

Annual Stewardship and Responsible Investment Report 2019



Kempen

ASSET MANAGEMENT APRIL 2020

About Kempen

KEMPEN CAPITAL MANAGEMENT N.V. (hereafter Kempen) is a specialist asset manager focused on niche investment strategies.

Since 1991, we have been committed to assisting our institutional and wholesale clients and now help them invest in small-cap and high-dividend equities, real estate, credits and alternatives.

We also offer dedicated tailored solutions to large and small clients, insurance companies, trustees and family offices, encompassing asset allocation, portfolio construction and analytics, and manager selection and monitoring.

We manage a total of €76.2 billion in assets¹, of which €17.6bn is in Investment Strategies and €58.6bn in Solutions.

In every aspect of our business, our commitment is simple: we focus on delivering stable outperformance in the long run with environmental, social, governance (ESG) criteria fully incorporated into everything we do. We take a highly selective approach and strive to combine this with a collaborative decision-making approach.

“By increasingly focusing on the real world impact of our investments, we are walking the walk on sustainable investment to help protect returns and the planet”



Narina Mnatsakanian
*Director Impact &
Responsible Investment*

.....
1 As of end December 2019.

Foreword

An annual report is an appropriate moment to reflect on the results we are proud to have achieved. This report describes how we have channelled our energy in 2019 from our stewardship to sustainability processes, to help our clients preserve and grow assets that yield a real economic return and have a positive impact on the environment and society.

An annual report is also a moment to look ahead. Sustainable value creation is part of our company DNA. We are ambitious. Taking further steps at embedding sustainability remains one of our company's top priorities for 2020. Together with all our partners in the investment value chain, we will spend the next few years continuing to optimise our financial and sustainable value creation.

Over the past 30 years, responsible investment has grown from a niche into a mainstream movement that now determines how we think about our responsibility as long term investors acting in the interest of our clients and other

stakeholders. It is a topic that is also high on all corporate agendas and continues to gain momentum.

Our clients increasingly care about sustainability as well. A few years ago client meetings focused mainly on financial targets, however, the need to deliver against sustainability objectives is now just as important for many. This applies not only to our institutional and wholesale clients, but also to our private clients – who are in turn our clients' beneficiaries. The focus is not only on reducing negative impacts or exclusions, it is shifting to consider how to make a positive impact for example through focusing on more climate aware investing or on contributions to the Sustainable Development Goals.

Responsible investment also occupies a prominent position in laws and legislation and corresponding assessment frameworks, with climate increasingly taking centre stage. An environmental ecosystem that is out of balance can have enormous financial consequences. In

addition to managing climate related risks, we have the opportunity to direct capital towards more future fit and sustainable businesses and solutions.

Kempen has always made a clear commitment to long-term investment in which sustainable value creation for all stakeholders is a priority. Sustainability has been incorporated across the entire organisation and into all our investment processes. Sustainability is embedded in the KPIs of Kempen's colleagues across the business units. This means shared responsibility for everyone involved in the value creation process. We believe in inclusion over exclusion, as through proactively engaging with our investee companies we can help them become more sustainable. At the same time if companies are involved in severe controversies and refuse to take steps to resolve the issues we will use our leverage and take action. This is more than just fine words. This report lists the tangible results of the individual engagement processes we conduct.

Looking ahead, we will continue on our journey from 'responsible' investment – which aims to avoid harm by considering material ESG issues, to 'sustainable' investing – which uses ESG integration as a primary driver of decision-making and seeks to generate positive outcomes and impact alongside financial returns. We have set ourselves a target for the year ahead to increase our focus on measuring the positive real world outcomes of our investments and engagement and to set the bar higher.

While the Covid-19 pandemic has hit the global economy hard, we believe it reinforces the need to think long-term and seek to benefit all stakeholders.

*Lars Dijkstra
Chief Investment Officer*

"We are continuing our journey from responsible to sustainable investing"



Lars Dijkstra
Chief Investment Officer

ABOUT THIS REPORT

This report summarises Kempen's stewardship and responsible investment activities for 2019.

We are responsible stewards of our clients' capital and use our influence to stimulate responsible business conduct. It is our mission to enable our clients to preserve and create sustainable wealth with real economic return and positive environmental and social impact.

In this report we give a high level overview of our sustainability efforts including company engagement examples, our voting behavior and our commitment to the OECD Responsible Business Conduct Guidelines. We touch upon the progress we have made to fully integrate sustainability in all business units and investment processes and share our thoughts on broader sustainable investing trends. If you would like to find out more about the topics covered in this report, please feel free to get in touch or visit our website:

www.kempen.com/en/asset-management/esg

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Responsible investment dashboard

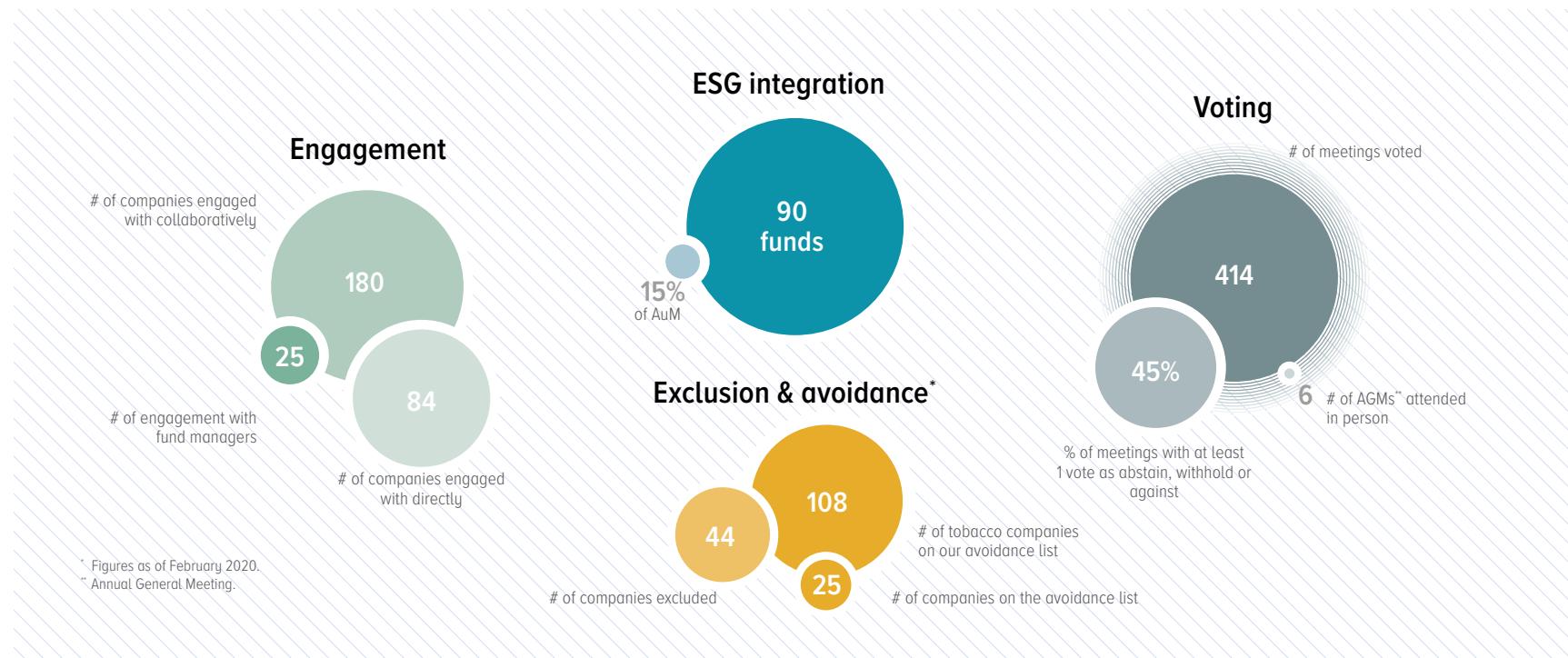
The dashboard shows key numbers and highlights Kempen's exclusion & avoidance, ESG integration and active ownership (voting and engagement) activities over 2019. 44 companies are on the exclusion list due to their involvement with controversial weapons. We also avoid 108 tobacco companies and 25 companies due to their involvement in significant controversies.

We applied Kempen's proprietary ESG scoring to 90 internally and externally managed funds, representing 15% of Kempen's AUM. The awarded scores range between 2.0 and 4.5. The distribution of the 90 funds' ESG scores are: 9% embryonic (a score of 2 out of 5), 46% sufficient (a score of 3 out of 5), 43% maturing (a score of 4 out of 5) and 2% leading (a score of 5 out of 5). This reflects a gradual improvement across the board compared to last year.

Last year we further developed our ESG manager scoring framework to raise the minimum requirements and align with our new Sustainability Spectrum. Please see the ESG integration section in this report for more detail on this. The updated scoring methodology will be applied to internal and external funds in 2020.

Please see our [avoidance](#) and [exclusion](#) lists on www.kempen.com.

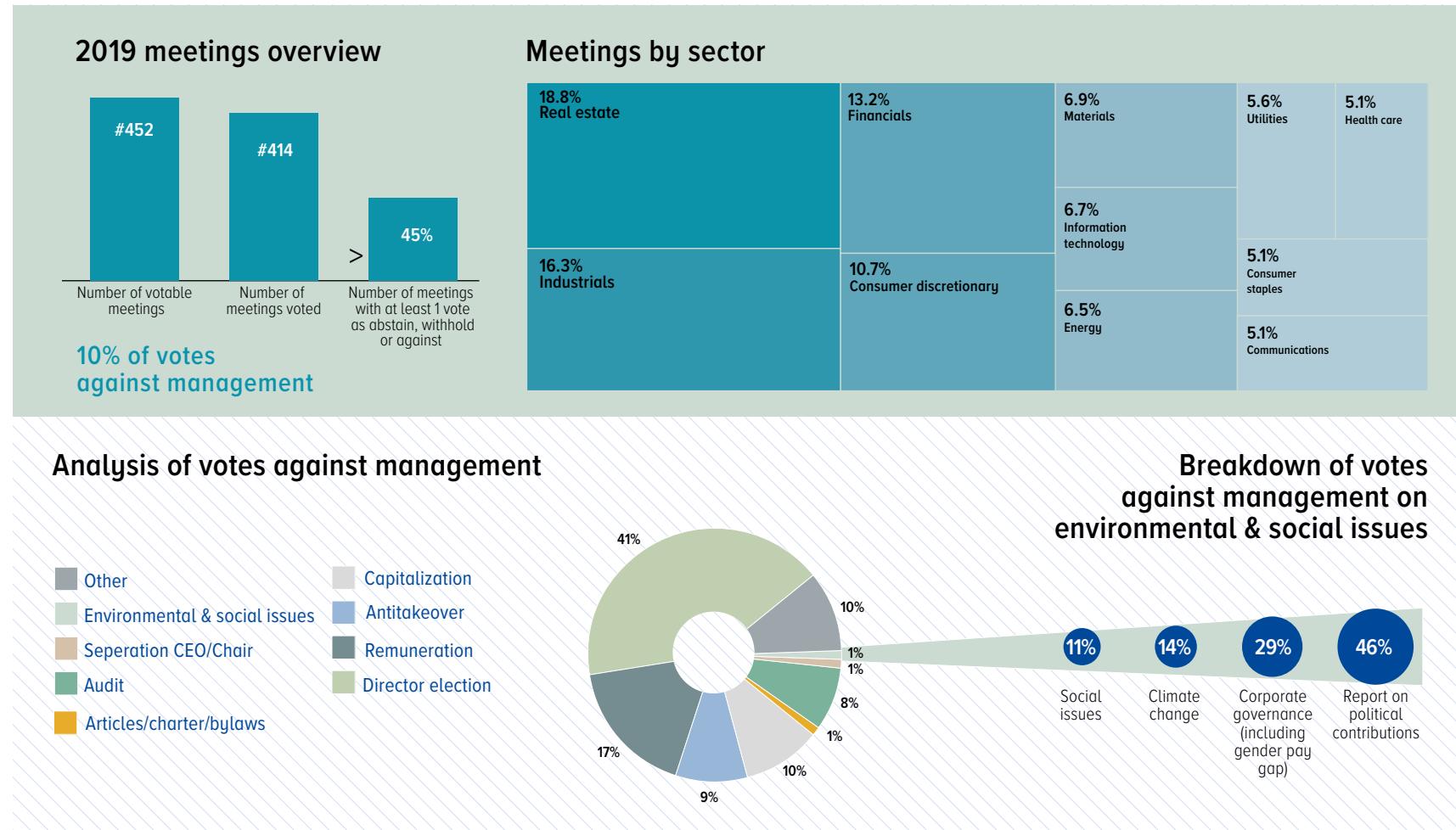
FIGURE 1 RESPONSIBLE INVESTMENT DASHBOARD FIGURES PER END 2019



Summary of our voting activities

Throughout 2019 we voted at 414 distinct company meetings, with 10% of our votes cast against management. We use of ISS as voting platform and votes are based on our custom voting policy².

FIGURE 2 VOTING STATISTICS



2 Our voting record is publicly available here: <https://vds.issgovernance.com/vds/#/NzcyMA==/>

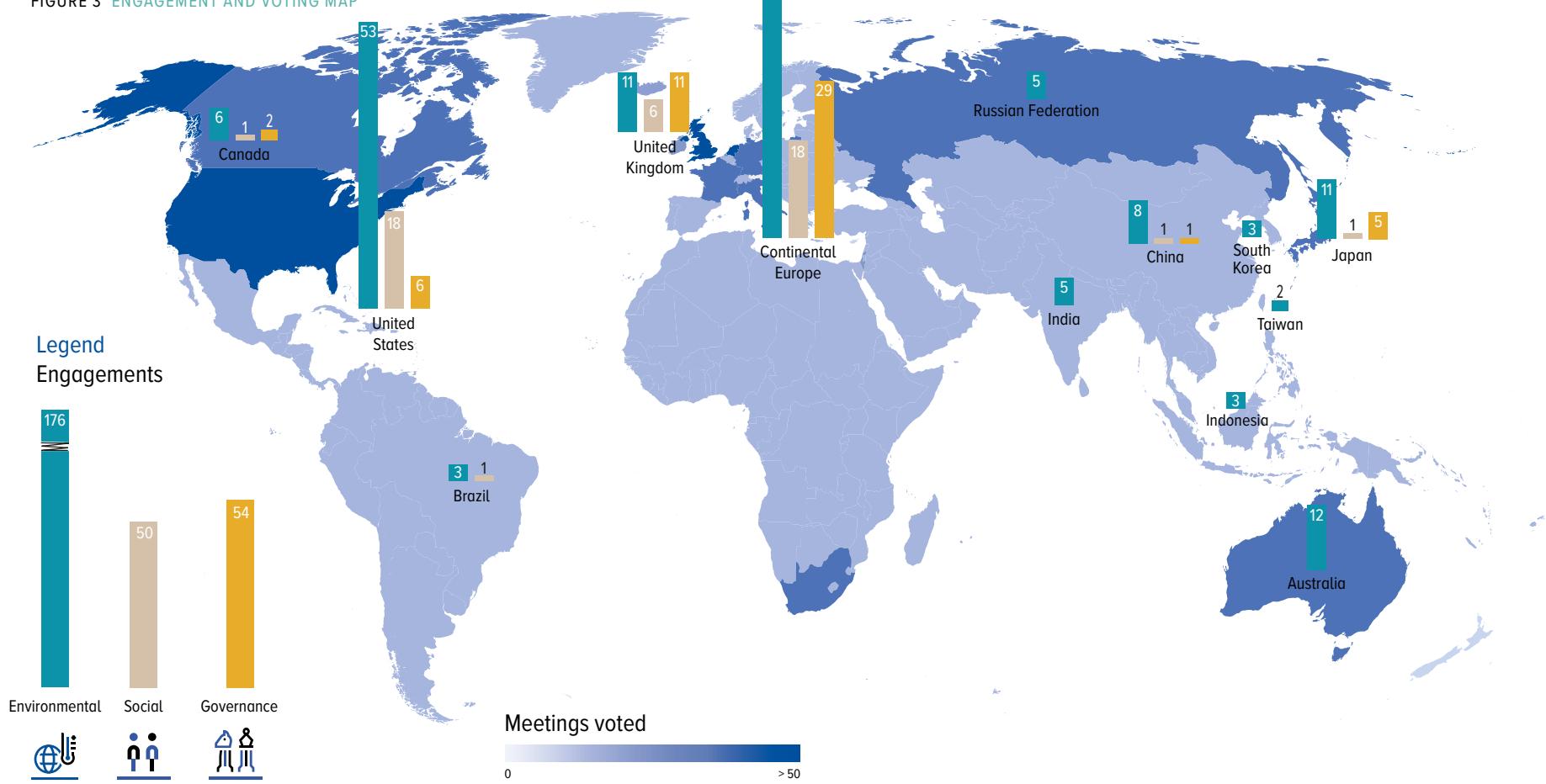
Engagement and voting map

In 2019, we engaged with 264 companies on environmental, social and governance themes. Of these engagements, 84 were direct engagements by our portfolio managers and responsible investment team, the rest were carried out in collaboration with peers.

