

# NN Green Bond / Green Short Duration

## Strategy Brief

### Portfolio Management



**Bram Bos**  
Co-Lead Portfolio  
Manager

Experience since: 2001  
With firm since: 2015



**Alfred Meinema**  
Co-Lead Portfolio  
Manager

Experience since: 2000  
With firm since: 2008

Supported by 6 Portfolio Managers, 22 Analysts, Trading Team and the Responsible Investment Team. Average years of experience: 18



NN Green Bond strategy has been awarded with the GreenFin Label.



### Responsible Investing Approach

For more information about our responsible investing approach, please visit [ri.nnip.com](http://ri.nnip.com)

### Strategy Description

The Green Bond strategy primarily invests in a portfolio of Global green bonds of high quality (with a rating of AAA to BBB-) mainly denominated in Euro. Green bonds are bond instruments where the proceeds will be applied to finance new or existing projects that have a measurable positive impact on the environment. To determine our eligible universe, we check if the selected bonds adhere to the Green Bond Principles as formulated by the International Capital Market Association. Furthermore issuers are screened using exclusionary screening. Issuers with serious and structural issues concerning environmental controversies are excluded.

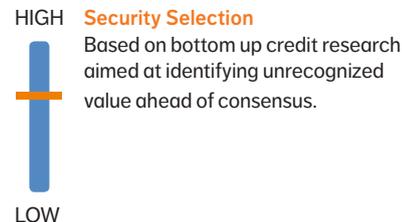
### Objective

We actively manage the fund by selecting bonds that offer attractive financial returns and a measurable positive environmental impact. We aim to beat the performance of the Bloomberg Barclays MSCI Euro Green Bond Index.

### Investment Process

Once the eligible universe is determined after our strict green bond screening, we combine our analysis on specific issuers of bonds with a broader market analysis to construct the optimal portfolio. We aim to exploit differences in valuations of issuers of bonds within sectors and differences in valuations between sectors and different quality segments (ratings). As issuer specific risk is an important driver of performance, we subject all issuers in the investable universe to an in-depth analysis of business and financial risk.

### Contribution to Process and Returns



### Key Elements of the Strategy

- **Dark green approach.**  
We ensure that investments are truly 'green' by conducting independent and in-house assessments, using the full CBI taxonomy on top of the four Green Bond Principles.
- **Additional issuer screening on environmental criteria**  
We assess both the bond and the issuer, ahead and after the issuance, including direct engagement with issuers.
- **Extensive impact report**  
Linked to our own Green Bond database, which covers the full global universe. Including exposure to the UN Sustainable Development Goals, providing insights into the goals the fund contributes to
- **Strong and stable performance track record**
- **Awarded with the GreenFin Label**  
External assurance that all investments are used for 'green' projects

### 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 268 bln\* (USD 305 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 June 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](http://www.nnip.com).

Reference performances for this strategy, gross of fees* as of 31 August 2019	NN (L) Green Bond (I Cap, EUR)			NN (L) Green Bond Short Duration (I Cap, EUR)
	Portfolio Return	Benchmark Return	Relative Return	Portfolio Return
1 Month	2.09	2.18	-0.09	0.04
3 Months	6.56	6.40	0.16	2.33
YTD	11.58	11.37	0.21	-
1 Year	11.36	11.11	0.25	-
2 Years (Ann.)	6.14	5.80	0.34	-
3 Years (Ann.)	4.05	3.74	0.30	-
Since Inception (Ann.)	4.76	4.17	0.59	2.34

\* Source: NN IP Performance Measurement. Benchmark: Bloomberg Barclays MSCI Euro Green Bond Index. Returns are presented after all transaction costs, but before management fees. Returns include the reinvestment of income. NN (L) Green Bond was launched on 1 March 2016 and NN (L) Green Bond Short Duration was launched on 1 April 2019. Past performance is no guarantee of future results and the possibility of loss does exist. The management fees vary per share class. The management fee of NN (L) Green Bond I Cap EUR and of NN (L) Green Bond Short Duration I Cap EUR is 0.20% per year.

