

# Voting Policy for Proprietary Assets



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## Clarification note

The Voting Policy for Proprietary Assets is part of the Responsible Investment Framework policy of NN Group N.V. (NN Group). Last update: April 2024

## Important legal information

Nothing in this document expressed or implied, is intended to or shall create or grant any right of any cause of action to, by or for any person (other than NN Group N.V.). The Policy may be subject to change at any time.

# 1. Introduction

NN Group entities are long-term global institutional investors with a duty to act in the best interest of its policyholders, clients, shareholders, and other stakeholders (such as NN Group entities jointly and individually referred to as 'NN Group'). To fulfil this duty, we acknowledge the importance of taking Environmental, Social and Governance (ESG) factors into account when making investment-related decisions as NN Group is convinced that this creates sustainable long-term value creation not only for NN Group as a company, but also for society as a whole. This Policy is part of our Responsible Investment Framework policy and describes the framework that NN Group uses when exercising voting rights attached to its own assets at shareholder meetings or via proxy voting.

Exercising voting rights is one of the most effective ways for investors to hold company management accountable. NN Group has created this Policy to communicate its principles with regards to voting, set clear expectations of investee companies and to guide the voting considerations on behalf of NN Group's listed proprietary equity portfolio. This policy reflects the principle that company management should base their decisions on the sustainable long-term interests of the company and its shareholders while acting responsibly towards all stakeholders. Voting rights should be exercised on an informed basis and as deemed fit. The assets that are managed for NN Group's own account, also referred to as Proprietary Assets, comprise of the general account investment portfolio of the insurance entities and the assets of NN Bank and of the holding companies within NN Group.

## **NN Group Listed Equity Portfolio**

NN Group has delegated the management of the proprietary equity portfolio to the asset manager Goldman Sachs Asset Management (GSAM) who exercises NN Group's voting rights on our behalf based on this Policy. NN Group retains the right to provide voting instructions for individual shareholder meetings and ballot items. In case GSAM cannot vote on behalf of NN because of a conflict of interest or other restriction, it will enable NN Group to cast the votes itself.

NN Group's listed equity portfolio primarily consists of 5%+ stakes in small- to medium-sized European companies, with no more than 50 companies in the portfolio. The asset management team responsible for managing the proprietary equity portfolio implements an active investment strategy, which includes regular engagement with companies on a variety of topics, including sustainability. On occasion, NN Group representatives may also be involved in these dialogues.

The asset management team stays in close contact with investee companies to stay informed about the agendas of annual general meetings (AGMs). NN Group monitors the policy's implementation and engages with the asset manager team to ensure alignment. GSAM uses an external service provider to support the process of proxy voting whereby all voting decisions are made on a case-by-case basis in accordance with the stipulations of NN Group's Voting Policy. NN Group retains the right to provide voting instructions for individual shareholder meetings and ballot items.

## **Active ownership – voting and engagement**

Active ownership is a key part of NN Group's responsible investment approach; it means that we recognize the value of exercising voting rights and of dialogue and engagement with investee companies. We believe that active ownership contributes to good corporate governance and thereby enhances sustainable long-term value of the investee company over time. We also believe that ESG factors have the potential to influence the financial performance of individual companies. Companies that maintain high standards of corporate governance and corporate responsibility will tend to deliver better long-term shareholder value over time.

## **Voting**

Exercising voting rights is an important pillar of NN Group's active ownership activities and an important link in the chain of accountability between a company and its shareholders. The right to vote at company shareholders' meetings is a fundamental part of a well-functioning corporate governance system. NN Group therefore finds it important to exercise this right, wherever possible, for its proprietary equity investments. NN Group bases its Voting Policy on generally accepted best practices. These best practices are among others reflected in the OECD Principles of Corporate Governance, the Global Corporate Governance Principles of the International Corporate Governance Network (ICGN) and national corporate governance codes. While we believe that there are some overarching principles of corporate governance that apply globally, it recognises that corporate governance practices vary internationally.

The asset manager managing the equity portfolio of NN Group needs to apply this Voting Policy in the execution of the voting. In order to do so, it is required to have access to the research and voting advice provided by a specialised proxy research provider. Furthermore, the manager has a dedicated Proxy Voting Committee tasked with voting on NN Group's Proprietary Assets in accordance with the stipulations of NN Group's Voting Policy. The voting rights are exercised on a case-by-case basis, taking

into account the principles, criteria, and best practices as discussed hereafter in sections 2, 3, and 4 of this Policy. In case the Voting Policy does not provide explicit direction to the Proxy Voting Committee, the Proxy Voting Committee will inform NN Group in a timely manner how it proposes to vote for these ballots and NN Group retains the right to instruct the Proxy Voting Committee how to vote for these ballots. If NN Group doesn't use its right to instruct, the Proxy Voting Committee has the discretion to apply its judgement with regard to how to vote for individual ballot items, as long as such vote is in line with the spirit of the underlying principles of this Policy and in the best interest of NN Group.

### Engagement

NN Group – directly and through its external asset manager – actively engages with companies in our equity portfolio on an ongoing basis. In the event that a difference of opinion arises with one of our investee companies about issues that we deem critical for the company's success, both financial and non-financial in nature, and for which direct engagement meetings have not proven successful, we will consider the following options:

- Writing a letter to the management and /or supervisory board in which the matters of concern are raised
- Holding additional meetings with senior management and/ or supervisory board, specifically to discuss matters of concern
- Expressing concerns in a shareholders' meeting
- Voting against relevant agenda items or routine items
- Voting for a shareholder resolution
- Support, file or co-file a shareholder resolution
- Issuing a public statement
- Intervening jointly with other institutional investors on specific issues
- Selling the shares

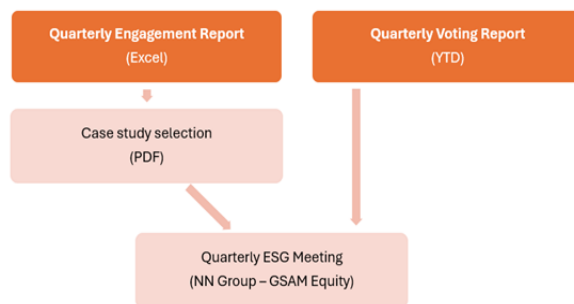
NN Group is not active in securities lending activities for our equity portfolio. This always allows us to exercise our voting rights.