We divide the dialogues with companies into 'engagements for change' and 'engagements for awareness'. In 2019, we engaged for change with 42 companies on ESG related issues.

These engagements were focused mainly on environmental (40%) and governance issues (36%). We also engaged with 42 companies for awareness on ESG issues, for the largest part on governance (72%).

FIGURE 3 ENGAGEMENT AND VOTING MAP



Our engagement approach and results

Engagement for awareness

Aim to raise awareness about a certain issue among our investee companies or to get more information on a particular company.

Engagement for change

These have concrete objectives with specific timelines set in advance specifying what we would like to achieve. Progress of these engagements is measured via milestones achieved.

Public policy and collaborative engagements

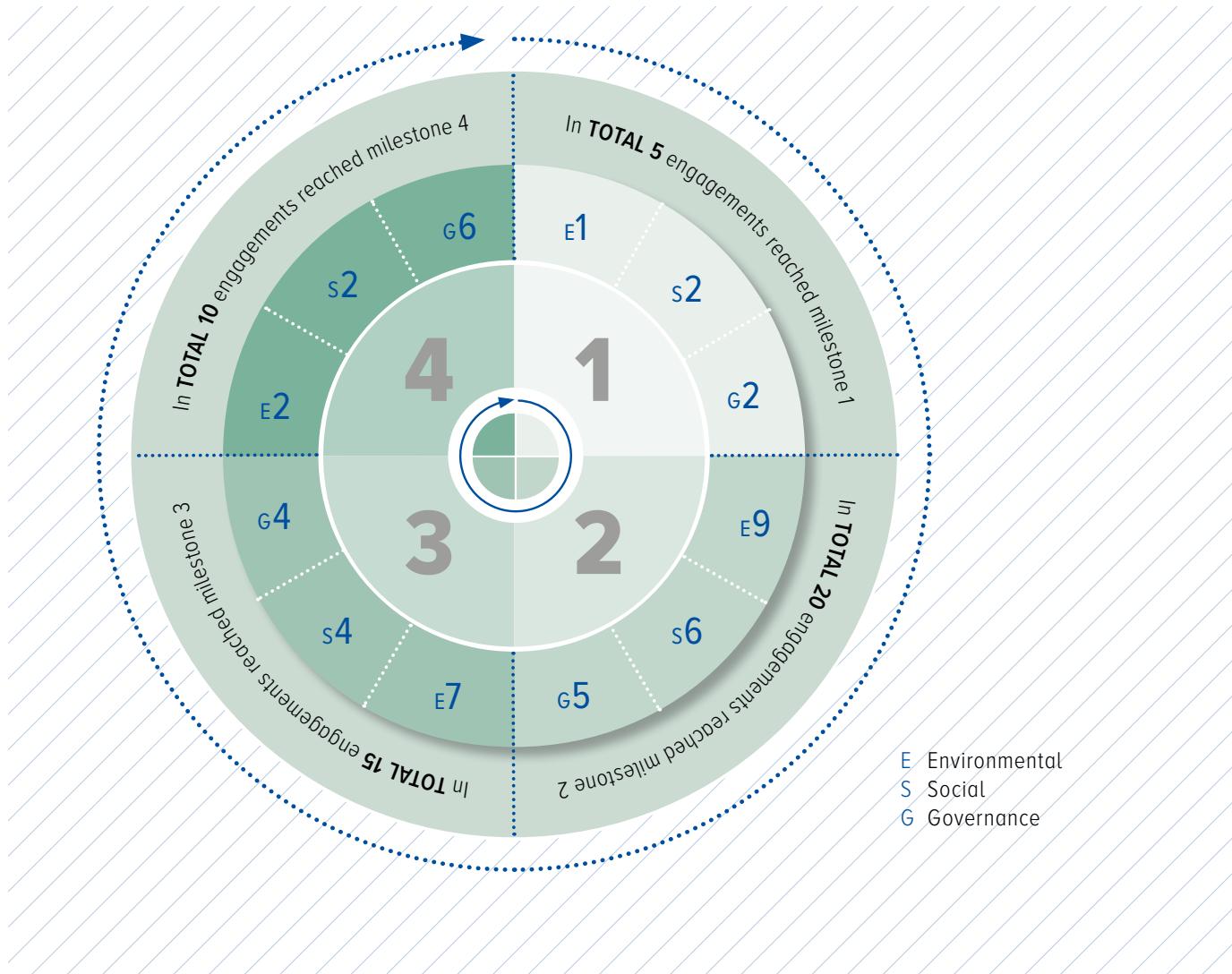
These Kempen engagements aim to improve the overall landscape of (financial) markets and general level of ESG performance in particular sectors, markets and geographies.

Engagement milestones overview

Milestone methodology

- 1 **RAISE CONCERN:** Kempen identifies the issues and brings it to the attention of the relevant board members or management team of a company;
- 2 **COMPANY ACKNOWLEDGEMENT:** The company acknowledges the importance of the issue raised to the company or its stakeholders and commits to resolving the issue;
- 3 **COMPANY POLICY:** Company has developed or improved its policy to deal with the specific issue; and
- 4 **COMPANY IMPLEMENTS PROGRAMME** (closing of the engagement): The company can provide clear evidence that the policy or strategy is fully implemented and that there is clear accountability from the top.

FIGURE 4 SUMMARY OF ALL ENGAGEMENTS FOR CHANGE PER MILESTONE PER END 2019



Our engagement progress

Through our engagements, we seek to encourage positive change at companies. We engage on a broad range of strategic, financial, corporate governance, environmental and social aspects in order to:

- ✗ Be informed about corporate strategy, policies and programmes and increase our understanding of a company;
- ✗ Ensure that companies' boards and management teams have proper oversight and management of ESG risks, and that companies' sufficiently embrace environmental and social opportunities; and
- ✗ Encourage companies to adopt corporate governance best practices

Environmental and governance related topics seem to be the most frequent engagement themes. Regarding the former, climate change is by far the most significant topic and we expect more climate change related engagements going forward as the sense of urgency and importance of climate issues is rising for all stakeholders.

ENGAGEMENTS SPLIT BY THEME 2019

	ENVIRONMENTAL	SOCIAL	GOVERNANCE	TOTAL
Engagements for awareness	16%	12%	72%	100%
Engagements for change	40%	24%	36%	100%

Milestone progress in 2019

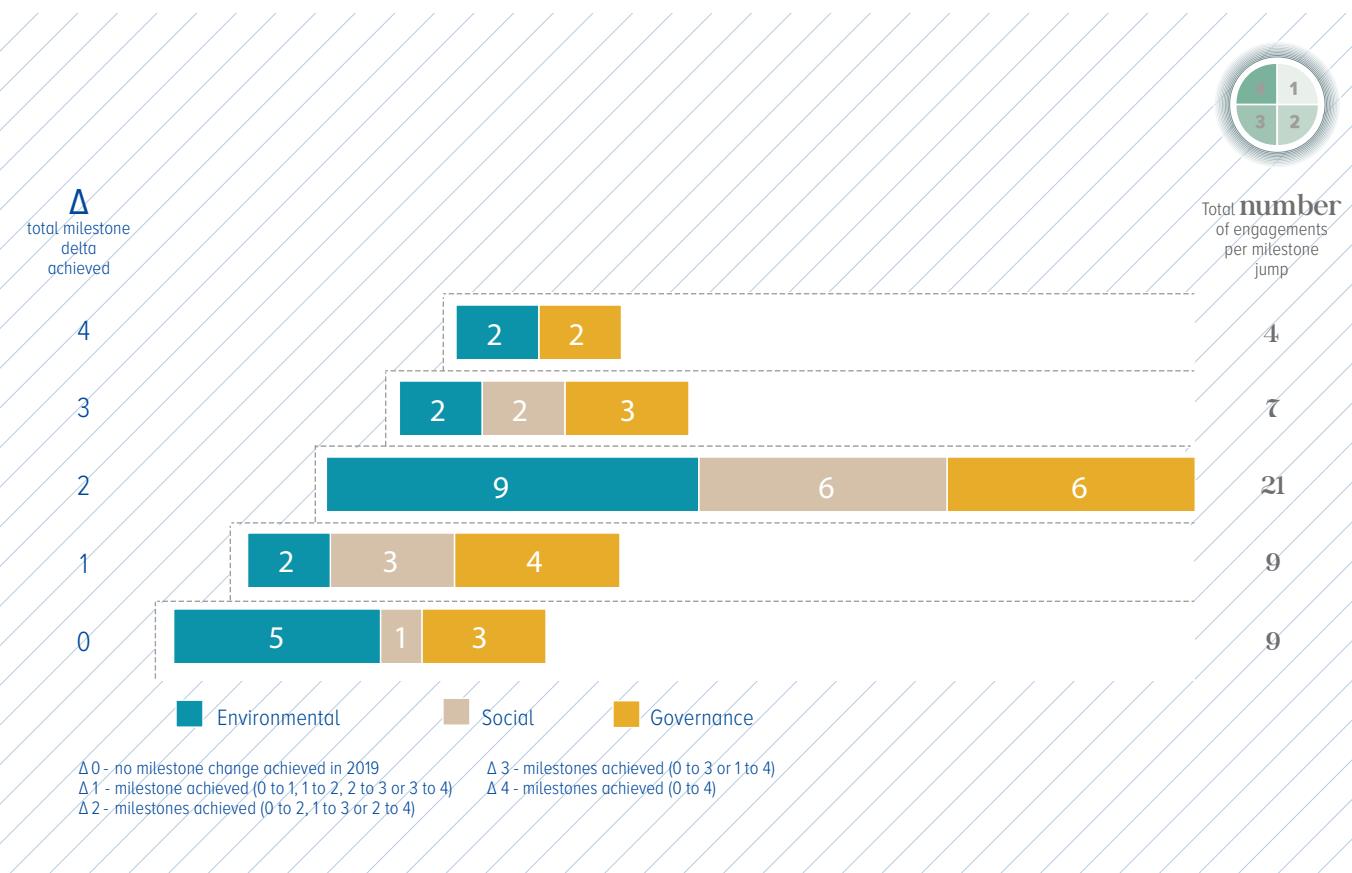
50 engagement milestones achieved, with 42 companies

Figure 5 shows how many ‘engagements for change’ progressed against our four milestones in 2019 – highlighting the concrete results our engagements delivered during 2019.

Most ‘engagements for change’ moved forward at least two milestones in 2019 and were distributed quite evenly between environmental (9), social (6) and governance (6) issues. Overall we saw good progress in our dialogues with almost half showing a positive direction of travel. Around one in ten engagements completed milestone 4 – meaning the company successfully implemented policies to fix the area of concern.

Around one in five engagements showed no progress during the year – which may be because progress has stalled, but may also be because we are no longer invested in the company or because the company requires additional time to reach the next milestone. One in eight engagements shows a negative direction of development, meaning that the dialogue with the investee company was not satisfactory in our view.

FIGURE 5 NUMBER OF ENGAGEMENTS FOR CHANGE MILESTONES (DELTA) ACHIEVED



OECD RBC related engagements

This table lists engagements on themes covered by the OECD Responsible Business Conduct (RBC) guidelines that we worked on in 2019. It covers engagements on both actual and potential adverse impacts and how these are mitigated. For more information about our OECD RBC approach please see page 33.

COMPANY NAME	LOCATION	SECTOR	OECD RBC THEME	MILESTONE	ISSUE	ENGAGEMENT RESULTS
MTN Group	South Africa	Telecoms			MTN operates in many emerging markets. Human rights due diligence and protection of digital rights are important topics for the company. Kempen is leading the engagement with them as part of the Investor Alliance for Human Rights group.	MTN is taking steps to strengthen Human Rights and Digital Rights policies and has been implementing some of the recommendations from the Ranking Digital Rights benchmark which we view as positive. We want MTN to disclose more information about its human rights due diligence process, including whether it conducts risk assessments on new and existing services when entering new markets.
Volkswagen	Germany	Automotive			In our view, a continued investment in VW would only be justified if the company demonstrated significant positive cultural change, ensuring ethical conduct of employees and continued commitment on climate.	The company showed improvement in their compliance plan and commitment to cultural change. Read the Engagement Case on page 25.
Bayer	Germany	Life sciences			With the acquisition of Monsanto in August 2018, Bayer became the largest crop protection manufacturer in the world. The company inherited several significant controversies through its acquisition of Monsanto.	After some interaction with senior executives, we deemed the progress made by Bayer by mid-2019 insufficient and put the company on our avoidance list. Read the Engagement Case on page 22.
Abercrombie & Fitch Co.	USA	Garment			In the past, Abercrombie & Fitch (A&F) has lagged its peers on transparency related to its supply chain management policies.	In the past two years the company has significantly improved its transparency, publishing sustainability strategy and setting clear targets to 2025. Data provider MSCI ESG recently upgraded the company's ESG score from CCC to B, and A&F has also signed the UN Global Compact. Furthermore A&F has improved its approach to paying living wages. Read the Engagement Case on page 24.
Glencore plc	UK	Materials			The purpose of the engagement has been to accelerate progress at Glencore across key Climate Action 100+ focus areas: governance, emissions reduction and disclosure.	Following the engagement Glencore published a statement which fully endorsed the goals of the Paris Agreement and made a commitment to limit coal production capacity broadly to current levels. Glencore also committed to prioritise investment in commodities essential to the energy transition.



COMPANY NAME	LOCATION	SECTOR	OECD RBC THEME	MILESTONE	ISSUE	ENGAGEMENT RESULTS
CLP Holdings Limited	Hong Kong	Utilities			This company generates 51% of its power from coal, but intends to close these plants down over time to align with the Paris Agreement. Our engagement asked the company to abandon plans to build two new coal plants in Vietnam.	CLP has made a public commitment not to build new coal power plants in Vietnam thus avoiding an estimated 1 billion tonnes of CO ₂ being emitted over the lifetime of these plants. The company has further published its decarbonisation strategy.
LHC Group	USA	Health Care			We engaged with this healthcare provider on climate change reporting.	The company has committed to develop a climate change mitigation plan.
Royal Dutch Shell	UK	Energy			Shell is one of the largest global greenhouse gas (GHG) emitter companies in the capital markets, and therefore its carbon-emissions reduction plans are important for Kempen.	In 2019, Shell published plans to set short term GHG emissions reduction targets, including to link these to remuneration. They cancelled their memberships in associations that have a view on climate change that is not aligned with Shell's climate strategy. Read the Engagement Case on page 21.
Severstal PAO	Russia	Materials			We engaged with the steel company to ask them to set GHG emissions reduction targets and to report in line with the TCFD.	Severstal started to report carbon emissions to CDP and the company is willing to take steps on climate change integration. We expect going forward that the company will also report using the TCFD guidelines.
Equinor ASA	Norway	Energy			In collaboration with other investors we asked the company to set Paris-aligned climate targets.	As a result of the collaborative engagement with Climate Action 100+ investors Equinor launched a new climate roadmap: x Reduce the net carbon intensity, from initial production to final consumption, of energy produced by at least 50% by 2050 x Grow renewable energy capacity tenfold by 2026, developing as a global offshore wind major.
CEZ as	Czech Republic	Utilities			We engaged this electric utility and mining company to have a better understanding of how it manages the risks and opportunities of climate change.	CEZ has published a coal energy plan in 2019 which shows how the company will decrease its coal mix and its carbon emission intensity towards 2040.