## Main Points

- **NN (L) Green Bond returned 2.09% and posted an under-performance of 0.09%**
- **NN (L) Green Bond Short Duration returned 0.04%. As a result of the strong decline of underlying bund yields, performance of NN (L) Green Bond was higher due to the longer duration**
- **The trade conflict between the U.S. and China roiled markets. Green bond spreads widened and government bond yields dropped sharply**
- **Total YTD green bond issuance breached the EUR 100bn mark in August**

## Credit Market Review

In August, Global Investment Grade Credit spreads gave up the gains made during the prior month, as a further escalation of the trade conflict between the U.S. and China roiled markets. However, while spreads widened over the month, a large drop in government bond yields ensured that the asset class still posted a strong absolute return in August. 10-year U.S. Treasury yields declined by 52 basis points and 10-year German Bund yields declined by 26 basis points in August, with German 10-year Bunds ending the month at a record month-end low of -0.7% as the outlook for growth and inflation deteriorated. The U.S. administration announced that it would impose tariffs on the remaining USD 300bn. of Chinese imports that weren't yet subject to existing levies. On 1 August, President Trump threatened to impose a 10% tariff and while the U.S. partly backed down later in the month by delaying the imposition of tariffs on USD 160bn of goods until December, after China retaliated with its own import taxes the U.S. announced that the additional tariffs would be lifted to 15% and the existing 25% tariffs to 30% as of October 1st.

## Green Bond Market Review

The total YTD green bond issuance breached the EUR 100bn mark in August with corporate issuers raising more debt in the first half of 2019 than in the entire year of 2018. Sovereign issuance remains an important driver of the growth of the green bond market as well. In August, the issuance of global green bonds ended at EUR 6.0bn, pushing up the global green bond market to EUR 445bn. The euro was again the preferred currency (EUR 2.7bn), further enlarging the gap between the euro and US dollar denominated issuances in the green bond market. Going forward we expect new issuance to remain strong.

**E.ON (BBB/Baa2/BBB+)**, a German utility company, issued a two-tranche green bond of EUR 1.5bn. This is E.ON's first green bond. The proceeds will finance renewable energy projects, energy efficiency projects and charging stations (clean transportation). Their energy efficiency is fully related to renewable energy, like smart meters, smart grids and LED lightning. They have identified a project portfolio of EUR 1.25bn for projects in Germany, Sweden and Eastern Europe. Sustainalytics provided a second party opinion. The green bond framework is very clear with a strong commitment to impact reporting. E.ON's green bonds are eligible, although we did not participate in the new issuance, due to unattractive pricing.

## Engagement and dialogue

In August, we had 3 meetings and/or calls with (prospective) green bond issuers.

We had a call with Sparebanken Vest which plans to issue its inaugural green bond in the near future. They wanted to consult investors whether their green bond framework meets criteria most investors have set. They are proposing to finance green commercial buildings, hydropower and green residential buildings. Their total portfolio of green eligible assets is currently NOK 22bn. On hydro, Sparebanken Vest only finances hydropower with a limited direct emissions of less than 100g CO<sub>2</sub>e/KWh which is in line with the EU Green Bond Taxonomy. Hydropower are important in Norway's energy mix as they generate 98% of energy in Norway. Sparebanken Vest also includes pure player financing in their green bond framework. However, they assured additional monitoring for these type of loans. They did not specify the percentage of their green bond portfolio allocated to pure players. We also talked about their exposure to fossil fuels and they assured they do not have any direct exposure to them but there are some sub-contractors (c4.6% of Sparebanken Vest assets) with potential exposure to non-eligible sectors. We concluded the meeting was positive, but need more assurance on the percentage of loans allocated to pure play companies.

## Investment Performance

**NN (L) Green Bond** returned 2.09% and posted an under-performance of 0.09%. Our underweights in more defensive names like the Dutch and French government and the European Investment Bank cost performance as these bonds performance well due to the rise in risk aversion. Yields on bunds fell from

-0.44% to -0.70%. The spread on Green bonds widened from 0.63% to 0.68%.

**NN (L) Green Bond Short Duration** returned 0.04%. As a result of the strong decline of underlying bund yields, performance of NN (L) Green Bond was higher due to the longer duration.

### Outlook and Portfolio Positioning

The outlook for global growth going forward has become more uncertain. Earlier this year, markets were expecting a rebound in economic data during the second half of 2019, but financial markets have pared back expectations now that the uncertainties that have been weighing down on the economy, such as the trade conflict between the U.S. and China, do not look like they will be removed in the near term. In Europe, recent macro data are not boding well for corporate earnings in H2 2019 and 2020 and the continued uncertainty regarding Brexit is clearly still a negative factor for European markets.