### Monitoring

We monitor the voting process to safeguard compliance with NN Group's voting policy. Our external asset manager submits a quarterly proxy voting report, allowing us to confirm that all resolutions have been voted on. If any votes are missing, we request an explanation as we believe that exercising the right to vote is crucial. We also conduct random sample checks on individual voting decisions to assess alignment with NN Group's voting principles. If there are any voting decisions that seem to differ without a reasonable explanation, we address these with the asset manager.

To further check alignment between voting and engagement, we compare the voting report to the quarterly engagement report and discuss opportunities for alignment in our quarterly ESG meeting with the asset management team. The figure below shows our process for monitoring external managers' engagement and proxy voting processes.

### Quarterly Active Ownership Reporting Process: Proprietary Equity Portfolio



## 2. The integration of sustainability into companies' long-term strategy

NN Group is committed to ensuring that investee companies act responsibly towards all stakeholders in order to achieve long-term success. This responsibility includes recognizing the impact of business decisions on the environment, as well as social and human rights issues in the regions and supply chains in which they operate.

NN Group encourages companies to adhere to internationally accepted sustainability standards beyond complying with local legal requirements. These include for instance the Paris Climate Agreement, the UN Guiding Principles on Business and Human Rights (UNGPs), the UN Global Compact, the OECD Guidelines for Multinational Enterprises (OECD Guidelines) and the international labour standards of the International Labour Organization. The Sustainable Development Goals (SDGs) are also an important benchmark. NN Group embeds these standards by encouraging investee companies to adopt standards, policies and management processes across all corporate functions to ensure they deal adequately with ESG matters. Companies should also indicate which sustainability risks are most material to their business, and how it is aligned with the strategy and accompanying objectives and targets.

### Non-financial business reporting

In a fast-changing, globalizing world, information material to investor decision-making is becoming increasingly diverse and dynamic. Long-term success in managing a business in today's complex economic, environmental and social landscape is increasingly dependent on factors not reflected in financial statements. The same is true for investors when assessing a company's present and future valuation and ability to understand its risks and opportunities. Material issues such as climate change, biodiversity loss, supply chain management, human capital and human rights, and environmental management systems, represent a class of variables that can have a direct impact on short and long-term value creation and destruction.

NN Group recognizes that ESG information, when combined with financial information, can provide valuable insight into the overall quality of management, a critical variable in the appraisal of the firm's financial prospects. Therefore, we encourage our investee companies to report on ESG matters that are material to ensure that the business creates and sustains value. Companies are encouraged to combine all material information (both financial and ESG) in a format that serves its stakeholders.

When identifying ESG risks and opportunities that could potentially affect the business, investee companies are encouraged to look across their entire value chain, and across all corporate functions, from human resources to operations and supply chain management, finance, marketing and sales. To create consistency and comparability, we promote the use of reporting frameworks such as those presented by the Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI), the Taskforce on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD).

### Non-financial business reporting

NN Group uses its votes to voice concerns regarding sustainability and to hold the board accountable in the absence of proper oversight and management of ESG risks and opportunities. Therefore, we may vote against the annual accounts and reports, the remuneration proposals, or the (re)election of the board chair or incumbent directors in case there is a lack of:

- Disclosure on material ESG factors
- Disclosure on GHG emissions reduction targets aligned with a 1.5°C pathway
- Proactive and explicit ESG board oversight
- Board gender diversity
- Compliance to our norms-based RI criteria
- Stakeholder-aligned remuneration that incorporates ESG performance metrics
- Human rights and adherence to NN norms-based criteria

### Net Zero and Climate Action

As a long-term investor, NN Group recognises that environmental issues, particularly climate change, pose both risks and opportunities. To better understand investment risks associated with climate change and the transition to a low-carbon economy, we measure the carbon emissions connected with a large part of our proprietary investment portfolio. The results of the annual carbon footprint analysis are included in the NN Group Annual Report.

NN Group aims to transition its proprietary investment portfolio to net-zero greenhouse gas emissions by 2050. To achieve this goal, we have developed asset-class-specific Paris Alignment strategies including listed equities. These strategies include reference reduction targets to steer and monitor the effectiveness of our net-zero strategy. By 2025, we aim to reduce greenhouse gas emissions from our corporate investment portfolio by 25%, and by 45% by 2030 (compared to 2019).

To ensure that investee companies take urgent action on climate, we intend to use our votes and engagement as a means to flag clear expectations. Specifically, we may hold boards accountable by voting against their (re)election if they fail to set science-based net-zero emissions targets in line with limiting global warming to 1.5°C over preindustrial levels. We may also vote against the remuneration policy and report if the company has not incorporated climate change performance elements in the executive remuneration scheme (refer to voting considerations on page 10). Additionally, if companies fail to report according to the TCFD recommendations, we may consider voting against the annual accounts and reports (refer to voting considerations annual report and accounts on page 10).

Companies that disclose a net zero transition plan and provide a routine vote on the implementation of this plan ('Say on Climate') are assessed on a case-by-case basis. NN Group's vote will be formed by a number of elements such as climate governance, decarbonization strategy, capital allocation alignment, and targets, whilst taking into account regional, sectoral and company-specific differences.

### Human Rights

As an institutional investor, NN Group recognizes and respects the importance of human rights. We believe that human rights are essential to our business practices and investment decisions. To guide our approach, NN Group has developed minimum requirements based on our organisation's values, relevant laws, and internationally recognised standards such as the UN Global Compact, UNGPs, and the OECD Guidelines. These requirements are referred to as our norms based responsible investment (RI) criteria. If there are strong indications that an issuer may be in violation of these criteria, a decision needs to be taken with regard to whether NN considers this a violation. Examples of such indications can be research from NN Group's external ESG research or engagement provider(s), inputs from own (investment) staff, inputs from its external asset managers, or information from NGOs or media sources.

