NN First Class Return Fund

Fund in Scope

All data as of end December 2019

- **Equities was the best performing asset class and main driver of this result**
- **Fund selection added to performance as on average the strategies managed to outperform their benchmarks**

Performance

During the fourth quarter, investor sentiment started to improve sharply. The trade war was no longer escalating and investors expected that China and the US would soon sign a mini-deal. The risk of a no-deal Brexit declined dramatically in light of the Conservative's ultimate landslide win, making an end-January Brexit a fact. In this context, global equities jumped sharply in the fourth quarter, with the MSCI World index gaining 5.8% in euro terms. Risky bonds also benefited to some extent from the increasing risk appetite among investors. High-quality government bonds and listed real estate suffered somewhat from profit-taking following their strong performances during the summer.

The result this quarter was mainly driven by the equity strategies which contributed approximately 5% to total return of which approximately 1.4% was driven by stock selection. Especially the sustainable strategies performed well from a relative perspective and clearly outperformed their benchmarks. Although yields of the high-quality government bonds increased the asset class still contributed positively as spreads came in due to increased risk appetite among investors. From a relative perspective all strategies managed to outperform their benchmarks adding to performance. The commodities and hedge fund investments also contributed positively and managed to outperform their benchmarks. Real estate however detracted slightly from performance although the strategy managed to outperform its benchmark.

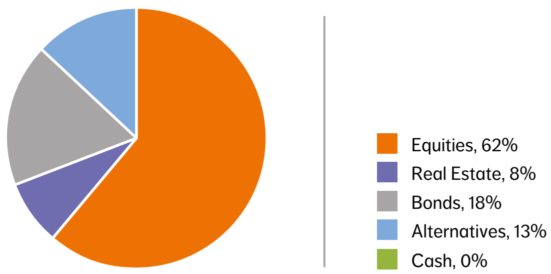
Statistics

ISIN code	NL0010290573
Inception date	March 2014
Ongoing charges	0.4%
Morningstar	★★★★★

Outlook

In 2019 poor fundamentals were offset by easier monetary policy. Equities rose by over 30% to new record highs despite economic, corporate and political uncertainty. Despite the reduction of the trade- and Brexit-related tail risks and following increased signs of stabilization in the manufacturing sector, we think political, macro and corporate challenges will remain in 2020 and that sentiment will continue to jump back and forth between hope and despair depending on the political headlines. However based on these factors we believe that the current soft patch will make way for a mild growth acceleration in 2020.

Asset Class allocation



Source: NN IP Performance Measurement Europe

Fund description

NN First Class Return Fund is a mixed fund that offers a carefully selected and diversified investment. The fund invests in multiple asset classes including equities, fixed income and alternative investments. The fund invests only in investment funds managed by NN Investment Partners. The fund uses a risk return assumption model to periodically determine the allocation to the asset classes. The fund strives to achieve a diversified portfolio that provides an attractive return per unit of risk.

NN First Class Return Fund - N

	3 Months	Year to date	1 Year	3 Year (ann)	5 Year (ann)
Net return	5.7	24.7	24.7	7.9	6.6

Current allocation of the underlying strategies*

Equities	3 Months	Year to date	1 Year	3 Year (ann)	5 Year (ann)	Weight**
NN Global Sustainable Equity	8.4	38.2	38.2***			34.6
NN (L) Global Sustainable Equity	8.5	37.9	37.9	12.8	11.4	17.3
NN (L) EM High Dividend	6.7	14.5	14.5	6.5	5.9	10.5

Real Estate	3 Months	Year to date	1 Year	3 Year (ann)	5 Year (ann)	Weight**
NN (L) Global Real Estate	-0.5	22.7	22.7	5.6	6.0	7.5

Bonds	3 Months	Year to date	1 Year	3 Year (ann)	5 Year (ann)	Weight**
NN Euro Credit Fund	-0.4	6.7	6.7	2.9	2.8	4.4
NN (L) Global High Yield	1.9	10.8	10.8	3.6	4.2	4.4
NN (L) Emerging Markets Debt HC (euro)	1.6	12.3	12.3	4.4	5.1	2.1
NN (L) Emerging Markets Debt LB	2.5	16.2	16.2	4.5	4.0	6.6

