VAN LANSCHOT KEMPEN

VAN LANSCHOT KEMPEN AND THE EUROPEAN SUSTAINABILITY REGULATION

1. Van Lanschot Kempen and the European sustainability regulation

Acting on climate change, its related environmental consequences together with the desire to provide a strong social base for all, is increasingly coming to the fore. Against that background, the European Union (EU) in 2018 laid the foundations for its Action Plan 'Financing Sustainable Growth', underpinning Europe's goal to become climate neutral by 2050. Important ambition areas of the EU are to 'reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth' and to mainstream sustainability into risk management (European Commission, 8 March 2018, Action Plan: Financing Sustainable Growth). To facilitate progress in these areas, the EU introduced a set of legislative initiatives, including i.a. the EU Taxonomy Regulation and the EU Sustainable Finance Disclosure Regulation (SFDR).

Greater transparency on sustainable investments

The EU Taxonomy Regulation (EU 2018/0178, Taxonomy Regulation) is about introducing harmonised criteria to determine whether an economic activity is environmentally sustainable. The goal is for investors to better understand the degree and proportion of environmental sustainability in their investments. The Taxonomy Regulation will partly enter into effect as of 1 January 2022.

The EU Sustainable Finance Disclosure Regulation (EU 2019/2088, SFDR) on the other hand is set up to provide better transparency on sustainability risk, adverse sustainability impacts and other sustainability-related information to end clients of financial intermediaries. The SFDR entered into force as of 10 March 2021.

In this communication, we describe our approach as required in the articles 3 through 6 of the SFDR. This communication will periodically be updated, along with new and upcoming legal requirements for SFDR, EU Taxonomy Regulation.

2. Our sustainability risk policies

[Disclosure in line with article 3, EU Sustainable Finance Disclosure Regulation: "Transparency of sustainability risk policies"]

In this section, we describe:
a. Our policies on the integration of sustainability risks in our investment decision-making process; and
b. Our policies on the integration of sustainability risks in our investment advice. As we do not offer insurance advice, we do not include this topic.

Both perspectives of financial market participant and financial adviser apply to our two entities, Van Lanschot Kempen (VLK) and Kempen Capital Management (Kempen).

We define sustainability risk as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment", in line with article 2 of the EU Sustainable Finance Disclosure Regulation.

Our aim

- Van Lanschot Kempen has been in business since 1737. Our longstanding experience serves as a guide for the way we aim to preserve and generate wealth in a sustainable manner for the benefit of our clients and broader society. Being a sustainable wealth manager with a long-term focus hinges on our ability to proactively strive to prevent negative consequences ("do-no-harm") while aiming to create positive long-term financial and non-financial value, for all our stakeholders: clients, employees, shareholders, governments/ regulators, and other stakeholders (society at large).

- **Preventing negative impacts**
  In all our different roles – as wealth manager (adviser and portfolio manager), investor, lender, employer, and purchaser – we strive to prevent negative impacts on our clients and other stakeholders. In this respect, we focus – as a minimum – on adherence to the four UN Global Compact (UNGC) themes: human rights, labour rights, environment (including climate) and anti-corruption. Additionally, we explicitly seek to exclude (direct) exposure to controversial weapons (including cluster munitions) and tobacco production and distribution.

- **Aiming for positive long-term value**
  Preventing negative impact is important, but not enough for a sustainable future. That is why we also aim for positive long-term financial and non-financial value for our clients and other stakeholders. To realise this ambition, we strive to achieve positive impact, in line with the UN's Sustainable Development Goals (SDGs).

Our asset management business, Kempen, has specified the abovementioned aim in its investment beliefs [https://www.kempen.com/en/asset-management/esg].