For more information on our approach, please review our Responsible Investment Policy Framework. If we have concerns about any investee company's involvement in or (mis)management of norms-based or human rights related issues, NN Group will assess on a case-by-case basis together with our external asset manager and determine the appropriate voting approach.

### Biodiversity

Biodiversity loss and climate change are critical themes in responsible investment. Urgent action is needed to reverse human-caused ecosystem degradation and limit climate change, as continuing biodiversity loss will have severe consequences. In the past 50 years, wild organism abundance has declined by about

half across many groups, including birds, mammals, and insects, with rare and endemic species hotspots being particularly affected. Degraded ecosystems resulting from pollution, deforestation or climate change lead to reduced availability of natural resources, which affects many companies relying on these resources for their business models. Additionally, some companies contribute to land and water pollution, deforestation and climate change, while others relying on agricultural and fishery products are at risk of biodiversity loss.

At NN Group, we recognise the importance of promoting the protection and restoration of biodiversity and ecosystems through our financing and active ownership activities. We participate in initiatives such as the Finance for Biodiversity Foundation, Nature Action 100 and the Ceres Valuing Water Initiative to strengthen our engagement in these areas. To support our ambitions, we review guidance from international environmental best practices and corresponding laws and regulations, including the UN Global Compact, IFC Performance Standards, and the Paris Climate Agreement.

As mentioned earlier in this document, NN Group's responsible investment approach includes observing norms-based criteria for corporate behaviour. These criteria also include environmental factors such as serious and systematic pollution that may negatively impact biodiversity and/or local communities. As we continue to develop our biodiversity approach, we may establish more specific criteria to guide our voting behaviour. For agenda items related to biodiversity and other environmental factors, NN Group will work with our external asset manager to consider investee companies' impacts on a case-by-case basis. This may include factors such as water impacts, land degradation, and deforestation.

### Shareholder engagement and escalation

To maximize the effectiveness of our activities, NN Group strives to align its engagement and voting efforts. This means that we monitor engagements and keep track of how responsive companies are to our engagement asks and how well companies are progressing on the identified change objectives. Engagement at NN Group can take several forms, including direct engagements or engagements conducted on our behalf by our external asset managers and service providers. NN Group utilises a monitoring framework to track engagement progress against specific milestones. In cases where progress is lacking, we may leverage one of the actions outlined Chapter 1, or we may decide to vote against routine items as a form of escalation when engagement response or progress is lacking. Further, NN Group may consider to support, file or co-file a shareholder resolution as a way to flag inaction, dissatisfaction, and encourage progress on ESG topics.

# 3. Underlying principles of the proxy voting policy

Shareholders play an important role in ensuring that boards are held accountable for their actions. In line with this, the Shareholder Rights Directive II (SRD II) – an EU directive – sets out to strengthen the position of shareholders to ensure that decisions are made for the long-term stability of a company. The exercise of ownership rights by shareholders should therefore be facilitated, including giving shareholders timely and adequate notice of all matters proposed for shareholder vote. NN Group recognizes that shareholders should act in a responsible way aligned with the objective of sustainable long-term value creation for all stakeholders. The asset manager managing NN Group's proprietary investments, analyses and, wherever feasible, influences ESG risks and opportunities at investee companies. The fact that NN Group in its role as a shareholder has rights as well as responsibilities towards investee companies is reflected in the following principles

## **Principles NN Group expects the investee companies to respect:**

1. All shareholders should be given the opportunity to participate effectively, and on an informed basis, in shareholder meetings. The exercise of ownership rights by all shareholders should be facilitated, including giving shareholders timely and adequate notice of all matters proposed for a shareholder vote.
2. Investee companies should maintain transparency in their organization and decision-making procedures, business model, strategy and risk oversight and disclose information necessary to enable shareholders to make an informed decision on voting issues and on whether to buy, hold, or sell a security issued by the company.
3. Investee companies are expected to comply with generally accepted corporate governance best practices, such as reflected in the OECD Principles of Corporate Governance and the Global Corporate Governance Principles of the International Corporate Governance Network (ICGN). We also expect investee companies to comply with the corporate governance standards that are applicable in the country of domicile.
4. Investee company management should always be accountable to shareholders and other stakeholders. Both management board members / executive directors and supervisory board members / non-executive directors should base their decisions on the long-term interests of the company, its shareholders, and its other stakeholders.
5. Merger and acquisition proposals should be considered in the interest of enhancing long-term stakeholder value.
6. To ensure long-term performance for the shareholders, investee companies should act responsibly to all stakeholders. This includes recognition of the impact of business decisions on the environment, as well as recognition of the – positive and negative – impact of their business decisions on social and human rights issues in the regions in which they operate. NN Group uses internationally recognized frameworks such as the UN Global Compact, OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights to assess companies' alignment.
7. The interests of management should be aligned with the long-term interests of the company, its shareholders, also when it comes to executive compensation. To ensure this, executive compensation should incentivize long-term performance and be adequately matched with financial and non-financial KPI's.



# 4. Voting policy for specific agenda items

The proxy voting policy serves as a framework for exercising voting rights at shareholder meetings. We recognise that accepted standards of corporate governance may differ between markets and regions. However, we believe that there are sufficient common threads globally to identify an overarching set of principles. This section describes NN Group's policies regarding management and shareholder proposals that generally appear on the agenda of shareholder meetings across many of the markets in which we invest. These proposals are divided in seven key themes:

- Boards and directors
- Executive remuneration and benefits
- Audits and annual reports
- Capital structure, asset sales, M&A and other special transactions
- Proposed changes to statutes, bylaws, and legal structure of the company
- Anti-takeover defense mechanisms
- Sustainability shareholder proposals

## 4.1 Boards and directors

We are of the opinion that management of companies we invest in should always be accountable to the shareholders and other stakeholders. In different jurisdictions, different board structures are prevalent. The two most commonly used board structures are: I) the one-tier board composed of both executive and non-executive directors and II) the two-tier board structure comprising an (executive) management board and a (non-executive) supervisory board.