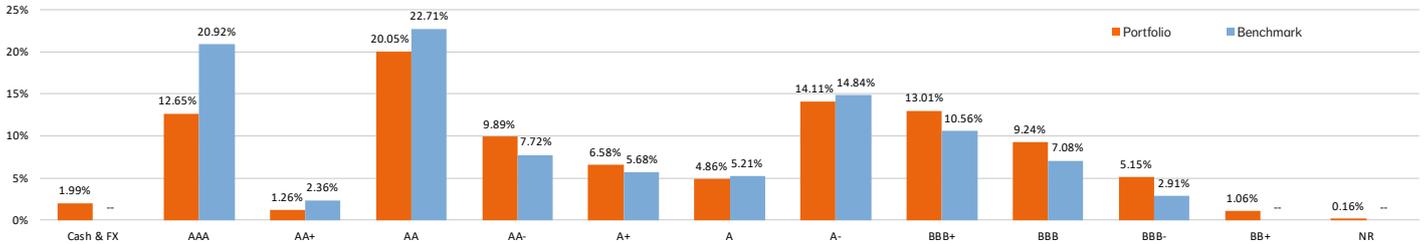
However, central banks have now shifted to an easing bias, with the ECB preparing for new asset purchases due to the lack of improvement in economic data. This would mean a substantial improvement in technicals for Investment Grade Credit in a year where institutional fund flows into Credit have already been positive as well. In terms of fundamental trends, the impact from the more challenging macro environment on earnings could lead to a modest increase in leverage in the more cyclical sectors. However, we continue to expect a stable European leverage trend overall as we see a stable or positive trend in non-cyclical sectors, where the financial management of companies has remained conservative.

We added one new issue in the portfolio in August 2019. Our non-euro exposure is 6.3% of the portfolio. Currently, we are holding 153 green bonds from 92 different issuers in 4 different currencies. We do not hold any non-green bonds in the portfolio. We hold overweight positions in different corporate sectors, while underweighting supranationals and agencies.

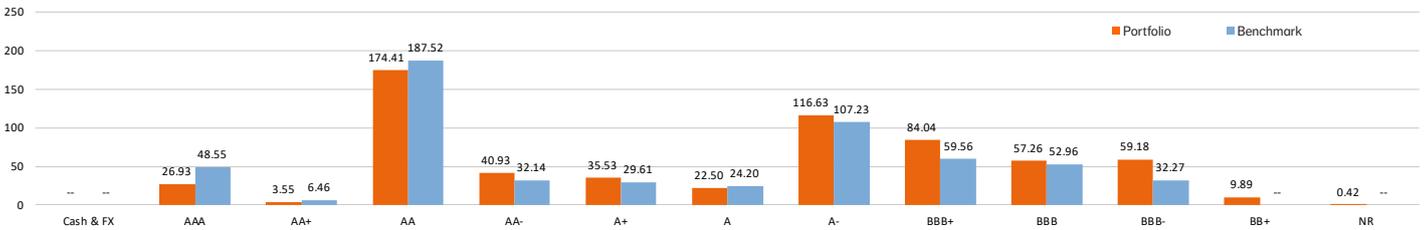
## Portfolio Highlights\*

Portfolio Statistics		Portfolio Statistics	
Currency	EUR	Option Adjusted Spread over Swap rate	40bp
Strategy Assets under Management	€1.6 bln	Number of Issuers	92
Yield of the portfolio	0.24%	Number of Issues	153
Duration	8.99	Effective Rating	A+

