Semi-Annual Report 2021

NN Dutch Residential Mortgage Fund

The original semi-annual report was drafted in Dutch. This document is an English translation of the original. In case of discrepancies between the English and the Dutch text, the latter will prevail.

NN investment partners

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1. General information

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Custodian
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Custodian Foundation
Bewaarstichting NNIP I

Board members Bewaarstichting NNIP I
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Strawinskylaan 337
1077 XX Amsterdam, The Netherlands

2. Board of directors' report

2.1 Key figures Participation Class I

		2021	2020	2019	2018	2017
Net asset value (x 1,000)	€	4,474,535	3,681,143	2,754,646	2,007,904	1,596,066
Units of participation outstanding (number)		39,497,632	32,262,071	24,236,798	18,591,467	14,729,595
Net asset value per unit of participation	€	113.29	114.10	113.66	108.00	108,36
Dividend per unit of participation	€	2.19	2.27	2.37	2.34	2.31
Net performance Participation Class	%	1.20	2.44	7.54	1.84	4.85

2.1.1 Notes to the key figures Participation Class I

Reporting period

The amounts for 2021 refer to the balances at 30 June and the period from 1 January through 30 June. The amounts for other years refer to the balances at 31 December and the period from 1 January to 31 December.

Net asset value per unit of participation

The net asset value of Participation Class I of the Fund will be determined by the Manager. The Manager calculates the net asset value per participation class once per month. The net asset value per unit of Participation Class I is determined by dividing the net asset value of Participation Class I by the number of outstanding units of participation of Participation Class I at the calculation date.

Net performance

The net performance of Participation Class I of the Fund is based on the net asset value per unit of participation, taking into account any dividend distributions to holders of units of participation.

2.2 Key figures Participation Class Z

		2021	2020	2019	2018	2017
Net asset value (x 1,000)	€	192,407	180,705	194,488	104,924	85,075
Units of participation outstanding (number)		1,677,280	1,565,879	1,695,533	964,768	781,391
Net asset value per unit of participation	€	114.71	115.40	114.71	108.76	108.88
Dividend per unit of participation	€	2.22	2.29	2.39	2.36	2.31
Net performance Participation Class	%	1.33	2.66	7.78	2.07	5.08

2.2.1 Notes to the key figures Participation Class Z

Reporting period

The amounts for 2021 refer to the balances at 30 June and the period from 1 January through 30 June. The amounts for other years refer to the balances at 31 December and the period from 1 January to 31 December.

Net asset value per unit of participation

The net asset value of Participation Class Z of the Fund will be determined by the Manager. The Manager calculates the net asset value per participation class once per month. The net asset value per unit of Participation Class Z is determined by dividing the net asset value of Participation Class Z by the number of outstanding units of participation of Participation Class Z at the calculation date.

Net performance

The net performance of Participation Class Z of the Fund is based on the net asset value per unit of participation, taking into account any dividend distributions to holders of units of participation.

2.3 General information

NN Dutch Residential Mortgage Fund ("the Fund") has no employees. The Fund is managed by NN Investment Partners B.V., which is licensed by the Dutch Authority for the financial markets (AFM) under the Dutch Financial Supervision Act ('Wet op het financieel toezicht', also referred to as 'Wft'). All shares in NN Investment Partners B.V. are held by NN Investment Partners International Holdings B.V. and both these entities are part of NN Group N.V.

NN Investment Partners B.V. is part of NN Investment Partners (NN IP), an organizational unit within NN Group N.V. NN IP performs the managerial activities for the manager and provides administrative services to the collective investment schemes managed by the Manager. A large part of the investment activities of NN Group N.V. is grouped within NN IP. This includes the management and investment activities of the investment entities under management of NN Investment Partners B.V. NN Investment Partners also performs the management and investment activities of the insurance companies that are part of NN Group N.V.

2.4 Objective

The Fund is a fund that offers participants the opportunity to invest in a managed portfolio of mortgage debt arising under mortgage loans after 1 January 2014, granted in The Netherlands by NN Bank N.V. The Fund's investment policy is to achieve the highest possible total return in the long term based on spread of investments within the framework of the set risk profile.

2.5 Investment policy

The Fund invests the equity for the account and risk of the participants mainly in Dutch mortgage debt / mortgages that are granted by NN Bank N.V. after 1 January 2014. These mortgages all comply with the Code of Conduct on Mortgage financing ("Gedragscode Hypothecaire Financieringen"), the Dutch Financial Supervision Act and the regulation for Temporary control of mortgage credit ("de Tijdelijke regeling hypothecair krediet").

In this context, NN Investment Partners B.V. and Bewaarstichting NNIP I have entered into an agreement with NN Bank N.V. ('Master Mortgage Receivables Purchase Agreement') under which mortgage debt is purchased for the benefit of the Fund from time to time. At the time that there are new committed amounts for the Fund or available cash can be reinvested, the Fund will reserve and purchase (upfront) new mortgage production from NN Bank N.V.

Legal transfer takes place on an admittance date (the transfer date of the mortgage receivables by NN Bank N.V. to the Fund being the first business day of the month), and the subscribing participant(s) or, in the event of reinvestment, the Fund is entitled to all income (proceeds) of the mortgage receivables from the time that the offer for the mortgage loan is provided by NN Bank N.V.

The purchased mortgage debt will be held by the Custodian Foundation on behalf of the Fund. The transfer of the mortgage debt is by way of silent assignment. The Fund acquires the right of action and the mortgage customers are unaware that these loans have been transferred. NN Bank N.V. remains the point of contact for mortgage customers.

Every mortgage allocated to the Fund from the production of mortgage loans of NN Bank N.V. by means of the allocation mechanism must meet the Mortgage Loan Criteria. The Mortgage Loan Criteria are stipulated in the Master Mortgage Receivables Purchase Agreement.

In principle, the relevant production for the Funds is equivalent to that produced by NN Bank for the NN insurance entities, with the exception of the Mortgage Loan Criteria. For new production, the Manager may (temporarily) deviate from the NHG percentage and the relative length of the fixed-rate interest period, if this serves the interests of the Participants. Participants will be informed if the Manager decides to deviate from this in substance.

Liquid assets, ensuing from interest income or repayments on the mortgages, will also be present in the Fund. The liquid assets may be invested in NN (L) Liquid EUR, which is also managed by the Manager, or in another fund with a similar investment policy to be designated by the Manager.

2.6 Investment restrictions

The Fund will invest in mortgages that meet the Mortgage Loan Criteria as stipulated in the Master Mortgage Receivables Purchase Agreement.

The Fund will invest a maximum of 50% of its equity in mortgage debt with NHG (National Mortgage Guarantee). The Fund may contract loans up to a maximum equal to 5% of the Fund's equity. If the limits described above are exceeded, the Manager will strive to bring the Fund's equity within the limits as soon as possible. The Manager is not obliged to dispose of the Fund's assets in this case. The Fund does not make use of securities lending techniques or repurchase agreements to generate additional income for the Fund. The Fund does not make use of derivatives.

Transactions with parties affiliated with NN Group N.V. will be conducted at arms’ length.

