



VAN LANSCHOT KEMPEN | KEMPEN RESPONSIBLE INVESTMENT: ASSET MANAGEMENT CERTIFICATION STATEMENT 2019



Forum Ethibel is a Belgian association that actively promotes Corporate Social Responsibility (CSR) and Socially Responsible Investing (SRI) to accelerate the transition to a more sustainable society. In this context, Forum Ethibel develops products and services **to promote transparent and sustainable behaviour in financial markets**.

A **Forum Ethibel certificate** offers the guarantee that the rules imposed by the customers themselves are complied with and offers the advantage to confirm and communicate this to the stakeholders. It concerns the **non-financial criteria** of the organisation, laid down in its specification.

The basis for this consists of:

- Non-financial criteria that are **detailed, clear and publicly** formulated.
- Minimum criteria related to **labour and human rights, environment and armament**.
- A systematic and **periodic check**.

This Forum Ethibel certificate therefore assesses the vision and values of Van Lanschot Kempen / Kempen for the allocation of the assets entrusted to it and checks whether it meets the desired quality requirements. This is to encourage companies and financial institutions have a positive impact on their environment and society.

*To all stakeholders of Van Lanschot Kempen / Kempen
To the investors,
To the general public,*

Forum Ethibel asbl is appointed by **Van Lanschot Kempen (VLK) / Kempen** to carry out an independent verification of compliance with their guidelines on Responsible and Sustainable Investment.

Van Lanschot Kempen has set out a policy on Responsible and Sustainable Investment. Since 2009, the evolution and results of this policy have been reported systematically. This report is the eighth annual statement of certification and assesses to what extent Van Lanschot Kempen / Kempen complies with its own defined principles for Responsible Investment: in managing its in-house and external funds, the assets entrusted to it and its advisory practices.

Forum Ethibel solely acts as auditor and certification institute. A **Forum Ethibel** certificate provides evidence that the defined processes are in line with its non-financial criteria and processes as defined by its policies, regulations or otherwise stated specifications.

Van Lanschot Kempen / Kempen

About Van Lanschot Kempen / Kempen

Van Lanschot Kempen describes itself as a *specialised and independent wealth manager*. Its *Private Banking* services are primarily aimed at high net-worth individuals, entrepreneurs, family-owned businesses, business professionals and associations and foundations. Its *Asset Management* services provide investment strategies, fiduciary asset management and total solutions to Dutch and international institutional investors, such as pension funds and insurers. Its *Merchant Banking* business provides asset management, securities brokerage and corporate finance related services to institutional investors, businesses, financial institutions and government bodies.

In delivering its investment services, Van Lanschot Kempen works closely with its subsidiary Kempen, a specialised investment bank and asset manager. Within Kempen, it is responsible for investment advice and asset management.

VLK / Kempen's Responsible and Sustainable Investment policy is based on international guidelines, including *UN Global Compact* (UNGC), *Principles for Responsible Investment* (PRI), *OECD Guidelines for Multinational Enterprises*, *Guiding Principles on Business and Human Rights* (UNGP), and the *OECD Responsible Business Conduct Guidelines*¹.

In 2019, the *asset manager* **redefined its investment beliefs** to align it with the “*move from Responsible Investing towards Sustainable Investing*”.



UN Global Compact



OECD Guidelines for Multinational Enterprises



ESG-integration



Engagement



Exclusions

Corporate structure in place for sustainable investment

The **ESG Council** is the body within VLK / Kempen with the ultimate responsibility for formulating and implementing the sustainable investment policies. It also discusses specific cases from daily investment practices and sets the Exclusion & Avoidance-list. This Council consists of representatives spread across all business units allowing ownership throughout the organisation and efficient operationalisation of policies. The ESG Council relies on (external and internal) advisors to gain additional expertise. The Council gathers every quarter.

Another body is the **ESG Direction Group** that – as well as the ESG council - exists out of representatives of different business units throughout the company. Their activities entail projects like preparing policy proposals to the ESG Council or operationalising decisions made by the Council.

The **Sustainability & Impact team** has an important role in the ESG Council and ESG Direction Group to share expertise and insights allowing well-informed decision making. Some of its activities are to provide support in maintaining the Exclusion & Avoidance-list, take the lead in collaborative engagement trajectories and support investment teams in direct engagement cases. The team plays an important role in sharing knowledge, expertise and experience with other business units within the organisation. This is for example done through 'ESG challenge' sessions that take place on a quarterly basis.