Human rights



Transparency



Climate change



Employment & Social themes



Environment



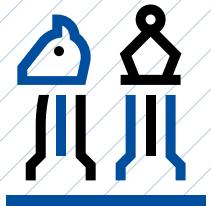
Governance

COMPANY NAME	LOCATION	SECTOR	OECD RBC THEME	MILESTONE	ISSUE	ENGAGEMENT RESULTS
BP Plc	UK	Energy			We engaged collaboratively with other investors to ask the company to set their Paris-aligned climate targets.	BP set a new ambition to become a net zero company by 2050 or sooner. BP aims to get to net zero across BP's operations on an absolute basis by 2050 or sooner. It also wants to reach net zero on carbon in BP's oil and gas production on an absolute basis by 2050 or sooner. The company plans a 50% cut in the carbon intensity of its products by 2050 or sooner.
Siemens Healthineers	Germany	Health Care			We asked the company to set GHG emission reduction targets and report on their sustainability KPIs.	We have engaged with the company to establish a climate change mitigation strategy.
Coats Group Plc	UK	Consumer Discretionary			We stepped into dialogue with the company to better understand its employee engagement across its own operations and supply chains and payment of living wages.	The company is performing a review of living wage related practices. Read the Engagement Case on page 23.
NIKE Inc.	USA	Consumer Discretionary			We engaged with NIKE to address labour issues and fair wages in their supply chain.	Mass fainting occurred in their supply chain in Cambodia in 2013/14. In Cambodia all factories are now enrolled in the Better Work programme aimed at improving overall working conditions. In 2019 the company took steps to further improve its approach to living wages and achieved an improved score on living wage methodology.
CNOOC Limited	Hong Kong	Energy			CNOOC is one of the large oil & gas companies and can contribute to the energy transition and the Paris goals.	Climate change risk has been recognised by the Board of CNOOC as a core module for CNOOC's overall risk management framework. Furthermore, the company formulated a "Green Low-Carbon Development Roadmap".
Alphabet Inc.	USA	Communication Services			Through its technologies, Alphabet has unique power and influence, resulting in real and potential adverse human rights impacts affecting individuals and communities as well as significant societal implications which pose material risks to the company and its investors.	Shareholder resolution co-filed due to lack of progress on engagement on human rights related issues. We call for the establishment of a Human Rights Risk Oversight Committee at the Board level to address salient human rights risks and act upon them.
Sysco Corporation	USA	Consumer Staples			Sysco, the world's largest broadline food distributor, is accused of pushing back against labour union activities.	They acknowledged the issue and the need to provide improved public reporting. We expect to see further transparency from the company on their management of collective bargaining and their plans going forward.





Engagement cases



FACTSHEET CLIMATE VOTING

Shell, BP, Equinor and ExxonMobil

VOTING RATIONALE

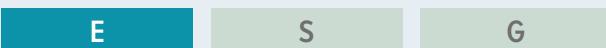
A key aspect of our active ownership policy is voting at the annual general meetings of shareholders (AGMs) of the companies we invest in. AGMs offer us a platform to express our convictions on climate change and stimulate companies to align their activities to the goals of the Paris Agreement.

BACKGROUND

In 2017 and 2018, we voted for the climate resolution proposed by Follow This at Shell's AGM. The resolution was calling on the company to set short and long term targets and also to include indirect (Scope 3) emissions. We welcome the significant progress Shell has made since. We also voted in favour of similar climate shareholder resolutions at the AGMs of Equinor and BP. Furthermore, we voted against management at the AGM of ExxonMobil.

ENGAGEMENT THEME

- × Climate change strategy



VOTING OBJECTIVES

Vote in line with our climate policy and encourage large oil and gas companies to align their activities with the goals of the Paris Agreement.

DEVELOPMENT



MILESTONE



SDG



COMPANY

Royal Dutch Shell, BP, Equinor and ExxonMobil.

COUNTRY

United Kingdom, Netherlands, Norway, US

SECTOR

Oil and gas

MARKET CAP

Large cap

ISSUE

Being amongst the largest global greenhouse gas (GHG) emitters, the major oil and gas companies have an important role to play in the energy transition.

MATERIALITY

Potential violation of environmental standards such as UN Global Compact Principle 7 - "Businesses should support a precautionary approach to environmental challenges", and Principle 8 - "Undertake initiatives to promote greater environmental responsibility".

VOTING RESULTS

- × In 2017 and 2018, we voted at Shell's AGM in favour of a shareholder resolution from Follow This, which encouraged the company to step up its climate change strategy and to set long, medium and short term carbon reduction targets which included its scope 3 emissions (for the energy products it sells). Shell has shown good progress on its climate strategy since.
- × Similar shareholder resolutions on climate change were at the AGM agenda of other large oil and gas companies in 2019: Equinor, BP and originally also ExxonMobil. We voted in favour of these resolutions at the AGMs of Equinor and BP as they are in line with our climate change policy and this was consistent with how we voted at Shell.
- × ExxonMobil removed a similar shareholder resolution from its AGM in 2019 even though it was in accordance with the other climate resolutions. As ExxonMobil's actions were in contrast with our view on climate change and with how we expect companies to deal with climate change, we voted against all board nominations to signal that it shows a lack of climate ambition.

SUBSEQUENT STEPS

- × We continue our dialogue with the oil and gas companies, directly and via the Climate Action 100+ initiative, to stimulate the companies in the energy transition towards a low carbon economy.

ENGAGEMENT FACTSHEET

Royal Dutch Shell

ENGAGEMENT RATIONALE

As a global energy company, Shell is one of the largest global greenhouse gas emitter companies in the capital markets, and therefore its carbon-emissions reduction plans are important for Kempen.

BACKGROUND

We started our engagement with Shell in 2016, focusing specifically on GHG emissions and asking for a reduction plan that was aligned with the Paris 2 degrees scenario. In 2017 and 2018, Kempen was one of the shareholders who voted for the resolution proposed by Shell, including indirect (Scope 3) emissions. These indirect emissions are very substantial as they account for over 80% of Shell's total emissions. Shell has made significant climate progress in recent years and we continue to encourage the company to make further progress in order to achieve the Paris Agreement goals.

ENGAGEMENT THEME

- × Climate change strategy

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ENGAGEMENT OBJECTIVES

We engage with Shell to implement the joint statement to support the Paris Agreement goals (see more on the joint statement under Engagement results).

We encourage Shell to have a long term ambition (2050) in line with the (well) below 2 degrees scenario of the IPCC and publicly report on it.

DEVELOPMENT



MILESTONE



SDG



COMPANY

Royal Dutch Shell plc (Shell) operates as a vertically integrated player in the oil and gas industry.

MATERIALITY

Potential violation of environmental standards such as UN Global Compact Principle 7 - "Businesses should support a precautionary approach to environmental challenges", and Principle 8 - "Undertake initiatives to promote greater environmental responsibility".

COUNTRY

United Kingdom / Netherlands

SECTOR

Oil and gas

MARKET CAP

Large cap

MSCI ESG RESEARCH

UN Global Compact: Fail
ESG rating: BBB

ISSUE

Shell is a major energy company, leader in the oil and gas sector. Shell is one of the largest global greenhouse gas (GHG) emitters.

SUBSEQUENT STEPS

- × We will continue our dialogue to monitor the implementation of the steps mentioned in the joint statement.
- × We encourage Shell to demonstrate that its long term ambition is in line with the (well) below 2° C scenarios of the IPCC and publicly report on it.

ENGAGEMENT FACTSHEET

Bayer AG

ENGAGEMENT RATIONALE

With the acquisition of Monsanto in August 2018, Bayer became the largest crop protection manufacturer in the world. The company inherited several significant controversies in the field of GMO from its acquisition of Monsanto, leading to a Fail by UN Global Compact.

BACKGROUND

Upon completion of the Monsanto acquisition in August 2018 we indicated to the company that we wanted to discuss their policy regarding safe and responsible use of their products with a focus on GMO products and pesticides.

THEMES FOR ENGAGEMENT



ENGAGEMENT OBJECTIVES

We want Bayer to take more responsibility for their role in sustainable use of GMO and related products. Both towards people and nature. We set 5 concrete goals:

1. Bayer has to recognise that it has the responsibility to ensure its products are used in a responsible way
2. It has to adjust their Product Stewardship Policy and the Product Stewardship Program to reflect the new products acquired from Monsanto
3. We want to have clear evidence that Bayer takes action when products are not used as intended
4. We want to make sure there are processes in place that all clients of Bayer receive adequate training before they can use Bayers' products
5. We want the company to have a clear policy in case there is evidence that certain clients use their products irresponsibly.

DEVELOPMENT



MILESTONE



SDG



COMPANY

Bayer is based in Leverkusen, Germany and produces and sells healthcare and agricultural products

COUNTRY

Germany

SECTOR

Healthcare & Chemicals

MARKET CAP

Large cap - €55bn

ISSUE

Bayer employs controversial practices around the application of GMO. Their crop protection products are said to have a severe impact on biodiversity, human health and natural pollinators.

MATERIALITY

The issues are considered to be serious, structural and widespread. The crop protection business is a relatively minor part of the total business of Bayer.

MSCI ESG RESEARCH

UN Global Compact: Fail
ESG Rating: BB

ENGAGEMENT FACTSHEET

Coats Group

ENGAGEMENT RATIONALE

In 2019 Coats Group published its latest sustainability strategy including environmental targets and social objectives. Welcoming ambitious reduction targets of Coats Group's environmental footprint, we stepped into dialogue with the company to better understand its employee engagement across its own operations and supply chains. We scored the company's approach to payment of living wages using the methodology of the Platform Living Wage Financials (PLWF), which specifically addresses the need for payment of living wages in global supply chains of the apparel and footwear industry. Initial scoring showed that the company was still in an embryonic phase and we encourage Coats Group to include living wages into its sustainability strategy.

BACKGROUND

While the apparel sector is associated with environmental and social issues, we see some of the larger fashion brands develop and implement sustainability strategies to combat the industries negative impact. Coats Group has set ambitious sustainability targets and is making significant progress in reducing its environmental footprint. Reducing waste and carbon emissions, as well as the use of water and non-renewable energy, the company has placed itself ahead of the competition to win market share. In June 2019 we attended Coats Group's inaugural ESG investor day, where the company presented its ambition to produce 85% of threads from recycled materials.

THEME FOR ENGAGEMENT

Social objectives and payment of living wages

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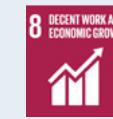
DEVELOPMENT



MILESTONE



SDG



ENGAGEMENT OBJECTIVES

- ✗ Publish a policy on payment of living wages in own operations & supply chains
- ✗ Improvement in company score on Platform Living Wage Financials methodology from embryonic to developing stage

ENGAGEMENT RESULTS

- ✗ Coats Group provided further disclosure to enable Kempen to perform assessment of its approach to living wages.
- ✗ Coats Group became a UN Global Compact signatory in November 2019
- ✗ The company also committed to further develop key elements of their living-wage approach and to include it into its sustainability strategy as part of the social pillar by early 2020.

NEXT STEPS

Continue engaging with the company on its disclosure around living wages and the improvement of its social element of the sustainability strategy in 2020.

COMPANY

- Coats Group Plc manufactures and distributes industrial threads to the apparel and footwear industry. It also offers performance materials including technical threads and yarn used in a range of industries such as automotive, household, medical, safety, telecoms, oil and gas, conductive, and composites.

COUNTRY

United Kingdom

SECTOR

Consumer Discretionary

MARKET CAP

GBP 1 billion

ISSUE

Lack of disclosure around payment of living wages to factory workers

MATERIALITY

Improving the environmental and social footprint of Coats Group is a driver of top-line growth.

RISK

Lack of disclosure poses a reputational risk and may be scrutinized by (potential) clients and other stakeholders

MSCI ESG RESEARCH

UN Global Compact: PASS
ESG Rating: A

ENGAGEMENT FACTSHEET

Abercrombie & Fitch

ENGAGEMENT RATIONALE

Abercrombie & Fitch (A&F) is an American apparel retailer and operates approximately 900 stores across three brands. A&F in the past lagged its peers on transparency related to its supply chain management policies. In the past two years the company has significantly improved its transparency, published a sustainability strategy and set clear targets to 2025. Recently the MSCI ESG Data provider upgraded the company's ESG score from CCC to B.

BACKGROUND

We have had an active dialogue with A&F on its strategy, social policies and corporate governance since the company was added to our Global Small Cap portfolio. In early 2018, we decided to start a formal engagement on social issues. Our analysis revealed that, since 2011, the company had not disclosed sufficient information about its approach to sustainability and supply chain management.

THEMES FOR ENGAGEMENT

Human & labour rights and disclosure & implementation of living wages



ENGAGEMENT OBJECTIVES

- For A&F to disclose its performance against set sustainability targets. Sustainability performance against targets should be verified.
- For A&F to continue improving its approach to living wages from 'developing' to 'emerging'. Specifically we would like the company to develop a separate statement on living wages and show clear evidence of living wage Code of Conduct implementation

DEVELOPMENT



MILESTONE



SDG



COMPANY

A&F is a global specialty retailer of apparel and accessories. It operates three brands: Abercrombie & Fitch, abercrombie kids and Hollister Co.

COUNTRY

USA

SECTOR

Consumer Discretionary

MARKET CAP

Small Cap

ISSUE

A&F's business model is not fully vertically integrated. The company does not own the factories which manufacture its designs. Production is outsourced to countries outside the US, including China, Vietnam, India and Bangladesh. The industry has faced allegations of poor working conditions.

MATERIALITY

The industry is directly involved in issues and controversies surrounding poor labour conditions through its suppliers (Tier 1 and Tier 2). A&F audit findings confirm some of these issues.

RISK

Supply chain management, payment of living wages are important for the sector

MSCI ESG RESEARCH

UN Global Compact: Pass
ESG Rating: B

NEXT STEPS

A&F to further increase the transparency of its sustainability-focused policies and to provide concrete evidence on how these are being implemented within its supply chain.

ENGAGEMENT FACTSHEET

Volkswagen AG

ENGAGEMENT RATIONALE

Volkswagen (VW) has the lowest ESG rating, CCC and a fail status on UN Global Compact norms according to MSCI. We decided that a continued investment in VW would only be justified if the company demonstrated significant positive cultural change, to ensure ethical conduct by employees going forward. We entered into dialogue with the company to get a better understanding of the changes it is making. We felt that the culture change was key for the company to remain competitive and be at the forefront of technological change in the sector.

BACKGROUND

We wrote to VW in June 2018 to start the engagement, highlighting our history as a long term investor in VW securities and the importance we assign to cultural change for the future success of the firm.

THEMES FOR ENGAGEMENT

E S G

ENGAGEMENT OBJECTIVE

- ✗ To encourage cultural change at VW so that the strategic direction (innovation/mobility) of VW goes hand in hand with organisational and cultural restructuring.
- ✗ Identify a set of shared KPI's to track and measure VW's progress on improving corporate culture.
- ✗ Kempen requested improved transparency around: 1) The definition of the cultural change that VW aims to achieve; 2) Clear targets and deadlines; 3) Frequent reporting on the process.
- ✗ We also engaged with VW on its compliance with the Paris Agreement and Electric Vehicle (EV) development.

DEVELOPMENT



MILESTONE



SDG



COMPANY

Volkswagen is the largest global automotive OEM manufacturing (luxury) automobiles, trucks and commercial vehicles under various brands

COUNTRY

Germany

SECTOR

Automobiles sector

MARKET CAP

Large cap: € 78 bln

ISSUE

Emissions scandal emerged in 2015 identifying Volkswagen as actively manipulating diesel emission via illegal software in order to comply with emission regulation in the US on NOx, with a negative impact on public health. Also petrol engines were affected, manipulating CO₂ emissions. In total 11 million cars were affected.

