Turning hidden treasures into solid growth

Kempen

Kempen Capital Management NV

2018 ANNUAL REPORT

AMSTERDAM

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Profile of Kempen Capital Management

Kempen Capital Management NV (KCM) is a wholly owned subsidiary of Kempen & Co (KCO), which in turn is a wholly owned subsidiary of Van Lanschot NV (VL) and Van Lanschot Kempen (VLK).

Our mission at KCM is to preserve and create wealth for our clients. This implies that, for their wealth management services, our clients may rely on a steward that factors in the long term and has a strong focus and clear investment vision. Our service also includes access to investments that typically have high entry thresholds, require a high level of expertise and infrastructure, and that allow us to add long-term value.

This has resulted in a KCM focus on managing niche investment strategies in, among other instruments, global and European equities and dividend stocks, bonds (government bonds and credits), real estate equities and alternative investment products for institutional investors via mandates and investment funds. KCM also provides client solutions, i.e. total investment solutions for both private individuals via Van Lanschot and for institutional investors (directly), with priority given to clients' objectives and liabilities. We offer institutional investors client solutions such as fiduciary management and a comprehensive investment solution for pension funds and insurers, as well as for associations, family offices and foundations. We aim to be a world-class, specialist asset management company that exceeds our clients' expectations and creates long-term partnerships with our clients and providers based on transparency and trust. We have offices in Amsterdam, London and Paris.

Results

In the reporting period from 1 January through 31 December 2018, we generated a profit of €11.7 million. Assets under management decreased by 1.4% to €55.6 billion from €56.4 billion, the net outcome of deposits (+1.3%) and price effects (-2.7%). Assets under monitoring and guidance decreased to €3.4 billion from €3.5 billion, bringing the total invested capital for which KCM provides services to €58.9 billion, down from €59.8 billion. At the reporting date, KCM's cash position and solvency were as strong as ever, and nothing out of the ordinary occurred in our cash flows in the reporting period.

Contribution to results

KCM's income derives from fees on assets under management, reflecting capital entrusted to KCM by investors coupled with the (absolute) performance of our investment products – a review of which follows here.

Macroeconomic trends and the financial markets in 2018

2018 financial markets, economy and KCM fund performance in review

The financial markets started the year in an upbeat mood, as global economic growth had picked up in the course of 2017 and economic indicators were painting a positive picture. In the United States, companies and consumers benefited from tax cuts while economic activity in the eurozone was fuelled by a positive external environment and a quickening pace of domestic demand. Despite strongly improving labour markets, wage growth – and subsequently also inflation – remained low, enabling central banks to take it slowly when adjusting their loose monetary policies. January saw the global equity index add 5.6%, but February and March brought the first corrections in global equity market prices. Initially, this was caused by robust US macroeconomic data fanning fears of inflation and tighter monetary policies, with a range of technical factors intensifying the correction – which worked out at 6.6% for these two months. US ten-year yields, which had started the year at 2.4%, peaked just short of 3% by the end of February, but were back at 2.7% by the end of March. German yields rose from 0.4% to 0.9%.

Sentiment in the equity markets continued to dither all through the spring and summer, driven by concerns about a trade war between the US and other countries, particularly Canada, Mexico, the European Union (EU) and China. The approaching Brexit deadline and lack of agreement between the United Kingdom and the EU also caused uncertainty. And then there was Italy, whose government was planning a much larger budget deficit than European rules allow. At the same time, the global economy was beginning to cool down; with lower economic growth in China affecting growth in the eurozone, first-half 2018 levels dipped significantly below those for the second half of 2017.

The US Federal Reserve, meanwhile, stuck to its normalisation of monetary policy, raising rates a total of four times in 2018, at increments of 0.25%. It also wound down its huge bond portfolio, by USD 20 billion a month in the first quarter and rising to USD 50 billion a month in the final quarter of the year. The eurozone and Japan kept their base rates unchanged (and negative), but the Bank of Japan (BoJ) bought sizably fewer government bonds than it had in 2017, while the European Central Bank (ECB) had halved its asset purchases to €15 billion a month by October. In fact, as early as June the ECB had announced its decision to stop its asset purchases by the end of the year. The less accommodating US monetary policy pushed up yields, causing ten-year paper to peak for the year at 3.2%, while at the same time also triggering a marked flattening of the yield curve, which in turn fed into doubts about economic growth.