2.7 Target group and risk profile

The Fund is aimed exclusively at qualified investors within the meaning of the Wft. Due to the illiquid nature of the assets in which the Fund invests, the Fund is only suitable for investors with a long-term investment horizon. The Fund offers investors the opportunity to invest in residential mortgages granted by NN Bank N.V. after 1 January 2014. The Fund has a conservative character as it invests in new mortgages that comply with recent regulations, which are directed towards repayments being made on the mortgages. Since 2018, the Fund applies a loan-to-value (LTV) maximum of 100% on the mortgages in which the fund invests – for 2017, 2016 and 2015 this was 101%, 102% and 103%, respectively. In the case of energy-saving measures, the Fund may invest in mortgages with an LTV of up to 106% if the portion above 100% is used in full for energy-saving measures.

2.8 Index

None.

2.9 Structure

The Fund is a closed mutual fund for Dutch tax purposes and thus fiscally transparent for corporation tax and dividend tax.

The Fund has an open-ended character, except that there is no maximum number of units of participation. The extent to which participants can enter or exit depends upon the mortgage production at NN Bank N.V. and the liquid assets in the Fund. Units of participation in the Fund cannot be transferred to third parties. Transfer can only take place by having the Fund purchase units of participation. The Manager is not obliged to accept any purchase request. If and as long as one or more units of participation are offered to the Fund for purchase, the Manager will make no further investments until all of these units of participation have been purchased. Admittance and purchase of units of participation generally takes place on a monthly basis.

The Fund is an investment entity as defined in Section 1:1 of the Wft and following Section 4(1)(a) of the AIFMD it is a mutual fund for joint account with an open-ended structure. NN Investment Partners B.V. acts as manager of the Fund. NN Investment Partners B.V. is licenced as defined in Wft Section 2:65(1), preamble and (a).

The Fund is a mutual fund for joint account and therefore it is not a separate legal entity.

Bewaarstichting NNIP I acts as custodian foundation (the Custodian Foundation). The Custodian Foundation is the legal owner of all the assets of the Fund. All assets are or will be acquired by the Custodian Foundation in its own name for the joint account and risk of the Participants.

Obligations that are or become part of the Fund are or will be entered into in the name of the Custodian Foundation . The Investments belonging to the Investment Fund are held in the name of the Custodian Foundation for the account and risk of the Participants.

The Investment Fund has two Participation Classes. Units of participation per Participation Class give the right to a proportionate share of the net asset value of the respective Participation Class. The Participation Classes within the Fund may mutually differ in terms of cost and fee structure, the minimum amount of initial deposit and demands on the quality of the investors.

Summary of the main characteristics per participation class at 30-06-2021

Participation Class I	
Investor capacity	This is a participation class intended for qualified investors as defined in the Wft or another legal concept taking its place at any time, for which a minimum initial deposit of € 1,000,000 applies, such that the deposited amounts, excluding decreases in value, will never be less than the stated amount.
Legal name	NN Dutch Residential Mortgage Fund -I
Commercial name	NN Dutch Residential Mortgage Fund -I
ISIN code	NL0010937074
Management fee*	0.225%
Fixed Miscellaneous Expenses Fee**	0.275%

Participation Class Z	
Investor capacity	This is a participation class intended for other investment institutions and UCITS managed by the Manager or professional investors which (in another manner) pay a fee to the Manager itself or to a party affiliated with the Manager for the management of their equity.
Legal name	NN Dutch Residential Mortgage Fund -Z
Commercial name	NN Dutch Residential Mortgage Fund -Z
ISIN code	NL0010937082
Fixed Miscellaneous Expenses Fee**	0.275%

** Management fee*
An annual management fee is charged to the participation class which is calculated pro-rata on a monthly basis by using the total net asset value of the Fund that is attributed to each Participation Class at the end of the month. No management fee is charged to Participation class Z.

*** Fixed Miscellaneous Expenses Fee*
The Manager charges a Fixed Miscellaneous Expenses Fee ('Vaste Overige Kostenvergoeding') to each Participation Class. This fee is calculated pro-rata on a monthly basis using the total net asset value of the Participation Class at the end of each month.

2.10 Subscription and redemption of Units of Participation

Admittance to the Fund is only possible by means of a completed Application Form, which must be received by the Manager at the address specified by the Manager before the cut-off time (12.00 midday Dutch time on the 15th calendar day of the month or on the first working day after the 15th calendar day if the 15th calendar day is not a working day prior to the Admittance Date) in order to be processed before the next Admittance Date. An Admittance Date is the first working day of a calendar month. By signing the Application Form, the subscribing participant undertakes to pay the committed amount when the Manager, whether or not represented by the Transfer Agent, requests such by means of a Payment Request. The Manager will at all times be entitled to refuse admittance or restrict or alter the right to admittance without stating any reason therefor. The Manager may set additional conditions on admittance. During the term of the Fund, a participant may increase its committed amount with the prior consent of the Manager. For the order in which the committed amounts are processed, the increase of the committed amount is regarded as a new order.

The issue of units of participation always takes place after a participant has complied with a request for the payment of (part of) its committed amount. Units of participation are issued at the value as determined on the relevant valuation date. The valuation date is the date, no later than 10 days after an Admittance Date, on which the Holding Value is calculated and on the basis of which Units of Participation are issued. If the Offer Risk result and interests expenses for pre-funding are passed on, the Individual Holding Value is calculated according to Article 13 of the Conditions as stated in the prospectus.

Transfer of units of participation can only take place by having the Fund purchase units of participation. The Fund may purchase units of participation on written request. A purchase request is irrevocable, must be made no later than on the 15th day of a calendar month or on the next working day after the 15th calendar day if the 15th calendar day is not a working day and be received by the Manager before the cut-off time (12.00 midday Dutch time). The Manager will process the order a month after it has been received in the manner as referred to above.

Purchasing will take place at the holding value as determined on the next valuation date following the month in which the written purchase request has been processed. If at the discretion of the Manager sufficient liquid assets are available in the Fund for this, it will proceed with the purchase and acquisition of the relevant units of participation, as much as possible, in proportion to the total number of units of participation offered for purchase for each Participation Class.

The purchase of units of participation can only take place if sufficient liquid assets are available in the Fund for this at the discretion of the Manager. When determining the liquid assets available for purchase, the Manager will disregard the liquid assets that are required for operational matters and intended for distributions. The Manager may at its own discretion consider the committed amounts of subscribing Participants, which have not yet been accounted for in the liquid assets, when determining the assets available for purchase.

Any request to purchase units of participation will be given for an indefinite period. If a purchase request is not carried out in full, the remainder will be processed the next month on a proportional basis with all other purchase requests. When a unit of participation is acquired by the Fund, the unit of participation is extinguished.

2.11 Tax aspects

The Fund is a transparent entity in The Netherlands for tax purposes and is therefore not a subject to Dutch corporate income tax and is not responsible for deductions at source of Dutch dividend tax. To guarantee the closed character of the Fund, certain conditions may be attached to the transferability of the units of participation.

