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ING policy and disclosure on sustainability risks and characteristics

External statement

do your thing

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Risks can influence the value of investments. Managing those risks is an integral part of the investment process ING applies when it comes to managing discretionary investment portfolios and funds and when providing advice related to investment & insurance-based investment products[1] . In this document we describe how ING takes sustainability risks into consideration within the investment and advisory process.

Summary

A sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of investments. Taking into account these risks is necessary to avoid negative financial impacts e.g. failure to remain resilient in a changing environment. For example, polluting companies could be held responsible for their environmental impact, resulting in financial compensations with a negative impact on the financial results of a company, thereby potentially negatively impacting the performance of the investment.

Not only individual companies, but also entire sectors can be negatively affected by sustainability risks. For example, if a sector does not adapt properly to the energy transition, this can have negative consequences for the operations and profitability of that sector. An example of this would be stranded assets for the coal industry. For these reasons sustainability risks are an important factor and, like other risks, are part of our investment and insurance decision-making process for all portfolio management contracts and investment and insurance advice services. When financial analysts and portfolio managers perform a risk assessment sustainability risks are also taken into account. The assessment of sustainability risks is integrated in the investment and insurance selection and/or decision-making process. In addition, dedicated sustainability risk analysts are active at ING. They have defined two levels of sustainability risks : at sector and at instrument level.

ING's approach for sustainability risks is important for our investment and insurance advice propositions as well as for discretionary portfolio management. This statement must be seen as a basis. For specific propositions which integrate sustainable characteristics or have sustainable investing as objective more stringent rules on sustainability risks can apply.

[1] Providing investment advice regarding insurance-based investment products (Branch 21 & 23)

1. Integration of sustainability risks on sector level

The ING Investment Office recognises three sectors with substantial sustainability risks which are addressed in the investment and insurance decision making process. By excluding, to a certain level those sectors, that are by nature more exposed to sustainability risks, we thus lower the sustainability risks we are exposed to. ING excludes, or sets thresholds, for the following sectors:

- Controversial weapons (0% allowed)
  Controversial weapons are excluded as we believe that it's an activity that ING does not want to be invested in. In addition, investing in manufacturers of controversial weapons comes with a reputational risk that can be turned into a negative return for these companies.

- Coal (max 5% derived from the total revenue per company for production and max 10% for the distribution of services per company).
  Due to the fact that ING wants to help limiting the raise of global temperature, coal is excluded (with a limited threshold) as it is a sector with high greenhouse gas emissions (in line with the objectives defined in the Paris Climate Conference). We believe that investing in sectors that have high emissions of greenhouse gas will come with a risk on financial return for these companies (ex. due to increasing cost on CO2-emissions, higher cost of capital, higher taxation and loose of client segments).

- Tobacco (max 5% derived from the total revenue per company for production and max 10% for the distribution of services per company).
  Because of proven health concerns tobacco is excluded (with a limited threshold). In addition we believe that investing in tobacco will also come with a higher risk on return due to potential financial claims on those companies.

For third party investment funds and insurance-based investment products, companies from the sectors mentioned above could still be included. From 2022 onwards we will start engagements with these third-party managers and insurance companies with the aim to align on these exclusions. When those engagements do not lead to a change after a certain time, we will divest from these products, unless there is no alternative (we always want to present our clients with a well-balanced portfolio and advice based on risk and return). We are aware that some passive products, such as index portfolios, cannot apply an active policy on sustainability risks.

2. Integration of sustainable risks on instrument level

Instruments are screened on sustainability risks to enable us to focus on assets with an overall better ESG[2] performance and to seek lower sustainability risks.

- For equities, options and bonds (companies): all companies of our pro-active Universe[3] are screened on sustainability risks by using the ESG risk rating[4] provided by Sustainalytics[5] , if this data is available[6]. For derivatives, the underlying of the options is part of the Universe and thus screened on sustainability risks.

- Structured notes on average consist of two parts, the protection of capital, and an option structure. The capital protection is often provided by a financial institution. For structured notes we take sustainability risk into account by assessing the underlying protection structure. The issuer of the notes will be screened on sustainability risks by using the ESG risk rating of the concerned issuer provided by Sustainalytics.

- For investment funds (including ETF's) & insurance-based investment instruments we use our ESG fund survey which we send for all funds & insurance-based investments products of our pro-active Universe in order to assess the sustainability risk management by a third party fund manager / insurance company. We assess how the third-party fund manager / insurance company manages sustainability risks which can differ from ING's policy due to the nature of the product. On the basis of this we notice the possible differences and this is discussed with the third party fund manager / insurance company through engagement (see next chapter). This results in a professional judgement of the sustainability risk management in the fund / insurance-based investment product. ING expects that more data with regard to third party funds / insurance-based investment products will become available via data providers in a later stage and ING will adjust this policy accordingly.

- For sovereigns: all sovereigns are screened on sustainability risks by using the credit rating provided by one of the three larger credit rating agencies. The credit rating provides an insight in the willingness and capacity to meet the financial commitments of the sovereign. The sovereign analysis typically considers ESG factors in the context of the assessment of institutional quality and governance effectiveness.

[2] ESG refers to Environmental, Social and Governmental.

[3] All instruments pro-actively followed by ING Investment Office.

[4] Sustainalytics' ESG Risk Ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks.

[5] Sustainalytics, a Morningstar Company, is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies

[6] In the exceptional case the data is not available with Sustainalytics we won't be available to make this assessment.

Engagement

To reduce the sustainability risks of the third party funds and insurance-based investment products, we engage with the third party fund manager and insurance company. For example when a fund is not in line with ING's investment approach we can do two things. We can exclude the fund from the pro-active Universe, or we can start an engagement with the third party fund manager. The engagement can last for up to two years, after which the engagement should have led to a positive result. If not, it will lead to divestment and replacement. To reduce the sustainability risks of the companies, we can engage, in specific cases, with those companies to change their behaviour or change the activities of a company whenever we deem this desirable. In this way we try to reduce (potential) sustainability risks.

Impact on financial return

Investing is all about taking calculated risks. By following the procedures described in this document we are confident that we can identify sustainability risks that are relevant for the investment product and have a potential impact on the financial return. The higher the sustainability risks, just like with other risks, the more volatility can be expected which results in more uncertainty of the financial return of the investment. This does not mean that we will automatically disregard an instrument with high sustainability risks, but it does mean that an instrument will undergo additional scrutiny – which is where the professional judgement of the financial and funds analysts at the ING Investment Office come in. Such an instrument might (depending on the goals of the investment strategy) still be accepted but only when we expect that the higher risk will be compensated by a higher return or other lower risks.

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