Commodities	3 Months	Year to date	1 Year	3 Year (ann)	5 Year (ann)	Weight**
NN (L) Commodity Enhanced	4.2	3.3	3.3	-3.2	-5.4	6.3

Hedge Funds	3 Months	Year to date	1 Year	3 Year (ann)	5 Year (ann)	Weight**
NN (L) Alternative Beta	2.3	5.8	5.8	1.9	1.6	6.3

* The underlying strategies of the NN First Class Return Fund are the gross returns. The fund costs (ongoing charges) will only be reflected in the returns of the NN First Class Return Fund.
** The figures shown in the "weight" column are based on the model weights at quarter end. Therefore the returns cannot be calculated based on these weights.
*** The inception date for the Global Sustainable Equity - mandate is 7 February 2017.

Source: NN IP Performance Measurement Europe

NN investment partners

NN Liability Matching Fund - M

ISIN code	NL0010290540
Inception date	March 2014
Ongoing charges	0.25%

Fund in scope

All data as of end December 2019

- **The fourth quarter of 2019 was a positive one for risky assets and safe haven government yields corrected higher**
- **Government bond yields from safe haven countries recovered from their lows in the summer of 2019**
- **The Fed and the ECB lowered interest rates**

Performance

The fourth quarter of 2019 was in general a positive one for risky assets. The main reason for this is that the political risks related to the China-US trade conflict and Brexit have decreased to some extent. Combined with signs of stabilization in global and industrial production and global capex momentum, this increases the probability that the current soft patch will give way to a mild growth acceleration this year. After a sharp decline in developed bond yields from October 2018 until early October 2019, the reduction in political risks probably contributed to a correction higher in bond yields in Q4. The US 10-year treasury yield moved up from 1.66% end September to 1.91% end December. In the same period, the German 10-year Bund yield increased from -0.57% to -0.19%.

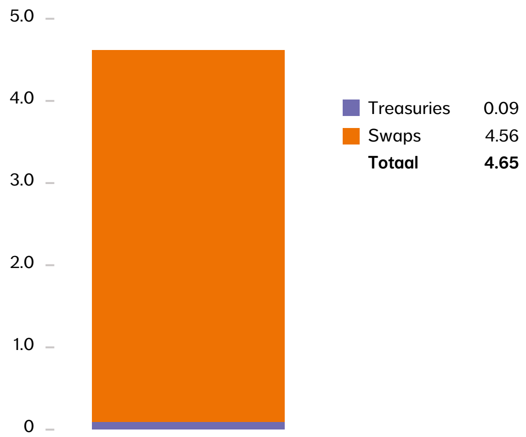
At the end of the quarter, the AuM of the fund amounted to € 1,119 mln and the overall duration of the fund was more or less unchanged at 4.7 years per end of December.

Net Performance (%)	3 Months	Year to date	1 year	3 year (ann)	5 year (ann)
NN Liability Matching Fund M - N	-1.3	1.4	1.4	0.6	0.7

Outlook

The total amount of bonds with a negative yield has increased sharply in 2019. Going forward, what is needed for higher rates? A de-escalation on trade is necessary for this, but whether it is sufficient can be questioned. The increase in tariffs so far is already very damaging, and it remains to be seen how this will ripple through the economy. Another factor that might cause higher yields, especially at the long end, is a central bank is able to increase inflation expectations. This is maybe just possible for the Fed, but not very likely as the Fed so far signals that it is reluctant to underwrite the trade war. For the ECB, it seems almost impossible to surprise with aggressive monetary easing. All in all, this suggests that developed bond yields will stay low and that we have to get used to negative rates. The 'search for yield' remains an important investment theme in this environment.