MATERIALITY

Issues are very material as they relate to the core of the business. Misconduct is influenced by the corporate culture and hierarchical structure

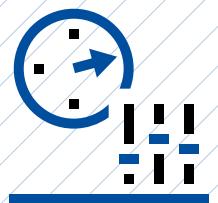
#1 global OEM with material impact on global CO₂ emission levels.

MSCI ESG

UN Global Compact: Fail
ESG Rating: CCC



Year in review



Fostering a shared definition for sustainability

For Kempen, 2019 may well be remembered as the year of alignment.

We made significant progress towards a shared understanding of sustainability across our business from internal to external managers, from private equity to private banking, through a restatement of our ESG Beliefs and the creation of our new Sustainability Spectrum for clients. It was also a year that saw Kempen's sustainable investment and stewardship activity communicated much more vocally both inside and outside our company. Within Kempen we introduced a raft of internal education sessions including 'engagement lunches' and knowledge sharing sessions on topics from regulatory trends to climate science. To amplify external communications, we made much greater use of quarterly newsletters and demonstrated our thought leadership through White Papers, the first Global Impact Pool Annual report and our Responsible Investment report.

Our Responsible Investment Beliefs

- ✗ We act as **long-term stewards** to generate attractive returns while considering the interests of all stakeholders.
- ✗ We **integrate ESG factors throughout our investment process** to achieve better risk adjusted returns.
- ✗ We prefer **inclusion over exclusion** to more efficiently bring about change by working with companies.
- ✗ We **engage as active owner** to drive the sustainability of a company.
- ✗ We **allocate capital towards sustainable companies** to achieve positive real world impact.

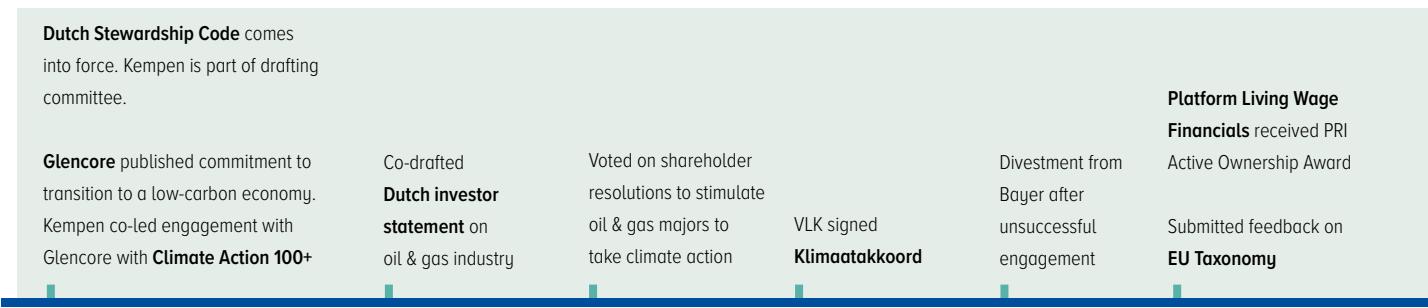
2019 Highlights



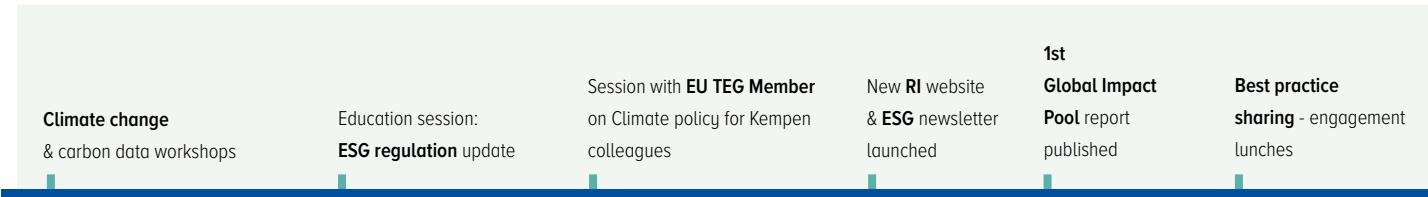
Our approach



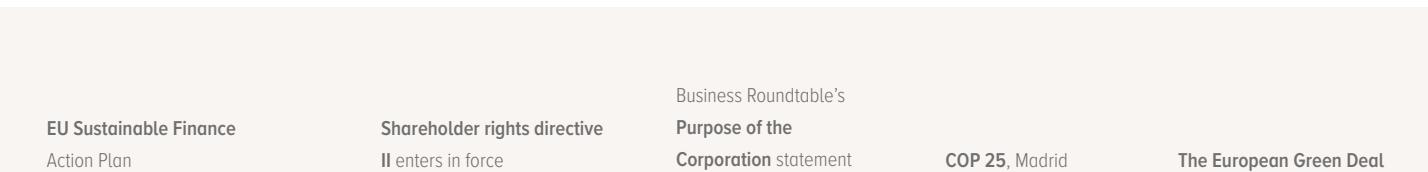
Engagement and collaboration



Education and communication



In the world



To deliver sustainability, we need to clearly define it. That is the concept at the heart of the proposed [EU taxonomy](#), which aims to create a universal language to describe green or sustainable investments, and it is a curve that we want to stay ahead of at Kempen.

That is why in September we updated our ESG Beliefs to clarify what we mean by our commitment to sustainable investment and are delighted that four Kempen funds were certified to the Belgian Febelfin sustainability label last year, and one to the French ISR label. Thanks to the quality standards and sustainability labels, consumers can have more clarity that they invest in companies with a clear sustainability strategy and transparent policies on issues that are the focus of societal debate. We also aligned our

avoidance and exclusion policy with the OECD guidelines on Responsible Business Conduct for Institutional Investors, further described in the exclusion and avoidance section.

Perhaps our biggest step towards alignment came in November when our Management Team approved a move to classify all our products and services under one Sustainability Spectrum – known as the ‘five flavours’.

Sustainability Spectrum: Moving from responsible to sustainable

The five flavours of our Sustainability Spectrum have taken ESG integration between Kempen’s internal asset management business, its

fiduciary management services and private banking to another level. It means all parts of the Van Lanschot Kempen Group can use the same methodology to discuss clients’ sustainability preferences and to score the sustainability performance of our own portfolios and of externally managed funds. The first two flavours can be considered legacy and will not be actively offered to clients.

As outlined in our ESG integration chapter we expect our external managers and own funds to fulfil at least the criteria of ‘avoid harm’ (flavour 3) and have set ourselves an aspiration to move towards the ‘do better’ part of the spectrum for a large number of our funds to promote responsible business conduct.

“Our alignment of sustainability definitions and criteria has helped to create a shared understanding of our ESG approach and aspirations”



Wieke Maarleveld
Senior Product Manager
and Advisor Sustainable
and Impact Investing
Van Lanschot Kempen

The five flavours of the Sustainability Spectrum are:

1.

Compliant

The solution offered to the client meets legal requirements but there is no proactive consideration of ESG factors beyond this.

2.

Basic

The investment takes minimal steps to go beyond compliance in order to avoid reputational risks.

3.

Avoid harm

In this approach, the client is an active owner with a clear climate and stewardship policy in place, and the investments take ESG factors into consideration with some balance between risk, return, cost and sustainability. ESG integration is not a primary driver of decision-making but clients invest sustainably and avoid harm. Active ownership approach including engagement and own voting policy is actively encouraged.

4.

Do better

In this ‘flavour’ client’s intention is to benefit stakeholders. The goal is to build a sustainable portfolio for the client. The investment applies an inclusion or a best in class approach with sustainability ambition translated into policy, implementation and reporting. Climate related ambitions are set. Higher thresholds of exclusion in areas such as animal welfare, labour and human rights, and environmental harm are applied. Active ownership including a strong engagement and ambitious voting policy is expected.

5.

Do good

In this ‘flavour’ clients’ intention is to contribute to solutions to global sustainability challenges such as the Sustainable Development Goals. The investments drive positive real world outcomes on clients’ behalf. This tends to be in the form of a thematic or SDG-aligned investment approach, and investee companies are expected to derive a certain proportion of revenues from sustainability solutions.



Robin Schouten
*Senior Fiduciary
Manager*

“Creating the Sustainability Spectrum to position investments is helping our clients to define their ESG policy choices and implement them in a transparent manner”

Our responsible investment process

At Kempen, we organise our responsible investment efforts across four pillars:

- ✗ **EXCLUSION AND AVOIDANCE** – Those companies we don't invest in
- ✗ **ESG INTEGRATION** - Ensuring sustainability risks and opportunities are adequately considered in our investment analysis and processes
- ✗ **ACTIVE OWNERSHIP** - Being responsible stewards of our clients' capital and using our influence to improve corporate behaviour on specific ESG issues
- ✗ **POSITIVE IMPACT** - Investing with an objective to achieve positive real world outcomes and impact

In this article, we take each of these pillars in turn and examine the most significant developments and achievements from the past year.

Exclusion and avoidance

Our approach

Our belief is that in most cases, a focus on engagement in the long term will lead to the best results for our clients. However, if engagement efforts with companies or investment managers lead to insufficient results they can be excluded from any investment portfolio. We also exclude companies involved in the production, supply, distribution and trade of tobacco products, and we exclude companies involved in developing, producing, testing, storing, trading and/or maintaining controversial weapons.

There are certain companies that we will not invest in, for example if their conduct or their products or services violate key international conventions or principles such as the UN Global Compact or the UN Guiding Principles on Business and Human Rights. We put such companies on our avoidance list – which excludes them from any internally managed funds where we have discretionary control and

ask externally managed active funds to avoid these companies wherever possible and to engage with them if they remain invested.

Our performance in 2019

In 2019 we undertook a significant piece of work to align our avoidance policy with the terms of the Organisation for Economic Cooperation and Development's (OECD) guide on Responsible Business Conduct for Institutional Investors (RBCs). They provide key considerations for due diligence under the OECD Guidelines for Multinational Enterprises and which Kempen adheres to. The policy will continue to be implemented and further evolved over the course of 2020.

This represents an evolution of our conduct based avoidance policy and commits us to engage or exclude companies that appear during our due diligence as being involved in serious controversies, including those deemed to be in violation of the RBC Principles. We expect

investees to meet their fundamental obligations in the areas of human and labour rights, protecting the environment, consumer interests and ensuring anti-corruption safeguards and payment of taxes, wherever they operate, in line with the OECD Guidelines. In cases where investee companies have caused an adverse impact we use our leverage and engage with the company to remedy the situation. Our updated OECD RBC Policy is available online.

ESG integration

Our approach

At Kempen we think that an analysis of ESG factors is fundamental to fully understanding what a company or other investable entity is really worth. Thus ESG integration forms an integral part of our investment process and is part of the process that helps us achieve better risk adjusted returns.

Fiduciary management

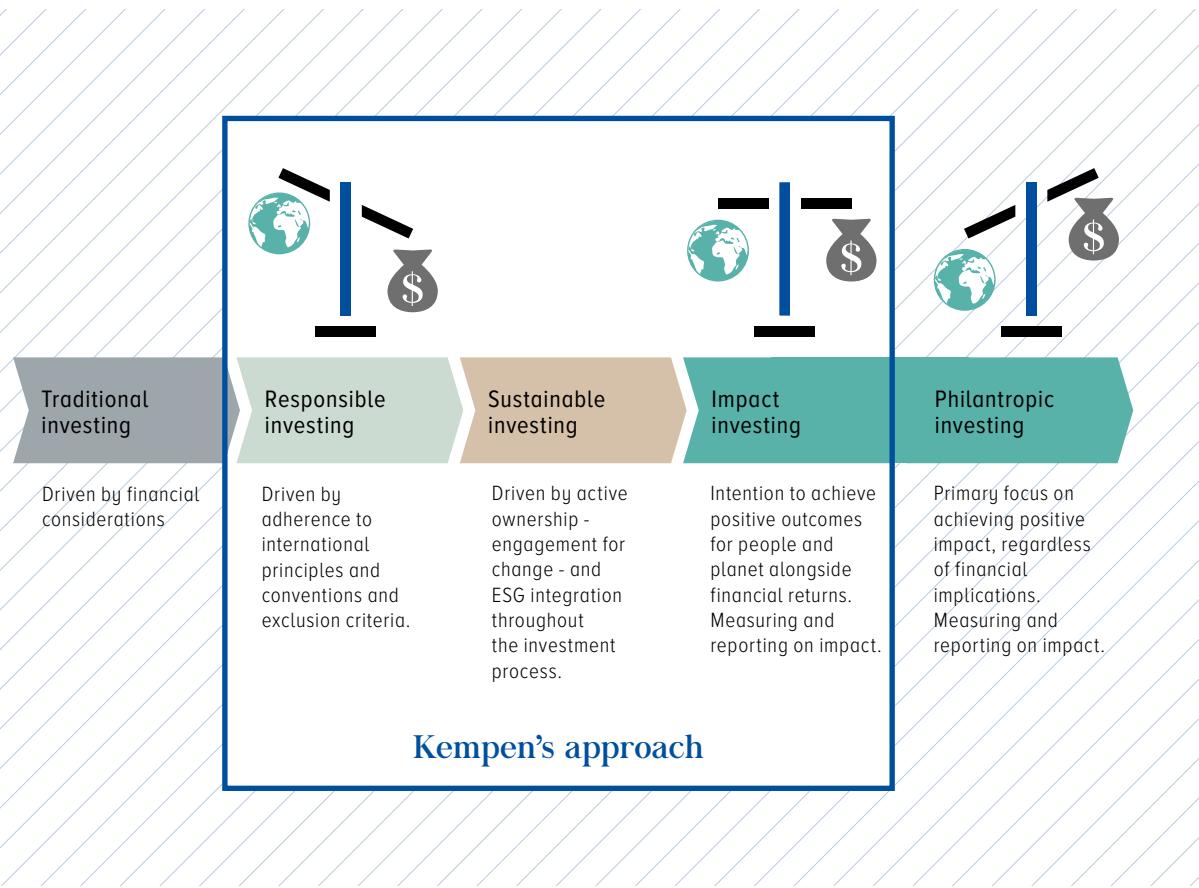
When working with external managers we assess their responsible investment policy and implementation capabilities in both our selection and monitoring process.

The most significant undertaking of 2019 was the creation of our new Sustainability Spectrum, as described earlier in this report. In fiduciary management this has ensured we have the right

understanding of our client's preferences on sustainability across the Van Lanschot Kempen Group. Our institutional and private banking clients are able to choose how they want to position their portfolios and, depending on clients' individual choices, we can better help them transition their portfolios towards more sustainable investments accordingly.

By applying these new definitions, we have set a direction of travel for our ESG integration effort to move from a 'responsible' approach – that considers ESG factors alongside all other criteria and integrates them in the investment process, to a more 'sustainable' approach – which seeks to generate positive outcomes from our investment activities in addition to financial returns.

FIGURE 6 FROM RESPONSIBLE TO SUSTAINABLE INVESTING



This year we also ensured that the way we score external managers on their ESG capabilities is consistent with the requirements set under the Sustainability Spectrum. Manager scoring is based on six core criteria.

Manager scoring criteria are as follows:

- ✗ Manager's commitment to responsible investment and its policies.
- ✗ ESG integration and how manager incorporates ESG criteria in investment process.
- ✗ Active ownership.
- ✗ Evidence and transparency. How are the policies and commitments implemented in practice.
- ✗ Implementation of exclusion and avoidance requirements.
- ✗ Positive impact.

In 2019 we created additional minimum requirements that feed into the core criteria to align the scoring with the Sustainability Spectrum. The minimum criteria to qualify is to

meet flavour 3: ‘Avoid harm’ for example includes expectations around the manager setting up a climate policy and measuring GHG emissions, the avoidance of companies marked as a ‘Fail’ against the UN Global Compact Principles, based on the MSCI ESG Research or other data provider’s assessment, and clear voting and engagement track record. To qualify for flavour 4 ‘Do better’ there are further additional requirements around managers having an inclusion or a best in class approach and have strong evidence that their voting and engagement activities and their portfolio are in line with their policies.