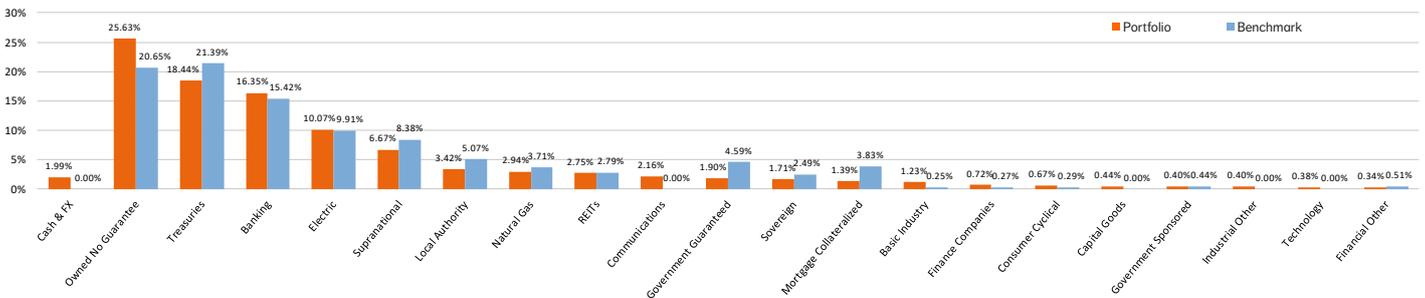
### Rating Positioning Market Value



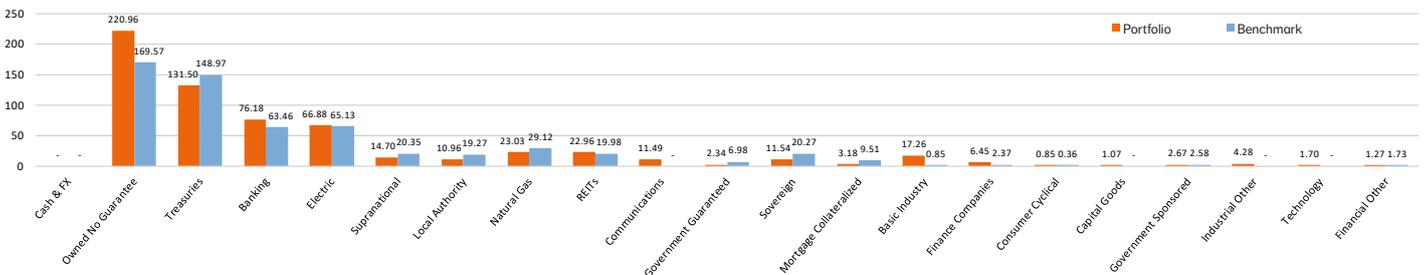
### Rating Positioning Weighted Duration x Spread



### Sector Positioning Market Value



### Sector Positioning Weighted Duration x Spread



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

### Annual Green House Gas Emissions Avoided (tons CO2)

Full NAV of the Portfolio\*

Portfolio	565,858
Per 1 million invested:	534

The CO2 emissions saved per 1 mln invested in our fund are equivalent to the average annual emissions of:

**69 households\*\***  **or** **214 passenger cars\*\*** 

Top 5 Positive Contributions to GHG Reduction - Absolute

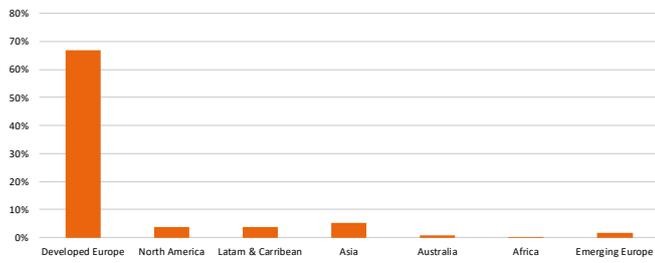
1	China Development Bank
2	Ind & Comm Bk China
3	Westpac Banking Corp
4	Asian Development Bank
5	Electricite De France SA

Top 5 Positive Contributions to GHG Reduction - Weighted

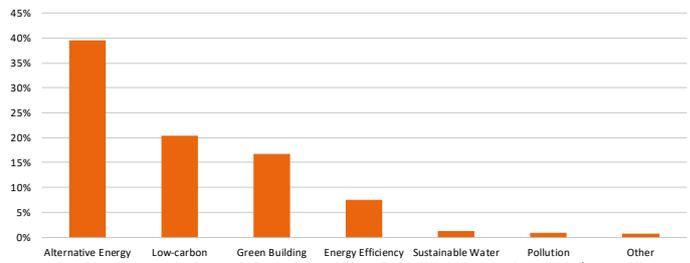
1	Tennet Holding BV
2	Enel Finance Intl NV
3	Asian Development Bank
4	Electricite De France SA
5	Engine SA Hybrid-B

\* Based on the average GHG reduction reported by following share of portfolio: 67.0%  
 \*\* Source: milieucentraal