Where in this Policy reference is made to non-executive directors and executive directors (or directors in general) of a one-tier board, the same applies to members of the (non-executive) supervisory board and (executive) members of the management board in a two-tier board structure and vice versa. Where in this Policy reference is made to Chair, this means the chair of a one-tier board or supervisory board.

Regardless of the board structure adopted, both executive management as well as non-executive directors should base their decisions on the sustainable long-term interests of the company and its shareholders, while acting responsibly to all stakeholders. We expect boards to promote and protect shareholder interests by, but not limited to:

- Establishing an appropriate corporate governance structure
- Ensuring the integrity of financial statements
- Establishing appropriate executive compensation structures
- Overseeing and supporting management in setting strategy

- Ensuring proactive and comprehensive risk oversight and management

All directors need to be able to allocate sufficient time to the board in order to perform their responsibilities effectively, including allowing some leeway for occasions when greater than usual time demands are made. Where we have concerns about the performance of the board or the company, the strategy of the company or the performance of individual directors, we will engage with the appropriate (non-) executive directors.

### 4.1.1 Board composition and independence of directors

NN Group believes that directors should stand for (re-)election on a regular basis. We assess directors nominated for election or re-election in the context of the composition of the board as a whole. There should be detailed disclosure of the relevant credentials of the individual directors in order for shareholders to assess the profile of an individual nominee. We expect the board to have an appropriate balance between executives and non-executives, but also that the non-executive directors can be regarded as independent.

We generally support a governance structure that separates the role of Chair and CEO. This separation, if managed appropriately, may create an optimal oversight structure that is most likely to protect shareholders' interests. If the company's Chair is not independent, the company should adopt an appropriate structure to ensure strong checks and balances to counter a concentration of power. The company should then also explain the reasons why this leadership structure is considered appropriate and keep the structure under review.

### Independence of non-executive directors

One of the principal features of a well-governed corporation is the exercise by its board of directors of independent judgment; meaning judgment in the best interest of the corporation, free of any external influence or conflicts of interest. We are of the opinion that it is important for company boards to appoint independent non-executive directors to ensure independent decision-making. Not all non-executive directors will be fully independent of the executive directors or from dominant shareholders.

NN Group's criteria for the independence of directors draw on a variety of standards, including the OECD Principles of Corporate Governance, guidance from the Corporate Governance Network (ICGN), national corporate governance codes and listing rules.



Common impediments to independence include, but are not limited to:

- Current employment at the company or a subsidiary.
- Former employment within the past several years as an executive of the company.
- Personal, business or financial relationships between the directors and the company, its key executives or large shareholders.
- Length of tenure on the board
- The receipt of incentive pay which aligns the non-executive director's interests with those of the executives rather than the shareholders.

### **Board committees**

We prefer our investee companies to have in place separate (supervisory) board sub-committees for audit, remuneration and nomination/governance matters. Sub-committees are established to assist the (supervisory) board to consider effectively these issues which require special competence and independence. The directors serving on these sub-committees should be solely non-executive directors, of which a majority can be considered independent.

We encourage corporations to move towards fully independent audit and remuneration committees. There should be clear definitions of the role of the board, the sub-committees of the board and the senior management, such that the responsibilities of each are well understood and accepted.

With regards to overseeing and managing the ESG aspects of investee companies, different approaches can be taken. Board-level oversight on sustainability can be organized in dedicated, stand-alone committees, or integrated into existing committees. Companies should publicly disclose the approach taken to governance (including board structure) and the supervision of ESG risks and opportunities.

### **Board diversity**

We believe that boards that draw on a wide range of relevant skills, backgrounds and perspectives, are better able to generate appropriate challenge and discussion, avoiding group-think. It is a board's responsibility to ensure that it possesses and maintains a diverse group of directors. As far as gender diversity is concerned, at a minimum we expect companies to adhere to the quotas adopted in national legislation or national codes as best practice. Also, if no quota has been adopted, companies should disclose their gender diversity policies for the board, senior management and across all operations.

### **Board effectiveness**

We expect boards to have processes in place to evaluate their effectiveness at regular and appropriate intervals. These processes should be disclosed in the annual report and, when an evaluation has been undertaken, there should be a meaningful

account of its outcome. This structured evaluation should be used as a means to identify ways to strengthen the board's effectiveness and to highlight gaps between the skills and background of existing directors and their optimal mix. This exercise will help inform the nomination of new directors whose diversity of skills and experience should address any gaps.

### **Voting on candidate appointments**

In general, NN Group will be supportive of the (re)appointment of the candidates that are proposed by the company. However, NN Group may consider not supporting the (re)appointment of the proposed candidates in certain circumstances, including but not limited to the following situations:

- Where a non-executive/supervisory board member ('director' for the remainder of this section) has a pattern of attending less than 75% of combined board and applicable key committee meetings. Directors are expected to attend all board and applicable committee meetings in order to perform their responsibilities effectively.
- Where there is evidence that a director is not qualified to represent shareholders or has acted in a manner that compromises the ability of the director to represent the interests of the corporation, its affiliated enterprise(s) and all stakeholders. Therefore, we may consider the performance of a director at other companies when deciding on the (re-)election of such a director.
- Where a director has committed himself or herself to service on a large number of boards, such that we deem it unlikely that the director will be able to commit sufficient focus and time to a particular company (commonly referred to as over-boarding). While each situation will be reviewed on a case-by-case basis, NN Group is most likely to withhold votes for over-boarding where a director is:
  - serving on more than five public company boards (role of Chair counts double); or is CEO at a public company and is serving on more than two public company boards in addition to the board of the company where he or she serves as CEO. We take into account board positions held in global publicly-listed companies, not merely within the same market as the company under consideration.
- If a material financial restatement of the annual report or accounts occurs, that suggests a failure of internal controls. Under these circumstances NN Group will vote against the (re)appointment of the directors on the audit committee.
- In order to provide independent judgment, and to generate confidence that independent judgment is being applied, a board should include a strong presence of independent non-executive directors with appropriate competencies. These competencies include among others key industry knowledge and experience. Where a majority of the non-executive directors on the board are not considered to be independent, we may vote against the (re)appointment of

one or more non-independent directors and/or the chair of the nomination committee.

