NN Investment Partners & Owlin

Enhancing ESG-Scoring for Sustainable Investment Portfolios

In a nutshell:

- *The Head of Credit Risk and the Portfolio Manager of Commercial Real Estate Debt at NN IP, one of the leading investment firms in the EU, share how Owlin helps their divisions navigate the dynamic ESG and alternative investments niche;*
- *Complementing NN IP's internal models with Owlin's capabilities allows the investment firm to ensure complete coverage of its global portfolio and adequate management of financial, compliance, and reputational risks;*
- *NN IP uses Owlin to identify severe anomalies like corporate wrongdoings, fraud cases, or major scandals that might have a severe impact on the governance scoring of the company;*
- *Thanks to Owlin, NN IP has been able to identify financial difficulties within a portfolio constituent before anyone else, allowing it to take timely actions and mitigate the potential losses.*

About NN Investment Partners

NN Investment Partners is the asset manager of the publicly traded NN Group. With over 150 years of history in managing risk and return, today, NN IP is among the most trusted and leading asset management firms in the industry. It manages more than €300 bn in assets for institutions and individuals and operates offices in over 15 countries.

What makes NN IP different is its heavy focus on ESG-integrated assets. As of the start of 2021, over 74% of its portfolio is dedicated to responsible investment strategies. The goal of the asset manager is to increase this share to 80% as soon as 2023.

The Pre-Owlin Period

As a leading asset manager, NN Investment Partners extends its scope beyond traditional assets to provide its clients a highly diversified portfolio mix, including exotic investment opportunities like emerging markets debt, non-listed debt instruments, alternative credit, and more.

"Investing in such alternative credit and debt instruments requires a very strict screening-at-the-door process," says Wim Van Nes, Head of Credit Risk at NN IP. *"We make sure if we open a position, we have already checked all angles because the consequences of not having done the right analysis are quite severe – you can hardly sell illiquid debt, or even if you do, it would be reflected in the price,"* he adds.

Considering the scale and nature of NN IP's portfolio, keeping track of all the latest developments relevant to the constituents becomes challenging, if not automated.

"Before Owlin, we relied on Google searches. But with Google searches, you don't know whether you have covered 80% of the trend or the news, or if it is only the tip of the iceberg," explains Van Nes.

As a company dedicated to promoting ESG-compliant investment strategies, NN IP has to navigate a highly dynamic and continuously evolving niche. Currently, for investors to formulate objective ESG analysis, they would ideally access and process a large quantity of information from various data sources, including corporate reports, analyst ratings, social media, conventional and alternative media sources.

But automation isn't salvation on its own. To ensure the objectivity of an investment rating process, investment firms also have to explore and interpret data about smaller, mainly private, local and foreign entities, as well as 4th-degree parties from the supply chain, including suppliers, contractors, distributors that have a material relationship with the asset or the counterparty.

"Some of our investments never make it to the global newspapers. They are in a foreign country where the company might, indeed, be a big local player, but for Dutch or English papers, it might not be very relevant, hence not covered in the news searches," points out NN IP's Head of Credit Risk.

This idea is also echoed by Eibert Van Der Wel, Portfolio Manager of Commercial Real Estate Debt at NN IP.

"Before Owlin, we read the news, but we had to focus most on Dutch news or the big news sites," he explains. *"We wanted to open up the scope beyond local news and cover languages that we weren't able to before to manage our portfolio in a better way,"* he adds further.

It is worth mentioning that in most cases, even if insightful and actionable ESG data on a foreign and non-listed company is present, it is subjective, qualitative, and backward-looking. Other issues are the low frequency it is updated at, which means it cannot adequately reflect all information at all times.

Due to the lack of a real-time data component in ESG ratings in their current form, investment firms end up in the unfavorable position to be unable to pick up relevant signals and have a distorted perspective about their ESG portfolio constituents.

The Owlin Difference

To overcome these challenges, companies like NN IP have to devise their own scoring systems capable of reflecting both qualitative and quantitative ESG factors. In a bid to enhance the scope of their current models through actionable intelligence and real-time signals, they rely on leading technologies like Owlin.

"Owlin can help by identifying various ESG elements such as trends within an industry or insights from publications from certain companies," says Wim Van Nes. *"But I believe the biggest contribution is that the platform can identify more severe cases like big scandals, controversies, or fraud cases that might have a severe impact on how we would score the governance of the company, "* he adds.