Exclusion & Avoidance

VLK / Kempen maintains an **Exclusion list** existing out of **companies involved in the production of controversial weapons which are directly excluded for investments**. The *asset manager* keeps a second Exclusion list for countries. These are primarily countries which are put on the sanctions list of the European Union or the United Nations.

Companies can be put on an **Avoidance list** as well - with the objective to avoid investments where possible - when they structurally violate international conventions/standards¹ and have demonstrated no improvement over the last years. **Tobacco** is included on the sector Avoidance list hence excluded from the in-house funds. External active funds are strongly discouraged to invest in tobacco through the engagement with external fund managers.

For companies on the Avoidance list or countries on the Exclusion list (if the sanctions do not prohibit investments in government bonds), the ESG council can grant a waiver if an investment manager wishes to invest. This will require the investment manager to defend its case and provide arguments how 'do no harm' criteria can be respected. In the past, a waiver has only been granted for investments in government bonds issued by Russia, Belarus and Venezuela.

Companies on the Exclusion list ¹	Companies on the Avoidance list*	Countries on the Exclusion list*	Tobacco companies on the Avoidance list*
# 44	# 25	# 16	# 108

In 2019, VLK /Kempen **enhanced its methodology to identify companies that belong to the Avoidance list**. The aim was to ensure that companies in violation of the Organisation of Economic Cooperation and Development's (OECD) guidelines on Responsible Business Conduct for Institutional Investors (RBC) are put on the Avoidance list, in addition to UN Global Compact violators. The OECD RBC's provides key considerations of the OECD Guidelines for Multinational Enterprises which Kempen adheres to.

Its aim is **to avoid and address adverse impacts** related to workers' rights, human rights, the environment, bribery, consumers and corporate governance that may be associated with their operations, supply chains and other business relationships. These guidelines also address challenges such as consumer interests and taxation which are not included into the UN Global Compact.

ESG Integration

In 2018, an ESG¹ manager scoring framework has been developed to measure the sustainability content of financial products. The objective is to assign an **ESG-score** ranging from 1 (inadequate) to 5 (leading) to every fund. By the end of 2019, this proprietary ESG-scoring has been applied to a total of 90 (internally and externally managed funds), representing 15% of Kempen's Assets under Management (AuM).

The **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). **An engagement dialogue was started with the managers who did not meet the minimum score, which is 3 for actively managed funds and 2.5 for passively managed products**. This resulted both in cases of progress and divestment.

All of VLK / Kempen's portfolio managers perform analysis of ESG factors of investee companies and map ESG risks and opportunities. This is not only to reduce risk, but also to identify opportunities. All

* Figures per end 2019

strategies have the freedom to develop their own approach as they are exposed to different asset classes and sectors. This results in tailored ESG approaches for each internal fund. On its website, every Kempen fund has an ESG page providing information on how ESG factors are taken into account.

As a next step in its ESG integration, Kempen has decided to develop proprietary ESG scores for investee companies. It has also given the ambition to **further integrate climate-related considerations in all strategies** and to define minimum criteria that need to be respected by all funds.

These ambitions will be addressed during the certification of next year.

As part of VLK / Kempen's commitment to **"move from Responsible Investing towards Sustainable Investing"**, it has been decided to further develop their ESG manager scoring framework in order to classify and align all their products offered into one Sustainability Spectrum – known as the **"five flavours"**.

The five flavours are: 1. Compliant, 2. Basic, 3. Avoid harm, 4. Do Better, and 5. Do good. Flavours 3, 4, and 5 **can be linked with responsible, sustainable, and impact investing**.

VLK / Kempen expects their external managers and own funds to fulfil at least the criteria of 'avoid harm'. An aspiration has been expressed to move increasingly toward the 'do better' part of the spectrum. It will no longer offer solutions with flavours 1 and 2 to its clients.

Forum Ethibel will follow up on the mapping of all funds and which flavours are being offered to their clients during next year's certification.