- In a case where the roles of CEO and Chair are held by one individual and the company has not implemented any countervailing measures (e.g. appointment Senior Independent Director, Lead Independent Director), we may consider voting against the reappointment of the CEO-Chair and/or the chair of the nomination committee.
- If executive compensation appears misaligned with shareholders' interests or otherwise problematic, we may consider voting against the chair of the remuneration committee. If concerns about a company's remuneration practices persist for several years, we may also consider voting against the (re)appointment of the other members on the remuneration committee. See also the section on remuneration and benefits.
- In the event the company violates NN Group's norms- based RI criteria in the areas of governance, human rights, labour rights, the environment, and/or bribery and corruption, NN Group will vote against the (re)appointment of the Chair.
- If there is no proactive and comprehensive board oversight of environmental and social risks, NN Group will vote against the (re)appointment of the Chair.
- NN Group believes that board composition is a key factor in determining to what extent management can effectively deliver on the board's strategy for any given company. NN Group therefore expects boards to count on diverse representation stemming from gender, ethnicity, skills and expertise perspectives, and across all jurisdictions. We likewise expect companies to disclose sufficient information on their current and potential board members to support shareholders' well-informed decision making. In the absence of local regulation referring to minimum female representation on boards, we expect companies to adhere to a minimum of 30% women on their board.
- NN Group will vote against the (re)appointment of the Chair and the nomination committee chair or other directors on a case-by-case basis.
- Where the investee company does not disclose GHG emissions (scope 1, 2), NN Group will vote against the reappointment of incumbent director. When a company does not disclose relevant, material scope 3 emissions, we may consider voting against.
- If no GHG reduction targets are disclosed for at least scope 1 and 2 emissions, NN Group will vote against the (re)appointment of the Chair. For companies that are on the Climate Action 100+ focus list, NN Group will vote against the (re)appointment of the Chair if the company has not committed to net zero emissions by 2050 or sooner, by no later than 2025.

#### 4.1.2 Discharge of board and management

At NN Group, we understand the importance of promoting good corporate governance and ensuring that boards and management teams are held accountable for their actions. We therefore carefully consider proposals related to the discharge of directors and other relevant agenda items.

- NN Group generally votes for discharge of directors unless NN Group has reason to doubt the adequacy of the policy pursued that have led to concerns around the board's ability to meet its fiduciary duties, such as but not limited to:
- A lack of oversight or actions by directors which invoke shareholders distrust related to malfeasance or poor supervision.
- Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust or related to alleged actions yet to be confirmed such as price fixing, insider trading, bribery, fraud, and other illegal actions.
- Other notorious governance issues where shareholders will bring legal action against the company or its directors.
- For markets which do not routinely request discharge resolutions (e.g. common law countries or markets where discharge is not mandatory), analysts may voice concern on other appropriate agenda items, such as the approval of the annual accounts or other relevant solutions, to enable shareholders to express discontent with the board. NN Group will vote against proposals to remove approval of discharge of directors from the agenda.

#### 4.2 Remuneration and benefits

##### Remuneration executive directors

The remuneration policy for the management board should be aligned with the long-term strategy of the company and corresponding goals. Executive pay should incentivize sustainable long-term value creation within companies and effectively align the interests of executives with those of shareholders. Remuneration structures should reinforce, not undermine, the corporate culture. Performance measurement should incorporate risk considerations so that there are no rewards for taking inappropriate risks at the expense of the company and its shareholders.

A company's remuneration policy for executive directors should contain fixed and variable elements, and the latter should be based on clear and challenging performance targets. Variable bonus targets should be designed to support and reflect the company's strategic objectives as well as long-term interests. In general, we would stimulate that the variable bonus element is paid out (partly) in shares rather than in options or cash. The shares that are granted to the company's executives as part of the long-term variable compensation should be subject to an appropriate vesting period of at least three years and holding period of five years after grant. In order to align the long-term interests of executive directors and shareholders, we encourage

the adoption of shareholding requirements for executive directors to ensure a build-up of a solid share ownership.

All performance criteria that are part of the remuneration policy must be measurable, transparent and relevant to the company's long-term success. As such, NN Group expects from companies to include non-financial, sustainability measures – short term and long term – into the remuneration policy in order to ensure long-term value creation. Remuneration packages should reflect a range of performance targets and should not rely too heavily on the achievement of a single performance target.

We believe that the (supervisory) board should have some discretionary authority when determining the bonus pay-out for its executive directors. This will enable the (supervisory) board to reward exceptional performance. The discretionary authority should be an explicit element of the remuneration policy as approved by the company's shareholders. If applied, the (supervisory) board needs to explain in the annual report how it has made use of the discretionary authority during the year under review. We oppose cases of special one-off payments for achievements that we consider to be part of the regular responsibilities of executive directors.

The (supervisory) board should maintain a 'malus' authority to withhold all or part of unvested performance-based pay from executives, where the outcome of the remuneration policy leads to a pay-out that is deemed undesirable. At the same time, remuneration policies must be subject to clawback mechanisms. The presence of clawback provisions helps ensure that remuneration is not awarded for fictitious performance, undesirable outcomes and/or decisions that have had negative impacts on society and/or the environment. This might occur following a significant restatement of accounts, where previously granted awards were paid on the basis of inaccurate figures.

#### **Remuneration non-executive directors**

Companies should also provide comprehensive and clear disclosure describing the non-executive compensation plan. NN Group is of the opinion that the annual retainer or fee received by non-executive directors should be cash remuneration. In general, NN Group is not supportive of performance-based remuneration elements as part of the remuneration schemes for non-executive directors. Performance-based remuneration can potentially be in conflict with the independent role of non-executives.