2.12 Custodian of the Fund

The assets of the Fund are in custody at The Bank of New York Mellon SA/NV, Amsterdam branch, who is appointed as custodian of the Fund (the “custodian”). The capital position of the custodian amounts to at least EUR 730,000.

The Manager and the Custodian of the Fund have entered into a written custody agreement. The main elements of this agreement are the following:

- The Custodian ensures that the cash flows of the Fund are properly verified and in particular that all payments by or on behalf of investors for subscriptions to units of participation have been received and that all cash of the Fund has been put on cash accounts in name of the Fund or in the name of the Custodian acting on behalf of the Fund. These cash account have to be held at (in principle) an entity as described in Section 18(1) (a), (b) and (c) of the European Directive 2006/73/EC (a credit institution or a bank that has been granted a licence in a third country).
- The assets of the Fund, consisting of financial instruments, are trusted to the Custodian. The Custodian holds all financial instruments that can be registered on a financial instruments account in its books on separate accounts in the name of the Fund. In addition, the Custodian holds all financial instruments that can be physically delivered to the Custodian.
- The Custodian ensures that the sale, issue and cancellation of units of participation as well as their redemption, take place in accordance with Dutch law and the regulations of the Fund.
- The Custodian ensures that the value of the units of participation in the Fund is calculated in accordance with Dutch law and the regulations of the Fund.
- The Custodian carries out the instructions of the Manager, unless they conflict with Dutch law or the regulations of the Fund.
- The Custodian verifies that upon transactions involving the assets of the Fund, the equivalent value is transferred to the Fund within the agreed timeframes.
- The Custodian verifies that the income of the Fund is allocated in accordance with Dutch law and the regulations of the Fund.

When carrying out its duties, the Custodian acts in the interests of the investors in the Fund.

According to Dutch law, the Custodian is liable towards the Fund or the investors for the loss by the Custodian or by a third party to whom the custody of financial instruments is transferred. In the event of such a loss of a financial instrument held in custody, the Custodian immediately refunds a financial instrument of the same type or for an equivalent amount to the Fund. The Custodian is not liable if it can prove that the loss is the result of an external event beyond its reasonable control and the consequences of which were unavoidable despite all efforts to prevent this.

The Custodian is also liable towards the Fund or investors for any other losses they incur because the Custodian intentionally or due to negligence does not properly comply with its obligations. According to Dutch law, a custodian can only avoid liability towards the Fund or the Manager for the loss of the financial instruments if:

- It has complied with all requirements applicable to the delegation of custody duties;
- It has a written agreement with the third party that performs the outsourced activities in which liability is transferred to the third party and by virtue of which the Fund, the Manager or the custodian on their behalf, can sue the third party for damages for loss of financial instruments on the same basis as that on which the custodian could originally be sued; and
- It has a written agreement with the Fund or the Manager in which the Fund or the Manager on behalf of the Fund agrees with the exclusion of the liability of the Custodian, including an objective reason for this exclusion.

2.13 Principal risks and uncertainties

Investments in the Fund provide financial opportunities, but also bring financial risks. The value of investments can fluctuate and participants of the Fund may possibly experience a pay-out that is lower than their initial investment.

An overview of the risks of the Fund, categorised to 'large, medium and small' is included in the prospectus. The prospectus will be updated when new regulation on risk management is effective. The main risks which the Fund encounters are:

Repayment risk
Mortgages may be repaid early. If a mortgage is repaid early, the receipts are, in principle, reinvested according to prevailing market conditions.

A 'conditional prepayment rate' (CPR) is taken into account in the valuation of the mortgages. The CPR is an estimate of the repayment on the underlying loans. As part of their continuous monitoring, NN Bank N.V. delivers information on the actual repayments on the mortgage portfolio of the Fund. Based on the realised early repayments in the Fund and reports from brokers and rating agencies, NN IP assesses to what extent the information corresponds with the market information for Dutch Residential Mortgage Backed Securities. NN IP may adjust the CPR if this is deemed necessary and reasonable. Throughout the first half year of 2021, the CPR remained unchanged at 6%.

Concentration risk
The Fund invests in Dutch mortgage debt. The Fund will therefore be sensitive to developments in the Dutch economy and the mortgage market in particular. Non-economic factors, such as the political climate, tax regulations and culture, also play a role.

Liquidity risk
Mortgages and mortgage debt are considered illiquid assets. Consequently, there is a risk that the Fund is unable to release the financial resources that may be required to comply with certain obligations. For the purpose of liquidity management, the Manager is allowed to temporarily enter into loan agreements or acquire funding in another manner up to a maximum of 5% of the Fund's net asset value.

Redemption of units of participation can only take place if, at the discretion of the Manager, there is sufficient liquidity available in the Fund. When determining the available liquidity for redemptions, the Manager will disregard the liquidity that is required for operational matters and the liquidity intended for distributions. As soon as the Manager is aware of a request for redemption, the Manager will make no more reinvestments when the liquidity is insufficient to fund the redemption request. The Manager may not enter into loans in order to finance redemptions. Investors will therefore be dependent on the liquidity of the Fund when requesting for redemption. The Manager may, if he expects a significant inflow of liquidity as a result of subscription by new participants in the Fund, take these amounts into account when determining the available liquidity. Limited liquidity in the Fund can lead to a situation that redemption from the Fund is also limited and may take a longer time.

Units of participation in the Fund cannot be transferred to a third party, but can only be redeemed back to the Fund.

Interest rate risk
The valuation of mortgage debt may fluctuate due to changes in interest rates. If interest rates rise, the value of mortgage debt will generally decrease and vice versa.

The Fund buys mortgages issued by NN Bank N.V. and is dependent on the rates to be applied by NN Bank N.V. in accordance with its policy to mortgage customers. In addition, NN Bank N.V. can make (product) changes to existing and new mortgages, which may influence the (future) return on the Fund.

Offer risk
Upon receipt and acceptance of the Application Form by the Transfer Agent, the Manager reserves mortgage debt at NN Bank N.V. in accordance with the Master Mortgage Receivables Purchase Agreement between the Manager and NN Bank N.V. The reservation is approximately equal to the Committed Amount of the subscribing participant, taking into account any reinvestment amounts and requests to redeem Units of Participation.

The mortgage debt is purchased from NN Bank N.V. by the Manager on behalf of the Fund at par value. After delivery by NN Bank N.V., the purchased mortgages are valued by the Fund at market value (fair value).This value can be different from the par value of the mortgages. The difference between the par value and the fair value at the time of the delivery to the Fund is considered to be the offer risk.

In the context of the Fund, the term 'offer risk' therefore has a broader meaning than how it is usually understood in the mortgage market.

The result of the offer risk is for the risk and account of subscribing participant(s)/reinvestments. This is done to neutralize the effect on the net asset value of existing participants in the Fund. In addition to the offer risk, subscribing participants and reinvestments are entitled to the net income during the period between the granting of the mortgage to the mortgage lender and the delivery of the mortgage to the Fund. Previously these revenues were for the account of NN Bank N.V. because mortgages were then delivered at fair value. Because of the fact that the mortgages are now delivered at par value, the net income on the mortgages until the moment they are actually delivered to the Fund are for the account of the subscribing participant(s)/reinvestments. This includes net mortgage interest, but also the NN Bank N.V. financing costs.