Our ESG investment policies

When it comes to the integration of sustainability risks in our investment decision-making process and investment advice for our clients, our environmental, social and governance (ESG) investment policy can be summarised as follows.
- We act as long-term stewards to generate attractive risk-adjusted returns while considering the interests of all stakeholders.
- We have integrated the assessment of environmental, social and governance (ESG) risks into our investment decision and advice process and we periodically screen our investments (due diligence). We also take into account whether actual or potential material negative impact of the value of the investment could be caused if the sustainability risk would occur. See chapter 3 for more information.
- We do not invest in companies involved in controversial products/ services or conduct.
- As an active owner, we use our influence through engagement and voting to improve corporate behaviour on specific ESG issues and achieve positive change.
- We prefer inclusion over exclusion to bring about more change by working with our investee companies.
- We have formulated an explicit climate policy in line with the Paris Agreement on climate. Our climate policy includes a 2050 target of net-zero investments for all our listed and non-listed investments (see https://www.kempen.com/-/media/Asset-Management/ESG/Climate-change-policy.pdf)
- We invest with an objective to achieve positive real-world outcomes and impact, such as contributing to the UN SDGs.
- We believe in partnerships and are therefore a member of various (inter)national initiatives, e.g., UNGC, PRI, IIGCC and Climate Action 100+.

For several years, our ESG investment policy has been based on various common principles and conventions.
- In 2008, Van Lanschot Kempen became a signatory to the UN Global Compact (UNGC), a globally recognised framework for ESG principles, criteria and treaties that comprises ten universal principles derived from several UN conventions and treaties[1].
- In 2008, Kempen signed the UN Principles for Responsible Investment (PRI). The PRI comprises six principles[2] and establishes goals to incorporate sustainability factors into the investment process. In doing so, Kempen, and thereby also Van Lanschot Kempen, demonstrate their commitment to a more responsible and sustainable financial system.
- In 2011, the UN Human Rights Council laid down the UN Guiding Principles on Business and Human Rights, which form an authoritative standard for companies to adhere to international human rights guidelines. We have embedded these principles into our ESG policies.
- In 2017, the OECD published its Responsible Business Conduct guidance for institutional investors. This sets out key considerations for due diligence under the OECD Guidelines for Multinational Enterprises (MNE)[3]. We have also incorporated these guidelines into our ESG policies.

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1 https://unglobalcompact.org/ UNGC signed by Van Lanschot Kempen in 2008.
2 https://www.unpri.org/ PRI signed by Kempen in 2008.
3 https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

– In 2019, Van Lanschot Kempen signed the financial sector commitment to the National Climate Agreement of the Netherlands (“Klimaatakkoord”) to support the goal of reducing greenhouse gas emissions by 49% by 2030 compared to 1990. The agreement requires financial services companies to measure, report on and execute action plans to meet the goals of the Paris Agreement, including carbon reduction targets for investments and loans.

A complete overview of the principles and conventions is compiled by our asset manager Kempen in its Convention Library. This lists more than 100 conventions, treaties, and initiatives that our investments must comply with.

3. How we manage principle sustainability impacts[4]

[Disclosure in line with article 4, EU Sustainable Finance Disclosure Regulation, “Transparency of adverse sustainability impacts at entity level”]

Within Van Lanschot Kempen and Kempen, we consider principal adverse impacts of investment decisions on sustainability factors. We have extensive screening policies in place and manage adverse impacts.
In this section, we:
– provide information about our policies on identifying and prioritising principal adverse sustainability impacts and indicators;
– describe the principal adverse sustainability impacts;
– describe the actions taken or planned to address principal adverse sustainability impacts;
– Provide a summary of our engagement policies – including our adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting as well as the degree of our alignment with the objectives of the Paris Agreement.

Our ESG investment policies
Within Van Lanschot Kempen policy-related decisions regarding sustainability investing are coordinated by our asset management business Kempen. Several committees have been set up to implement its responsible investment policy. The main committee is the Van Lanschot Kempen Sustainability Investment Council[5] and the ESG Direction Group. The ESG Direction Group discusses policies and conducts the preparatory work for the Van Lanschot Kempen Sustainability Investment Council. The Van Lanschot Kempen Sustainability Investment Council is responsible for formulating and updating the responsible investment policy and is authorised to make approval and disclosure decisions on engagement and exclusion cases. Van Lanschot Kempen’s Sustainability Center, together with colleagues from the business, holds the day-to-day responsibility for implementing the responsible investment policy.