Once the new framework is implemented clients that choose a certain flavour from the Sustainability Spectrum for all or for part of their portfolio will also be able to immediately see which managers and funds meet the requirements of that flavour based on the scoring framework and are therefore suitable for their portfolios.

The results of our assessments in 2019 are based on the current scoring methodology and can be found in the RI Dashboard on page 8. Managers will be rescored over the course of 2020 based on the updated methodology.

On the Client Solutions side we worked with several clients in 2019 as they determined their ambition on the Sustainability Spectrum. Several of our fiduciary clients have chosen to transition their portfolios to flavour 4 and 5. This included work with PostNL to produce a tailored ESG benchmark that gave them a passive product with a 78% lower carbon footprint than the benchmark, a best in class ESG approach, an SDG tilt and without investing in any UN Global Compact ‘Fail’ companies. We have also worked with other clients, such as the UWV Pension Fund to fine tune their ESG and voting policies.

The results of our external manager assessments in 2019 showed an encouraging improvement for a number of managers, especially those scoring 4 (maturing), which went up from 34% in 2018, to 43% in 2019. We have an aspiration for all our external managers to reach at least a score 3 and will engage with our external managers to help them improve if and where needed. This involves sharing an updated questionnaire and clearly communicating on the changes required to reach these levels.

Investment management

All our portfolio managers perform an in-depth analysis of investee level ESG data and material ESG risks and opportunities, factor in information collected through our stewardship activities, and weigh this into their valuations and investment decisions. The specific approach and weighting given to ESG factors varies for each internal fund and each fund discloses this process on its own ‘ESG page’ on our website.

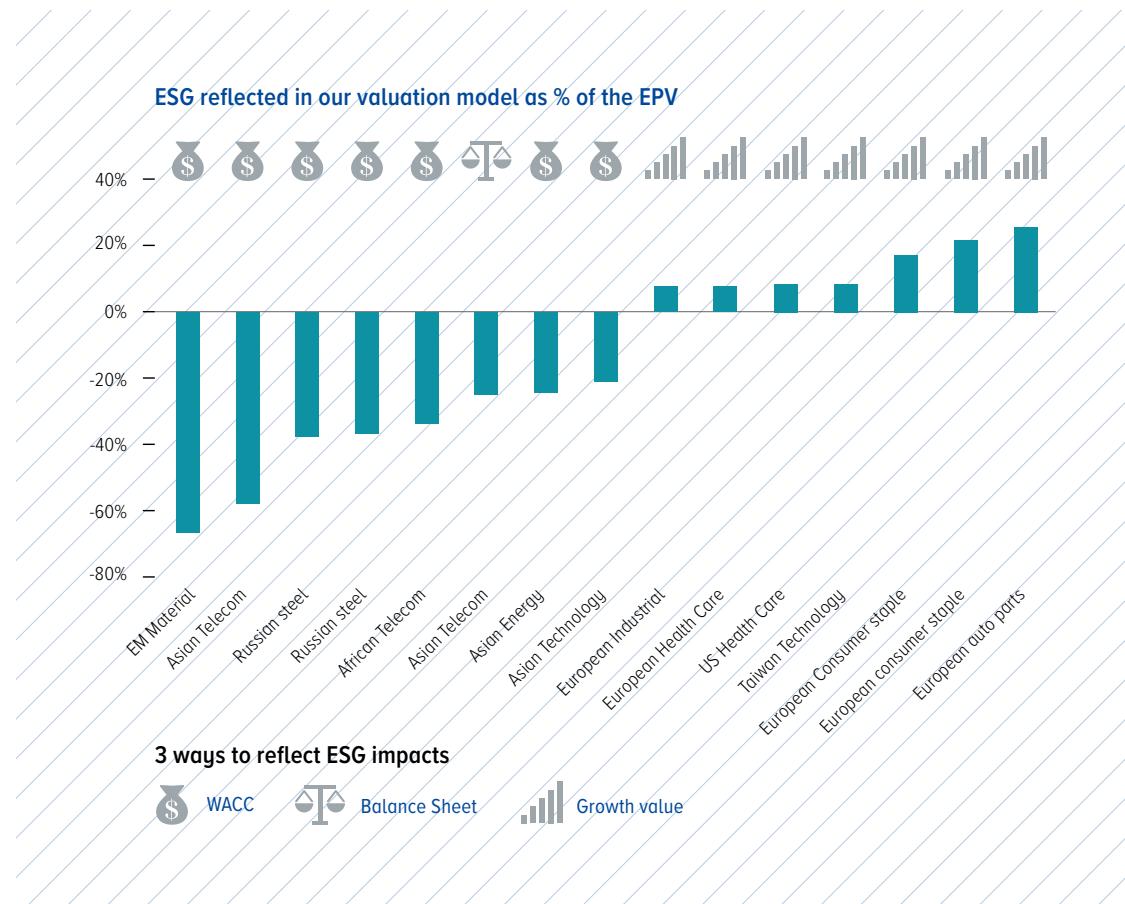
We do not only use ESG factors to reduce risk, such as analysing whether a company is failing to plan for water scarcity or climate change. They can also help us find alpha. Our infrastructure fund, for example, recently

invested in renewable energy assets in the US that correlated with a study of where solar and wind intensity was at its most pronounced, combined with social factors such as affordability, helping us find assets set to be the most productive and potentially most profitable.

Our High Dividend team also includes both positive or negative impacts the ESG factors can have on company's long term performance through their valuation model as % of EPV (Earnings Power Value). There are three ways to reflect these impact through WACC (Weighted Average Cost of Capital), profitability, balance sheet or growth value. Company's valuations are adjusted accordingly, as shown in figure 7.

As a next step in our ESG Integration journey we have started working on the development of Kempen's proprietary ESG scores for investee companies and some funds have created an in-house ESG profile about each of their portfolio companies. In 2020 we plan to further integrate climate related considerations into our investment process and deepen our alignment between the teams by ensuring that the ESG score given to an individual stock is shared across the investment teams.

FIGURE 7 ESG IMPACT IN THE VALUATION MODEL



Active ownership

“The world is changing, so must active ownership”



Lars Dijkstra
Chief Investment Officer

Our firm started over 30 years ago, with our Dutch and European small cap funds, and put active ownership at the heart of our ability to generate long-term risk adjusted returns.

Capital markets have changed a lot since then. They have become more global, faster-moving, more appreciative of governance factors, and the internet has radically transformed levels of disclosure. Now climate change is also radically disrupting sectors from energy to extractives. As these changes happen, active owners around the world are increasingly unable to beat their benchmark. The majority of active owners tell great stories, charge high costs but in the end deliver the same results as products that follow an index. It's therefore understandable that investment portfolios are increasingly filled with passive products.

New challenges require new solutions. That is why at Kempen we have, for several years, been aligning our stewardship activities behind a concept that we call, ‘the real active’.

Creating value for all stakeholders

The real active is a concept that asks the boards of companies to focus on long-term value for all stakeholders, rather than the narrow ‘shareholder primacy’ philosophy championed by economist Milton Friedman - which we believe is a poor fit for the third decade of the 21st Century.

It is a concept that favours a high level of stewardship activity and looks for companies that put stakeholders such as customers, workers, suppliers and communities alongside shareholders as the key beneficiaries of their activities. This should be built into the governance and mission of the company. As shown in Figure 8 it finds a ‘sweet spot’, which defines where we want most Kempen investments to get to.

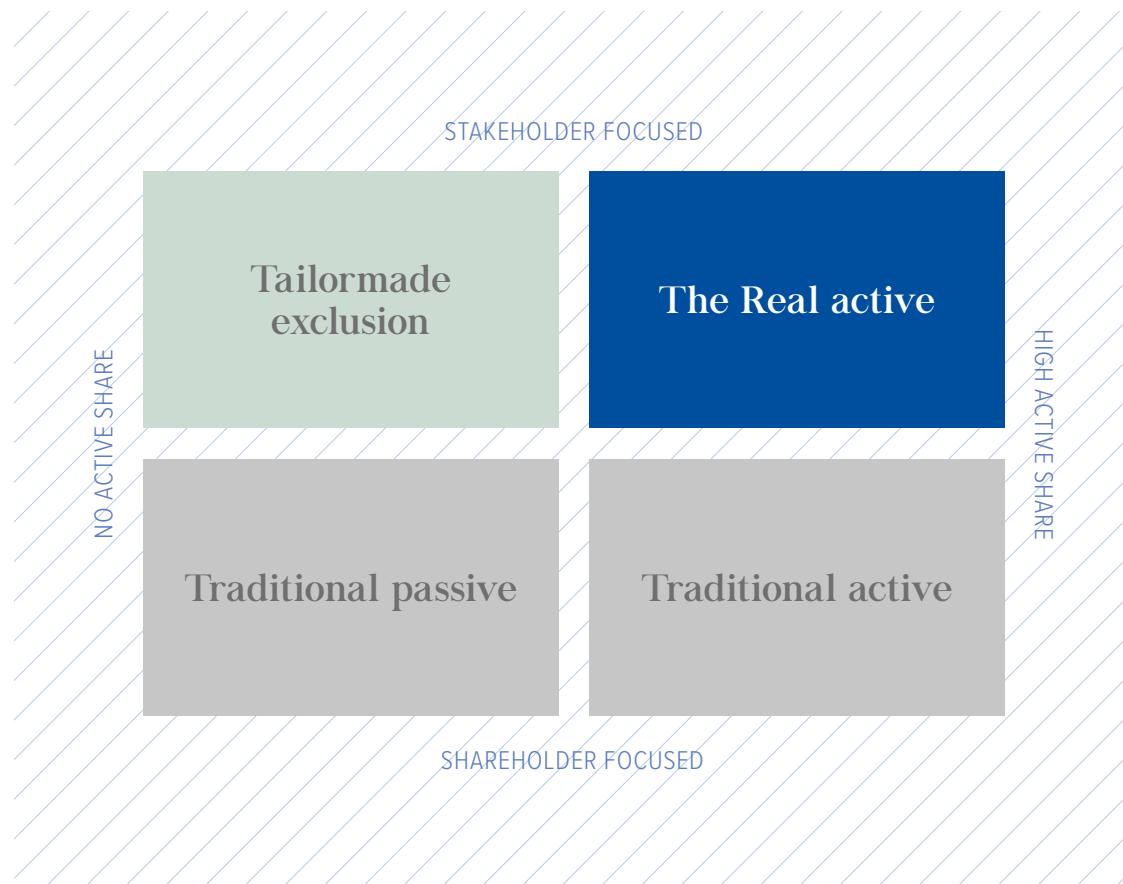
You can tell a real active manager from their actions. A real active manager will engage in in-depth discussions with the management of the businesses in which he invests about business strategies, capital allocation and risks and

opportunities in the area of sustainability. They will treat exclusion as a last resort when talking no longer makes sense. A real active manager will also focus on a limited number of businesses and deeply understand those companies. Or as Keynes said: "The right method in investment is to put fairly large sums into enterprises which one thinks one knows something about."

A real active asset manager is capable of long-term stewardship, realising real economic returns for clients. Real active is not just about superb performance in terms of returns, it also makes a positive contribution to sustainability. Real active assets will also have a place in the investment mix of all clients in the future.

We believe that Kempen's position as a leading voice on the real active further cements our unique position within the investment value chain. As ESG screens, dashboards and engagements become more common place we believe 'the real active' is a distinguishing characteristic that will have a powerful impact on our future, especially as concerns over climate change and social factors increasingly permeate through the business world and onto corporate balance sheets.

FIGURE 8 DEFINING THE 'REAL ACTIVE'



Our approach

Kempen has always been an active owner of the companies we hold. We monitor for ESG issues in companies and funds that we invest in and use our influence to encourage positive change where required in equities, fixed income, property, private equity and hedge funds investments.

As explained earlier in this report we can engage to raise awareness about a certain issue, to call for a specific change in company behavior or to improve a wider public or industry-wide policy. We also have a methodology to judge the success of an engagement. (For full details see the 'engagement results' section)

We have a [Stewardship Policy](#), fully comply with the Dutch and UK Stewardship Codes, and active ownership is an integral part of our research and investment processes. This includes proactive assessments of investee companies' policies and performance, engagement with companies and voting at the AGMs. At Kempen, our active ownership is not a stand-alone bubble of work, instead, it is part of our day to day practices and involves Portfolio Managers as well as our Sustainability and Impact team. As illustrated in the ESG integration section engagement results feed into our proprietary valuation models of our investment teams.

Exercising our voting rights is also an essential part of our active ownership. We vote based on our values and in line with our fiduciary duty and in the best interest of our clients. Our voting activities include voting at shareholder meetings in person, as well as by proxy and are explained in detail in summary of our voting activities in this report.

Engagement results 2019

Across diverse sectors from footwear to food, energy to extractives, Kempen conducted 84 direct engagements and 180 collaborative engagements in 2019. We were awarded an 'A' by the UN-supported Principles for Responsible

"In 2019 we engaged with a utility company about its exposure to the energy transition and how its ambition aligns to that. After ongoing discussion, the company announced it would not pursue and any new coal-power facilities"



Jags Walia
Senior Portfolio Manager
Infrastructure

Investment for our active ownership activity in listed equities.

Our engagement efforts were focused on material issues such as climate change, labour and human rights, governance and the payment of living wages. We asked companies boards and management important questions such as, ‘How are you preparing for the low carbon transition?’, ‘Are your capital expenditures in line with the Paris Agreement?’ ‘How do you ensure that the workers in your suppliers’ factories receive a living wage? or ‘How are you ensuring the safe and responsible use of your products?’.

Climate change was our focus in 2019 and we engaged with several high-emitting firms, both directly and with partners such as the [Climate Action 100+](#) initiative, to encourage them to align their business strategy with a pathway that keeps global warming well below 2°C. This included supporting shareholder resolutions at companies such as Equinor and BP to encourage them to step up their long, medium and short term carbon reduction targets. Moreover, Kempen, together with a number of other Dutch investors – set out its expectations for the oil and gas sector in the wake of campaign group [Follow This withdrawing its](#)

[climate resolution](#) from the agenda for Royal Dutch Shell’s annual general meeting. The investor group considers Shell to be among the industry leaders for the steps it has taken towards aligning with the Paris Agreement climate change goals. The statement encouraged other industry players to take similar steps.

Many more examples can be found in our engagements cases and our voting records in this report.

When deemed meaningful we will communicate with all relevant stakeholders of our investees. Stakeholders include, but are not limited to other shareholders, civil society, industry associations, suppliers, or customers. For example, in 2019 we spoke with local citizens and Greenpeace Japan to help inform our decision to abstain on an AGM vote at Japanese utilities firm Kansai Electric Power. We have also engaged with some of the corporate ESG reporting standards providers, like the Netherlands based Global Reporting Initiative or the US based Sustainability Accounting Standards Board to understand the latest developments and their mutually complementary nature better.

“Our active ownership on ESG issues is critical to our ability to mitigate portfolio risk and generate alpha.

Through our engagements, we increase our understanding of a company’s strategy, policies and programmes and get to the bottom of whether that entity is sufficiently grasping its material environmental and social risks and opportunities”



Maarten Vankan,
*Senior Portfolio Manager,
Global Small Caps*

“Our engagement efforts have resulted in specific plans announced by Shell and its top management that commit the company to include CO₂ reduction targets in their variable remuneration metrics”



Dimitri Willems,
Senior Portfolio
Manager, Global High
Dividend

Collaboration with others

While one voice can make a difference, the collective voice of larger coalitions is often needed to significantly change corporate behaviour. That is why Kempen works collaboratively with peer investors and other stakeholder organisations to amplify our impact and make transformative change happen on a global scale. Kempen is an active member and a lead investor in a number of collaborative engagements including:

- ✗ **CLIMATE ACTION 100+** - An influential investor initiative asking over 150 of the world's largest corporate greenhouse gas emitters to drive, and not impede, the clean energy transition.
- ✗ **EUMEDION** - The Dutch Corporate Governance Forum, which led on the development of the Dutch Stewardship Code.