#### **Voting on directors' remuneration plans**

NN Group may vote for proposals that are related to both executive directors' as well as non-executive directors' remuneration plans. Reasons for not supporting a company's remuneration policy can include, but are not limited to:

- The company does not disclose its remuneration policy in a timely fashion and/or is not transparent about the remuneration paid to its (non-)executive directors.
- The policy does not contain an adequate balance between fixed and variable components and/or between short and long-term incentives. This ratio may vary based on market conditions and the specific circumstances of the company. The remuneration of executive directors is based on a fixed salary. Variable elements of the remuneration are subject to a maximum determined in advance.
- The (conditional) granting and payment of variable elements of remuneration is not based on transparent, clear and measurable targets that are relevant to the company.
- The remuneration committee exercises discretionary power in determining short-term and long-term bonuses, but this is not well justified in the company's annual report.
- Salary levels of executive management or non-executive directors are well above industry average and salary levels of peers, while the company is at the same time performing in line with or underperforming its peers.
- Equity (and equity-like) remuneration do not have vesting terms that are clearly consistent with the company's capital allocation and investment horizon. As a general rule, vesting of long-term incentives should generally be a minimum of three years. The short-term incentives should generally be tied to annual performance measures.
- The company has incorporated the possibility in its remuneration schemes to re-price outstanding share options.
- Severance pay exceeds two times fixed annual pay or is paid in the event of inadequate company performance. In countries where more stringent regulation or best practices apply, we use that as a starting point for our analysis.
- In case of a change in control or other corporate events, pro-rata performance criteria that reflect a real measure of underlying achievement should be awarded. We are not in favour of automated acceleration of equity instruments based on corporate events.
- If the executive director is bundled with the award of a non-performance based golden hello (and other non-performance-based remuneration proposals), and the company has not provided a rationale.
- In the event there is no share ownership requirement, or alternative mechanisms to ensure sufficient shareholder alignment for executive directors.
- In case no clawback provisions are implemented whereby any bonus awarded may be recouped by the company in the event of misstatement or misconduct.
- If the executive directors are not rewarded for delivering a sustainable business strategy by linking sustainability KPIs to compensation.
- For companies that are on the Climate Action 100+ focus list, NN Group may vote against the remuneration plans if the

company has not incorporated climate- related performance elements in the executive remuneration scheme.

### 4.3 Audit and annual report

The annual report and accounts are the most important source of information for investors to gain a clear picture of a company's performance. Consequently, it is important for investors to be able to rely on the quality, expertise and integrity of the external auditor. The annual audit carried out is an essential part of the checks and balances required at a company. It is the responsibility of the auditors to provide an independent and objective opinion that the financial statements fairly represent the financial position and performance of the company in all material respects.

For investors it is of utmost importance to get a clear picture of the company's expectations regarding future developments and the risks involved. We expect from our investee companies to disclose information necessary to enable shareholders to make an informed decision on whether to buy, hold or sell a security issued by the company. NN Group expects that companies provide meaningful information in their annual reports about factors that potentially have a material impact on the company. This should also include information on strategic risks relating to environmental and social matters, and the major operational risks inherent in the business model and the strategy for implementing that business model.

The approval of the annual report and accounts as well as the appointment of the auditor and the proposal by the board to approve the auditor's remuneration, are standard items on the agenda in most jurisdictions.

#### Voting on annual report and accounts

NN Group will generally vote in favour of the annual report and accounts. Reasons for not supporting a company's annual report and accounts may include, but are not limited to:

- The company has not published the annual report and accounts at the time of voting.
- There are concerns about the accounts presented and/ or audit procedures used. This may for instance be the case if the auditor discloses material irregularities or problems with the company's finances. Under these circumstances the auditor may refrain from issuing an unqualified audit opinion on the annual results or the relevant audit procedures. Another example would be a material restatement of the accounts.
- In case the company does not disclose ESG information that is considered material to the company, either in the annual report and accounts or in a separate sustainability report.
- In case GHG emissions are considered financially material to the company and the company has not provided climate-related disclosures in line with the TCFD recommendations.

#### Voting on appointment of auditors and auditor compensation

NN Group generally supports proposals to ratify auditors and/or proposals authorizing the board to fix auditor fees. We may consider not supporting the ratification of auditors and auditor compensation in certain circumstances, including but not limited to the following situations:

- There is serious doubt as to the independence and quality of the auditor selection procedure by the (supervisory) board.
- There are serious concerns about the procedures used by the external auditor.
- When there are other relationships or issues of concern with the auditor that might suggest a conflict between the interest of the auditor and the interests of shareholders.
- When audit fees added to audit-related fees total less than two-thirds of total fees paid to the auditor.
- When the company is changing auditors as a result of disagreement between the company and the auditor on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures.
- The auditors are being changed without explanation.
- Name of the proposed auditor has not been published.
- The appointment carries excessive restrictions regarding the legal liability of the auditor.

### 4.4 Taxation

NN Group's tax strategy is aligned with our corporate values, care, clear, commit, which have an impact on how we look at tax. We believe that paying tax is more than a cost of doing business: it is a contribution to society. At NN Group, we believe that being a responsible taxpayer is part of good corporate citizenship. We see taxes as a contribution to society in the countries in which we operate. Further, we recognize that taxes are vital for sustainable development of people and planet, either as a source of income to finance the transformation or as an instrument to influence behaviour.

NN Group is transparent about its approach to tax and tax positions, and we expect the same from the companies in which we invest. Disclosures should be made in accordance with international reporting requirements and standards, as well as relevant local regulations. Companies should also be committed to comply with both the letter and the spirit of the tax laws and regulation of the countries in which they operate, and not undertake or engage in arrangements of which the sole purpose is to create a tax benefit.

The above principles will be taken into account in active dialogues with companies on an ongoing basis. While companies' behaviour regarding taxation will be evaluated on a case-by-case basis when considering items on a companies' ballot, in the event that a companies' tax behaviour does not align with NN's expectations as outlined above NN's external asset manager can choose to reflect dissatisfaction through voting against

(re)election of board members or the approval of the financial figures.

#### **4.5 Capital structure, asset sales, M&A and other special transactions**

##### **Issuance of shares**

We are of the opinion that adequate capital stock is important to the operation of a company. Companies may request shareholder approval for general share issuances in order to have sufficient flexibility with respect to financing needs, without having to call a shareholder meeting for every issuance. While we think that having an authorisation to issue new shares allows management to make quick decisions and effectively operate the business, we prefer that, for significant transactions, management comes to shareholders to justify their use of additional shares. Therefore, it has our strong preference that the requested authorisation to issue new shares with - or without - pre-emptive rights that can be used for any purpose remains limited. Instead, it would have our preference that investee companies with explicit additional financing needs, table this as a separate item on the agenda and clearly explain the underlying rationale.