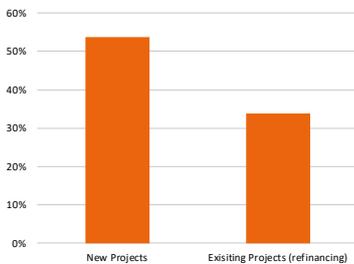
Breakdown of Projects by Region



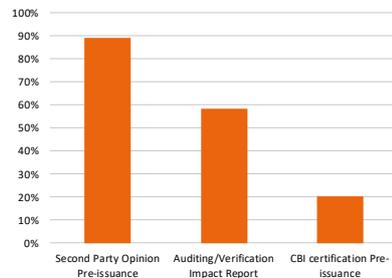
Breakdown of Projects by Use of Proceeds



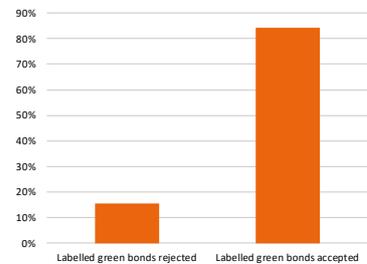
Use of Proceeds for New Versus Existing Projects



External Assurance



Global Green Labelled Bonds Assessed by NN IP



### Renewable Energy Capacity Added (MW)

Full NAV of the portfolio\*

Portfolio	283
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Renewable Energy Capacity Added is equivalent to:

**113 windturbines\*\*** 

Top 5 Renewable Energy Capacity Added (MW) - absolute

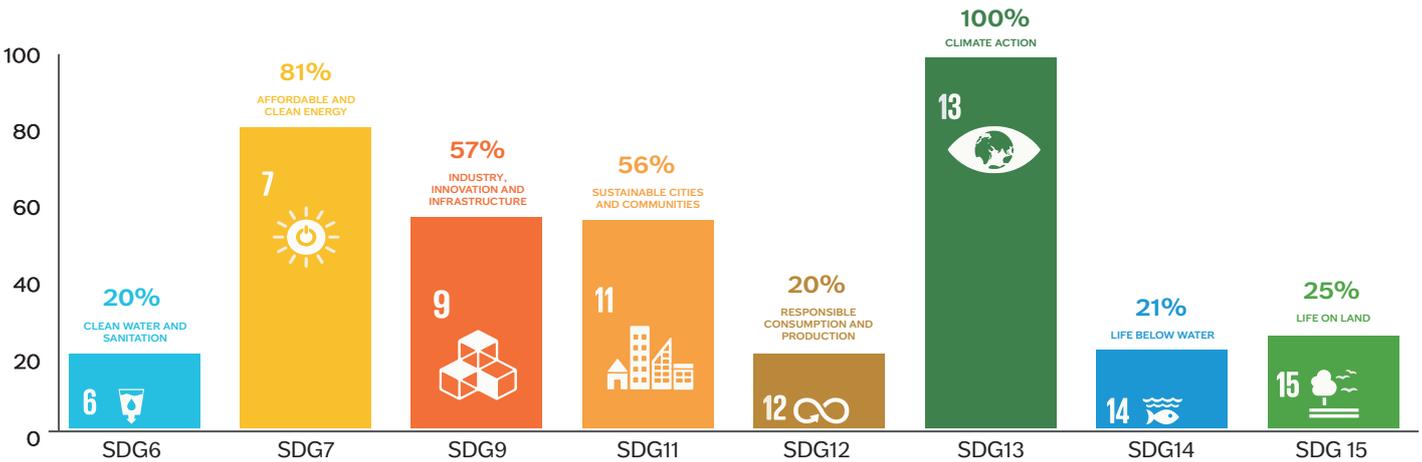
1	Tennet Holding BV
2	Gas Natural Fenosa Finan
3	Innogy Finance BV
4	Deutsche Kreditbank AG
5	Enel Finance Intl NV

Top 5 Renewable Energy Capacity Added (MW) - weighted

1	Tennet Holding BV
2	European Investment Bank
3	Enel Finance Intl NV
4	Iberdrola Finanzas SAU
5	KfW

\* Based on the average RE Capacity added (MW) reported by following share of portfolio: 32.7%  
 \*\* Source: WindEurope

UN Sustainable Development Goals Exposure\*



\* Portfolio positions can have exposure to multiple SDG themes.

In September 2015 the United Nations agreed on 17 Sustainable Development Goals (SDGs) to end poverty, protect the planet and ensure prosperity for all. Each goal has specific targets to be achieved by 2030. The UN's SDGs are a set of ambitious targets for making the world a better place. The chart above shows the exposure of the Green Bond

Strategy to different SDGs. All the Green bonds in the portfolio are truly green and have a positive impact on climate change mitigation, as a result the exposure to Climate Action (SDG13) is 100%. The proceeds of many green bonds are used for alternative energy, hence the exposure to Affordable and Clean Energy (SDG7) is also high.