- ✗ **PLATFORM LIVING WAGE FINANCIALS (PLWF)**
 - An award-winning investor supported coalition, which we are co-founders of, to monitor and assess garment sector companies and encourage them to enable a living wage for all employees in their supply chain.
- ✗ **PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)** - The PRI is the world's leading proponent of responsible investment. The Principles were launched in April 2006 and Kempen joined in 2008. Since then the number of signatories has grown from 100 to over 2,300 with a combined AUM of \$90 trillion.
- ✗ **INTERNATIONAL CORPORATE GOVERNANCE NETWORK (ICGN)** - An investor-led organisation to promote effective standards of corporate governance and investor stewardship. Kempen is a member of the Board Governance Committee.
- ✗ **GLOBAL IMPACT INVESTING NETWORK (GIIN)** - An investor network dedicated to increasing the scale and effectiveness of impact investing around the world.
- ✗ **FCLT** - FCLTGlobal is a not-for-profit organisation that works to encourage a longer-term focus in business and investment decision-making.
- ✗ **300 CLUB** - The 300 Club is a group of leading investment professionals from across the globe, established in 2011 in response to an urgent need to raise uncomfortable and fundamental questions about the very foundations of the investment industry and investing.

Leadership award for our living wage platform

In September 2019 we were delighted that the UN-backed Principles for Responsible Investment gave their first ever '**Active Ownership Project of the Year Award**' to the Platform Living Wage Financials (PLWF) project, co-founded by Kempen.

As part of our work for PLWF, working with 11 other financial institutions, we encourage clothing sector companies to put the necessary processes in place to ensure a living wage for the employees throughout their supply chains.

In recognition of the Award our Director of Impact & Responsible Investment Narina Mnatsakanian said,
Living wages is a complex topic that goes beyond any one company and it is important to work with the garment sector, investors, governments and multiple stakeholders to change the system as a whole. It was a great honour to be the first recipient of an award designed to showcase leadership and raise standards of responsible investment for all investors connected to the PRI.



Positive impact

At Kempen we believe that some of the companies which we invest in, can help achieve positive real world impacts and significantly contribute to broad global sustainability objectives such as the SDGs. We also see these impacts as a potential growth driver for a company. Measuring the precise environmental or social outcomes of these mainstream investments however is a difficult challenge.

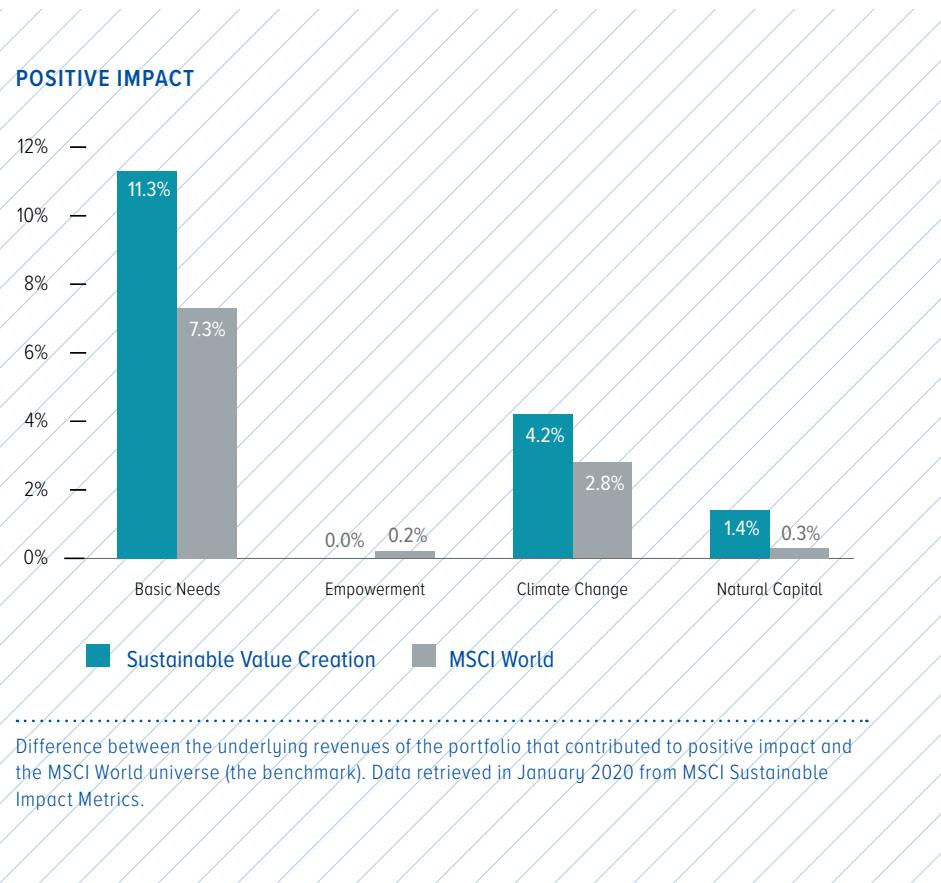
For some of our strategies such as Sustainable Value Creation we have been measuring companies' contribution to the SDGs, through the revenue they generate from products and services deemed to have a positive sustainable development contribution. We plan to roll this out to all our portfolios in 2020. However, the data quality remains a big challenge as many companies do not publish the actual revenue breakdown by product. As a consequence, we measure fewer actual positive outcomes that create progress towards the targets set out in the SDGs than might actually be there. Ideally we would like to measure and report not only the positive contribution of companies but also their negative impacts so as to present a balanced picture.

Mapping impact

Our Sustainable Value Creation strategy aims to measure how companies contribute to SDGs through their products and services, and integrates this information in its portfolio construction and engagement activities. The proportion of companies' revenue that we are currently able to map in the portfolio to different themes is around 17%. This total impact is divided into the following categories: 11% basic needs, 4% climate change and 2% natural capital. Companies in the strategy portfolio that contribute most are Mowi (nutrition), Novo Nordisk (healthcare), Kion (energy efficiency), Xylem (sustainable water) and Grifols (healthcare).

For the MSCI World benchmark the contribution is lower at around 11%. Currently data providers mainly measure companies positive contribution to a few themes. We have engaged with different SDG data providers over the years and expect that the data quality will increase.

FIGURE 9 SUSTAINABLE VALUE CREATION



In addition to mapping the alignment of listed portfolios with SDGs, we have created the Global Impact Pool for investors who specifically seek tangible social and environmental outcomes. This is a strategy that helps clients invest in funds with a mission to positively contribute to helping achieve five Sustainable Development Goals in countries and regions that have significant gaps on these SDGs. Specifically, the pool aims to:



Contribute to the provision of basic goods & services for the underserved including health & wellbeing;



Provide for decent jobs with fair employment practices to eradicate poverty;



Support sustainable consumption and production aimed at doing more and better with less, and;



Contribute to abundant clean energy and reduction of CO₂ emissions;



Increase access to clean water and sanitation.

The pool also has the explicit target to also generate a market rate financial return.

Assets in our Global Impact Pool have swelled significantly in the last year, growing from €68 million in 2018 to over €100m at the time of publication of this report

We published the first impact report last year and as shown in Table 1, it is clear that the pool has been able to achieve considerable impact through its five sub-funds throughout 2018. For example, Emerging Consumer Fund III is reaching 21.5 million emerging consumers, the investments in Green Bonds are saving over 360 thousand tonnes of CO₂ and funds through the

Agriculture Debt Fund are helping to finance over 12,700 farmers³.

Kempen is a member of Global Impact Investing Network (GIIN) and we have aligned our impact management approach with the Impact Measurement Project to help the wider industry to more effectively measure and manage impact.

TABLE 1 IMPACT OF THE GLOBAL IMPACT POOL (2018)

✗ Organic Growth Fund	€278 million: Sustainable production & consumption company turnover
✗ Enhanced Sustainable Power Fund 4	636,000: MWh green electricity to be generated p.a.
✗ Green Bond Fund	360,156 tones CO₂: Emissions avoided
✗ Agriculture Debt Fund	12,748: Farmers reached
✗ Emerging Consumer Fund III	21.5 million: Emerging Consumers reached

³ These are total impact numbers for the underlying funds. They are not pro-rated for GIP's investment.

Impact case study: Suminter India Organics

Organic farming options, which help protect soil quality and the wider environment are sought after by large-scale manufacturers and end consumers. It is a trend that has helped India-based Suminter India Organics grow from a small Indian trading company in 2004 to a thriving exporter of high-quality organic ingredients, who now work closely with over 20,000 farmers. It boasts a diversified customer base across 20 countries with a large product range from cashews to cardamom, beans to buckwheat. All its products are certified 100% organic and GMO-free.

Suminter is a company in the Agriculture Debt Fund portfolio of our Global Impact Pool.

The founding idea behind the company was to build an efficient bridge between smallholder farmers and global buyers cutting out the cost of brokers or middlemen and getting more of the profit in the pockets of small scale farmers.

Most of the farmers Suminter works with are from remote areas. Before Suminter, these smallholder farmers did not have market access and lacked resources to farm for more than their household consumption needs, leaving them with a fragile income base. Suminter provides inputs such as organic seeds, bio-fertilizers and bio-pesticides removing upfront input costs and enables the farmers to start commercially farming and earning income. In addition Suminter pays a premium to farmers for their produce, increasing the farmer's income 10–15%. With 69% of Indians living on less than \$2 a day, an initiative that helps generate additional income is more than welcome, contributing directly to SDG 1: No poverty and SDG 8: Decent work and economic growth.

Suminter trained over 70,000 smallholder farmers in 2018.

Suminter guides farmers as they undergo the conversion from conventional to certified organic, which is mapped out as a three-year process. They train these farmers on organic farming techniques, translating into over 1.1 million acres of land being farmed without chemical pesticides. The removal of chemical pesticides in combination with organic supplements and techniques from Suminter have also been shown to prevent water loss and soil degradation

After the smallholder farmers have become organic-certified, Suminter purchases and processes the crops locally. The company has invested significantly in vertical integration, building its own manufacturing facilities in central India for processing. Suminter is therefore able to adjust its operations to continually align with international standards for organic certifications or customer requirements as they change.

“We are determined to stay ahead of the curve on sustainable investment and 2020 is not a year when we can rest on our laurels. From the mission of better measuring positive impacts, to managing climate risk and responding to ESG-related regulation we look forward to the challenges and opportunities ahead”



Eszter Vitorino
Senior Responsible Investment Advisor

Our 2020 goals

Kempen is proud of its achievements in 2019 but we are not complacent and there remain many areas where we can do more, and where environmental and social needs require urgent attention.

The 2020 Covid-19 pandemic reinforces the importance of long term thinking in the benefit of all stakeholders as it highlighted the impacts health issues can have on the employees, suppliers, customers, communities and the global economy. While millions of people's livelihoods around the globe are at risk, the skies are clearing up and global emissions are coming down. We may not know the full consequences of the crisis yet, but we believe that the case for sustainable investment that benefits all stakeholders will become even more important.

In 2020, sustainability will remain an overarching priority for Kempen. We will be fine-tuning some of our commitments including refining our climate policy in line with the goals of the Paris Agreement. This will contain some sector specific approaches and will prepare us

for the EU Taxonomy and other relevant legislation. We will also further roll out the implementation of the OECD Responsible Business Conduct for Institutional Investors.

As part of our ESG integration plan we will work towards internally determined ESG scores for an individual stock that can be shared across the investment teams.

On the fiduciary management side we will roll out the updated investment manager sustainability scoring, aligned with the ‘five flavours’.

Furthermore, we will continue our active ownership journey and engage with companies to bring about positive change.

It is also our ambition to further enhance reporting on results and outcomes of our sustainable investment activities. We especially would like to improve reporting to our clients and other stakeholders on how our investees contribute to the SDGs.



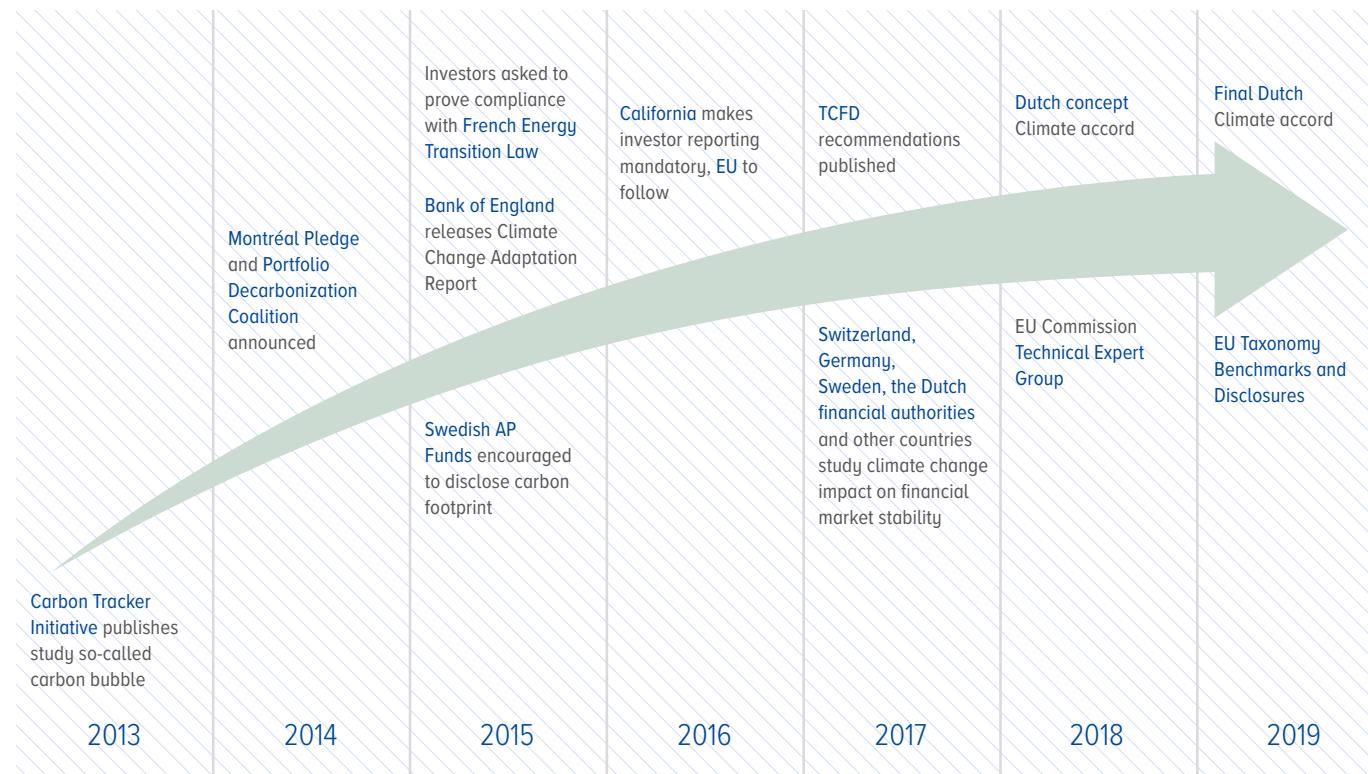
Kempen's carbon footprint

We have measured the carbon intensity of our own internally-managed funds for five years and, since 2017, also assessed the carbon footprint of our assets under management. We believe these measurements are important so clients and wider stakeholders can compare the

carbon footprints of different investment options, and because it gives a baseline from which reductions in carbon impact can be measured. We welcome the increasing calls, illustrated in figure 10, for investors to measure the climate impact of their investments.

For Kempen, our carbon footprint process is also integral in the development of our upcoming new Climate Policy which will aim to act as a roadmap for alignment with a Paris Agreement pathway.