NN Group generally supports general share issuances, with or without pre-emptive rights, provided that the size and terms of the request are reasonable:

- The company should explain the conditions and circumstances under which the delegated authority will be exercised by the company. The requested authorization to issue new shares should at least include the maximum number of shares to be issued, the duration of the requested authorization as well as how the exercise prize will be determined.
- Permission to issue shares should preferably be requested for up to a maximum of 20% of the issued share capital. For Germany, the UK, and Ireland 33.33%. This authority should preferably not exceed two years. If the proposal contains a figure greater than 20%, the company should explain the nature of the additional amounts. NN Group takes local regulation and best practices into account in its voting decision.
- We will generally support proposals to suspend pre-emption rights for a maximum of 20% of the issued ordinary share capital of the company; NN Group takes local regulation and best practices into account in its voting decision.

##### **Repurchase of shares**

We believe that such programs are generally supportive of the share price and will therefore generally approve a requested authorization to repurchase shares. We expect the requested authorization to include the following information whereon we will determine our position case-by-case: I) a maximum number of shares which may be repurchased; II) a maximum price which

may be paid for each share; III) an explanation of the intended use of the shares that have been repurchased; IV) the motivation for the buy back and demonstration that the repurchase is an appropriate use of the company's cash resources.

##### **Financing preference shares**

We are supportive of a one-share, one-vote policy and oppose mechanisms that skew voting rights. At the same time, we recognise that the issuance of preference shares may offer a company an attractive alternative form of financing. In case of (financing) preference shares, voting rights, if any, may not always be in line with an investor's equity capital commitment to the company. If the issuance of the (financed) preference shares is based on sound financial considerations to the benefit of the company and its stakeholders, a deviation of the one-share, one-vote policy can be justified.

##### **Private placements**

We are generally supportive of private placements where the purpose of the proposed transaction is to raise funds or refinance debt, provided that the size and terms of the request are reasonable:

- The company should explain the conditions and circumstances under which the delegated authority will be exercised by the company. The requested authorization to issue new shares should at least include the maximum number of shares to be issued, the duration of the requested authorization and, if applicable, how the exercise prize will be determined.
- The number of shares to be issued under the private placement agreement should preferably be maximum 10% of the issued share capital of the company.

##### **Related party transactions**

Many companies are involved in material related-party transactions, which could represent a risk for minority shareholders. Companies should have a process for reviewing and monitoring related party transactions. If related party transactions are entered into, they should be conducted on an arm's length basis, approved by independent parties, such as non-interested directors and/or shareholders. The non-interested directors should review significant related party transactions to determine whether they are in the best interest of the company and if so, determine what terms are fair. If a director has an interest in a matter under consideration by the board, then the director should not participate in those discussions and the decision-making. We generally support annual mandates for recurring connected transactions that enable companies to avoid the costly expenses associated with the need to call a shareholder meeting every time the company seeks approval for any such transaction. Annual mandates for recurring connected transaction should not adversely impact minority shareholders.

When evaluating resolutions that seek shareholder approval on related party transactions among others the following factors will be taken into account:

- The pricing of the transaction (and any associated professional valuation)
- The views of independent directors (where provided)
- The views of an independent financial advisor (where appointed)
- Whether any entities party to the transaction are conflicted
- The stated rationale for the transaction, including discussions of timing
- The parties on either side of the transaction
- The nature of the asset to be transferred / service to be provided.

#### **(Loyalty) dividend**

Companies should have clear dividend policies, which set out the circumstances for distributing dividends and returning capital to shareholders. NN Group judges the sustainability and appropriateness of the proposed dividend pay-out and vote accordingly. There is no optimal dividend pay-out ratio as this mainly depends on the stage of development of the company and alternative investment opportunities.

In general, we oppose to granting extra dividend to holders of registered shares that are held for a certain minimum period. The basic principle should be that shareholders of one and the same share class are entitled to an equal dividend per share.

#### **Merger and asset sales proposals**

When evaluating the merits of a proposed acquisition, merger, or takeover offer, we focus on the impact of the proposal, both in the short term as well as in the long term. We consider the financial terms of the transaction and the strategic rationale for the proposal.

The key factors that we typically include when evaluating these proposals are:

- Valuation: Is the value to be received by the target shareholders or the amount paid by the acquirer reasonable? Important considerations in this respect are the strategic rationale, premium paid, our internal equity valuation and valuation compared to its own history and peers, the sharing of synergies with target shareholders. Other factors include sufficient compensation for the opportunity loss and whether a level playing field to other potential acquirers has been respected.
- Strategic rationale: There should be a favourable business reason for the intended combination.
- Board approval: Unanimous board approval and arm's length negotiations are preferred.
- Conflicts of interest: We will consider whether any special interests may have influenced directors to support or recommend the merger.

- Governance: Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction?
- Disclosure: If the company does not fully disclose all relevant information to allow shareholders to make an informed voting decision about the proposed transaction, we may not be supportive of the proposal.

#### **4.6 Proposed changes to the articles of association and legal structure**

Requests to amend a company's articles of association are usually motivated by changes in the company's legal and regulatory environment. Such proposals are especially common whenever stock exchange listing rules are revised, new legislation is passed, or a court case exposes the need to close loopholes.

We generally support amendments that update the company's articles of association to reflect market norms and regulations. We will normally vote against amendments of the articles of association that aim to limit existing shareholders' rights.

NN Group opposes the automatic legal granting of double voting rights to registered shares that are held for a predefined period of time (e.g. two-year period in France under the Florange Act). We will also vote against proposed amendments of bylaw provisions to grant double voting rights to shareholders that register their shares with the company and own the stock for a predefined period of time. At the same time, we are supportive of amendments in the bylaws to exclude the automatic granting of double voting rights.