Waiting risk
A long period may lie between the time that the Application Form is accepted and a Payment Request. The length of this period will depend on the number and size of the outstanding committed amounts of other subscribing Participants (prospective Participants) and the number of available mortgage loans that become available monthly for the Fund.

During this period, which may be subject to various changes in market and other circumstances, the subscribing Participant has committed himself for the committed amount. There is a risk that, during this period, the circumstances could change such that a subscribing Participant would wish to withdraw or leave even before it has been fully admitted to the Fund.

An exit request may be submitted in accordance with the Conditions for the part in respect of which it has been admitted. For the still outstanding committed amount, the Manager will have already reserved the mortgage debt at NN Bank N.V. and cannot reverse that. This risk is for the account and risk of the subscribing Participant(s).

COVID-19

Covid-19 and Business Continuity Plan

At the end of the first quarter 2020, the world has been confronted with the outbreak of COVID-19. The impact of this on the financial markets has been significant both in terms of bond and equity prices as well as financial market volatility. Stock markets have been under severe pressure, important interest rates moved down as did oil prices. After a volatile second quarter of 2020, the global economy as a whole recovered quite strongly in the third quarter of 2020 from the depths of the Covid-19-induced recession.

NN IP has an active risk and portfolio management process, where on a daily basis market and liquidity risk are being assessed and where needed portfolio adjustment are made. Besides this, there is continuous monitoring on the compliance with both the prospectus and regulatory guidelines. Where needed mitigating actions are taken. The current processes are considered to be effective to ensure continued effective portfolio management.

NN IP has activated the Business Continuity Plan “BCP”. The IT infrastructure has been upscaled enabling the majority of staff to work from home having access to all systems. NN IP continues to manage the portfolios under the circumstances and no material negative impact is experienced on our operational control framework. There is no reason the current crisis has any negative impact on the viability of either the fund or the manager.

Although the majority of staff is still working from home we do not experience any material disruptions in our processes. As a result from the COVID-19 pandemic we expect that a combination of working from home and working form the office will become the standard.

2.14 Developments during the year

In this paragraph the main general trends and fund specific developments are presented, including the impact on the performance of the Fund.

2.14.1 General financial and economic developments in 2021

- Investors fully embraced the reflation story in the first half of 2021. Economic support, improving macro data, the roll-out of vaccines, and strong earnings drove equity markets higher. The cyclical commodity markets also benefited from this trend. The rise in government bond yields limited fixed income returns, however.

- In the first three months of 2021, equities, real estate and commodities delivered high single-digit returns. Riskier fixed income spread products also had a very good quarter.

- The shift in control of the US Senate quickly led to a big fiscal policy push after Democrats won the Senate majority, and the rapid roll-out of vaccines in the UK and the US made the road towards economic normalization more tangible.

- Central banks in the developed world, meanwhile, remained committed to continued monetary policy support, even in the wake of higher inflation data and a quicker-than-expected recovery of corporate profitability.

- A short squeeze in the equity market at the end of January wiped out all gains, and the moves in the rates market moves triggered brutal style rotations at the end of both February and March.

- The biggest challenges in the first quarter came from the sharp rise in US government bond yields. At first this was driven mainly by a rise in inflation expectations. Later on, real rates started to rise sharply as well. In January investors were still not too worried, but the heightened rate volatility in February and March led to mood swings and theme rotations from value to growth, and back.

- Commodities posted a strong first quarter. The energy segment did very well, helped by high OPEC+ output compliance and expectations of rising demand as the economy normalized. Precious metals lagged; the stronger US dollar and rising US rates were also headwinds.

- The second quarter was also a strong one for most asset classes. Equities, real estate and especially commodity markets rose significantly. Riskier credit outperformed safe government bonds, although we observed a significant divergence throughout the quarter between declining US Treasury yields and rising German Bund yields.

- The underlying narrative changed over the quarter, which led to important reversals at the intra-asset class level. Inflation data surprised to the upside. Although this is currently seen as primarily caused by temporary factors, uncertainty has increased.

- One of the key events of the quarter was the outcome of the June Federal Reserve meeting, where the US central bank made a hawkish pivot, meant to manage inflation expectations.
- The initial reaction of the fixed income market to the Fed's June meeting was a further drop in Treasury yields and a bull flattening of the yield curve. Investors eventually adopted a more positive view, which was reflected in a drop in the VIX towards the lows of the year and a renewed rise in risky assets.
- The normalization process gained traction and became more tangible in the second quarter with the gradual reopening of economies. The V-shaped recovery was confirmed with the help of fiscal support, accommodative monetary policy, strong earnings growth with positive guidance, and vaccination roll-outs in the developed economies.
- Inflation data surprised to the upside. Although this is currently seen as primarily caused by temporary factors, uncertainty has increased. One of the key events of the quarter was the outcome of the June Federal Reserve meeting, where the US central bank made a hawkish pivot, meant to manage inflation expectations.
- Regional equity performance in Q2 was mixed. The US, supported by a renewed interest in growth sectors in the second half of the quarter, was the best-performing region, followed closely by Europe. Japan was the laggard, despite being a play on the global recovery. The stall in vaccination rates probably played an important role in explaining the underperformance.
- Emerging market equities also underperformed in Q2, with a huge divergence between weak Asian markets and strong non-Asian markets. The strength in oil and industrial metal prices, and the strength of commodity currencies, are surely among the reasons. Another reason is the struggle with the pandemic in several emerging markets in Asia, which is denting their growth outlook and creating a clear headwind for EM.
- In fixed income, we observed a narrowing of the spread between US and German yields, which we consider temporary. Global high yield and high-grade spreads tightened.
- Lower US yields fueled the search for yield and were a tailwind as was the rapid improvement in corporate profitability.
- Commodities were the best performing asset class in Q2, supported by the economic reopening and further supply discipline in the oil sector.
- In June, non-oil commodity prices fell as a hawkish turn at the Fed, a rising US dollar and Chinese clampdown measures weighed. Only energy escaped the declining trend in June.

2.14.2 Fund specific developments in 2021

Market developments

Despite the contraction in the first quarter of 2021 resulting from the strict lockdown measures, it appears that economic recovery and the end of the Covid-19 crisis in the second quarter of 2021 are becoming visible. DNB issued a publication that shows that the financial sector has been very able to cope with the economic impact of the pandemic. Budgeting, monetary and prudential measures have played an important role in mitigating economic damage. Since it is expected that the economic recovery will continue, the crisis measures will be phased out further by the end of June 2021. This is necessary because the side effects will lead to an increase in debt and upward pressure on asset prices.