FIGURE 10 AN INDUSTRY IN TRANSITION
GROWING MOMENTUM FOR INVESTORS TO MEASURE THEIR CARBON FOOTPRINT



Source: Kempen

“As an active asset manager with a long term value creation focus, we are well positioned to take up the climate change challenge”



Danny Dekker
Senior Responsible
Investment Advisor

Overall results

CARBON EMISSIONS SUMMARY

The total financed emissions of Kempen's internal asset management portfolio as of Q3-2019 amounted to approximately 124.9 tonnes of carbon dioxide equivalent (tCO₂e) for each one million euro invested. This constitutes a total footprint of around 3.4 million tCO₂e (scope 1 and 2), which is equivalent to the average emissions of 165 thousand households. The carbon intensity (tCO₂e / EUR million revenues) was 180.4.

We calculated our carbon footprint, working with ISS-Ethix Climate Solutions, across a range of asset classes including equity, corporate bonds and government bonds. The assessments were made in line with the Greenhouse Gas Protocol's 'ownership principle'. A full description of the methodology is available in Appendix 1. We took into account both 'scope 1' (direct) and 'scope 2' (indirect) emissions stemming from the generation of purchased energy.

The results are based on our portfolio as of Q3-2019, and carbon data from 2017. The figures only represent the portion of our assets under management where carbon data was available across listed equities, corporate bonds and government bonds (coverage of our total AuM was 44%). In the coming years, we aim to increase the amount of our assets under management included in the footprint.

TABLE 2 OVERALL RESULTS CARBON EMISSIONS*

Coverage	KEMPEN INTERNAL + EXTERNAL	KEMPEN INTERNAL	KEMPEN EXTERNAL
✗ AuM Analysed (EUR billion)	27.3	11.4	15.9
✗ Coverage AuM analysed of total AuM	44%		
✗ Financed carbon emissions (tCO ₂ e in million)	3.4	1.3	2.1
✗ Carbon emissions (tCO ₂ e) per EUR million invested	124.9	112.8	133.5
✗ Weighted Average Carbon Intensity (tCO ₂ e / EUR million revenues)	180.4	196.9	168.6

* Carbon emissions include scope 1 and 2

Source: ISS-Ethix, Kempen

OUR METHODOLOGY TRACKS THREE CARBON EMISSIONS METRICS.

For more information see Appendix 1

- ✗ **Financed carbon emissions:** which measure a portfolio's absolute carbon footprint (in tonnes of CO₂) based on its shareholdings in the underlying companies. (The shareholding in each company is taken as part of the enterprise value and multiplied by the carbon footprint of that company).
- ✗ **Carbon emissions per one euro million invested:** A relative footprint which shows how many tonnes of CO₂ an investor is financing in relation to its ownership in a certain company or portfolio. This metric captures the carbon exposure of an investment amount and is measured by dividing the absolute footprint of the portfolio by the total amount invested in the portfolio.
- ✗ **Weighted Average Carbon Intensity:** An intensity footprint which calculates a portfolio's exposure to the carbon intensity of companies (expressed in tonnes of CO₂/€ million revenues) multiplied by the percentage of the company in the portfolio.

Table 3 shows the aggregated emissions broken down for all internally-managed Kempen funds. Overall, the figures show that most of our Kempen funds are less carbon intensive than their benchmark. This indicates that the companies in the portfolios have a relatively lower carbon intensity compared to their industry peers. To achieve the goals of the Paris Agreement, a lower carbon intensity –besides an absolute carbon level – is needed. We encourage companies in their journey towards a lower carbon economy via our active ownership approach.

Because the two climate metrics mentioned in table 3 are based on different variables, the metric outcome of funds compared to their benchmark can be different.

TABLE 3 CARBON FOOTPRINT BREAKDOWN FOR EACH INTERNALLY-MANAGED KEMPEL FUNDS*

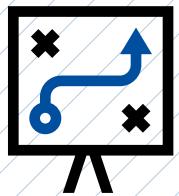
	<i>Carbon emissions (tCO₂e) per EUR million invested</i>	<i>Carbon emissions (tCO₂e) per EUR million invested compared to benchmark</i>	<i>Weighted average carbon intensity (tCO₂e/ EUR million Revenues)</i>	<i>Carbon intensity compared to benchmark</i>
✗ Kempen (Lux) Euro Credit Fund	114	Lower	194	Lower
✗ Kempen (Lux) Euro Credit Fund Plus	135	Lower	230	Higher
✗ Kempen (Lux) Euro Sustainable Credit Fund	126	Lower	209	Lower
✗ Kempen (Lux) Euro High Yield Fund	263	Higher	312	Higher
✗ Kempen (Lux) Euro Government Fund	37	Lower	35	Lower
✗ Kempen European High Dividend Fund	199	Higher	308	Higher
✗ Kempen (Lux) European High Dividend Fund	202	Higher	310	Higher
✗ Kempen Global High Dividend Fund	219	Higher	380	Higher
✗ Kempen (Lux) Global High Dividend Fund	223	Higher	387	Higher
✗ Kempen (Lux) Global Small-cap Fund	104	Higher	130	Lower
✗ Kempen (Lux) Sustainable European Smallcap Fund	47	Lower	82	Lower
✗ Kempen Orange Fund N.V.	118	Higher	347	Higher
✗ Kempen Oranje Participaties	57	Lower	69	Lower
✗ Kempen Global Sustainable Equity Fund	22	Lower	45	Lower
✗ Kempen European Sustainable Value Creation	32	Lower	54	Lower
✗ Kempen (Lux) Global Sustainable Value Creation	24	Lower	40	Lower
✗ Kempen Global Property Fund	7	Lower	73	Lower
✗ Kempen European Property Fund	4	Lower	74	Higher
✗ Kempen (Lux) Global Listed Infrastructure Fund	199	Lower	1.086	Lower

* Compared to last year a few more funds have a higher weighted average carbon intensity than the benchmark, mainly due to the addition of Kempen funds to the table to increase transparency, a few carbon intensive companies and a fund that is slightly above the benchmark (below 2% difference).

Going forward

At the end of 2019, the European Union announced its ambition to become carbon neutral in 2050, with the help of a Green Deal. Accompanying EU regulation (EU Action Plan on Sustainable Finance) has progressed and the first parts will be implemented soon (e.g. EU Benchmarks). Furthermore, in 2019 the Dutch ‘Klimaatakkoord’ was agreed and Dutch financial institutions (pension funds, insurers, asset managers and banks) signed it and committed themselves to appropriate climate action by 2022 at the latest. As an active asset manager with a long term value creation focus, we are well positioned to take up this climate change challenge and will update our climate change policy accordingly in the coming period.

International sustainability trends



Climate action took center stage in 2019. In September, Greta Thunberg's impassioned speech at the UN Climate Action Summit hammered home a key message that we are no longer looking just at climate change, we're now facing a climate crisis. Almost 30 countries have now declared a climate emergency.

As we search for a solution to avoid a climate catastrophe, it sparks the important question of how responsible investment fits in amidst the push to achieve the Paris Agreement goals.

At Kempen, we believe the finance sector is well positioned to be part of the solution. A long-term investment approach with sustainable value creation has always been our ethos. Encouragingly we saw several external trends in 2019 suggesting the finance sector is more prepared and more able to join us in stepping up to the plate to help keep global warming below 2°C.

The UN Climate Summit in September did not provoke the global response that was desired. China did not increase its Paris agreement

Trend 1 Europe leads on climate action

commitments, India did not pledge to reduce its use of coal, and the US did not even speak at the conference. The COP25 summit in Madrid also ended in largely disappointing conclusions. However at both forums it has been Europe that has emerged as a leader on climate action, spurred by Brussels' action plan for financing sustainable growth.

A response to recommendations from the High-Level Expert Group (HLEG) on Sustainable Finance, the EU Action Plan for Sustainable Finance has seen legislative measures introduced including the EU taxonomy, investment advice, sustainability benchmarks and investor duties. As covered in Kempen's October newsletter the EU taxonomy in particular is a valuable breakthrough that can unite the market behind a common definition of what is 'green' or 'sustainable' and what is not.

The announcement of the European Green Deal in December signalled the most ambitious action yet. Aiming to become the world's first climate-neutral continent by 2050, the European Commission announced measures accompanied with an initial roadmap of key policies ranging

from ambitiously cutting emissions, to investing in cutting-edge research and innovation, to preserving Europe's natural environment. National-level commitments such as the National Climate Agreement (het Klimaatakkord) signed in the Netherlands to reduce greenhouse gas emissions by 49% compared to 1990 levels, back up this aspiration.

Supported by investments in green technologies, sustainable solutions and new enterprises, we at Kempen believe the Green Deal can be a new EU growth strategy and sets a path for a transition that is just and socially fair, leaving no individual or region behind in the great transformation ahead. In many ways, the fact that COP25 was eventually held in Europe after Brazil and Chile had both cancelled, is symbolic of Europe's pioneering role.

As pressure mounts for a fast transition to a low carbon economy, it is equally as important that it is a fair transition. COP25 also called for a just transition and we believe this is also an important trend, as investment strategies must increasingly incorporate the full range of ESG dimensions if they are to succeed.

Trend 2 Global investor action on climate ramps up

In the finance sector, major steps forward were taken last year including the creation of the Net-Zero Asset Owner Alliance, which committed to align portfolios with a 1.5°C scenario and represents nearly \$4 trillion in AUM. Given that pension funds and insurance companies have long-term investment horizons and liabilities and are acutely vulnerable to the systemic disruptions that climate change will unleash on ecosystems, societies, and economies, we at Kempen believe this is the right thing to do for both the climate and business.

Institutional investors are also actively engaging with the world's largest corporate greenhouse gas emitters to improve their climate performance and ensure transparent disclosure

of emissions. Kempen is a proud member of Climate Action 100+, an investor initiative engaging with over 150 of the globe's biggest emitters. Last year saw growth in investor signatories of 65%, with close to 400 signatories now representing over \$35 trillion in AUM and it saw progress on the ground. Climate Action 100+ reports that following its engagements, 9% of the 161 highest-emitting listed companies now have emissions targets in line with the Paris Agreement.

Even in the US, active ownership on climate is increasing. Last year, nearly half of submitted ESG proposals went to a vote in America, up from only about one-third in 2018.⁴

⁴ <https://www.lexology.com/library/detail.aspx?g=5beba292-6502-448b-971e-a9719bce87b7>

“A key advantage of an active approach is that it allows for leaders to be identified and laggards to be avoided. Active managers with a sustainability focus understand the dynamics of the transition to a low-carbon economy and thus are best suited to push for, and benefit from, long-term sustainable growth”



Richard Klijnstra
*Head of Sustainable Value Creation,
Asset Management*

Trend 3 The active advantage

In 2019 there was also a more vociferous discussion than ever on the different abilities of passive and active investment to develop sustainable strategies. A key question has emerged, which is: What is the added value of active management in sustainable investing?

This is a topic we touched on in detail in our White Paper '[Active management and sustainable investing](#)', but here's the short answer.

Taking into account that ESG ratings are still affected by disclosure gaps and conflicting methodologies, active managers have an important contribution to make by having a continuous dialogue with companies on how sustainability fits into their long-term strategy. When ESG research and data is not of sufficiently high enough quality, understanding the companies one invests in, the intentions and skills of a board and the level of commitment to long term value creation gives active investors a competitive advantage.

Finally, active investment is rewarded since in this approach companies performing well on sustainability issues can be identified and asset managers can build concentrated portfolios with a high active share.

More broadly, as active approaches to sustainable investment increase, we've also seen a key departure from the "shareholder primacy" creed championed by Milton Friedman to the alignment of stakeholder value with shareholder value. Last summer, the Business Roundtable, one of the US's largest business groups with close to 200 members that generate \$7tn in annual revenue adopted a new "statement of purpose" placing shareholders as one of five stakeholders alongside customers, workers, suppliers and communities.⁵ The belief that companies should be encouraged to account for workers' wellbeing and the environment alongside the pursuit of profits aligns with Kempen's concept of 'the Real Active', described in the active ownership section.

5 <https://www.ft.com/content/e21a9fac-c1f5-11e9-a8e9-296ca66511c9>

Trend 4 The growth of impact investment

Our planet and society are confronted with a number of global sustainability challenges, including climate change, depletion of natural resources, loss of biodiversity, and inequality. In 2019 these challenges drove ever larger numbers of private and institutional investors to consider impact investment strategies, such as Kempen's Global Impact Pool, that have a demonstrable, identifiable positive effect in social and environmental terms.

Results of a survey conducted by the Global Impact Investing Network (GIIN) last year show that the global capital invested in impact solutions amounted to \$502 billion in 2018.⁶ That's up considerably from \$109 billion in 2014.⁷

Naturally, this meteoric rise has left some kinks to work out to ensure that products are not 'impact' in label only. This is being addressed

through the Impact Management Project, an alliance of close to 2,000 organisations, including ourselves, for the purpose of creating a common language to communicate about impact investing and to chart the results. To improve standardisation in measuring impact, metrics have been categorized by impact theme with the corresponding KPIs and made publicly available in public databases, such as the GIIN IRIS+ database, which contains over 500 possible units to measure impact. Now, with the right framework being put in place to ensure impact investing achieves genuine results expect this trend to accelerate.

Last year marked the end of a decade. And in a turbulent ten years for the markets the emergence of responsible investment as a part of mainstream global capital markets has been

perhaps the most significant trend of all. It is remarkable, for example, that in 2008 when Kempen joined the UN Principles for Responsible Investment (PRI), we were among the first 350 signatories to the PRI, compared to over 2,600 now.

It is worthy of note that the PRI has now repositioned its activities away from a focus on responsible investment processes and towards an emphasis on the impact these activities have in the real economy. At Kempen we welcome this as we too strive to link our actions to real world outcomes and to strive to meet the challenges ahead including the climate crisis. Despite all the work that has been done global emissions still rose in 2019, emphasizing that we have much work to do, both for us and for the financial sector at large.

⁶ Mudaliar, A., Bass, R., and Dithrich, H., Annual Impact Investor Survey, The GIIN, June 2019, <http://thegiin.org/>

⁷ Balandina Jaquier, J. (2016), 'Catalyzing Wealth for Change: Guide to Impact Investing', Zürich, Switzerland: Libertas Pascal



Appendices

APPENDIX I

Carbon footprint methodology

Investment greenhouse gas accounting enables the quantification and management of greenhouse gas emissions, and is the first step towards understanding an investor's impact on climate change. Measuring the climate impact of an investment portfolio requires several steps. First, it is important to understand what the climate impact of each underlying investment is. Second, it is necessary to define how a company's climate impact is allocated to an investor. The methodology used by ISS-Ethix Climate Solutions has been developed jointly with researchers of the Swiss Federal Institute of Technology (ETH) in Zurich and represents the state of the art of such assessments.

OWNERSHIP PRINCIPLE AND ALLOCATION RULES

In line with the greenhouse gas protocol's 'ownership principle', the greenhouse gas accounting approach allocates the emissions to those investors who 'own' and can change them. This is the equity investor, as it owns part of a company and therefore, in theory, part of the

company's greenhouse gas emissions. In accordance, the greenhouse gas emissions are proportionally allocated 'per share' to the investor. If an investor owns 0.1% of a company, 0.1% of the company's greenhouse gas emissions have been apportioned. On a fund level, these greenhouse emissions are aggregated based on the respective ownership of each holding. We used the enterprise value instead of the market cap for normalisation, in order to be able to combine corporate bonds and equity holders and their carbon responsibility, and avoid double counting.

INTENSITY METRICS

There are two main metrics used by investors to present the results of a carbon footprint. Each metric serves a different purpose and there is currently no standard that unifies investors' efforts. The primary intensity metric of emissions per euro invested, attributes an investment's share of emissions to the investor. However, the secondary metrics are provided as well and described on the next page.

Emissions per euro invested:

This metric (figure 11) displays how many tonnes of CO₂e an investor would finance in relation to the respective ownership in a certain company or portfolio. The metric describes the carbon intensity of an investment amount. A company's share of emissions is determined by the value of shares held divided by the company's enterprise value. For this to be accurate, it is important to control for the date of measurement and financial information used.