Below, we provide an overview of our ESG investment policies. These policies were updated and approved for the last time on 8 December 2020. We distinguish the following policy areas.
– ESG integration
– Exclusion and avoidance
– Voting and engagement
– Impact

ESG integration: For us ESG integration is about ensuring that sustainability risks and opportunities are an integral part of our investment processes with the objective of achieving better risk-adjusted returns. This includes the incorporation of principal adverse impacts on sustainability factors. This means that the prioritisation of principal adverse impacts on sustainability factors is linked to the investment objective of our funds and the investable universe that is set. Moreover, in our capacity as financial adviser, when selecting external managers, we assess their responsible investment policies and ESG implementation capabilities.

Screening is an essential part of our ESG integration approach and addresses the identification of principal adverse impacts on sustainability factors. Our screening covers both the investee companies of Kempen and external funds (managed by external fund managers on our behalf). We undertake regular screenings of the applicable investment universe and make extensive use of data from leading external ESG data vendors such as MSCI ESG Research (MSCI),

[4] Applicable to VLK WM and Kempen as Financial market participant and Financial adviser.
[5] The VLK Sustainability Investment Council was created in 2021 and replaces the ESG Council that had been in place since 2009.

ISS ESG and Sustainalytics to facilitate this. Through our quarterly screening we seek to identify (potential) cases of issuers in breach of international norms such as the UN Global Compact Framework, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights, and our Principles for Responsible Investment commitments. All norms used have been documented in the Kempen Conventions Library. Based on these norms we have developed a wide array of sustainability themes and criteria, including our requirements applicable to controversial sectors and/or products.

For more information, see: https://www.kempen.com/en/asset-management/esg/esg-integration

Exclusion and avoidance: Exclusion and avoidance are about not investing in companies involved in controversial activities or conduct. In terms of exclusion, we exclude controversial weapons (i.e., biological, chemical, nuclear, anti-personnel landmines and cluster munition). Regarding avoidance, we assess conduct at the company level and product involvement at the sectoral level. At the company level, companies and external fund managers with whom engagement efforts have led to insufficient results, can be excluded from any investment portfolio. This applies to violations and / or a lack of international guidelines in combination with no willingness to change. We have a policy in place to address serious concerns over the safeguarding of the OECD Responsible Business Conduct guidelines. At the sector level, we determine whether products and services should be avoided because of their set-up and related ESG risks. As a result, we are not investing in tobacco production and distribution.

For more information, see: https://www.kempen.com/-/media/Asset-Management/ESG/KCM-Exclusion--Avoidance-policy-public-final-March-2021.pdf. And for our business conduct policy, see: https://www.kempen.com/-/media/Asset-Management/ESG/RBC-Public-Version-March-2021-public.pdf.

Voting and engagement: For us, voting and engagement is about using our influence to improve corporate behaviour on ESG issues and achieve positive change.

Exercising voting rights is an essential part of responsible investment and active ownership. In line with our fiduciary duty, we vote in the best interests of our clients. We report on voting in our Responsible Investment Report, while also publishing voting records: https://vds.issgovernance.com/vds/#/NzcyMA==/#/NzcyMA==/.

Regarding engagement, we deliberately opt for dialogues with the companies we invest in and with external fund managers. This dialogue or engagement allows us to encourage companies to improve policies and practices in which specific ESG issues have been identified. If there is evidence that a company is breaching one of the international norms and is not able or willing to address the issue through our engagement, we will seek to divest.

For more information see:
- Active ownership: https://www.kempen.com/en/asset-management/esg/active-ownership and https://www.kempen.com/-/media/Asset-Management/ESG/Stewardship-Policy-102020.pdf

- Voting: https://www.kempen.com/-/media/Asset-Management/ESG/2020-Kempen-Voting-Policy-Final.pdf and https://www.kempen.com/en/asset-management/esg/policies-and-publications

- Engagement: https://www.kempen.com/-/media/Asset-Management/ESG/March-2021--Kempen-Stewardship-and-Engagement-Policy-Public-final.pdf

- Engagement Factsheets https://www.kempen.com/en/asset-management/esg/engagement-factsheets

Impact: Here, we invest with an objective to achieve positive real-world outcomes and impact for our clients and other stakeholders, such as contributing to the UN SDGs. For more information, see: https://www.kempen.com/en/asset-management/esg/positive-impact.