A second correction hit the equity markets in October, followed by a slightly positive end to November for the equity index and a return to negative territory in December – shaving a total 13.1% off the equity indices for the quarter. During this time, economic indicators were down, trade tensions between the US and China hotted up, the chances of a hard Brexit appeared to be growing, and financial markets responded to declining liquidity support by central banks. The turmoil also showed in corporate bond prices, which commanded risk premiums not seen since 2016. Government bonds played their usual safe-haven role, with US ten-year yields ending the year on 2.7% and their Bund counterparts on a mere 0.24%.

Against the backdrop of these market conditions, KCM-managed investment funds recorded relative returns in line with expectations, as did our Client Solutions investment mandates. That said, our assets under management shrank in the wake of negative absolute returns on equities and bond markets.

Outlook for 2019

Going into 2019, economic growth would appear to be softening further, as flagged by leading economic indicators as well as by a flat US yield curve. The United States is nearing the end of the tax cut effects, while the eurozone is facing a less favourable external environment. The year started off with financial market prices reflecting a significant drop in economic growth. If trade tensions between the US and China escalate further or if there is a hard Brexit, the slowdown might deepen significantly. All that said, there are reasons not to be too pessimistic: recent noises suggest constructive talks between the US and China. Recessions are often triggered by excesses, such as too much capital spending, housing markets going into a tailspin, inflation, or lending pushed to extremes. The global economy does not currently show signs of excess. In fact, China acknowledged the slowdown and has taken steps to boost its economy; sharply lower oil prices benefit consumer purchasing power; and the US Federal Reserve has intimated that financial market turmoil might influence the way it will be taking monetary policies. It would appear that the Fed will be very cautious about taking its rate hikes further. Meanwhile, we are assuming that growth will remain on a reasonably even keel, but that any rises in yields will be limited. The investment climate looks as if it will become a bit less favourable to equities.

Following the sharp corrections of 2018, prices might well bounce back a little, but lower growth and higher wage costs are likely to put earnings margins under pressure.

Commercial developments in niche strategies

2018 saw a drop of approximately €1,175 million in niche strategies-based assets under management, with outflows attributable to two main factors. The first of these, market conditions, mainly sparked outflows from funds investing in fixed-income securities. Secondly, we made two product offering decisions in 2018 that have led investors to pull out: we discontinued our fundamental indexation strategies, whose passive nature did not really fit into our proposition all that well, seeing €427 million disappear from the two discontinued fundamental indexation funds. And we decided to centralise our management of small cap strategies in Amsterdam. The strategy lost around
€352 million as a result.

We recorded attractive growth in assets under management in recently launched funds and those with strong relative returns. Our Global Small Cap Fund managers, for instance, locked in relative returns nearly 5% ahead of the benchmark and grew the fund by €26 million. Our Global Impact Pool's launch attracted around €71 million and our Private Markets Fund, launched in June 2018, generated interest to the tune of €43 million. These categories have future potential and are a great fit with the DNA of an active investor looking for alpha in illiquidity, income and ESG. By the end of the reporting period, our niche strategies totalled €14.4 billion in assets under management, an approximately 7% fall relative to assets under management at end-2017.

KCM received multiple awards in 2018. We see this external recognition as confirmation of our vision for specialist services. Some examples:

- Kempen Non-Directional Partnership won the award for "Best Multi-strategy Fund of Hedge Funds" at the European Hedge Funds Review Performance Awards
- We scooped five prizes at the Lipper Awards, including Best Small Asset Manager in the "Mixed Assets" and "Overall" categories, plus another three for individual strategies: Kempen Global High Dividend Fund, Kempen (Lux) Global Small-cap Fund and Kempen (Lux) Global Property Fund;
- In June 2018, Kempen won the RI Reporting Award for the best ESG report, with over 2,500 reports taken into account;
- In December 2018, Kempen won the Institutional Investor Benelux Award in the category "Best Approach to ESG." Competitors included APG, PGGM and Robeco.

