

## Our ESG approach applied to FDC's sub-fund FDC SICAV Actions Monde - Actif 3

- Our sustainable investment process has been tailored to FDC's specific needs
- Materiality and relevance of ESG factors are key in our investment approach
- We apply the following ESG elements to FDC's mandate:
  - ✓ Exclusionary criteria
  - ✓ Avoidance of controversial behavior
  - ✓ Positive selection on ESG momentum

Our process reflects an approach that goes beyond concerns about environmental and social sustainability and has been an integral to NN Investment Partners since the turn of the millennium. For us, sustainable investing refers to an investment approach that recognizes the importance of environmental, social and corporate governance factors when assessing the risks and returns of investments. Below we will discuss in more detail how we apply this in managing FDC's sub-fund.

### Exclusionary criteria

Starting point for the ESG criteria and methodology we apply is full compliance with FDC's list of excluded companies. These concern benchmark constituents that show behavior and/or are involved in activities that strongly oppose FDC's ethical values and ESG criteria.

NN Investment Partners has a strong heritage and long experience in the determination, application and impact management of such exclusions. This is reflected in the excluded activities that we apply to our sustainable equity strategies as well as exclusions we apply to the proprietary and third-party assets we manage. On top of FDC's exclusions-list we refrain in FDC's sub-fund from being invested in companies that are directly and clearly involved in arms production and trade, the gambling industry, tobacco production, adult entertainment, nuclear energy production, and leather & fur production for fashionable purposes.

#### FDC exclusion list



**FDC EXCLUSION LIST**  
(as of 31 December 2017)

N°	COMPANY	COUNTRY	BENCHMARK INDUSTRY	REPORTED INCIDENT FOR EXCLUSION	NORM AREA
1	ADANI PORTS AND SPECIAL ECONOMIC ZONE LIMITED	IN	Transportation Infrastructure	Environmental and human rights violations in port project (India)	Environment
2	AECOM	US	Construction & Engineering	Nuclear weapons programmes (United States)	Weapons
3	AEROMET ROCKETDYNE HELDOS	US	Aerospace & Defense	Nuclear weapons programmes (United States)	Weapons
4	AGRUM	CA	Chemicals	Operations in occupied territory (Western Sahara)	Human Rights
5	ARBUS SE	SL	Aerospace & Defense	Nuclear weapons programmes (France)	Weapons
6	AKBANK	TR	Commercial Banks	Financing of controversial hydro-power project (Turkey & Laos)	Human Rights
7	ANDRITZ AG	AT	Machinery	Supplying to dam projects resulting in breaches of international standards (Turkey)	Human Rights
8	BAE SYSTEMS	GB	Aerospace & Defense	Nuclear weapons programmes (United Kingdom)	Weapons
9	BANGKOK BANK PUBLIC	TH	Commercial Banks	Financing of dam project with environmental and human rights risks (Laos)	Human Rights
10	BANK HAPUOLMI	IL	Commercial Banks	Financing of illegal settlements in occupied territories (Palestine)	Human Rights

#### Activity exclusions NNIP Sustainable Equity Strategy



Nuclear



Controversial Weapons



Military Contracting



Small Arms



Tobacco Products



Gambling



Adult Entertainment



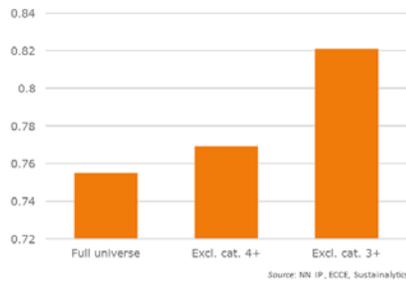
Fur and Specialty Leather

### Controversy avoidance

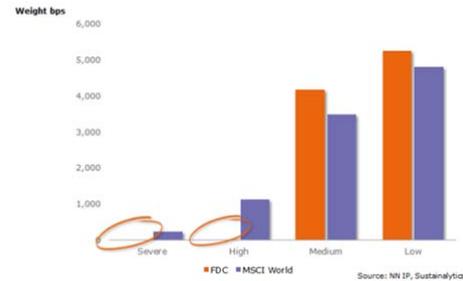
In addition to the before mentioned activity-based exclusions, we also refrain from investing in companies that are clearly and structurally involved in major controversial incidents. These behavior-based exclusions can for example relate to heavy environmental pollution, major breaches of UN human rights conventions and structurally detrimental governance issues.

Our ESG heritage is strongly built upon insights into economic rational and business materiality of ESG and sustainability factors. Over the years we have studied the relations between these metrics intensely. We also performed this research in cooperation with academic entities such as the European Centre for Corporate Engagement (ECCE) to warrant these findings are free from biases and presumptions. With regards to controversies we found that the behavior-based exclusion of companies with significant and structural incidents improves the risk-return (Sharpe) ratio of portfolios in a statistically significant way.