According to the CBS (Statistics Netherlands), the Dutch economy decreased by 3.7% in 2020 and this equals the situation of 2009. The difference however is that the cause of the decrease in 2020 lies outside the economy and can mainly be contributed to the Covid-19 crisis. The decrease in the Netherlands was smaller that in surrounding countries and also smaller that the average in the EU. The decrease will continue in the first quarter of 2021, by 0.8% compared to the previous quarter. This further decrease can be attributed to lower consumer expenses. De rise in investments and trade deficit slightly mitigated the decrease. As a result of all the measures and the vaccination campaign, the Dutch National Bank (DNB) expects a good recovery according to their presentation of 14 June 2021. DNB expects a growth of 3.7% for 2021, 3.7% in 2022 and 1.9% in 2023. The European Commission expects that the economic growth in the EU will be as high as 4.8% in 2021.

Transaction prices of both new and existing houses increased further in the first 6 months of 2021, with an absolute record in March 2021 in which the average price of an existing house was EUR 407k according to 'CBS Kadaster'. The low mortgage interest rate, the large shortage in housing and the changes in regulations effective from the beginning of the year all contributed to increasing housing prices in the first 6 months of 2021. The average sales prices of houses increased by 14.7% in the first three months of 2021 compared to a year earlier. Such an increase hasn't occurred since 2001. The number of transactions keeps rising: In the first 5 months of 2021 101,707 existing houses were sold, against 88,700 in the same period of 2020.The number of settled mortgages also increased: During the first 5 months of 2021 207,883 mortgage contracts were closed with a total value of EUR 63.67 billion compared to 176,250 mortgage contracts with a total value of EUR 52.39 billion in the same period of 2020. When examining the mortgage contracts, a clear shift from new mortgage transactions to renewals and transfers of mortgage contracts is visible, meaning the transactions have shifted from the buyers market to the non-buyers market. This is a clear indication that the housing market is more an more saturated. Despite a remaining high demand for housing, the number of new mortgage transactions is at a very low point: nearly half of the mortgage requests currently comes from house owners looking to transfer their mortgage (27%) or improve their house, for example by renovating or investing in sustainability (19%). The 55+ age group is showing the strongest increase and they predominantly choose to transfer their mortgage.

The increase in sustainability investing in the Dutch housing- and mortgages market continued in the first 6 months of 2021. Calcasa, an independent technology company, states that the Dutch housing market still has a long road ahead when it comes to sustainability. It will take some time before the average energy label on the housing market is an A-label. Of the total of approximately 8 million houses, around 4.6 million will have an energy label by the end of 2020, of which 1.3 million will have an A-label. Flevoland is the province with the highest number of A-labels (43%). Calcasa further states that when the tempo of the last 5 years is maintained, it will take until 2055 before the average energy label for all houses is an A-label. Effective 1 January 2021, the Dutch government introduced an adjusted method for the determination of the energy labels for buildings: the NTA8800. This method provides a better insight in the energy consumption of a building. The energy labels are still indicated by letters, but the the manner in which this is determined is different. For example, solar panels have a lower effect in the calculation of the energy-label. According to Calcasa, 28% of the requests for an energy label under NTA8800 received an A-label in the first 6 months of 2021. This is slightly higher that the housing supply at the end of 2020.

Consumer sentiment on the housing market, as measured by the 'Eigen Huis Marktindicator' of Vereniging Eigen Huis (VEH), was 103 in December 2020 and increased to 105 in May 2021, moving away from its low point of 93 in June 2020. In this scale 100 accounts for neutrality. According to the CBS-index, general consumer confidence in December 2020 was -20. In June 2021, consumer confidence grew to -3 which is above the average of the last 20 years (-8). The confidence level reached its all time high (36) in January 2000. All time low was reached in March 2013 (-41). According to the CBS, consumer prices in June 2021 were 2.9% higher than a year earlier, which was 8.3% in May 2021. The 'HICP' index also shows an increase in June 2021, an increase in prices of 1.7% compared to a year earlier. In May 2021 this was 2.0%.

The increase in prices compared to 2020 can be mainly attributed to higher consumer confidence levels caused by the notion that the Covid-19 crisis appears to nearing its end. In their forecasts of June 2021, the DNB expects the 'HICP' index to be around 1.5% for both 2021 and 2022, which is higher than the average increase of 1.1% for 2020.

The construction sector also profits from the increased confidence in the Dutch economy, which was 2.2% higher in the first quarter of 2021 compared to a year earlier. In the first quarter of 2021 building permits for over 18,000 houses were granted. This is over 15% more than in the first quarter of 2020. This is the 5th quarter in a row in which granted building permits increase, compared to a year earlier. Despite the nitrogen problems and the Covid-19 crisis, the number of building permits increases. Other beneficial factors are that there are sufficient building locations and the fact that the government is providing support by investing, for around 450 million in 2021. The total number of new built houses for 2021 and 2022 is estimated at 68,000 and 70,000 respectively. The number of finished new houses is however insufficient to cope with the large demand for housing. Research commissioned by the Ministry of Domestic Affairs shows a housing shortage of 331,000 houses in 2021. This will increase to 419,000 in 2025 after which it will slowly decrease. There are structurally not enough houses, even after 2035. This shortage in houses is the main reason why supply and demand on the buyers market will grow further apart in 2021. According to the 'Kadaster' this translates into the situation that and increasing number of houses is sold above the asking price, houses are for sale for a shorter period of time and starters are less able to afford an own house. According to CBS there were nearly 8 million houses in the Netherlands on 1 January 2021, almost 75,000 more than a year earlier. It is expected that this number will clearly surpass 8 million in the course of 2021.

Because of the decrease in infections and the ongoing vaccinations (according to the RIVM, on 22 June 2021 a number of 12 million vaccinations have been given and 5 million people are fully vaccinated), the Dutch government decided on 18 June 2021 to relieve some important Covid-19 restrictions. As of 26 June 2021, face masks are only mandatory in public transportation and in situation where 1,5 meter distance cannot be achieved. Opening hours for restaurants, cinema's and theaters have been relaxed and foreign travelling is also less restricted. Because in July 2021 the infections increased again due to the Delta variant, additional measures were taken on 9 July, mostly restricting festival activities.

During the first half year of 2021, the 10-year NN Mortgage interest rate eventually came out 11 bps lower at the end of June 2021 (1.33%), compared to December 2020 (1.44%). Because the 7-year swap rates increased from -0.38% at the end of December 2020 to -0.11% at the end of June 2021, the gross spreads on mortgages are approximately 38 bps lower (1.44%) compared to the end of December 2020 (1.82%). At the end of June 2020, gross spreads were around 55 bps lower than at the end of June 2021.

As of March 2020, financial institutions, including NN Bank, are offering their mortgages lenders that fall within the category of Consumer Loans the possibility to postpone their payment of interest and paydown when they can prove to have been financially impacted by the Covid-19 crisis. NN Bank granted 114 clients within DMRF postponing of their payments. By the end of June 2021 there were 12 mortgage lenders than still had an active postponing arrangement.