Client Solutions commercial developments

Client Solutions had another commercially successful year in 2018, with assets under management up by €1,723 million. A key contributor to the AuM uptick was the transition of the Arcadis pension fund to Het Nederlandse pensioenfonds, which has KCM as its fiduciary manager. In addition, the team signed fiduciary agreements with two more pension funds. And lastly, it successfully attracted non-pension-related fiduciary mandates – with Covra among others – on top of fiduciary balance sheet management for family offices.

Our successes are driven by a whole host of innovations and investments, including improved IT and data infrastructure to better serve our Dutch and UK clients, and to expand our investment expertise in unlisted and illiquid asset classes. As a result, we not only now have a stronger proposition for our existing clients, we have also given Client Solutions something stronger to take to the market. In fact, following the acquisition of UBS's Dutch activities in 2017 and with Altis Investment Management now also on board, we have become even better equipped to serve family offices together with Van Lanschot.

As part of our drive to innovate and respond to expected trends, we are currently working on solutions such as more individualised pensions, the application of artificial intelligence in investment processes, and research into new technologies that help create liquidity in illiquid assets classes, all of which could lead to an expansion of possible service formats going forward.

Product development

2018 saw us launch four new investment funds, our Global Impact Pool, Private Markets Fund, Global Sustainable Value Creation Fund and Global Value Fund. All four offer access to investments that typically have relatively high entry thresholds, and where our specific knowledge and infrastructure give us a sustainable competitive advantage. By investing sustainable in our company infrastructure and knowledge, we are able to get our clients into asset categories that create value in their investment portfolios while at the same time coming up with investment strategies that will serve us well commercially.

Global Impact Pool investors seek out companies that take on the challenges facing our planet, while not losing sight of their own risk and return requirements. We link the positive social and environmental effects to selected themes identified in the United Nations Sustainable Development Goals (SDGs). The fund invests in unlisted asset strategies such as private equity, infrastructure and private debt, and also offers the option of investing in a select number of public strategies, such as green bonds, provided there is a demonstrable SDG link.

Kempen Private Markets Fund offers investors a diversified portfolio of private equity, infrastructure, land (agricultural and forestry) and private real estate, with underlying investment funds selected on criteria such as investment strategy, the team's background and experience, track record, ESG and the stability of the organisation, as well as the investment conditions, commercial and otherwise. Our aim for this fund is to achieve returns that exceed the market returns for each underlying asset class, and its global focus means that it invests in both developed and emerging markets.

Kempen Global Value Fund offers investors an opportunity to run an actively and professionally managed portfolio of listed companies across the world that we believe are trading below their net asset values. The fund's primary objective is to structurally achieve better long-term returns than the MSCI World Value Net Total Return USD Index – both in terms of price gains and net dividends.

Set up primarily for long-term investors, Kempen Global Sustainable Value Creation Fund offers an investment opportunity in a diversified portfolio of listed global stocks that are open to shareholder engagement and integrate environmental, social and governance (ESG) criteria in their strategy. The fund aims to select companies with a focus on long-term and sustainable growth. Fund investments are screened by an independent data provider that assesses whether they meet the ESG criteria.

By the end of 2018, preparations were also under way to launch our Listed Infrastructure Fund and European Private Equity Fund in January and February of 2019 respectively. Kempen (Lux) Global Listed Infrastructure Fund provides investors with an opportunity to invest in a diversified portfolio of global listed infrastructure stocks, while Kempen European Private Equity Fund focuses on capital growth through investment in private equity. The latter will in invest in funds managed by private equity general partners ("GPs") as well as in direct deals in the shape of co-investments with private equity GPs. The fund aims for a balanced portfolio composition of around half GP investments and half direct deals through co-investments.

Organisation

In 2018, there were a few substantive changes to the workforce, while we adjusted our IT organisation and restructured Investor Relations.