While this sounds promising in theory, the scale of its importance can be realized only in the context of a real situation.

"Recently we reviewed an investment in a supermarket with the company itself providing much information – how they try to greenify their busiNes, improve the quality of the products, etc. On the other hand, we found articles that they had disruptions with the workforce, making them work extra hours without additional payments. And that is also a part of ESG. Having found this, we decided against making the investment," explains Van Nes.

For a company as dedicated to ESG-factored strategies as NN IP, avoiding such a move had helped mitigate reputational risk and keep clients' portfolios in line with their sustainability principles.

Another aspect that Owlin complements the NN IP risk management team's work with is ensuring the complete coverage of the firm's diversified investment portfolio and a broad grasp of the latest developments in the market relevant to its performance.

"The difference with Owlin is that you have the comfort that you have swept everything and that if a predefined keyword is triggered, you will get an alert. You have far more peace of mind that you have caught everything that is publicly available. On the other hand, we know that if there is no signal, there is probably nothing," explains Van Nes.

Ensuring a 360-degree market view is critical for investment firms also because of how important it is to grow their position in the arising and highly competitive ESG niche. The inability to pick up timely signals may result in the loss of competitive advantage and reputational risk.

"Before partnering with Owlin, we struggled to capture relevant signals," says Eibert Van Der Wel, Portfolio Manager of Commercial Real Estate Debt at NN IP. *"Now we have more information because Owlin monitors a very high volume of news in many languages,"* he continues.

> *"Via Owlin, we add an extra data source, being the news flow surrounding our portfolio. The additional news we now have is like complementing but also enhancing our portfolio management so that we have a much clearer picture of our investments and how they are impacted by the current news."*

Eibert Van Der Wel - Portfolio Manager of Commercial Real Estate Debt at NN IP

Regulators acknowledge the drawbacks of ESG ratings as the sole backbone of the in-house compliance infrastructure investment firms have in place. If market participants don't complement it with real-time actionable intelligence, they simply won't be prepared for the moment oversight authorities start asking questions and will be exposed to increased compliance and penalty risk.

The collaborative solution of Owlin on top of NN IP's internal ESG-scoring models ensures the investment firm is better positioned to navigate the increasingly stringent regulatory oversight.

The Results

The nature of investments in real estate debt is a great example to get a grasp of the scope of market coverage that Owlin provides. In the general case, the challenges within this asset class are typically that they are more private, and there is less information available. They are also highly illiquid, which means two things – first, you have to perform thorough due diligence prior to investing, and second – you have to ensure continuous monitoring over the whole portfolio to timely spot red flags and address them, if necessary.

"With Owlin, we can separate the noise from the real signals we want to see. If we identify a red flag, we can proactively approach the company and be the first to have a reaction from the management," shares NN IP's Portfolio Manager of Commercial Real Estate Debt.

Furthermore, the tool also helps increase the scope of coverage beyond the investment asset itself.

"Owlin helps monitor a couple of dimensions within our portfolio, including the borrower or the investor in the actual real estate, the asset itself, but also the performance of all the tenants occupying the floors of the offices we invest in," explains Eibert Van Der Wel.

> *"As a technology, Owlin is very much fitted to the alternative credit boutique business within NN IP as it adds an alternative source to our investment model."*

Eibert Van Der Wel - Portfolio Manager of Commercial Real Estate Debt at NN IP

Aside from enhancing the investment model of NN IP, the Owlin technology has also proved invaluable for the asset manager in critical situations, helping it avoid substantial investment and reputational risks.

"An example of where Owlin really helped us is that, at one point, a fashion brand that was one of the tenants in our portfolio ran into financial difficulties outside of our own scope – outside of Europe," admits NN IP's Portfolio Manager of Commercial Real Estate Debt. *"Via Owlin, we caught the signal very quickly and accessed the information sooner than the borrower, who was still in talks with the brand that ran into difficulties,"* he adds.

Asset managers and investment firms like NN IP can use Owlin to enhance their portfolio monitoring and ESG rating models by projecting a real-time market view that foresees any likely deterioration. No matter whether it comes to substantial governance scandals, liquidity problems in a portfolio constituent, reputational risk concerns, or else, Owlin's early-warning capabilities are there to timely capture the signals.

That way, financial institutions with global portfolios can ensure their peace of mind and focus on their core proposition. In the case of NN IP – to bring ESG investing even closer to its clients.