The biggest change around mortgages for 2021 concerns dual-income households. As of 1 January 2021, the second income counts for 90% when determining the maximum mortgage amount. The Dutch government has improved the housing market for starters: As of 2021, buyers that are younger than 35 years of age that will occupy the house themselves, will (only once) not pay transition tax. This is a benefit of 2% of the purchase price. As of 1 April 2021 there is an additional rule that the price of the house may not exceed EUR 400,000. Buyers of 35 years and older that will occupy a house, will pay 2%. Other buyers, such as investors, will pay 8%. In addition, the NHG-amount has been increased form EUR 310,000 to EUR 325,000. For houses that have energy-saving measures, the NGH-amount has been increased from EUR 328,000 to EUR 344,500.

Investment policy

The net performance of the Fund in the reporting period is 1.20% for Participation Class I and 1.33% for Participation Class Z. This is the performance after deduction of the costs for managing the Fund, as included in the 'Key figures' section of this report. Of this performance, 0.27% is attributable to market value effects as a result of the decreased NN Bank N.V. mortgage offer rates. Interest income contributed 1.19% to the performance. Since the launch of the Fund, there have never been any losses on the mortgages held by the Fund.

The Fund invests in mortgages issued by NN Bank N.V. after 1 January 2014. The maximum Loan-to-Value (LTV) on the mortgages in which the Fund invests is 100%. In the case of energy-saving measures, the Fund may invest in mortgages with an LTV of up to 106%. The duration of the Fund was 7.46 years at the end of December 2020. Due to repayments and indexation of collateral, the weighted average LTV decreased from 74.8% at the end of 2020 to 72.77% at the end of June 2021.

The Fund grew from € 3,861 million in investments at the end of 2020 to € 4,667 million at the end of June 2021. The Fund is now registered in 14 countries: The Netherlands, United Kingdom, Belgium, France, Denmark, Sweden, Finland, Germany, Spain, Italy, Ireland, Greece, Slovakia and the Czech Republic.

In June 2021, the Fund distributed dividend of 1.9% for both Participation Class I (€ 2.19) and Z (€ 2.22) based on the Net Asset Value (NAV) at the end of May 2021. The annual meeting of participants will take place on 16 September 2021.

Risk appetite and risk policy within the investment policy

Investors in NN Dutch Residential Mortgage Fund are exposed to various risks, as described in the section 'Principal risks and uncertainties'. Important risks are liquidity risk, paydown risk, concentration risk and interest rate risk.

The production of mortgages for the Fund is basically equivalent to the production of NN Bank NV for the various group insurance entities. However, any selection of mortgages allocated to the Fund from production by NN Bank NV through the allocation mechanism must meet the Fund's eligibility criteria.

Credit risk on new mortgages decreases over the time because the majority of the mortgages are paid down (25.93% of the mortgages in the Fund at the end of June 2021 were free from mandatory paydown).

Rising property prices normally have a positive effect on the credit worthiness of mortgages, because the current loan to market value (CLTMV) of existing mortgages decreased. This is illustrated in the Fund by a 'Weighted Average Loan to Indexed Market Value' of 72.76%, compared to a 'Weighted Average Current Loan to Original Market Value' of 90.07%. NN Bank maintains very strict acceptance criteria. These factors, in combination with a liquid property market and relatively strong Dutch economy, mitigate the Fund's credit risk.

Use of derivatives in the reporting period

The Fund does not use derivatives.

Forward looking statement

The first 6 months of 2021 are characterized by the start of the economic recovery following the worldwide Covid-19 crisis that started early 2020. The Dutch vaccination campaign is running smoothly and the lockdown measures by the government have mostly been released at the end of June 2021. During this period, the indicator of the Dutch housing and mortgages market developed positively. There are however increasing signals that house prices are increasing too fast. The shortage in available houses combined with low interest rates created a situation in which there are a lot of buyers on the market that have to overbid to be able to buy a house. According to CBS Kadaster, transaction prices of Dutch houses in the first quarter of 2021 are averaging 11.3% higher than a year earlier. This means Dutch housing prices have again increased more than the European average (6.1%). The number of mortgage transactions also keeps increasing, where the number of mortgages transfers exceeds the number of new mortgages.

We expect that the low mortgage interest rates and the limited amount of new built houses, the demand for houses will remain high in the second half of 2021. In its publication of 14 June 2021 DNB expects the shortage on the Dutch housing market will remain for the short and medium term. DNB expect an average house price increase of 10%. Because the unemployment rate will increase in 2022 and the mortgage interest rates will, in alignment with the increase in interest rates on the capital markets, also increase, this will limit consumer consumption. This is the reason that DNB expects the price increase in the housing market will be lower in 2022 compared to 2021, but will still be 5,5% which is still high in historical perspective. DNB also expects that average mortgage interest rates will further increase in 2023, which will mitigate the increase in house prices to 3.5%.

The exact effects of the Covid-19 pandemic on the economic recovery will depend on the effectiveness of the vaccinations, also with respect to the mutations of the Covid-19 virus. Currently infections are increasing, mostly caused by the Delta variant.

Considering various scenarios, DNB expects the Dutch economy to realize a growth of 3.0% in 2021. For 2022 and 2023 the growth is estimated at 3.7% and 1.9% respectively. In addition, DNB expect the unemployment rate to decrease from 3.8% (2020) to 3.6% (2021). For 2022 and 2023, DNB expects an increase to 4.5% and 4.1% respectively.

We expect that the consequences for the Fund will be limited. Even in a situation that house prices will decrease, the low average LtV of the Fund will be able to cope with this, which means very little losses due to forced house sales are expected. The expectation is that the shortage in houses will continue to pressure the demand for houses in the short and medium term. We expect that the Weighted Average Loan to Indexed Market Value of the Fund will further decrease in 2021.

The Hague, 19 August 2021

NN Investment Partners B.V.

3. Semi-annual Financial statements 2021

(For the period 1 January through 30 June 2021)

3.1 Balance sheet

Before appropriation of the result

Amounts x € 1,000	Reference	30-06-2021	31-12-2020
Investments			
Mortgages	3.5.1	4,596,689	3,787,960
Investment funds	3.5.2	398,657	221,398
		4,995,346	**4,009,358**
Receivables	**3.5.3**		
Interest receivable		8,251	7,247
Other receivables		43,353	46,848
		51,604	**54,095**
Other assets	**3.5.4**		
Cash and cash equivalents		5,144	11
		5,144	**11**
Short-term liabilities	**3.5.5**		
Construction depots		238,019	155,158
Deferred mortgage origination costs	3.5.1	50,054	39,371
Interest payable		403	275
Other liabilities		96,676	6,812
		385,152	**201,616**
Net amount for receivables and other assets minus short-term liabilities		**-328,404**	**-147,510**
Net amount for assets minus liabilities		**4,666,942**	**3,861,848**
Net assets participation holders		4,615,870	3,775,774
Net result		51,072	86,074
Net asset value	**3.5.6**	**4,666,942**	**3,861,848**

3.2 Profit and loss statement

For the period 1 January through 30 June

Amounts x € 1,000	Reference	2021	2020
OPERATING INCOME			
Investment income	**3.6.1**		
Interest received from mortgages		52,724	39,739
Interest paid on construction depots		-2,645	-1,479
Revaluation of investments		**35,264**	**-40,242**
Other results	**3.6.2**		
Offer risk		-22,794	-
Other operating income		15	86
Total operating income		**62,564**	**-1,896**
OPERATING EXPENSES	**3.6.3**		
Operating costs		11,277	7,541
Interest		215	79
Total operating expenses		**11,492**	**7,620**
Net result		**51,702**	**-9,516**