On 5 February 2018, Leni Boeren joined the Executive Board of Van Lanschot Kempen NV as well as KCM's Management Board, an appointment already approved by the regulator. On her arrival, Constant Korthout, who had acted as temporary director, left this post on 5 February. On that same date, Paul Gerla officially left due to illness, and we are sorry to say that he has since passed away. The current Management Board is now evenly balanced between Leni Boeren and Erik Luttenberg.

The year also saw a change at the helm of Investor Relations, with Johan Cras, Managing Director of KCM London, also appointed Managing Director of Investor Relations. Under his leadership, Investor Relations became a more efficient organisation in 2018, with a clearer regional framework centred around groups of clients.

The first releases in the data architecture programme came online in 2017 and we built on from this in 2018. To increase the efficiency of applications administration and daily management, we have moved to KCM systems and data managers from the Van Lanschot Kempen (VLK) organisation. We have also appointed a Chief Data Officer, with both IT and Data now represented in the KCM Operations management team.

At the end of 2018, we announced that the Van Lanschot Investment Office department and KCM's Client Solutions would be merged from 1 February 2019 to enable us to provide best-in-class investment solutions for our clients. By pooling these resources, we bring together both investment knowledge and what we know about all client segments, enabling us to design a single, focused investment process offering a more standardised, high-quality service that meets the needs of our clients, today and in the future. This should boost our NPS scores and profitability, while also creating opportunities for our people to further develop their investment expertise and specialisations.

Responsible investment

Our responsible investment policies are informed by laws and regulations, international treaties we – and our client groups – endorse, and our company mission. Our engaged ownership is shaped in four ways:

- Integration of ESG criteria in the investment processes underpinning KCM funds: ESG factors are part of our funds' investment processes to ensure that responsible investment risks are appropriately reflected in expected returns;
- Engagement on controversial issues and exclusion in the absence of a favourable outcome – one of the reasons why, from the end of 2018, all Kempen funds discontinued investment in tobacco-related companies. Also in 2018, we parted with an external fund manager that failed to make any progress on ESG;
- Exercising our right to vote: in 2018, we voted at 461 AGMs;
- Positive impact – for instance by setting up our Global Impact Pool (€70m in invested assets).

More detailed discussions on these four points and quantification of our responsible investment policies can be found in our periodic ESG communications and bank-wide KPIs in the Van Lanschot Kempen annual report and RI Report.

DUFAS Asset Manager Code of Conduct

On 1 October 2014, the Dutch Fund and Asset Management Association (DUFAS) published a code of conduct (the Code) that explains what clients can expect of their asset managers. This Code applies to all DUFAS members. As a DUFAS member and co-author of the Code, KCM applies this Code and reports on how it has applied its principles. This annual report contains our report on application of the Code in 2018.