Our policies to identify and prioritise principal adverse sustainability impacts

Where we invest on behalf of our clients, we consider principal adverse impacts of investments on sustainability factors. When we act as a financial adviser advising our clients on investments, we consider principal adverse impacts on sustainability factors. Sustainability factors are environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. In this regard, we have extensive policies in place to screen the investments on which we advise.

We advise our clients to base their investment policy on global norms such as the UNGC, the OECD Guidelines, and the UN Guiding Principles (UNGP) for Business and Human Rights. As a result, most of our institutional clients have policies in place that seek to minimise exposure to companies that violate these principles and guidelines.

The Van Lanschot Kempen Sustainability Investment Council is responsible for implementing the policy on identifying and prioritising principal adverse sustainability impacts on sustainability factors. The identification of principal adverse sustainability impacts is part of our regular screening process as described under “ESG integration”.

MSCI-flagged controversies indicate violations of international standards, regulations, and guidelines (e.g., the OECD Guidelines for MNE, UNGC and UNGP on Business and Human Rights). The MSCI methodology takes into consideration the nature and scale of the adverse impact to be able to rank controversies according to their overall severity. In addition, MSCI pays attention to the potential risk of negative impacts on society and the environment, as well as companies’ efforts to identify and remedy the risk of such impacts.

To identify actual and potential principal adverse impacts in our investment portfolios, we first assess the frequency of “Very Severe, Severe and Moderate MSCI controversies occurring in Kempen’s portfolios and mandates. Secondly, an assessment is performed on issuers that have so-called “red” MSCI flags, indicating the highest negative impact because of controversies. The third and last step is a more qualitative one. This uses forward-looking environmental data (including climate data from ISS ESG) and social data, to compensate for controversy data that are overly backward-looking.

By combining the results of these three steps we are able to construct a list of our principal adverse impacts as described in the table below.

We also make use of the controversy screening framework of our data vendor MSCI to identify principal adverse sustainability impacts. This framework is built around “controversies” within three pillars: environmental, social and governance. The social pillar is subdivided into human rights & communities, labour rights & supply chain, and customers. Corruption and bribery issues are included in the governance pillar.

Description of our principal adverse sustainability impacts

Where we invest on behalf of our clients, we consider principal adverse impacts of investments on sustainability factors. These factors concern environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.

In the table below, we illustrate the principal adverse impacts that are relevant for our investment portfolios.

Our principal adverse sustainability impacts
Environment
– Greenhouse gas emissions[6] – Waste and toxic emissions – Other environmental impacts on land use and biodiversity – Environmental impact on water (including water stress)
Social
– Social impact on local communities (including human rights) – Social impact on employees (including via suppliers) – Social impact on customers via products (including quality and safety)
Governance
– Governance and organisational impact because of bribery and fraud

[6] Including scope 1, 2 and 3 GHG Emissions, Carbon footprint, GHG Intensity of investee companies.

Our actions to address principal adverse sustainability impacts

We take various actions to mitigate our principal adverse impacts. Below we provide some examples per impact, referring to actions undertaken in 2020.

Our principal adverse impacts	Examples of our actions to mitigate impacts	Type of mitigation action
Environment		
Waste and toxic emissions	We engaged with chemical company Huntsman on their lagging disclosures on air pollutants and the absence of public ESG targets.	Engagement
Greenhouse gas emissions	We engaged with Shell on setting more ambitious CO_2 targets.	Engagement
Other impact on land and biodiversity	We put Bayer on the avoidance list after no progress was made in our Monsanto engagement.	Avoidance
Environmental impact on water (including water stress)	We engaged with Hilton Food on their low ESG score and to disclose their CO_2 and water reduction targets.	Engagement
Social		
Social impact on local communities (including human rights)	We engaged with BHP on their compensation and remediation actions after a dam collapse in Brazil, with a focus on preventing future disasters.	Engagement
Social impact on employees (also with suppliers)	We engaged with Coats on paying living wages to own employees and with Abercrombie & Fitch about payment of living wages in the supply chain.	Voting
Social impact on customers via products (including quality and safety)	We excluded BAT and all other tobacco producers due to negative health impact.	Exclusion
Governance		
Governance impact because of bribery and fraud	We engaged with Volkswagen on internal governance after the 2015 emission scandal.	Engagement