Annualized Sharpe ratios of controversy-free portfolios



Avoidance of material controversies in your mandate

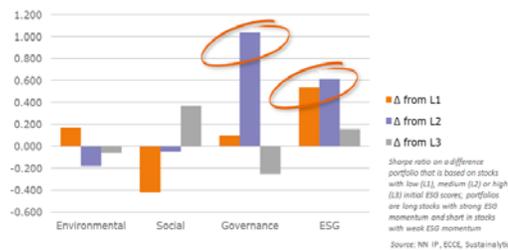


Compliance of FDC's sub-fund with these exclusionary criteria is run through our front office system that includes an extensive compliance module. Relevant new data are immediately fed through by direct links to our ESG data providers. Quality and interpretation of these data is assured by our Controversy Council and ESG board.

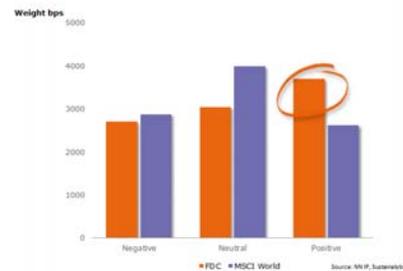
**Positive selection**

With regards to ESG scores our ECCE research has clearly shown that there is statistically significant alpha in the change of the scores, hence ESG momentum. This applies especially to companies that score average or below-average in absolute sense, where ESG qualities do not seem to be publicly recognized yet.

Sharpe ratios of positive ESG momentum portfolios



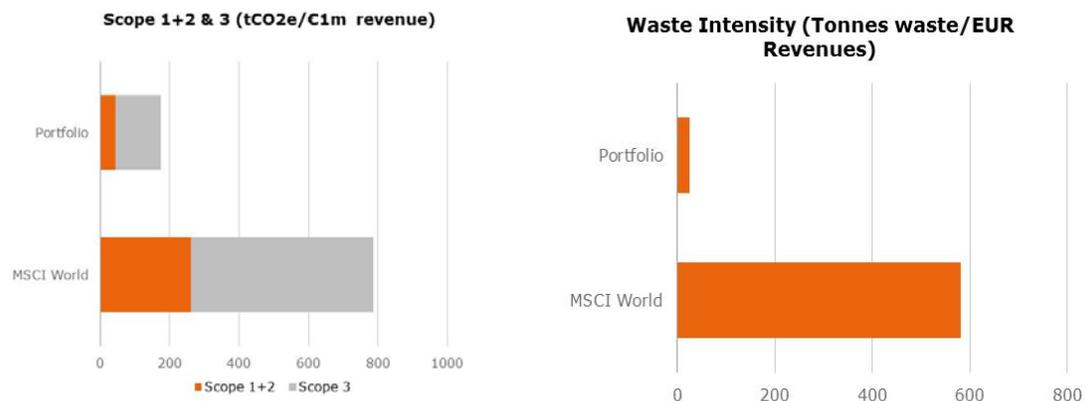
Positive ESG momentum overweight in your mandate



This resonates well in our investment structure and organization where our analysts as well as portfolio managers frequently discuss ESG related matters. It is also reflected in our company engagements, for example in financial update meetings or business strategy presentations. All in all our ESG approach is clearly focused on investment relevance and materiality, and it is supported by academic research and built upon progressive insights.

We apply insights and data in a consistent ESG methodology, resulting in analysts and portfolio managers talking the same language and comparing apples to apples. Through this approach ESG and sustainability aspects are fully embedded in our daily investment processes that ultimately determine our preferred portfolio constituents. This has enhanced our risk budgeting process, our return perspectives and therefore also our capabilities to create a long term resilient portfolio.

An additional result of this process is a favorable foot-print profile of FDC's sub-fund and our sustainable equity portfolios. This clearly shows from the charts below with regards to FDC's sub-fund.



### **Conclusion**

Our sustainable investment process is designed to construct a balanced portfolio of quality stocks which consists of the fittest and most appropriate holdings for FDC's sub-fund. This is ultimately reflected in the strong sustainability characteristics of FDC's sub-fund:

- Full compliance of FDC's portfolio with FDC's exclusions-list and our activity-based exclusions
- FDC's portfolio is not invested in any company that shows controversial behavior
- FDC's portfolio clearly shows positive ESG momentum, with the average absolute ESG score close to the market average
- FDC's portfolio has an attractive foot-print profile, substantially lower than the benchmark associated to FDC's sub-fund

On top of its sustainability profile, FDC's portfolio continues to have an attractive financial profile with higher growth, profitability and valuation characteristics compared to the benchmark. We remain convinced that this overall quality profile will continue to generate resilient investment returns.

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