altii: Ms. Hodzic, can you please give us an overview of the ESG activities of NN Investment Partners. What is happening in the responsible investing area?

Nina Hodzic: Responsible investing is a very broad term. In addition to dedicated SRI (Socially Responsible Investments) strategies it also encompasses ESG integration in the mainstream funds and active ownership (voting and engagement). NN Investment Partners has long committed itself to investing responsibly. We launched our first SRI equity fund in 2000 and our clients have so far invested Eur 4.4 bln AuM with us in SRI funds and mandates managed using specific ESG exclusions and in some cases best-in-class approach. Several years ago we also started systematically integrating material ESG aspects into our mainstream, so traditional investment processes, translating our ESG analysis into the traditional financial analysis. We do this for a vast majority of the EUR 203 billion in assets that we manage across equity and fixed income.

altii: Could you explain what you mean with material ESG aspects?

Hodzic: Let me start with an example from the mining industry. What are the material ESG factors here, so factors that could have an impact on the stock price of mining companies? An important factor is how a mining company deals with surrounding communities. If the community is not treated well the company could lose its license to operate, which will potentially impact the financial results. Other factors are for example pollution, land degradation and the safety of workers. For the SRI funds we make use of predetermined exclusionary ESG criteria, which are in some cases derived from ethical aspects like excluding tobacco or weapons industry. ESG integration is much more about how ESG factors can impact an investment case. Are there reputational risks arising from company’s behavior? Is the environment affected? Are governance rules systematically breached? It is a more complete approach to investing resulting in better assessment of risks and opportunities ultimately benefiting our clients. That is what drives us.

altii: The balance sheets and thereby the composition of the market value of companies has changed significantly over time. What are the implications for the investment process?

Hodzic: We share this observation. We analyzed the market value of S&P 500 companies. In 1975 80% of the market value was comprised of tangible assets. These are assets that can simply be touched. Less than 20% were intangibles. Those are nonphysical assets, e.g. patents or rights. This changed significantly over the last four decades. Today the picture looks pretty much upside down with 80% of the market value determined by intangibles. That makes today’s companies look more like icebergs. The tip of the iceberg reflects the financial capital. The bigger invisible part beneath the sea surface represents the hidden risk and opportunities related to ESG factors like the environmental impact, human capital, stakeholder capital and strategic governance. Obviously those values have a huge impact. Therefore, they should be part of every investment process, being it SRI or mainstream investment process. By unlocking the value of those intangible assets we are able to aim for an optimal risk/return ratio in our investment portfolios and greater consistency and stability for the longer term.

altii: That sounds reasonable but is there any academic evidence showing the added value of ESG.

Hodzic: There are a lot of academic studies showing
how SRI funds perform compared to traditional funds and mainstream benchmarks. In general the studies are telling us that SRI funds perform at least as good as traditional funds and in some cases even better. For example, the argument that by excluding companies the investment universe shrinks, which means less investment opportunities and therefore less return, has no academic evidence (as long as you don’t exclude whole sectors).

Our own research has shown that companies with highly controversial business practices (e.g. in terms of environment or human rights) generate lower returns on average and higher risks. Right now we are stepping forward to figure out which ESG factors are most material for each sector. We have recently entered into a partnership with the European Center for Corporate Engagement (ECCE) which is affiliated to the University of Maastricht (one of the leading research institutes in the area of responsible investing) to gain better insights into the relationship between ESG factors and investment returns. This cooperation will allow us to further improve our investment processes.

**altii:** There are companies that make lot of marketing efforts and let the world know how “sustainable” they are. Is this really a sustainable strategy?

**Hodzic:** We have ways to find out whether it is greenwashing or a company is seriously taking action. A company should be able to explain convincingly what it is doing in the ESG area and how ESG aspects are linked to its strategy and business model. Generally speaking, companies are publishing two reports: one financial and one sustainability report. We are looking into both reports and seeing that there are companies, e.g. in the chemical sector that do pretty well in explaining what they are doing. They are for example using energy saving technologies that reduce costs and implementing strategies for using less water. They are the ones that are making the shift to integrated reporting and are able to explain what kind of impact their behavior has on the financial performance of their company as well as for example their environmental footprint.