Duration contribution (year)



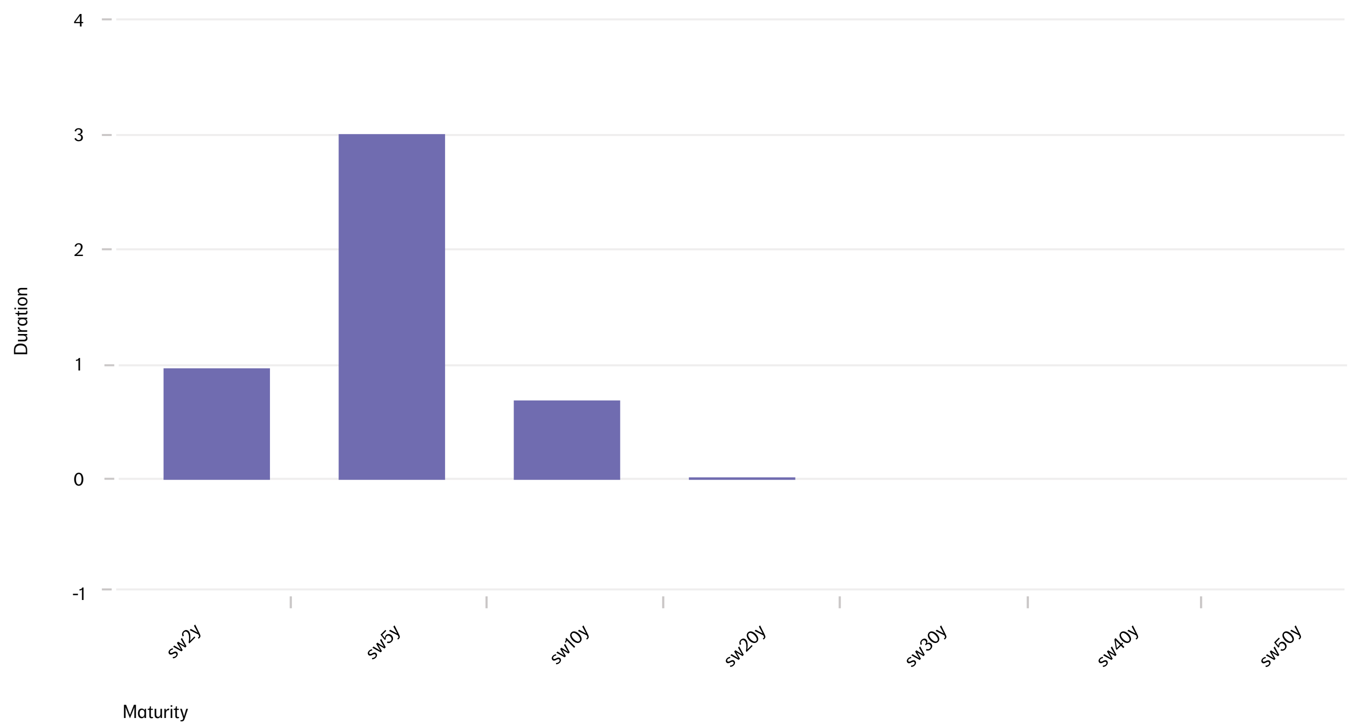
Source: NN IP Performance Measurement Europe

Fund description

The NN Liability Matching Funds combine a matching portfolio tailored to individual pension goals with the practical advantages of a fund solution. By using three funds we are able to keep costs limited while maintaining high matching standards almost similar to a fully tailored institutional solution.
We manage three Liability Matching Funds with different interest rate sensitivity (duration) profiles. The three funds primarily invest in Euro government bonds with a AAA rating (at purchase) and a maturity at issue of 1-3 years*. Within each of the three funds we raise the duration by interest rate swaps and bond futures. NN Liability Matching Fund (M) aims for a duration of around 4 years and LMF (L) and LMF (XL) of around 20 and 40 years respectively. The three funds are passively managed.
The duration profiles of funds are constructed in such a way that when optimally combined they can closely match client specific duration profiles based on typical cashflow schemes.

* When a bond rating is downgraded or the maturity drops below 1 year we do not need to sell.

