ING Investment Office
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ING Sustainable Investing

Our methodology in brief

The ultimate goal of our sustainable investment process has always been to provide our clients with an investment portfolio that is in line with their values and interests.

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ING initiated this sustainable selection process almost twenty years ago. The process has evolved during these past years, and will keep evolving. In this document you will find a description of the different processes to screen the investments (bonds, equities and investment funds) on a diverse set of sustainable criteria. The first part concentrates on the screening of companies the latter on the screening of investment funds. For the screening of companies we use a two-step process: a positive screen and a negative screen.

1. Positive screening of companies
The Non-financial indicator (Nfi) was developed by ING in 2001 to measure, from a positive point of view, a company's policies on sustainability. The Nfi is used to assess which companies positively distinguish themselves from their direct competitors in terms of their sustainable performance. Using 127 environmental, social and governance criteria, the Nfi provides an objective picture of the risk and reputation profile of the companies covered. Key is the position and comparison of the company in relation to its competitors in the relevant sector. The Nfi shows whether a company has formulated measurable goals, actively tries to achieve these and measures the results thereof.

In our sustainability strategies, we do not invest in funds with Nfi – or lower

Scores of our Non-financial Indicator (Nfi)
A score of ++ means that the company ranks among the best 10% in the sector. When a company receives a negative Nfi (-) the company is not eligible for the sustainable universe.

Possible Nfi scores
Score **++**: best 10 percent
Score **+**: best 30 percent
Score **=**: best 50 percent
Score **–** : below average (→ excluded from the sustainable universe)
Score - -: worst 10 percent (→excluded from the sustainable universe)

To clarify: a negative Nfi does not mean that the company acts in a socially irresponsible manner, or that it is by definition not sustainable.
A Nfi – score means:

- Compared to its competitors within the sector, the company falls short of providing sufficient information, or
- The company does provide sufficient information, but this information shows that the company lags behind its competitors in terms of its policy and systems with regard to environmental, social and governance issues.

Companies with an Nfi - - score are in our opinion not sustainable. We do expect companies to have a minimal vision on sustainability and to be transparent about it.

2. Negative screening of companies

Exclusion criteria

A company will be assessed for activities in different areas. Below you will find the exclusion criteria with regard to products and services:

Controversial weapons (cluster munitions, chemical weapons)

- No threshold for exclusion

Alcohol

- 5% revenues from the production of alcoholic beverages;
- 10% revenues from alcoholic beverages.

Fur

- 5% revenues from the production of animal fur or processing of fur (products);
- 10% revenues from the sale of products (clothing, accessories) in which a significant amount of fur is processed.

Gambling

- 5% revenues from the production of gambling systems (e.g. slot machines, roulette tables or software) or revenues from gambling (casinos, lotteries, online gambling);
- 10% revenues from the distribution of gambling products.

Nuclear energy

- 30% revenues from the production of nuclear energy (uranium production or nuclear power plants);
- 30% revenues from the construction of nuclear power plants;
- 30% revenues of supplying key components (reactor vessels) to the nuclear energy sector.
- Exempted are companies that are undergoing a transition to a more sustainable electricity production scheme.

Coal

- 5% revenues from the production of coal (operating coal mines);
- 5% revenues of coal-fired electricity generation. Except for those companies that are undergoing a transition to a more sustainable electricity production scheme

Pornography

- 5% revenues from the production of pornographic materials (publishers of pornographic magazines, producers of pornographic movies and websites);

- 10% revenues from the distribution of pornographic materials (cable companies and specialised magazine stores).

Tobacco

- 5% revenues from the production of tobacco products;
- 10% revenues of tobacco products (tobacco shops);
- 10% revenues of specialised support services for the tobacco industry (media and marketing services).

Oil sands

- 5% revenues from mining or exploration of oil sands.

Weapons

- 5% revenues from the production or maintenance of weapons (systems);
- 5% revenues from the production or maintenance of components designed specifically for weapons (or weapon systems) (for example, military electronics).

Undesirable behaviour
Besides activities, we also exclude companies if they are involved in undesirable behaviour in any of the following areas:

- international labour issues (including child labour)
- corruption
- human rights (including discrimination)
- environmental offenses
- social laws and codes.

If a company is involved in one of these areas and can be held responsible for its involvement, it can be excluded from the sustainable universe of ING Investment Office. The company will be excluded if the issue can be categorised as severe, or when the issue is recurring. The exclusion criteria are reviewed on an ongoing basis, and may change over time depending on, for example, societal developments or perceptions.

Sustainable universe
ING Investment Office makes an Nfi assessment of 3.700 companies. Of these companies, ING Investment Office screens up to 1.000 companies on unwanted activities or behaviour. About 500 of these are currently qualified for the sustainable universe.

Assessing investment funds

To qualify as a constituent investment fund for the investment universe of sustainable funds developed by ING, we follow the next steps:

1. Positive (qualitative) screening investment funds
We have not only developed the Nfi for the individual companies, but we have also developed an Nfi methodology for the positive screening of the investment funds. We send a questionnaire with 103 questions to all investment funds on our master list. The answers to the survey are compared and lead to the Nfi rating.

The 103 questions are divided into nine categories:

- Responsible investment policy
- Initiatives on sustainable investing (PRI)
- Voting policy
- Engagement policy
- Exclusion criteria of non-sustainable business activities (weapons)
- Exclusion criteria of non-sustainable behaviour (bribery)
- Selection methodology (best in class)
- ESG integration
- Corporate governance
- Controversial weapons policy (cluster bombs)

Possible Nfi scores:
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Score **+**: best 30 percent
Score **=**: best 50 percent
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2. Quantitative screening

If an investment fund scores at least an Nfi =, and the fund could be of interest to our sustainable portfolio we will access a qualitative screening. This means we will check and question the fund manager during a direct meeting about the sustainable investment policy and how they have implemented this in their fund. We also check the underlying holdings to compare these with our sustainable universe. The underlying holdings should be (pretty much) in line with our sustainable universe. Besides the sustainable screening, there will of course be a financial analysis and the regular due diligence, before we categorise an investment fund as sustainable..

Want to know more?

See ing.nl/beursnieuws

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