**altii:** That is a great result but sometimes companies need to buy goods from suppliers who might not be that ESG conscious. How do you deal with that?

**Hodzic:** That is one of the main challenges for companies operating globally and we see this across all sectors. Some sectors are still struggling like the apparel industry (think about the Bangladesh factory collapses), while for example the household and personal care industry has been able to bring about positive change in the palm oil industry. An increasing amount of palm oil is now certified and meets the highest environmental, social and economic standards as set out by the Roundtable on Sustainable Palm Oil (RSPO). It is very important to analyze how the supply chain is influenced by ESG criteria. Puma has for example analyzed its entire supply chain and found out that its direct impact on the environ-

- ment is only a small percentage of the total impact of its supply chain (mainly leather, cotton and rubber producers). That gave them a significantly better understanding of ESG risks in their supply chain and how they could positively influence manufacturers, processors and other producers to improve their own environmental footprint.

**altii:** Are there new trends related to responsible investing in USA, Europe and Asia?

**Hodzic:** In Europe we see a substantial increase of ESG integration, while AuM in SRI strategies has also shown a steady growth. In the US ESG integration is still at an early stage, but is slowly picking up. In Asia the companies are sometimes much more ahead than the local investors when it comes to acknowledging the importance of ESG factors. So, over there it is much more driven by for example regulations rather than local investors asking companies critical questions about their ESG activities.

**altii:** Who is the typical investor in your SRI funds and what is the future relevance of responsible investing?

**Hodzic:** Our SRI funds are Luxembourg based SICAVs with daily liquidity and open for all kinds of investors. Actually we have a set of clients that is quite heterogeneous. Some are investors with religious backgrounds where you would expect an ethical motivation. But we also have mainstream pension funds invested in our funds that are not necessarily looking for an ESG component, but are very pleased with the funds’ strong performance versus mainstream benchmark. Some give us mandates and we run them with fiduciary character. We see a very strong trend in society towards sustainable investments and an ever-increasing part of our client base is investing in and considering investing in sustainable products. We regularly organize client events to provide clients with more insights in responsible investing. We also contribute to the integration of ESG aspects in training for investors (e.g. for the CFA Institute and for VBA in the Netherlands).

The clear answer to your question is, yes we strongly believe in the ongoing and increasing importance of responsible investing. We see responsible investing as common sense investing.

**altii:** Ms. Hodzic thank you very much for this interview.

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About the interviewee

Nina Hodzic, Senior Environmental, Social, Governance Specialist at NN Investment Partners. She is responsible for ESG analysis, reporting and screening methods. Nina advises clients on their responsible investment policy and is actively involved in setting up responsible investment client solutions across different asset classes. She is global coordinator of the UN Principles for Responsible Investment for NN Investment Partners and a member of the proxy voting committee.

About the company

NN Investment Partners (formerly known as ING Investment Management) is a pioneer in sustainable investments and since more than 15 years the manager of the NN (L) European Sustainable Equity Fund. The company has EUR 4 bln AuM managed strictly in accordance with ESG criteria in equity and fixed income strategies.

NN Investment Partners is the asset manager of NN Group N.V., a publicly traded corporation. NN Investment Partners is head-quartered in The Hague, The Netherlands. NN Investment Partners manages in aggregate approximately EUR 203bln* in assets for institutions and individual investors worldwide. NN Investment Partners employs over 1100 staff and is active in 16 countries across Europe, Middle East, Asia and U.S.

As of April 07, ING Investment Management has renamed to NN Investment Partners. NN Investment Partners is part of NN Group N.V., a publicly traded corporation. NN Group is currently 54.6% owned by ING Group. NN Group and its subsidiaries are currently using trademarks including the “ING” name and associated trademarks of ING Groep N.V. (ING Group) under license.

*Figures as of 31st March 2015.