Duration allocation



Source: NN IP Performance Measurement Europe

NN Liability Matching Fund - L

ISIN code	NL0010290557
Inception date	March 2014
Ongoing charges	0.25%

Fund in scope

All data as of end December 2019

- **The fourth quarter of 2019 was a positive one for risky assets and safe haven government yields corrected higher**
- **Government bond yields from safe haven countries recovered from their lows in the summer of 2019**
- **The Fed and the ECB lowered interest rates**

Performance

The fourth quarter of 2019 was in general a positive one for risky assets. The main reason for this is that the political risks related to the China-US trade conflict and Brexit have decreased to some extent. Combined with signs of stabilization in global and industrial production and global capex momentum, this increases the probability that the current soft patch will give way to a mild growth acceleration this year. After a sharp decline in developed bond yields from October 2018 until early October 2019, the reduction in political risks probably contributed to a correction higher in bond yields in Q4. The US 10-year treasury yield moved up from 1.66% end September to 1.91% end December. In the same period, the German 10-year Bund yield increased from -0.57% to -0.19%.

The 20-years EUR swap rate increased by 42 basis points to 0.60%.

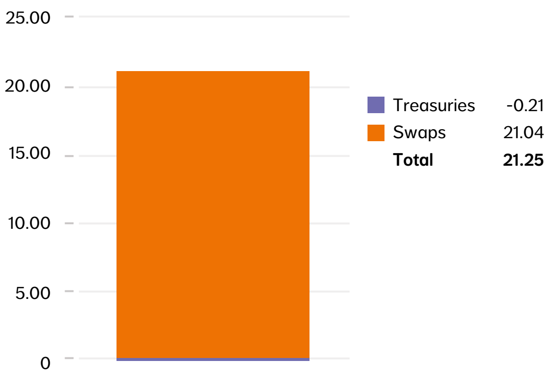
At the end of the quarter, the AuM of the fund amounted to € 1,563 mln and the overall duration of the fund was 21.3 years per end of December.

Net Performance (%)	3 Months	Year to date	1 year	3 year (ann)	5 year (ann)
NN Liability Matching Fund L - N	-7.7	18.2	18.2	5.9	4.9

Outlook

The total amount of bonds with a negative yield has increased sharply in 2019. Going forward, what is needed for higher rates? A de-escalation on trade is necessary for this, but whether it is sufficient can be questioned. Another factor that might cause higher yields, especially at the long end, is a central bank is able to increase inflation expectations. This is maybe just possible for the Fed, but not very likely as the Fed so far signals that it is reluctant to underwrite the trade war. For the ECB, it seems almost impossible to surprise with aggressive monetary easing. All in all, this suggests that developed bond yields will stay low and that we have to get used to negative rates. The 'search for yield' remains an important investment theme in this environment.

Duration contribution (year)



Source: NN IP Performance Measurement Europe

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NN Liability Matching Fund (M) aims for a duration of around 4 years and LMF (L) and LMF (XL) of around 20 and 40 years respectively. The three funds are passively managed.
The duration profiles of funds are constructed in such a way that when optimally combined they can closely match client specific duration profiles based on typical cashflow schemes.

