board and a PRI Committee consisting of senior executives and specialists throughout the organization. They meet regularly to discuss the firm's responsible investment approach. This ensures that NN IP meets clients' demands and interests, and is supported throughout the organization. Nina said, "We are also increasingly collaborating with other institutional investors to increase influence and to share knowledge. In the Netherlands we do this via Eumedion and internationally via the UN PRI Clearinghouse, a global platform for collaborative engagement initiatives."

Using tools for better investment decision making

Nina is an experienced professional in the financial sector, first starting out as a market risk analyst, then an investment analyst and after that working as an ESG specialist for several years. Nina explained that Global Access, Sustainalytics' online integrated client interface and research portal, is an important tool that streamlines work activities and helps expedite the assessment and investment decision-making process. Nina says, "It is a very useful tool which enables us to access ESG data, company reports, sector reports, set up our own ESG criteria, etc. We also have many internal tools to support our investment process. In the end, it's what you do with the tools and how you analyze and interpret ESG data that sets you apart from your peers."

"Risk and opportunity come in many forms so we work to help all of our investment professionals understand material ESG issues and their potential effect on fund performance. As an active asset manager, it is important that clients are assured that we are considering all types of investment risk, regardless of the fund type." Nina continues, "We're spending considerable time educating our clients about responsible investing."



ESG integration is core to our investment philosophy at NN IP and from the beginning our sustainable investment solutions provider has been, Sustainalytics."

¹Figures as of 31 December, 2015

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In the Think Tank: How academic research can improve investment solutions

In 2014, NN IP began a partnership with Maastricht University (Netherlands), home to the award-winning European Centre for Corporate Engagement (ECCE), which is one of the world's leading research institutes on sustainable finance and responsible investing. Nina said, "The aim of the partnership with ECCE is to develop new insights related to the materiality of ESG aspects. These insights will help us to further strengthen our investment processes and fuel important advances in ESG integration in our industry."

Nina said, "We are using Sustainalytics' historical ESG data for the academic research. Sustainalytics' methodology is very consistent and transparent. There's no black box. It's visible to us what all the underlying ESG indicators are and how a company ESG score has exactly been calculated. What we also like is that Sustainalytics asks companies for feedback. In this way, the companies get the opportunity to deliver additional data/evidence on their activities and performance in the ESG area, and we as investors get a more complete picture of companies' ESG credentials."

The first project NN IP and Maastricht University began together was determining the relationship between ESG factors and investment performance. The results of this study were published in April 2016. Among its chief findings, the study challenges the idea that absolute ESG scores in isolation are a good indication of what to expect from a company in terms of investment performance. On the contrary, during the evaluation period the shares of those companies with the highest ESG scores tended, in most cases, to underperform their lower-scoring counterparts.

Instead, the research demonstrated a clear positive relationship between incremental changes – or momentum – in a company's ESG scores and investment performance. Stocks with positive momentum in ESG scores outperformed those with negative momentum, with the strongest positive performance effect found by companies with medium ESG scores.



We have just released the findings from our first project with ECCE and are very excited about the results. We are confident this cooperation and support from Sustainalytics will allow us to further improve our investment performance and to increase the effectiveness of our dialogue with companies."

— Nina Hodzic | Senior ESG Specialist
NN Investment Partners

NN Investment Partners

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SUSTAINALYTICS DATA AND RESEARCH

Sustainalytics has developed strategic partnerships with academia to expand the scope of its thought leadership to support mainstream responsible investment internationally. This academic research enhances Sustainalytics' products, services and cutting-edge ESG research delivering exciting new innovations to our clients, academia and broader stakeholders in the marketplace.

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