3.3 Cash flow statement

For the period 1 January through 30 June

Amounts x € 1,000	2021	2020
CASHFLOW FROM INVESTMENT ACTIVITIES		
Purchases of investments	-1,739,772	-617,079
Sales of investments	799,731	304,484
Interest received	51,720	39,409
Other results	-19,284	-25,066
Change in construction depots	82,861	-20,095
Interest paid	-2,732	-1,627
Operating costs paid	-11,637	-7,867
Total cash flow from investment activities	**-839,113**	**-327,841**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of participations	844,246	336,512
Paid for redemptions of participations	-	-6,000
Total cash flow from financing activities	**844,246**	**330,512**
NET CASH FLOW	**5,133**	**2,671**
Cash and cash equivalents opening balance	11	17
Cash and cash equivalents closing balance	**5,144**	**2,688**

3.4 Notes

3.4.1 General Notes

The semi-annual financial statements are prepared under going concern principles and according to the financial statements models for investment institutions as established by the legislator. The financial statements are prepared in accordance with Title 9 of Book 2 of the Dutch Civil Code and the Dutch Accounting Standards ("Richtlijnen voor de jaarverslaggeving"). Wording may be used that deviates from these models to better reflect the contents of the specific items. The accounting principles used to prepare this semi-annual report are the same as used to prepare the annual report 2020.

When preparing the semi-annual financial statements, the Manager uses estimates and judgments that are essential for the amounts in the semi-annual financial statements. If deemed necessary, the nature of these estimates and judgements, including the corresponding assumptions, are disclosed in the notes to the semi-annual financial statements.

The semi-annual financial statements have not been audited by the independent auditor.

The functional currency of the Fund is the euro. Unless stated otherwise, all amounts in the semi-annual financial statements are presented in thousands of euros.

3.5 Notes to the balance sheet

The presented movement schedules cover the period from 1 January through 30 June

3.5.1 Mortgages

Amounts x € 1,000	2021	2020
Opening balance	3,748,589	2,887,732
Purchases	987,087	417,441
Sales/repayments	-225,026	-144,066
Revaluation	35,985	-39,912
Net position at the end of the reporting period	**4,546,635**	**3,121,195**
Deferred mortgage origination costs	50,054	33,346
Closing balance	**4,596,689**	**3,154,541**

The revaluation on the mortgages for 2021 include an amount of 22,794 in unrealised revaluation on mortgages for the period between the mortgage offering by NN Bank N.V. to the mortgage lender and the delivery of the mortgage by NN Bank N.V. to the Fund. The amount of 22,794 in unrealized revaluation on mortgages together with the offer risk, as described in paragraph 3.6.2, does not have any impact on the existing participants in the Fund.

Deferred mortgage origination costs

The deferred mortgage origination costs represent the amount (fictive) payable by the Fund for the transfer of mortgages from NN Bank N.V. These costs are charged to the Fund on a monthly basis together with the servicing fee.

Details on mortgage portfolio

	30-06-2021	31-12-2020
Nominal value mortgages (x € 1,000)	4,266,484	3,502,319
Outstanding construction depots (x € 1,000)	238,019	155,158
Number of loans	14,576	12,076
Number of loan parts	32,653	26,593
Weighted average interest rate on mortgages	2.31%	2.44%
Payments overdue for more than 90 days (x € 1,000)	104	110
Credit losses (x € 1,000)	-	-
Loan to value ratio*	85.19%	86.61%

* The loan to value ratio (LTV) of a mortgage is calculated by dividing the total outstanding principal amount of the mortgage by the original market value of the related collateral.

3.5.2 Investment funds

Amounts x € 1,000	2021	2020
Opening balance	221,398	181,072
Purchases	752,685	199,638
Sales	-574,705	-160,418
Revaluation	-721	-330
Closing balance	**398,657**	**219,962**

Investments in investment funds

At 30 June 2021

Name of the fund	Number of shares/participation	Net Asset value in €	Ownership percentage	Value x € 1,000
NN (L) Liquid Eur – Zz Cap Eur*	401,088	993.94	17.2%	398,657
Closing balance				**398,657**

At 31 December 2020

Name of the fund	Number of shares/participation	Net Asset value in €	Ownership percentage	Value x € 1,000
NN (L) Liquid Eur – Zz Cap Eur*	222,218	996.31	8.0%	221,398
Closing balance				**221,398**

* This investment is held for cash management purposes.

The participating interest percentage relates to the interest in the relevant share class of the fund in which the Fund participates.

3.5.3 Receivables

All receivables have a maturity shorter than one year, unless stated otherwise.

Interest receivable

This relates to earned interest on investments that has not yet been received.

Other receivables

The other receivables at 30 June 2021 mainly consist of a receivable from NN Bank N.V.

3.5.4 Other assets

Cash and cash equivalents

This concerns freely available cash at banks. Interest on the bank balances is received or paid based on market interest rates.

3.5.5 Short term liabilities

All short term liabilities have a maturity shorter than one year, unless stated otherwise.

Construction depots

The construction depots are the unused amounts of the principal mortgages, which are available for withdrawal by the mortgage customers.

Deferred mortgage origination costs

The deferred mortgage origination costs represent the amount payable by the Fund for the transfer of mortgages from NN Bank N.V. These costs are charged to the Fund on a monthly basis together with the service fee.

Interest payable

This concerns interest payable on construction depots.

Other liabilities

Other liabilities includes an amount of 90,224 for dividend payable. Other liabilities may also include interest payable on amounts due to credit institutions, expenses payable, subscriptions received in advance and other liabilities.

3.5.6 Net asset value

For the period 1 January through 30 June 2021

Amounts x € 1,000	Participation class I	Participation class Z	Total
Movement schedule net asset value			
Opening balance	3,681,143	180,705	3,861,848
Issue of participations	831,390	12,856	844,246
Redemption of participations	-	-	-
Distribution to participants	-86,500	-3,724	-90,224
Net assets participation holders	**4,426,033**	**189,837**	**4,615,870**
Net result	48,502	2,570	51,072
Closing balance	**4,474,535**	**192,407**	**4,666,942**

The Fund invests in mortgages, for which a frequent market price is not available. As a result, law and regulations prescribe forming a revaluation reserve for the amount of unrealised revaluation. However, this does not limit the distribution capacity of the Fund.

The revaluation reserve as 30 June 2021 amounts to 251,380 (31-12-2020: 213,807). This revaluation reserve relates to the part of the total fund assets related to the unrealised revaluation of investments without a frequent market price.

The revaluation reserve is determined based on the valuation of the total mortgage portfolio using an average cost price.