General principles

1. Asset managers should act in the interests of their clients. At KCM, our clients' objectives are always the starting point for the type of asset management to be provided. If we cannot provide a particular service, there are anyway no incentives for KCM employees to offer one. We even encourage our employees to be slightly stubborn and not provide a service if we genuinely believe it is not in our client's interest.
2. Asset managers should know their clients. It is KCM practice to be in regular touch with clients, their advisers and ALM consultants with respect to our clients' financial positions. This includes assessing or reconfirming objectives and risk appetite.
3. Asset managers should conduct business fairly. The agreements we make with clients and the guidelines we agree with them are laid down in contracts. Our clients receive very frequent, unambiguous reports on these. Our investment fund clients can of course access the prospectuses, key investor information and recent annual reports on our website. Monthly reports on portfolio activity and investment results are also compiled for most investment funds.
4. Asset managers should act ethically. Acting ethically must be in the DNA of all KCM employees. Pre-employment screening is conducted before employees start working at KCM. All Kempen & Co employees must attend an in-house ethics course as part of compulsory training under the law – on such matters as AML, privacy and anti-bribery – and the Compliance department ensures that they do so. Moreover, we believe it is important to have an open office culture – one in which people can challenge each other on their conduct, and in which people can make mistakes and be encouraged to talk about them. Lastly, regular awareness sessions are held on compliance-related issues.
5. Asset managers should manage conflicts of interest. With a view to managing such potential conflicts, we first make unambiguous agreements with our clients, a point we have made above. KCM and its employees also invest in KCM's own investment funds, and this is the ultimate expression of interests coinciding. Equal mandates receive equal treatment at KCM. To this end, a central trading unit has been set up to execute buy and sell transactions and this unit executes transactions (where possible combined) for and on behalf of all our clients. This has been laid down in an order-processing policy document that is available to clients.
6. Asset managers should act professionally and prudently. Our investment funds and services are generally not complicated; we ensure that those that are complicated are only sold to professional parties that possess the requisite knowledge. Moreover, our employees attend training courses that deal with specialist aspects – e.g. via CFA/VBA – as well as with more conduct-related aspects.
7. Asset managers should communicate clearly and unambiguously. We provide our clients with reports on an individual basis. The content and frequency of these reports is laid down in the contract between the two parties. Our investment fund clients have access to the detailed, clear and often monthly reports published on our website.
8. Asset managers should be open about their remuneration policies. We are transparent about our remuneration policies. A summary of our policies can be found on our website and in this annual report. For further information on remuneration, go to www.kempen.com/nl/asset-management.
9. Asset managers should be transparent about fees. We provide clear information about costs and are always open about the fees our clients pay.
10. Asset managers should comply with the DUFAS codes of conduct. We comply with the DUFAS Fund Governance Code and the DUFAS Principles of Fiduciary Management. To meet the requirements of the Fund Governance Code, we have appointed a custodian for all of our regulated KCM investment funds. In addition, we have in place a Supervisory Committee for a number of investment funds incorporated in the Netherlands. This type of supervision is particularly aimed at investment funds i) that are accessible to investors from outside Lanschot Kempen, and/or ii) whose investment policies KCM carries out. This Supervisory Committee's regulations are published on our website. KCM is co-author of the Principles of Fiduciary Management and complies with these principles.

Risks and risk management

Risk management

Internal control, risk management and compliance are key to our organisation and have our unwavering attention.

Risk management

Our Risk Management department supports and advises the KCM Management Board on identifying and managing the risks to which KCM is exposed. The department acts independently, works closely with VLK's Risk Management department and oversees compliance with the risk policy as adopted by the risk management committees, reporting on this directly to the KCM management team and the relevant risk management committees. It also helps in the implementation of guidelines, regulations and internal control measures in relation to risk control.

Compliance

The Compliance department is responsible for designing and disseminating our compliance structure as part of internal control, thus ensuring that KCM demonstrably complies with the law. The department takes relevant laws and regulations and translates them into company practices through compliance guidelines, provides advice on these practices and guidelines, and monitors compliance. It thus enables our employees to comply with relevant laws and regulations and so enhances the integrity and solid reputation of Van Lanschot Kempen as a whole. The Compliance department operates independently and reports directly to the CEO of Van Lanschot Kempen's Executive Board as well as to the KCM Management Board. It also reports to the VLK Supervisory Board's Audit and Compliance Committee (ACC).

Internal audit

Group Audit is tasked with Van Lanschot Kempen's internal audit function and conducts independent and objective audits. All of Van Lanschot Kempen's activities – i.e. Van Lanschot Kempen NV, Van Lanschot NV, Kempen & Co NV and Kempen Capital Management NV, as well as their domestic and foreign holdings – are included in Group Audit's remit. Its investigations help Group Audit test the design and operation of internal risk management and control systems, and aim to improve the efficacy of these systems, and in doing so it supports VLK's Executive Board and Audit and Compliance Committee (ACC) as well as the KCM Management Board in performing their duties. Group Audit reports directly to the Chairman of VLK's Executive Board and the KCM Management Board and is accountable to VLK Supervisory Board's Audit and Compliance Committee.

KCM conducts annual risk self-assessments through risk-oriented analyses such as the risk appetite statement, the risk heatmap and the internal capital adequacy assessment process (ICAAP). Notable steps include:

- A risk self-assessment;
- A description of the control measures in place to mitigate the risks identified in the risk assessment. We have a low risk appetite, which means we seek to avoid the impact of these risks as far as possible;
- A determination of any additional capital that needs to be held as a buffer for the remaining risks;
- As well as assessing the impact of a scenario actually materialising, we also factor in the likelihood that it will do so, which might lead to differences between expected losses and losses actually recorded;
- KCM ICAAP focuses on developing and analysing stress scenarios covering KCM and also relates these to bank-wide VLK ICAAP.