Weighted Average Carbon Intensity:

This is a metric (figure 12) derived directly from the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, which cite it as a key metric for companies to use in their disclosure. The metric calculates a portfolio's exposure to carbon-intensive companies, expressed in tCO₂e/€m revenue. As stated by the TCFD, 'this metric measures exposure to carbon-intensive companies and addresses many of the concerns raised. For example, the metric can be applied across asset classes, is fairly simple to calculate, and

does not use investors' proportional share of total equity and, therefore, is not sensitive to share price movements.¹ It does however also mean that this cannot be considered a carbon footprint, as it does not take absolute impact into account.

SCOPES AND GREENHOUSE GASES

Greenhouse gas accounting distinguishes between direct emissions from own operations (also known as scope 1 emissions) and indirect emissions. Indirect emissions are usually divided into scope 2 and scope 3 emissions. Scope 2 emissions are all indirect emissions that stem from the generation of purchased energy (e.g. purchased electricity and heat) and are apportioned according to the company's consumption. Scope 3 emissions cover all other indirect emissions that occur in the value chain (up- and downstream), such as those from a company's supply chain or product usage.

FIGURE 11 EMISSIONS PER EURO INVESTED

$$\frac{\sum_i^n \frac{\text{Investment into Company}_i}{\text{Enterprise value of Company}_i} \times \text{Total Emissions of Company}_i}{\text{Total investment (Portfolio)}}$$

FIGURE 12 WEIGHTED AVERAGE CARBON INTENSITY

$$\sum_i^n \frac{\text{Investment into Company}_i}{\text{Total investment (Portfolio)}} \times \frac{\text{Total Emissions of Company}_i}{\text{Total Revenue of Company}_i}$$

APPENDIX II

Exclusion list per Q4 2019

COMPANY NAME	COUNTRY	INVOLVED IN
✗ AECOM	US	Nuclear weapons
✗ Anhui Great Wall Military Industry Co	CN	Cluster munitions
✗ ArytIndustries	IL	Cluster munitions
✗ Ashot	IL	Cluster munitions
✗ AVIBRAS INDUSTRIA AEROESPACIAL	BR	Cluster munitions
✗ Bharat Dynamics	IN	Cluster munitions
✗ BoeingDistribution	US	Cluster munitions
✗ BWX Technologies	US	Nuclear weapons
✗ China Aerospace Science and Technology Corporation	CN	Cluster munitions
✗ China North Industries Group Corporation	CN	Cluster munitions
✗ China North Industries Corporation	CN	Cluster munitions
✗ China	CN	Cluster munitions
✗ Elbit Systems	IL	Cluster munitions
✗ Fluor Corporation	US	Nuclear weapons
✗ General Dynamics Corporation	US	Nuclear weapons
✗ HANWHA AEROSPACE CO.	KR	Cluster munitions
✗ Hanwha Corp	KR	Cluster munitions
✗ Hanwha Engineering & Construction	KR	Cluster munitions
✗ Honeywell International	US	Nuclear weapons
✗ Huntington Ingalls Industries	US	Nuclear weapons
✗ Inner Mongolia North Heavy Industries Group	CN	Cluster munitions
✗ IMI Systems	IL	Cluster munitions
✗ Jacobs Engineering Group	US	Nuclear weapons

COMPANY NAME	COUNTRY	INVOLVED IN
✗ Korea Aerospace Industries	KR	Cluster munitions
✗ Larsen & Toubro Limited	IN	Cluster munitions
✗ Larsen & Toubro Infotech	IN	Cluster munitions
✗ L&T Finance	IN	Cluster munitions
✗ L&T Infrastructure	IN	Cluster munitions
✗ L&T Shipbuilding	IN	Cluster munitions
✗ L&T Technology Services	IN	Cluster munitions
✗ Leidos Holdings	US	Nuclear weapons
✗ LIG Nex1 Co.	KR	Cluster munitions
✗ Lockheed Martin	US	Cluster munitions
✗ MotovilikhaPlants	RU	Cluster munitions
✗ Nabha	IN	Cluster munitions
✗ National Presto Industries	US	Anti-personnel landmines
✗ Northrop Grumman	US	Nuclear weapons
✗ Northrop Grumman Innovation Systems	US	Nuclear weapons
✗ Northrop Grumman Systems Corp.	US	Nuclear weapons
✗ Poongsan	KR	Cluster munitions
✗ Poongsanholdings	KR	Cluster munitions
✗ RoketsanRoketSanayi	TR	Cluster munitions
✗ Serco Group	UK	Nuclear weapons
✗ The Boeing Company	US	Cluster munitions

APPENDIX III

Avoidance list per Q4 2019

COMPANY	COUNTRY	INVOLVED IN
✗ ACACIA MINING PLC	GB	Human rights violations
✗ Barrick Gold Corporation	CA	Human rights violations
✗ Bayer	DE	Environmental violations
✗ CoreCivic	US	Human rights violations
✗ ETP	US	Human rights violations
✗ Freeport-McMoRan	US	Environmental and human rights violations
✗ GAIL (India) Limited	IN	Human rights violations
✗ GMK Noril'skiy Nikel' PAO	RU	Environmental violations
✗ Grupo México	MX	Labour and human rights violations
✗ JBS	BR	Corruption
✗ Jiangxi Copper Co.	CN	Environmental violations
✗ MMC FINANCE Ltd.	IE	Environmental violations
✗ OCP	MA	Human rights violations
✗ Odebrecht Finance	BR	Corruption
✗ Petrobras	BR	Corruption
✗ PetroChina Company	CN	Human rights, labour rights, environmental violations, and corruption
✗ Petróleos Mexicanos	MX	Human rights violations
✗ Southern Copper Corporation	US	Labour rights and environmental violations
✗ The GEO Group	US	Human rights violations
✗ Tokyo Electric Power Company	JP	Environmental violations
✗ Vale	BR	Human rights, labour rights, environmental violations
✗ Vedanta Limited	IN	Human rights, labour rights, environmental violations
✗ Vedanta Resources	GB	Human rights, labour rights, environmental violations
✗ Walmart	US	Labour and human rights violations
✗ Zijin Mining Group	CN	Environmental violations

APPENDIX IV

Significant votes

We summarize in the below table our most significant votes against management and in support of shareholder proposals. On some occasions, we engaged with the company and agreed with the management proposal and ended up making an exception and not voting in alignment with our custom voting policy. This is not an exhaustive list, it only serves as a summary of the most significant votes cast in 2019 at investee company AGMs and EGMs.

COMPANY	THEME	ITEM	MANAGEMENT RECOMMENDATION	KEMPEN VOTE	RATIONALE
Svenska Handelsbanken AB	Governance	Reelect Jon Fredrik Baksaas, Pär Boman, Jan-Erik Höög, Fredrik Lundberg, Bente Rathe, and Charlotte Skog as Directors	For	Against	<i>We voted against these directors as they would serve as non-independent directors on a board with an insufficient level of overall independence and several of them serve on the boards of other companies which puts their availability / time commitment into question. We feel the board was in a position to nominate directors who would not have faced these constraints.</i>
Exxon Mobil Corporation	Governance	Report on Lobbying Payments and Policy Report on Political Contributions Require Independent Board Chairman Amend Bylaws - Call Special Meetings Disclose a Board Diversity and Qualifications Matrix	Against (Shareholder Proposal)	For	<i>In addition to supporting a number of shareholder proposals, we voted against the entire board due to the fact that Exxon requested the SEC to allow removing a shareholder proposal calling for Exxon to set carbon emission targets.</i>
LVMH Moët Hennessy Louis Vuitton SE	Governance	Reelect Bernard Arnault as Director	For	For	<i>In principle we favour a split role between Chair and CEO roles. We made an exception because of the unique role that Mr. Arnault, as the architect of LVMH has. If Mr. Arnault would leave his position, we would be in favour of the split role.</i>
SEGRO Plc	Governance	Approve Remuneration Report	For	Against	<i>We had concerns both regarding the quantum and the structure of the proposed remuneration: The salaries of the CEO, COO and CIO were due to significantly increase. The salary increase is set alongside a proposed increase in the LTIP opportunity to 250% which will further increase the maximum potential quantum that can be earned; and - TSR and TPR targets under the LTIP scheme have not been made more stretching as a consequence of the increase in award opportunity.</i>
Kingspan Group Plc	Governance	Approve Remuneration Policy	For	Against	<i>Pension contributions were relatively high, and the "cap" may be exceeded at the discretion of the Remuneration Committee. No post-vesting holding period is in place for LTIP awards. Both of these issues are areas of focus in the updated UK Code, which applies to all new remuneration policies submitted to shareholder vote. In addition, the potential termination payments lack clarity.</i>

COMPANY	THEME	ITEM	MANAGEMENT RECOMMENDATION	KEMPEL VOTE	RATIONALE
Power Financial Corporation	Governance	Elect Directors Andre Desmarais and Paul Desmarais, Jr.	For	Withhold	<i>Both nominees also serve as executive directors on the Governance and Nominating Committees.</i>
Nissan	Governance	Elect Director Hiroto Saikawa	For	Against	<i>The company needed to break from the past and build a strong board with fresh members. The reelection of Hiroto Saikawa, who has been on the board for 14 years and worked closely with Carlos Ghosn, does not appear appropriate.</i>
Hilton Food Group Plc	Governance	Approve Remuneration Report / Policy/ LTIP Reelect Robert Watson as Director	For	Against	<i>There were concerns both regarding the structure and the amount of the remuneration. The transition of Mr. Watson from CEO to Executive Chair, from which position he would be appointed as Non-Executive Chair leads to a potential conflict of interests.</i>
The Swatch Group AG	Governance	Reelect Georges Hayek as Director	For	For	<i>We voted FOR (against our policy) as we think Mr. Hayek has a special position as CEO of the company and representative of the founding/controlling family, unlike the other non-independent board members and nominees. We voted against his appointment to the Compensation Committee.</i>
Argo Group International Holdings Ltd.	Governance	Advisory Vote to Ratify Named Executive Officers' Compensation		Against	<i>We voted against the remuneration plan as the overall package is full versus the size of the company and some details are not in line with the long-term nature of the plans.</i>
Dixons Carphone Plc	Governance	Approve Remuneration Report	For	For	<i>Our policy suggested that we vote against the remuneration report. However, after a call with the head of the remuneration committee we have decided to vote for. In our view the remuneration committee has made sufficient amendments to the remuneration based on feedback from several shareholders.</i>
Sino Land Company Limited	Governance	Elect Daryl Ng Win-kong, Ringo Chan Wing Kwong, Gordon Lee Ching Keung, and Velencia Lee as Directors	For	Against	<i>The board lacked independence. An executive director serving on the remuneration committee leads to conflicts of interests and undermines independence.</i>
BP plc	Environmental	Approve the Climate Action (CA) 100+ Shareholder Resolution on Climate Change Disclosures Approve the Follow This Shareholder Resolution on Climate Change Targets	CA100+ - For Against (Shareholder Proposal)	For	<i>CA100+: The resolution encouraged further disclosures which would provide clarity on how the Company's strategy is consistent with the Paris Agreement, including enhanced reporting requirements. Even BP's Board recommended that shareholders vote in favour of this resolution.</i> <i>We also backed the shareholder proposal filed by Follow This on climate change targets.</i>

COMPANY	THEME	ITEM	MANAGEMENT RECOMMEN- DATION	KEMPEN VOTE	RATIONALE
Equinor ASA	Environmental	Instruct Company to Set and Publish Targets Aligned with the Goal of the Paris Climate Agreement to Limit Global Warming	Against (Shareholder Proposal)	For	<i>The Dutch campaign group Follow This has submitted a shareholder proposal to Equinor, just like they did to BP. We backed both.</i>
ADO Properties S.A.	Governance	Elect David Daniel as Director and Approve His Remuneration Elect Moshe Dayan, Sebastian-Dominik Jais and Papadimitriou Constantin as Director	For / None	Against	<i>Mr. Daniel was a non-independent nominee and the board lacked sufficient independence among its members. The nomination of the other three members lacked sufficient justification.</i>
EssilorLuxottica SA	Governance	Approve Auditors' Special Report on Related-Party Transactions Approve Termination Package of Leonardo Del Vecchio, Chairman and CEO and of Hubert Sagnieres, Vice-Chairman and Vice-CEO	For	Against	<i>We voted against the approval of the auditors' special report on related-party transactions as there is no compelling rationale justifying that the transaction has been concluded in shareholders' interests. We voted against the termination packages due to concerns regarding performance conditions attached to the severance payment.</i>
Intertrust Group B.V.	Governance	Amend Remuneration Policy Approve Long Term Incentive Plan for Management Board Members	For	Against	<i>We considered a Performance Share Plan which attaches 70% weight to an external measure (TSR) is out of balance. The proposed flexibility of the supervisory board to change the performance conditions for future cycles or weight them differently is excessive. Retroactive application of the new remuneration plan as of 1 January 2019 is not in line with best practice. We also disagreed with the CEO's salary increase as there was no clear reasoning behind it – also due to the recent appointment. Finally we considered the proposed time span allowed for management members to build their share ownership as too long.</i>
Unibail-Rodamco-Westfield SE	Governance	Approve Remuneration Policy for Chairman and Members of the Management Board	For	Against	<i>We opposed the move to exclude NAV from the STI performance criteria because we believe REPS and NAV are interchangeable and one can be boosted at the expense of the other. We also believe that no remuneration goal was linked to the strategic decision to acquire Westfield.</i>
Ferguson Plc	Governance	Approve Remuneration Policy & Report Amend Long Term Incentive Plan 2019	For	Against	<i>We disagreed with the proposed raise in total award in light of the organisational changes which allow the role of the CEO to be more focused and streamlined.</i>

COMPANY	THEME	ITEM	MANAGEMENT RECOMMEN- DATION	KEMPEL VOTE	RATIONALE
Kansai Electric Power Company	Governance	Amend Articles to Record Shareholder Meeting Proceedings Accurately and Disclose Them AND Amend Articles to Require Individual Compensation Disclosure for Directors	Against (Shareholder Proposal)	For	<p><i>To recognise the concerns of minority shareholders, we were in favour of their views being recorded accurately.</i></p> <p>AND</p> <p><i>We believed that the amendment could enhance the company's overall reputation for transparency and accountability.</i></p>
Alphabet Inc.		Adopt a Policy Prohibiting Inequitable Employment Practices Establish Societal Risk Oversight Committee Report on Sexual Harassment Policies Assess Feasibility of Including Sustainability as a Performance Measure for Senior Executive Compensation Adopt Compensation Clawback Policy	Against (Shareholder Proposal)	For	<p><i>Adopt a Policy Prohibiting Inequitable Employment Practices: revising the company's human capital management policies could reduce related reputational and financial risks to the company and help shareholders better gauge the company's management thereof.</i></p> <p><i>We voted for the establishment of a societal risk oversight committee as the existing board structure does not appear to provide adequate oversight on potential risks that the company's existing and emerging technologies present to the company's stakeholders, which, in turn, creates risks for the company in terms of employee retention, regulatory backlash, and reputational damage with users and advertisers.</i></p> <p><i>Additional information on the company's sexual harassment policies could help shareholders better assess the company's management of related risks.</i></p> <p><i>Sustainability as a Compensation Performance Measure: Alphabet's compensation program lacks performance-based pay elements, and the adoption of this proposal may promote a more strongly performance-based pay programme for executives.</i></p> <p><i>We supported the compensation clawback policy proposal as this policy would expand the company's current recoupment tools, allowing for potential recoupment in circumstances other than a financial restatement.</i></p>
Alphabet Inc., Mastercard Incorporated, Intel Corporation, JPMorgan Chase & Co.,	Social	Report on Gender Pay Gap	Against (Shareholder Proposal)	For	<p><i>As an overall commitment to equal treatment of men and women, we backed shareholder proposals at multiple companies on gender pay gap disclosure.</i></p> <p><i>Shareholders would benefit from additional information that allows them to better measure the progress of the company's diversity and inclusion initiatives.</i></p>

Colophon

THIS REPORT WAS PREPARED BY KEMPEN CAPITAL MANAGEMENT N.V.

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