By 30 June 2023, we expect to publish a quantitative statement on the principal adverse impacts over the assets under management as required under the SFDR over the year 2022.

Our engagement policies to manage principal adverse impacts

Engagement is an important policy instrument for us in managing principal adverse impacts on sustainability factors in our investment portfolios.

If issuers or external investment funds we invest in, do not comply with the international norms and standards we endorse (e.g., UN Global Compact, OECD Guidelines, UNGP) we may initiate an engagement process. Based on our engagement policy (see: https://www.kempen.com/en/asset-management/esg/policies-and-publications), we select the most severe cases for "engagement for change". A case becomes more severe if it negatively impacts a larger group of people, if it creates impact that can no longer be remediated and/ or if it is the result of structurally weak company policies or systems. If there is evidence that companies of external funds are breaching international norms and are not able or willing to address the issue, we will seek to divest.

Engagements may be effected by Kempen on our behalf alone, or (with a view to increasing leverage) in collaboration with other asset managers and/or asset owners.

Moreover, we challenge clients, asset management peers and rating agencies to pursue responsible investment and other policies. For more information on our engagement policy, see: https://www.kempen.com/-/media/Asset-Management/ESG/2019-Kempen-Engagement-Policy-Final.pdf

An important area of engagement for us is climate change. As a long-term investor, we believe climate change represents a systemic risk facing the economy, society, and environment, and we want to consider the risks and opportunities this presents to our investments in the coming decades. Climate change is therefore an ESG focus area for us, as reflected in our climate policy (for further detail on this, see: https://www.kempen.com/-/media/Asset-Management/ESG/Climate-change-policy.pdf

At Van Lanschot Kempen, we are convinced that we can contribute to progress by facilitating the transition to a low-carbon economy and managing the climate risks of our investee companies. The climate policy of our affiliated asset management business Kempen includes a 2050 target of net-zero investments for all our listed and non-listed investments. Engagement is an important tool to encourage our investee companies to align with the Paris Agreement on climate change and related climate ambitions.

4. Remuneration policy and sustainability risks[7]

[Disclosure in line with article 5, EU Sustainable Finance Disclosure Regulation, "Transparency of remuneration policies in relation to the integration of sustainability risks"]

We define sustainability risk as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment", in line with article 2 of the EU Sustainable Finance Disclosure Regulation.

How our remuneration policies take sustainability risks into account
Our remuneration policy for investment professionals and other senior executives already seeks to align their financial incentives with the long-term interests of our clients (asset owners) and the long-term success of our own organisation. Our remuneration policy also promotes a sound and effective risk management culture that protects the value of the investment portfolios. Sustainability risks - defined as environmental, social or governance events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investment - are part of this risk management policy and culture, in just the same way as all other forms of risk (i.e. strategic, credit, market, liquidity, interest rate, operational and information risk).

5. How we integrate sustainability risks

[Disclosure in line with article 6, EU Sustainable Finance Disclosure Regulation, "Transparency of the integration of sustainability risks"]

We define sustainability risk as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment", in line with article 2 of the EU Sustainable Finance Disclosure Regulation.

How we have integrated sustainability risks in our investment decisions[8]
In our investment decisions we take sustainability risks into account by applying various ESG approaches. Consequently, we believe we are better able to manage sustainability risks and potential or actual adverse impacts on the value of our investments. We apply the following ESG approaches:
– We integrate ESG criteria when formulating our portfolio allocation strategy and in defining our investible universe. For this assessment we use external ESG data providers as well as proprietary models.
– We exclude controversial weapons and tobacco producers and distributors.
– We apply additional exclusions, e.g., alcohol, nuclear energy, and factory farming.
– We exclude issuers that do not comply with the business conduct requirements set by the UN Global Compact or OECD Guidelines for Multinational Enterprises (human rights, labour, environment, and anti-corruption).