Our ultimate purpose is to assess both our present and future capital adequacy. It is important that we maintain our capital adequacy, even in difficult market conditions.

For the purpose of these risk assessments, we have identified material present and future risks and estimated future capital adequacy using scenario analyses. The following risks observed and identified are of particular relevance:

1. There is a risk that a substantial fall in the price of securities over a shorter or longer period could cause a reduction in assets under management. This would lead to a fall in income due to reduced management fees. The nature of our business is such that having a mix of assets in the portfolio is an obvious choice to effect diversification, which in turn generally tends to mitigate any overall price losses. Additionally, if this scenario should occur, we will take measures to limit costs. The projected loss for KCM under this stress scenario is estimated at €2.0 million. This scenario did not arise in 2018.
2. There is a risk that transactions are not carried out in keeping with client agreements and that claims for damages will need to be settled. This risk is mitigated by a range of measures, including clear parameters in investment management agreements with clients. Related pre- and post-compliance controls are almost entirely automated. Only KCM Risk Management staff are authorised to approve blocked orders. In addition, the KCM Risk Committee supervises other risks for funds and clients on a monthly basis. The projected loss for KCM under this stress scenario is estimated at €563,000. In 2018, a few minor incidents of this type occurred, and payments fitted amply within expected losses.
3. There is a risk that errors will be made in the modelling of transactions. This risk is mitigated by using straight-through processing (STP) where possible and configuring adequate internal controls. The four-eyes principle is applied at key points in these processes. Errors which do occur are recorded and analysed in depth, enabling new control measures to be implemented to prevent repetition. The projected loss for KCM under this stress scenario is estimated at €1,200,000. This scenario did not play out in 2018.

We also have in place a description of our administrative organisation and internal control system. In 2018, we made additional improvements to this ISAE 3402 framework to strengthen our internal control mechanisms. These improvements are described in detail in the relevant report. During the 2018 reporting year, the Management Board established that the administrative organisation and internal control system functioned effectively and in accordance with their descriptions. This is confirmed in an ISAE 3402 report on the 2018 financial year, on which an unqualified auditors' report was issued by the external auditors on 23 January 2019.

Risks

Market risk

KCM's core activity is to manage the assets of clients (and not for any proprietary business) and therefore we are not directly exposed to market risks. That said, market risks do affect the wealth creation of our clients and thus have an indirect impact on our own financial results. Our varied offering of products and services significantly cushions these effects and this risk is considered low to medium-high.

Credit risk

KCM does not face significant credit or counterparty risks. We do not issue loans and are not a counterparty to over-the-counter financial transactions, thereby sidestepping settlement risk. Our service offering does of course imply credit risk in terms of management or performance fees to be received from clients. With a varied client base of generally wealthy clients, this risk is considered low. KCM balances are entrusted to reliable parties.

Liquidity risk

KCM's core activity is to manage the assets of clients (and not for any proprietary business) and we are not therefore directly exposed to liquidity risk, although liquidity risks may indirectly affect our liquidity profile. Our varied offering of products and services significantly cushions these effects and this risk is considered low. Fees charged to clients are collected periodically and benefit KCM's liquidity profile.

KCM has sufficient qualifying capital to meet the prudential capital adequacy requirements set by De Nederlandsche Bank (DNB) on an ongoing basis. If the calculation of the capital requirement shows that the capital held will not be adequate without additional measures, steps will be taken in consultation with Kempen and Van Lanschot Kempen to increase the amount of capital held. The most obvious route would be for any capital shortfalls to be made up through capital contributions to KCM by KCO, but other avenues are also possible.

