



Responsible Investment: Engagement Guidelines

In this publication you will find our policy on dialogue with companies, also known as our engagement policy. This policy gives you, as an investor, insight into what we mean by engagement and how we model that within ISIM.

ISIM offers a range of funds which all have their own unique approach to sustainability. Within our funds we can invest direct lines (equities or bonds) or indirectly via investment funds. This has also consequences for our engagement as we either can engage directly with our investees, or we do this indirectly that the fund manager engages with his investees.

ISIM has defined engagement guidelines which are based on guidelines established by ING Bank N.V. and further detailed in this document.

Portfolio management of ISIM's funds and with that engagement has been delegated to external Investment Managers. Some of these Investment Managers are part of the ING Group and, hence exercise engagement in line with these guidelines. Investment Managers, which are not part of ING Group, may apply their engagement policies. However, such engagement policies can only be applied if the alignment with ISIM's engagement guidelines has been assessed and if such policies encompass engagement themes and objectives defined within ISIM's engagement guidelines.

Dialogue between investor and company to strengthen sustainability.

What do we mean by engagement?

When you hear the word engagement, the first thing that might arise is marriage. As engagement is a period that could come before marriage. In the investment world, the meaning is somewhat different, but there is some resemblance. In general, engagement refers to a relationship between an investor and a company. This relationship is not only purely financial but goes beyond that. Investors see themselves as co-owners of a company and therefore jointly responsible for a company's activities and conduct. If an investor sees opportunities for the company to improve its position or conduct, especially regarding other stakeholders, they will want to engage with the company with the aim of changing its conduct or activities. This is usually not limited to a conversation or letter, but often leads to a series of contact moments spread over several years. This creates a stronger involvement, engagement, between the company and the investor. In other words, engagement is ultimately about dialogue between the investor and the company, with the common aim of strengthening the company's sustainability.

Why engagement?

When investing responsibly and sustainably, it is appropriate to make room in the investment process for engagement. With engagement, you show that you are an engaged investor in the company. You do not invest in the company for the short term, only to profit from a possible positive share price performance. But as an investor you make a conscious decision to invest in a company and does so because you expect that the company can profit in the long term from the activities it undertakes. This includes a good relationship with the company, whereby you as an investor show interest in the company and its activities, and help the company become more sustainable.

By strengthening sustainability, the resilience of a company is improved. When a company is better embedded in society, it is easier to take all stakeholders into account, and it can react faster and better to new developments in that society. Research has also shown that engagements with a positive outcome can lead to positive share price performance (Dimson 2012). Another ongoing study shows that engagement limits downside risk (Hoepner 2020).

Being involved in the company you invest in

Engagement themes and objectives

ISIM as a global asset manager can impact and empower people and companies to lead the trends and better manage the challenges arising from them.

As a part of ING Group, ISIM focuses on two themes for engagement:

- a) Climate action
- b) Financial Health

Climate change is threatening our planet. The world needs to transition to a low-carbon economy and the financial sector has an important role to play in this. At ISIM we take that role seriously and we want to contribute to driving that transition, also by engaging with companies to foster the implementation of decarbonization strategies and principles of low carbon economy.

Financial health is a leading cause of stress for people everywhere. We believe that financially healthy people contribute to a healthy economy and drive social progress. That's why we engage with companies to drive their impact on improving the financial health of the employees and the community overall.

How do we engage in dialogue?

For us, engagement is part of the overall sustainable investing process. This process consists of several steps and engagement, including voting, is the final step in the process. Some investors consider engagement the best way to demonstrate sustainable awareness. In their view, only engagement can change the conduct of companies. By excluding companies, you would be depriving yourself of the opportunity to engage in dialogue with them. We also think that engagement is important as a means of changing companies, but we attach great importance to effective sustainable assessment of companies. We prefer not to invest in companies with controversial conduct, because we do not consider it appropriate, and, because such conduct can have a negative effect on the company's share price performance.

Our engagements therefore focus mainly on improving companies' awareness of key sustainable developments in order to improve their resilience and thus that of their investors. It is not about telling them what they are not doing right, but about telling them how to do it better. If you want to know more about our voting guidelines, please visit our website www.ing-isim.lu/esg.

ISIM's funds are invested into direct investments (equities and bonds) or investment funds, what implies that engagement can be exercised in two ways: Engagement with companies is organized through a collaborative initiative with other investors and/or engagement consultants, or through engagement performed by the Investment Managers of these investment funds.