We are opposed to the practice of bundling several amendments under a single proposal on the agenda of the shareholder meeting, because it prevents shareholders from evaluating each amendment on its own merits. We expect our investee companies to submit each amendment to a separate vote. Where several amendments are grouped into one proposal, we will review whether any of the individual amendments will negatively affect our position as a shareholder.

#### **4.7 Anti-takeover defence mechanisms**

In general, NN Group is not supportive of a proposal to adopt or approve the adoption of an anti-takeover provision and will determine its vote on a case-by-case basis. The link between the financial interests of shareholders and their right to consider and accept buy-out offers is substantial. At the same time, we take into account that an anti-takeover provision can be beneficial to a company and its shareholders where it gives management some time to assess different options. We will normally only support anti-takeover defence mechanisms where the time limit and the circumstances under which a defence mechanism can be triggered are clearly defined.



We recognize that in certain jurisdictions legitimate corporate governance structures are available that have characteristics with similar effects as anti-takeover defences, e.g. the Dutch large company regime ('structuurregime') where the members of the management board are appointed by the supervisory board instead of by the meeting of shareholders and corporations where executive committees have been appointed by the management board which merely consists of a CEO and CFO, thereby diminishing shareholders' powers related to the appointment of the executives. The management board should provide a survey of all existing or potential anti-takeover measures in the annual report and should also indicate in what circumstances it is expected that these measures may be used.

#### 4.8 Depositary receipts and trust office occurring in the Netherlands

NN Group believes that Dutch depositary receipts for shares could be a means of preventing a majority of shareholders from controlling the decision-making process as a result of absenteeism at a general meeting. Depositary receipts should never be used as an anti-takeover mechanism. Investee companies that have issued depositary receipts for shares are expected to act in line with principle 4.4 and best practice provisions 4.4.1 through 4.4.8 of the Dutch corporate governance code. This means among others that management of the trust office shall issue proxies in all circumstances and without limitation to the holders of depositary receipts who so request. The holders of depositary receipts thus authorised have the ability to exercise the voting rights at their discretion. The management of the trust office shall enjoy the confidence of the depositary receipt holders and operate independently of the company which has issued the depositary receipts.

#### 4.9 Sustainability shareholder proposals

NN Group actively votes on shareholder proposals that address ESG issues that are considered material to a company. These proposals encompass clear requests, address investors' expectations and have great potential to achieve positive change for companies and their stakeholders. As such, NN Group generally supports these proposals, in particular those seeking improved sustainability reporting and practices. At the same time, there can be reasons not to support shareholder proposals, for example when a company already deals adequately with the request or has announced improvements in its ESG practices. Also, if we are of the opinion that the shareholder proposal is poorly drafted or the argumentation as used by the filers of the proposal is lacking, we may not support the proposal.

##### Environmental-related shareholder proposals

- NN Group votes in favour of increased disclosure of a company's environmental risk through company-specific disclosure as well as compliance with international environmental conventions and adherence to environmental principles. Similarly, NN Group supports proposals

requesting companies to develop policies to mitigate deforestation and biodiversity loss, that may be linked to companies' soy, cattle, palm oil or other commodity supply chains. In addition, NN Group supports proposals that request programs that enhance recycling and circularity, and other proactive means to mitigate a company's environmental footprint.

- NN Group votes in favour of proposals seeking that companies provide certain disclosures or adopt certain policies related to mitigating their climate change-related risks. For example, regardless of industry, we will support proposals requesting that companies disclose information concerning their scenario analyses or that request the company to provide disclosure in line with certain reporting recommendations, such as those promulgated by the TCFD. NN Group is supportive of proposals requesting companies to develop science-based GHG emissions reduction goals, aligned with a 1.5°C pathway, including for scope 3 emissions if relevant. Similarly, we support proposals requesting that a company improves energy efficiency and accelerates usage of low-carbon, renewable energy sources in its project development and overall business strategy. NN Group is generally supportive of shareholder proposals that seek the adoption of an advisory climate vote at future AGMs ('Say on Climate').

##### Social-related shareholder proposals

- NN Group generally supports proposals that request companies to protect and enhance the rights of workers, as well as local communities and broader constituents in the areas in which companies do business. Accordingly, we will generally vote for proposals requesting that companies provide greater disclosure regarding impact on workers and local stakeholders, as well as better corporate behaviour that respects human and labour rights. In addition, NN Group supports proposals for companies to adopt or comply with certain codes of conduct relating to labour standards (such as those under the International Labour Organization), human rights conventions and guidance (such as the UN Guiding Principles on Business and Human Rights), and corporate social responsibility at large. This may include implementing a whistle-blower policy, adopting a living wage in supply chains, implementing a human rights due diligence process, setting up effective grievance mechanisms, and preventing workplace sexual harassment. NN Group also supports proposals requesting independent verification of a company's contractors' and suppliers' compliance with labour and human rights standards.
- NN Group generally votes in favour of proposals seeking increased disclosure regarding public health and safety issues, including those related to product responsibility. In particular, NN Group supports proposals calling for the labelling of the use of genetically modified organisms, the elimination or reduction of toxic emissions and use of toxic



chemicals in manufacturing, and the prohibition of tobacco sales to minors. We also support proposals seeking information on a company's ethical responsibility in relation to drug production and distribution. Further, we support proposals that request equitable access to medicines.

- NN Group generally votes in favour of proposals that request companies to report on plans to increase board diversity. Further, we also support proposals seeking alignment with local market practice on racial equity audits and pay gap analyses. With regards to gender board diversity specifically, in the event that no local market practice threshold is explicit, NN supports a minimum threshold of 30% representation of women on the board.

#### **Governance-related proposals**

NN Group generally votes for proposals seeking to increase disclosure of a company's business ethics and code of conduct. NN Group supports proposals requesting that a company develops strong governance practices. This may include addressing pay disparity between executives and other employees, establishing board-level oversight on environmental and social risks, nominating directors with specific environmental and social expertise, and including sustainability performance measures in executive compensation schemes. Furthermore, NN Group supports reporting and reviewing a company's political and charitable spending as well as its lobbying practices. The policy will also support well-crafted proposals requesting that companies cease political spending or associated activities