Active Ownership

As an active shareholder VLK / Kempen continues to explicitly opt for an **engagement** approach as this may lead to tangible changes to a company's behaviour. Next to carrying out its own engagement activities, Kempen collaborates with other investors. A theme-based and collaborative engagement approach increases the influence on a company. Direct engagement with companies is increasingly being carried out by the portfolio managers themselves supported by the Sustainability & Impact team.

At VLK / Kempen, engagement can have two aims: 'engagement for awareness' or 'engagement for change'. Engagement for change is focused on certain issues or challenges which can be resolved or improved. In order to address issues or challenges, VLK / Kempen's applies an engagement approach referring to the **four milestones** (raise concern, company acknowledgement, company has policy to deal with the issue, and company implements programme). Together with setting SMART-objectives (Specific, Measurable, Attainable, Realistic, and Timely), sub-goals are defined and timings are estimated to determine when an engagement case can move towards the next milestone.

Engagement is conducted with external managers as well, if they are invested in companies or countries that are part of VLK / Kempen's Exclusion and Avoidance-list. As explained above, external managers will also be subject of engagement if their funds do not meet the minimum ESG-scoring.

Apart from this dialogue, Kempen considers it an essential part of its fiduciary responsibility to **exercise its voting rights** on ESG issues at shareholder meetings of the listed companies: this for its in-house funds and, if requested, for (discretionary) mandates. **The voting policy that has been amended in 2019 includes some additions such as clearer guidelines with regards to diversity**. The process comprises voting by proxy through an external digital platform or voting at shareholder meetings. Executed votes are publicly available on a user-friendly platform¹. The "Annual responsible investment report 2019" provides an overview of important executed votes.

Direct engagement dialogue with companies [†]	Collective engagement with companies [†]	Engagement with fund managers [†]
# 84	# 180	# 25

The Van Lanschot Kempen group sets target on minimum number of ongoing engagement cases in 2019 and has set an additional target for 2020: engagement trajectories for change with at least one milestone progress. In 2019, the target of at least 80 number of engagement cases has been met.

VLK / Kempen also reports that around 1 out of 8 engagement trajectories moved in a negative direction and thus providing no satisfactory results. This can lead to divestment, decrease in the invested amount or clearly communicating discontent with the investee's Board of Directors.

What can be observed is that the topics of engagement trajectories for change are increasingly addressing social and environmental issues. Environment represents 40%, social issues 24% and governance 36%. Engagement for awareness continues to be mostly emphasized on governance issues.

More **transparency is provided in public available reporting on OECD guidelines for RBC related engagement trajectories** with companies based on the enhanced methodology to develop the avoidance list. These trajectories aim to ensure that companies address and resolve their adverse societal or environmental impacts.

Positive impact

VLK / Kempen continues its commitment to the **Sustainable Development Goals** (SDGs) of the United Nations. Five SDGs have been chosen to which it aims to focusⁱ.



Kempen provides two products on which it measures the contribution to the SDGs. These are the 'Sustainable Value Creation' and 'Global Impact Pool' funds. **The asset manager is investigating how its contribution to the SDGs can be further integrated in its investments and product offering.** An important challenge is to find a data provider that is able to provide the right information in line with their needs.

Verification and annual audit

Audit framework and process

Forum Ethibel has conducted annual reviews of the non-financial aspects of the investment processes since the financial year 2012, and issued a statement of certification each year, to confirm compliance with the defined policy.

This includes an audit of all (updated) **policy statements**, including the new ESG charter, management reports, the developments on engagement and the materiality assessments, the relevant reports by the Management Board and the ESG Council. In order to assess the quality of the decisions, internal ESG reports on topics such as the Exclusion and Avoidance-lists, engagement cases and operationalisation were reviewed.

This statement of certification refers to the financial year 2019. Our audit has been executed in accordance with the stipulations of the agreement. VLK / Kempen provided us with all additional information requested,

[†] Figures per end 2019

digitally and by means of interviews with the Director of Impact & Sustainable Investment and the Senior Advisor of Impact & Sustainable Investment.

Perimeter and findings

VLK / Kempen's actions in 2019 show its continuous dedication to move towards sustainable investing.

Actions in 2019 such as (1) aligning the Avoidance list screening with the OECD guidelines for RBC, (2) mapping the ESG-scores of funds as well as further evolving this framework to the 'five flavours', and (3) reporting more transparently on engagement efforts can be seen as examples of its commitment.