Engagement is a means to improve business awareness (cont.).

Direct investment in companies – cooperation with other investors

To strengthen the resilience of the companies in which we invest, Investment Manager looks in particular at the possibility of entering into a dialogue with companies together with other investors. In this way, we can benefit from each other's knowledge and strengthen our position towards the companies during the dialogue. Research by Dimson (2019) also indicates that joint engagements can be more effective.

There are two types of cooperation:

- i. cooperation with an engagement consultant - Investment Managers within ING Group use Sustainalytics as an engagement consultant. The company or its predecessor has more than 25 years of consulting experience.
- ii. cooperation with other investors.

On the topic of climate, **Investment Managers** within ING Group engage through the following programmes:

- a) **Fighting deforestation** – The programme aims to help preventing the further loss of biodiversity by listed companies as well as helping to mitigate the climate and environmental risks associated with deforestation. (Cooperation with other investors)
- b) **Responsible cleantech** –The program aims to achieve efficient and fair production with due consideration for the environment and society. (With the external engagement consultant Sustainalytics)

On the topic of financial health, Investment Managers within ING Group engage through the following programs:

- a) **Human Capital and the Future of Work**, - The program aims to encourage companies to develop active policies for hiring, developing, and retaining talent. (With the external engagement consultant Sustainalytics)
- b) **Platform Living Wage Financials (PLWF)** - The program aims to encourage, support, and monitor companies to encourage the payment of a living wage by companies in the clothing, agriculture, and food supply chain. (Cooperation with other investors)

These programs are diversified in terms of sectors, which means that companies from all sectors, may be part of these engagement initiatives. We have different ways to execute the engagement: it can be a personal meeting, phone calls or email exchanges.

Engagement is a means to improve business awareness (end).

Investments in other funds

Concerning investments into other funds, Investment Managers assess engagement policies of these other funds and engagement performed by them.

Escalation process Certain themes which we deem relevant may be raised directly with a company.

Depending on the circumstances or the severity of the event we may react with the following actions:

- EGM questions and/or voting against management at EGMs.
- Letters to, and meetings with these companies or with portfolio managers of the underlying funds
- Public statements including pre-declaring voting intentions, filing shareholder resolutions, and open letters to companies.
- Changing capital allocation, divestment, or refusal to purchase new debt both for companies and underlying funds.

The engagement can last for several years. Depending on the goals set for the engagements, at the end of the engagement period we can divest, invest, or continue to invest in the company.

Other forms of cooperation with other investors on which we focus within ING Group are:

- a) Membership of the Dutch Association of Investors for Sustainable Development (VBDO). The VBDO wants to raise the profile of sustainable investment in the Netherlands. Part of the work is to engage with (mainly Dutch) companies to improve sustainability.
- b) Supporting initiatives by other investors through the platform of the PRI, the international association of investors for responsible investment.
- c) Encouraging the managers of the investment funds in which we invest to engage with companies to improve sustainability.

We work with engagement consultant Sustainalytics.

How do we report on this?

Before you can change, you must be aware of the need for change. Knowledge plays an important role here. This applies to companies, but also to investors. We will therefore report annually on the various engagement initiatives that our Investment Managers undertake. In doing so, we provide insight into the steps undertaken, but also into the dilemmas we are facing in the transition to a more sustainable economy.

**Contributing to
strengthening the
resilience of companies**

What are our expectations?

Engagement is part of our overall sustainable investing process. So, we do not focus on engagement alone, but find that engagement strengthens our total approach. Our focus remains on effective continuous assessment of companies on sustainability before we include them in the portfolio, but also once they have been included.

We do not expect to be able to change companies on our own. However, we expect that by working together in a structural way and with the strength of the ING Group brand, we can contribute to strengthening the resilience of companies for the better.

Disclaimer

This document is informing potential investors in ISIM funds about the Engagement Guidelines ('Guidelines') applied within the funds it manages. This document is compiled by ING Solutions Investment Management (ISIM) based on the Guidelines established by ING Bank N.V. For further information about any fund managed by ISIM or policies applied by ISIM, please consult the KIID, the Prospectus and the section 'Policies' of the ISIM-website (www.ing-isim.lu).

Before making any investment decision, please read carefully the KIID and Prospectus of the relevant instrument. All documents can be found on <https://www.ing-isim.lu>.

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