Iberdrola SA - Green Bond

**Use of Proceeds**

- Iberdrola's green bond proceeds are mainly invested in renewable projects, smart grids, energy transition and distribution projects
- company's strategy as it strongly commits to phased out coal by 2020, reduce the intensity of CO2 emission by 50% by 2030 and be carbon neutral by 2050
- Iberdrola has avoided 402 tons CO2 emissions/mln € invested per annum**



Source: Iberdrola, 2019

\* For illustration purpose only. Company name, explanation and arguments are given as an example and do not represent any recommendation to buy, hold or sell the stock. The security may be/have been added and/or removed from any portfolio at any time without any pre-notice.

**Key figures**

ISIN	XS1398476793
Second Party Opinion	Vigeo

**Eligible projects**

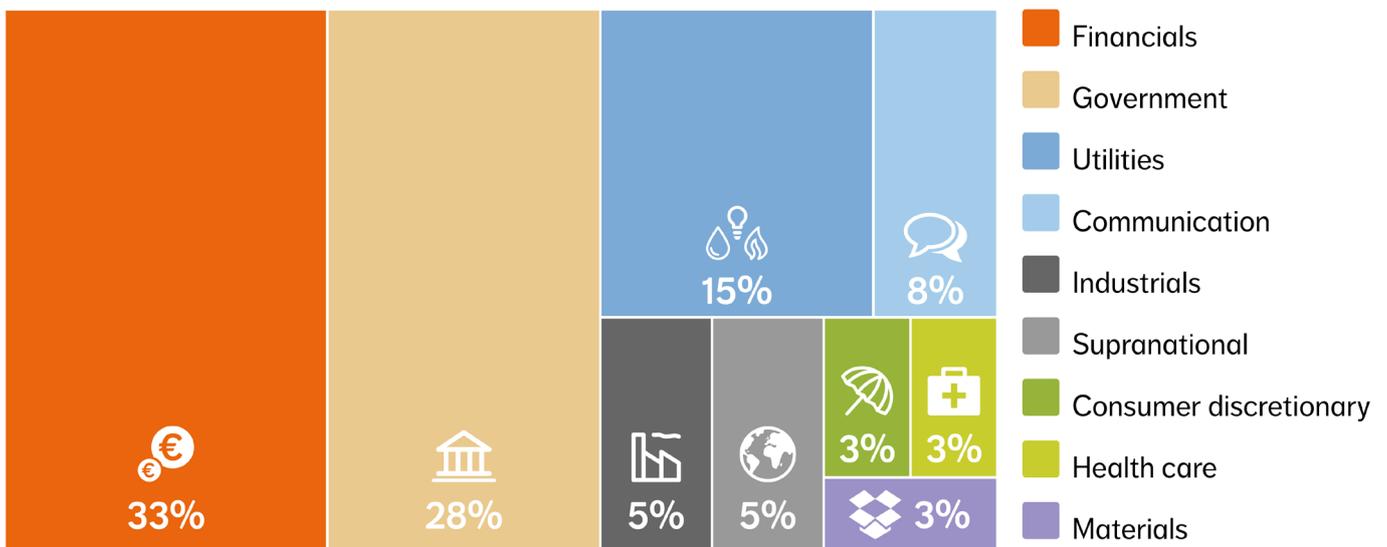
- Cavar onshore wind farm
  - adds 32 wind turbines and foundations and has capacity of 111 MW to supply renewable energy to 45.5 thousand homes
  - It is estimated the project **prevents 84 thousand tonnes of CO2 every year**. In total, Iberdrola's capacity reaches more than 15,800 MW in Spain.



In the first half of 2019, NN IP engaged with 40 issuers operating in nine different sectors across the world. The number of meetings delivering positive results has increased constantly over the last four years. In the first half of 2019 more than three-quarters left us with a good impression and we are pleased to see increasing corporate efforts to integrate sustainability more fully into businesses and more transparency on reporting.