For the period 1 January 2020 through 30 June 2020

Amounts x € 1,000	Participation class I	Participation class Z	Total
Movement schedule net asset value			
Opening balance	2,754,646	194,488	2,949,134
Issue of participations	308,208	28,304	336,512
Redemption of participations	-6,000	-	-6,000
Distribution to participants	-61,045	-4,447	-65,492
Net assets participation holders	**2,995,809**	**218,345**	**3,214,154**
Net result	-9,084	-432	-9,516
Closing balance	**2,986,725**	**217,913**	**3,204,638**

Unrealized revaluation

At year end the positive and negative unrealized revaluation on the investment portfolio is as follows:

Amounts x € 1,000	Positive revaluation	Negative revaluation	Total at 30-06-2021	Total at 31-12-2020
Mortgages*	251,380	-	251,380	213,807
Investment funds	-	-434	-434	-108
Balance at end of reporting period	**251,380**	**-434**	**250,946**	**213,699**

* The mortgage portfolio is managed by NN Bank N.V. From the administrative systems of NN Bank N.V. it is not possible to split the unrealized revaluation on the mortgages into positive and negative revaluations at the level of the individual mortgages. Therefore, only the total amount of the unrealized revaluation on the mortgages is mentioned in the table.

3.5.7 Rights and obligations not included in the balance sheet

Committed amounts

The overview below includes the amounts that (potential) participants have committed for subscription to participations of the Fund at the end of the reporting period.

Amounts x € 1,000	30-06-2021	31-12-2020
Outstanding commitments		
Participation class I	312,366	964,712
Participation class Z	41,000	30,522
Total outstanding commitments at end of reporting period	**353,366**	**995,234**

3.6 Notes to the profit and loss statement

3.6.1 Investment income

Interest received from mortgages

This is the interest income on mortgage loans (including interest for early repayment) that is attributable to the reporting period.

Interest paid on construction depots

This is the interest expense on construction depots attributable to the reporting period.

3.6.2 Other results

Offer risk

The offer risk consists of revaluation, net mortgage interest and prefunding costs of NN Bank N.V. for the period between the mortgage offering by NN Bank N.V. to the mortgage lender and the delivery of the mortgage by NN Bank N.V. to the Fund. The offer risk is for the risk and account of the subscribing participants and is disclosed in the profit and loss statement as offer risk.

The offer risk amount of 22,794 is also included in the unrealised revaluation on mortgages and therefore has no net impact on the existing participants. The offer risk applies from 1 July 2020, since as of that date the purchase process of mortgages has changed, as disclosed in the 2020 annual report. Therefore, the offer risk at 30 June 2020 amounts to zero.

Other operating income

Other operating income represents proceeds that are not directly generated from income from investments. This also includes a fee for the allocated cost of the investment in investment funds and the fund is therefore compensated for these costs since allocated costs are already included in the Fixed Miscellaneous Expenses Fee of Participation Class I and Z of the Fund.

3.6.3 Operating expenses

Operating costs

The operating costs include the management fee and the Fixed Miscellaneous Expenses Fee (‘Vaste Overige Kostenvergoeding’ or ‘VOK’). These costs are further explained in the notes to the Participation classes included in this report.

Interest

This is the interest due to credit institutions and the interest on the outstanding balance at NN Bank N.V.

3.7 Other general notes

3.7.1 Subsequent events

None.

3.8 Notes for Participation Class I

3.8.1 Result

For the period 1 January through 30 June

Amounts x € 1,000	2021	2020
INVESTMENT RESULT		
Investment result		
Interest from mortgages	50,343	35,451
Interest on construction depots	-2,704	-1,319
Revaluation of investments	**33,736**	**-35,967**
Other results		
Interest	-21,846	-
Other operating income	192	78
Total operating result	**59,721**	**-1,757**
OPERATING EXPENSES		
Operating costs	11,014	7,255
Interest	205	72
Total operating expenses	**11,219**	**7,327**
Net result	**48,502**	**-9,084**

3.8.2 Net asset value

	30-06-2021	31-12-2020
Fund assets (x € 1,000)	4,474,535	3,681,143
Number of participations issued (units)	39,497,632	32,262,071
Net asset value per participation (in €)	113.29	114.10

3.8.3 Performance

For the period 1 January through 30 June

	2021	2020
Net performance Participation Class (%)	1.20	-0.28

3.8.4 Expenses

For the period 1 January through 30 June.

Amounts x € 1,000	2021	2020
Management fee	4,956	3,265
Fixed Miscellaneous Expenses Fee	6,058	3,990
Total operating costs Participation Class I	**11,014**	**7,255**

The management fee for Participation Class I of the Fund Participation amounts to 0.225% per year. The management fee is charged on a monthly basis and calculated on the total net asset value of Participation Class I at the end of each month.

The Fixed Miscellaneous Expenses Fee ("VOK") for Participation Class I of the Fund amounts to 0.275% per year. This fee is charged on a monthly basis and calculated on the total net asset value of Participation Class I at the end of each month.

These other costs include servicing and administration of mortgages of 0.245% as well as regular and/or ongoing costs of 0.03% including the costs of: the administration and reporting (including the costs of data supply and processing and calculating financial data of the Fund, the custody of the assets, the auditor, supervision, payments, publications, meetings of participants as well as external advisors and service providers such as the Transfer Agent), as far as these costs have been charged to the Fund.

3.9 Notes for Participation Class Z

3.9.1 Result

For the period 1 January through 30 June

Amounts x € 1,000	2021	2020
INVESTMENT RESULT		
Investment result		
Interest received from mortgages	2,381	4,288
Interest paid on construction depots	-128	-160
Revaluation of investments	**1,528**	**-4,275**
Other results		
Interest	-948	-
Other operating income	10	8
Total operating result	**2,843**	**-139**
OPERATING EXPENSES		
Operating costs	263	286
Interest	10	7
Total operating expenses	**273**	**293**
Net result	**2,570**	**-432**

3.9.2 Net asset value

	30-06-2021	31-12-2020
Fund assets (x € 1,000)	192,407	180,705
Number of participations issued (units)	1,677,280	1,565,879
Net asset value per participation (in €)	114.71	115.40

3.9.3 Performance

For the period 1 January through 30 June

	2021	2020
Net performance Participation Class (%)	1.33	-0.17

3.9.4 Expenses

For the period 1 January through 30 June.

Amounts x € 1,000	2021	2020
Fixed Miscellaneous Expenses Fee	263	286
Total operating costs Participation Class Z	**263**	**286**

The Fixed Miscellaneous Expenses Fee ("VOK") for Participation Class I of the Fund amounts to 0.275% per year. This fee is charged on a monthly basis and calculated on the total net asset value of Participation Class Z at the end of each month.

These other costs include servicing and administration of mortgages of 0.245% as well as regular and/or ongoing costs of 0.03% including the costs of: the administration and reporting (including the costs of data supply and processing and calculating financial data of the Fund, the custody of the assets, the auditor, supervision, payments, publications, meetings of participants as well as external advisors and service providers such as the Transfer Agent), as far as these costs have been charged to the Fund.

The Hague, 19 August 2021

NN Investment Partners B.V.

4. Other information

4.1 Management interest

At 30 June 2021 and 1 January 2021, the Board Members, as appointed on the dates mentioned, had no personal interest in (the investments of) the Fund.