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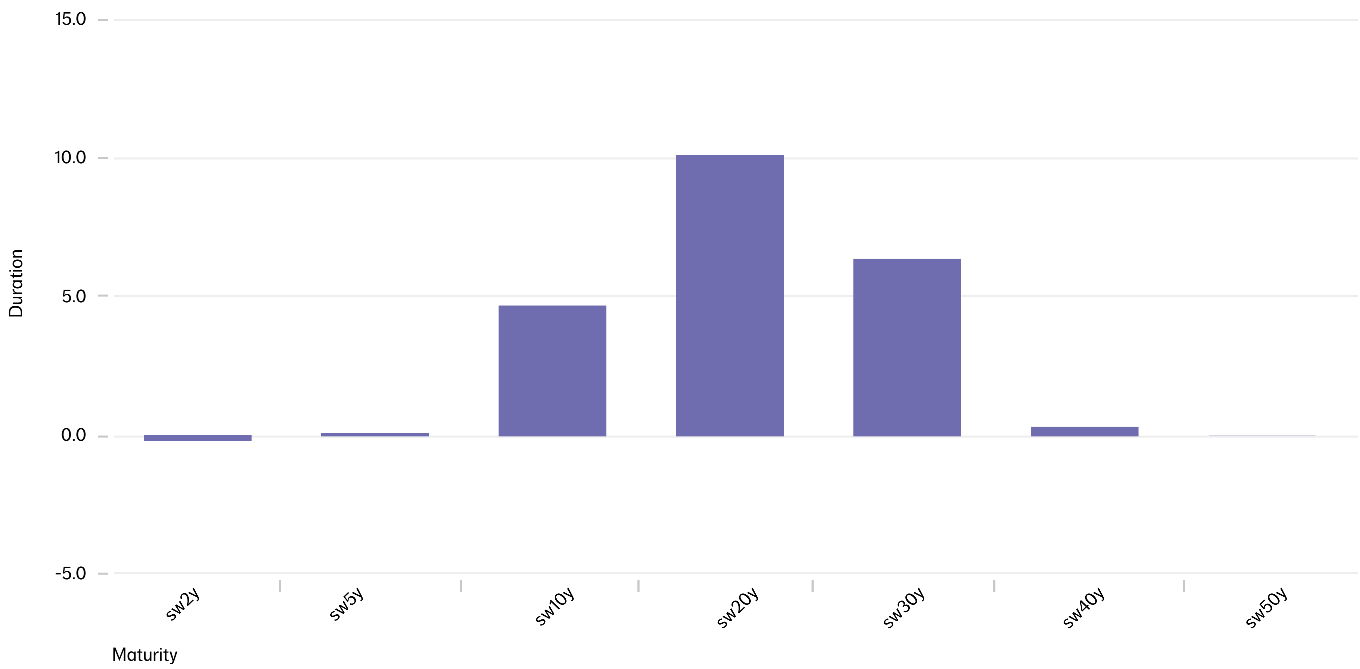
Duration allocation



Source: NN IP Performance Measurement Europe

NN Liability Matching Fund - XL

ISIN code	NL0010290565
Inception date	March 2014
Ongoing charges	0.25%

Fund in scope

All data as of end December 2019

- The fourth quarter of 2019 was a positive one for risky assets and safe haven government yields corrected higher
- Government bond yields from safe haven countries recovered from their lows in the summer of 2019
- The Fed and the ECB lowered interest rates

Performance

The fourth quarter of 2019 was in general a positive one for risky assets. The main reason for this is that the political risks related to the China-US trade conflict and Brexit have decreased to some extent. Combined with signs of stabilization in global and industrial production and global capex momentum, this increases the probability that the current soft patch will give way to a mild growth acceleration this year. After a sharp decline in developed bond yields from October 2018 until early October 2019, the reduction in political risks probably contributed to a correction higher in bond yields in Q4. The US 10-year treasury yield moved up from 1.66% end September to 1.91% end December. In the same period, the German 10-year Bund yield increased from -0.57% to -0.19%.

At the end of the quarter, the AUM of the fund amounted to € 2,320 mln. and the overall duration of the fund was 39.9 years per end of December.

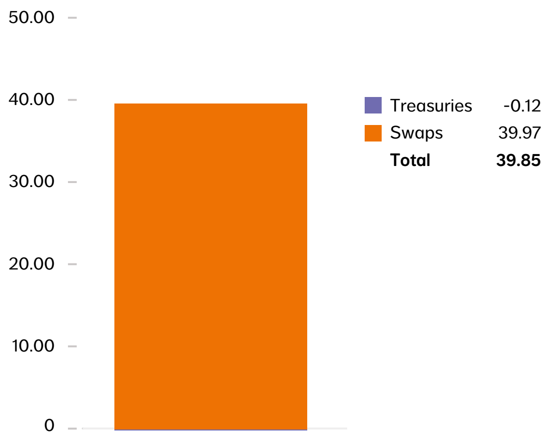
Net Performance (%)