**Engagement H1 2019 (sectors)**

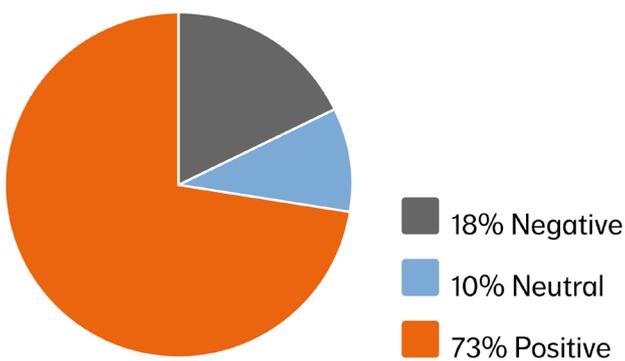
**Engagement H1 2019  
Issuers by sector**



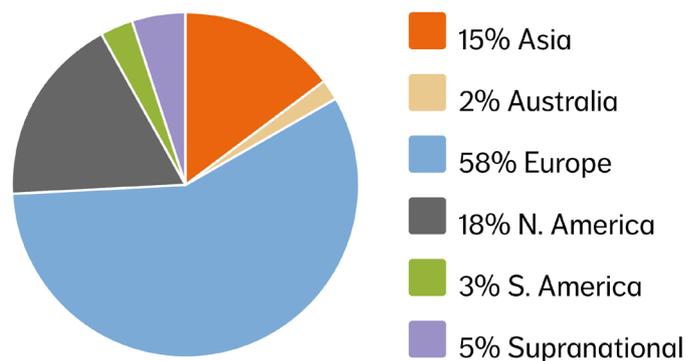
\* Source: NN IP

**Engagement H1 2019 (issuers)**

**Engagement H1 2019  
Impression of Engagement with issuers**



**Engagement H1 2019  
Region of risk of the issuers**



\* Source: NN IP

Share Classes	ISIN	Currency	Management Fee (%)	Fixed Service Fee (%)	Ongoing charges including management fee (%)	Minimum Investment
<b>NN (L) Green Bond</b>						
I Capitalisation	LU1365052627	EUR	0.20	0.12	0.33	€ 250,000
I Distribution	LU1365053195	EUR	0.20	0.12	0.33	€ 250,000
P Distribution	LU1619163584	EUR	0.40	0.15	0.60	-
N Capitalisation*	LU1365052890	EUR	0.20	0.15	0.40	-
P Capitalisation	LU1586216068	EUR	0.40	0.15	0.60	-
I Capitalisation (hedged i)	LU1861144340	USD	0.20	0.12	0.35	€ 250,000
<b>NN (L) Green Bond Short Duration</b>						
I Capitalisation	LU1922482994	EUR	0.20	0.12	0.33	€ 250,000
I Distribution	LU1932640938	EUR	0.20	0.12	0.33	€ 250,000
I Capitalisation (hedged i)	LU1922483612	GBP	0.20	0.12	0.35	€ 250,000
I Distribution (hedged i)	LU1922483968	USD	0.20	0.12	0.35	€ 250,000

\* only available for the Dutch market

## Key Characteristics of the Strategy

### Objective

Investment objective	Outperform the Bloomberg Barclays MSCI Euro Green Bond Index
Benchmark	Bloomberg Barclays MSCI Euro Green Bond Index

### Other Characteristics

Investment universe	<ul style="list-style-type: none"> <li>Global Green Bonds, according to NN IP's interpretation of the Green Bond Principles</li> <li>Allocations to opportunities in non-euro denominated issues (max 30%; to be hedged)</li> </ul>
Rating	Max. 10% can be invested in sub-investment grade positions (BB+,BB,BB-)
Duration	Max. 1 year active duration position versus the benchmark For <b>NN (L) Green Bond Short Duration</b> : Duration hedged back to target duration of 2 years with futures
Currency	No currency risk versus the benchmark, hedging of non-EUR exposures

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The prospectus and the Key Investor Information Document (KIID) (if applicable) and other legally required documents relating to the fund are available on [www.nnip.com](http://www.nnip.com). Investment sustains risk. Please note that the value of any investment may rise or fall and that past performance is not indicative of future results and should in no event be deemed as such. This communication is not directed at and must not be acted upon by US Persons as defined in Rule 902 of Regulation S of the United States Securities Act of 1933, and is not intended and may not be used to solicit sales of investments or subscription of securities in countries where this is prohibited by the relevant authorities or legislation. Any claims arising out of or in connection with the terms and conditions of this disclaimer are governed by Dutch law.