Three other areas in which the *asset manager* is moving forward is **to define an approach on how to align with the Paris Climate accord and the Dutch 'Klimaatakkoord'**, how to provide a stronger contribution to the SDGs via its offerings, and how to move towards internally determined ESG scores for individual stocks that can be shared amongst teams.

VLK / Kempen already sets steps on both areas in 2019 but wants to make further efforts in the coming years which will be followed up by Forum Ethibel.

Realising these objectives requires extensive and **qualitative ESG data** which is essential to the further incorporation of Sustainable Investment into investment processes. Therefore, VLK / Kempen reviewed the non-financial data providersⁱ. Since early 2015, the main ESG data provider has been **MSCI ESG Research**. This data provider supplies information on companies ESG performance and on the 'do no harm' assessments. This is complemented with insights from **Sustainalytics**. Additionally, VLK / Kempen works with **ISS ESG** to calculate the carbon footprints of investments and to assess company's contribution to the SDGs. Finally, data of **GRESB** is used to obtain insights on sustainability data of real estate companies. In order to realise its ambitions to set steps forward in further integrating climate-related factors and SDG contributions, the *asset manager* continues to review its data providers and the progress in coverage.

The **carbon footprint** of Kempen's total AuM coverage over 2019 was 44%, one percent lower than 2018. This is explained due to an increase in AuM at year end. Most of its in-house funds continue to have a lower carbon footprint than their benchmark. The carbon footprint is, however, expected to gain a more centralised role as it is a key part of the Paris Climate accord and Dutch 'Klimaatakkoord' to which VLK / Kempen is aiming to align with. More developments on this are expected to take place in 2020.

The **website of Kempen publishes its reports, Exclusion and Avoidance-lists**, and ensures that most of its policies are publicly available. The "Annual responsible investment report 2019" of Kempen elaborates on their full approach and progress, including case studies related to engagement and important executed votes. The performances of the carbon intensity of the Kempen funds (in comparison with corresponding benchmarks) are also described in the report. **Reporting on VLK / Kempen's alignment and results concerning the OECD Guidelines for Responsible Business Conduct is expected to be published in 2020.**

In addition, the integrated and consolidated annual report covers the complete Van Lanschot Kempen organisation, including its subsidiary Kempen and presents financial and non-financial information as a coherent whole.

Conclusion

Based on our audits, we confirm that Van Lanschot Kempen / Kempen strictly applies, observes and reports on their Responsible and Sustainable Investment policies, in accordance with the guidelines they have imposed upon themselves. The *asset manager* is continuing in taking steps to realise its ambition to move from responsible towards responsible investing.

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Forum Ethibel asbl



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Sustainability explanation ⁱ

- **Annual Reports:**
Annual Responsible Investment Report 2019 and other publications: <https://www.kempen.com/en/asset-management/responsible-investment>
Annual Report Van Lanschot Kempen: <https://media.vanlanschot.nl/media/pdfs/annual-report-2019-van-lanschot-kempen.pdf>
- **Convention library:** this registers international treaties and conventions governing human rights, labour rights (including child labour), the environment, anti-corruption and bribery, weapons, pornography, nuclear energy, animal welfare (including fur), and tobacco. https://www.kempen.com/-/media/Asset-Management/Convention-Library-UK-2019_new-style-final.pdf
- **Data providers:** GRESB, Global Real Estate Sustainability Benchmark - www.gresb.com, ISS ESG - www.issgovernance.com, MSCI ESG - www.msci.com, Sustainalytics - www.sustainalytics.com.
- **ESG** stands for Environmental, Social and Governance factors, the key domains for non-financial analysis for investments.
- **International Guidelines:** UN Global Compact - www.unglobalcompact.org, UN PRI - www.unpri.org, OECD Guidelines for Multinational Enterprises - <http://www.oecd.org/corporate/mne/>, UNGP - www.business-humanrights.org/en/un-guiding-principles
- **SDG selection:** The five selected SDGs are *Affordable and Clean energy* (SDG 7), *decent work and economic growth* (SDG 8), *responsible production and consumption* (SDG 12), *peace, justice and strong institutions* (SDG 16), and *partnerships for the goals* (SDG 17).
- **Voting records:** The voting records on annual shareholder meetings can be consulted here. <https://vds.issgovernance.com/vds/#/NzcyMA==/>