	3 Months	Year to date	1 year	3 year (ann)	5 year (ann)
NN Liability Matching Fund XL - N	-14.5	38.9	38.9	10.1	8.8

Outlook

Going forward, what is needed for higher rates? A de-escalation on trade is necessary for this, but whether it is sufficient can be questioned. The increase in tariffs so far is already very damaging, and it remains to be seen how this will ripple through the economy. Another factor that might cause higher yields, especially at the long end, is a central bank is able to increase inflation expectations. This is maybe just possible for the Fed, but not very likely as the Fed so far signals that it is reluctant to underwrite the trade war. For the ECB, it seems almost impossible to surprise with aggressive monetary easing. All in all, this suggests that developed bond yields will stay low and that we have to get used to negative rates. The 'search for yield' remains an important investment theme in this environment.

Duration contribution (year)



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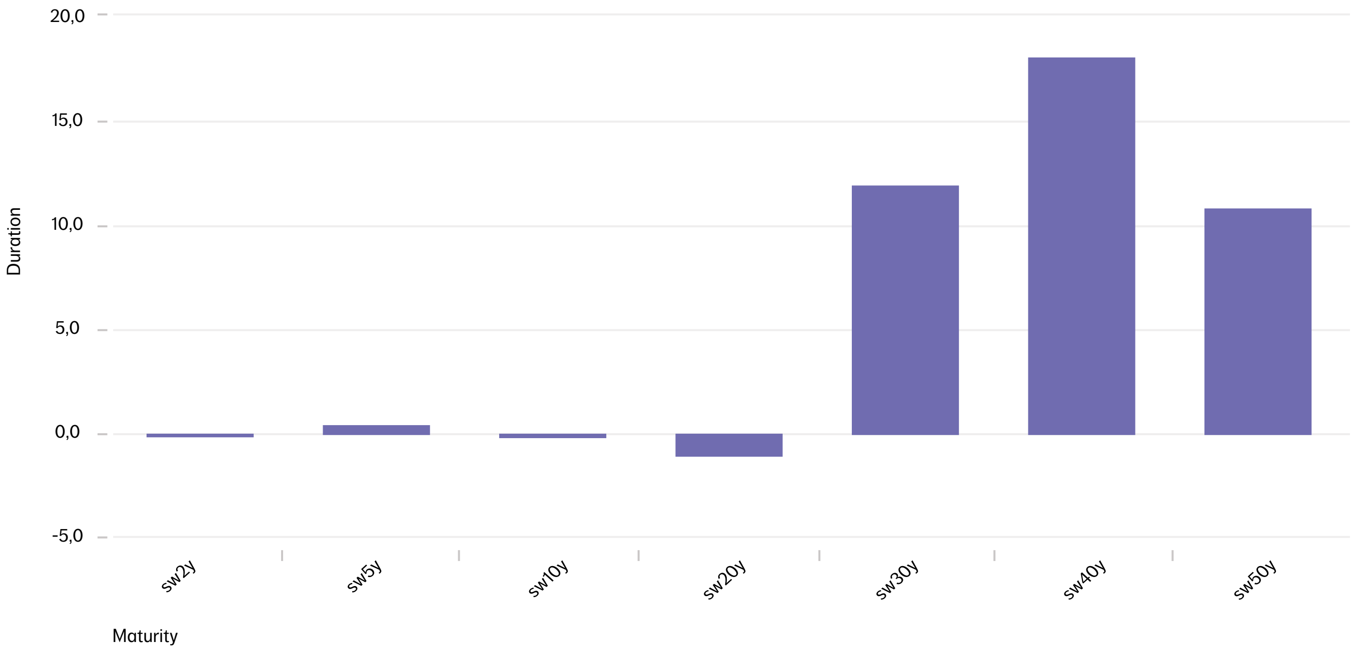
Duration allocation



Source: NN IP Performance Measurement Europe

NN investment partners