[7] Applicable to VLK WM and Kempen as Financial market participant and Financial adviser.
[8] Applicable to Kempen as Financial market participant.

- We actively seek for our investment portfolios to be aligned with the Paris Agreement on climate change and our long-term commitment to have net-zero emission investments by 2050.
- As active owners we engage investees and fund managers, both individually and collaboratively, and we have a voting policy that explicitly includes ESG considerations.
- We apply best-in-class approaches, both thematic and sectoral.
- We are transparent on our sustainability policies and the results we achieve.

As clients have different preference when it comes to sustainability, we combine the above approaches in our investment process in such a way that we can provide a range of ESG/ sustainability investment solutions. At a basic level, these sustainability investment solutions exclude controversial weapons, tobacco production and distribution as well as companies that fail to comply with UNGC requirements. At the other end of the spectrum, we offer impact investment solutions that capture all the ESG building blocks described above and, more than this, are seeking to create positive social or environmental impact.

How we have integrated sustainability risks in our investment advice[9]

In our investment advice, we take sustainability risks into account at every stage of the investment process.

- Organisation and beliefs
- Risk attitude and ambition
- Strategic policy
- Annual policy
- Portfolio construction and manager selection
- Portfolio monitoring and adjustment
- Administration, reporting and justification

We do so by applying various ESG approaches.

- We advise on formulating ESG beliefs and desired ESG ambitions supported by the different ESG investment solutions that we distinguish. These ESG investment solutions provide disclosure on the degree to which sustainability risks are considered in the investment decision-making process.
- In the next step of the investment process, we advise our clients on formulating ESG criteria per asset class in the portfolio allocation strategy, defining the investible universe and formulating an annual policy through an integrated assessment. In this assessment, ESG is addressed in terms of implementation possibilities and return, as well as of risk, cost, and governance impact. For this assessment we use external ESG data providers as well as proprietary models.
- This step also includes advice on understanding and implementing new ESG regulation and addressing principal adverse impacts of investments on sustainability factors via exclusions of controversial weapons, tobacco production and distribution, as well as of companies that do not comply with the business conduct requirements set by UN Global Compact or OECD Guidelines (human rights, labour, environment, and anti-corruption).
- Advice is given on additional exclusions, e.g., alcohol, nuclear energy, factory farming, and alignment with the Paris Agreement on climate change and the long-term commitment of our clients to reduce the emissions of their investments by 2050.
- Depending on the level of ambition of our clients, we advise on achieving positive impact by contributing to the UN SDGs and being active owners through engagement with investees and fund managers, both individually and collaboratively, and on the voting policy that explicitly includes ESG risks and other ESG considerations (such as positive impact).
- We are transparent on the implementation of our client's sustainability policies and the results that are being achieved. In the portfolio monitoring, adjustment and administration, reporting, and justification we provide our clients with ESG information on their portfolios, help interpret the information and advise them on the next steps to adjusting or enhancing their ESG ambitions, policies, and implementation.

How we advise on assessing the impact of sustainability risks on returns

In assessing the impact of sustainability risks on returns, during the last two stages of the investment process, either at the portfolio level or the asset class level, we consider two approaches:

- Assessing the positive impact of integrating sustainability factors into the investment decision-making process; and
- Highlighting the negative impact of not including sustainability issues, such as carbon emissions, stranded assets risks and controversies, in the investment decision-making process.

[9] Applicable to Kempen as Financial adviser.

Both approaches are considered with respect to different client preferences when it comes to sustainability, and to the specific characteristics of each asset class. As well as the impact of sustainability risks on returns, each assessment reflects the impact on other risks, the costs and the governance implications. Consideration of other risks is important, as excluding too much within a portfolio could have a negative impact on diversification, for example.