KCM remuneration policy: general principles

Introduction

Employees working for KCM have an employment contract with Kempen & Co NV, the parent company of KCM. Kempen & Co NV is a subsidiary of Van Lanschot NV, which is in turn a subsidiary of Van Lanschot Kempen NV. All legal entities, companies and branches forming part of Van Lanschot Kempen NV are collectively referred to in the remainder of this report as “Van Lanschot Kempen”. Pursuant to new regulations, Van Lanschot Kempen adopted a new variable remuneration policy for its employees in 2015. This policy applies for employees (including identified staff) of Van Lanschot NV, Kempen & Co and their subsidiaries, including KCM.

This means that the Van Lanschot Kempen Group remuneration policy applies for KCM, with the proviso that a number of specific additional provisions apply for KCM; these are described in the remuneration policy and are specifically linked to the activities of KCM and the remuneration rules that apply in respect of those activities. Our remuneration policy applies to all employees working for KCM. Remuneration paid is not attributed to individual investment entities.

KCM remuneration policy: general principles

Van Lanschot Kempen pursues a prudent, sound and sustainable remuneration policy that is in line with the group’s strategy, risk appetite, objectives and values. The remuneration policy is in line with and contributes to sound and effective risk control and does not encourage the taking of more risks than Van Lanschot Kempen considers acceptable. Van Lanschot Kempen ensures that the remuneration policy is applied across the group.
The following general remuneration policy principles apply for all employees working at KCM:

- Outperformance is rewarded;
- A system of differentiated remuneration applies;
- An employee’s variable remuneration is based on the performance of Van Lanschot Kempen, KCM and the individual employee;
- The assessment of an employee’s personal performance is based on both quantitative (financial) and qualitative (non-financial) performance criteria; selected departments apply only qualitative criteria;
- At least 50% of the variable remuneration is based on non-financial criteria;
- The performance criteria contain no incentives to take unjustified risks;
- Appropriate account is taken of the interests of clients when striking a balance between the fixed and variable remuneration components, and the performance criteria are determined in such a way as to avoid any conflicts of interest that could occur between employees and clients;
- The awarding of variable remuneration is partly related to the long-term objectives of Van Lanschot Kempen; the awarding of variable remuneration to KCM employees is partly related to the long-term objectives of Kempen & Co NV and KCM;
- When assessing performance on the basis of the set performance criteria, financial performance is adjusted for (estimated) risks and costs of capital;
- Variable remuneration (including the conditional portion) is only awarded or paid if (i) this is reconcilable with Van Lanschot Kempen’s financial position and if it is justified by the performance of Van Lanschot Kempen, KCM and the employee concerned; and (ii) Van Lanschot Kempen holds the capital buffers as required by the Dutch Financial Supervision Act (Wft) and implementing regulation;
- None of Van Lanschot Kempen’s financial services or other activities, remuneration components or structures could lead to a risk of consumers, clients or members being treated without all due care, and Van Lanschot Kempen has no intention of introducing such activities, components or structures;
- In the event that Van Lanschot Kempen does not make a profit in any financial year, discretionary bonus pools may be established by the Statutory Board with the approval of the Supervisory Board;
- Variable remuneration is only awarded to employees working for KCM if KCM makes a profit;

- During the reassessment preceding the payment and receipt of variable remuneration, the total variable remuneration is lowered substantially by applying a reduction or clawback scheme in the event of a weak or negative performance by Van Lanschot Kempen or in the event of incompetent or incorrect conduct on the part of an employee.

A more detailed description of our remuneration policy can be found at www.kempen.nl, including a further description of the make-up of the fixed and variable remuneration components. The policy also describes the criteria which form the basis for determining the amount of variable remuneration, which non-standard rules apply for employees in audit functions, for example, and which parts of the variable remuneration are conditional. The policy also describes the governance in relation to the annual fixing of the variable remuneration.

KCM remuneration in financial 2018

At 31 December 2018, KCM was acting as the manager of 35 alternative investment funds (AIFs) and 31 undertakings for collective investment in transferable securities (UCITS). Total assets under management for AIFs amounted to €2,779 million on 31 December 2018, and €7,029 million for UCITS.

The table on the following page contains information on the remuneration of identified staff. KCM's identified staff are KCM employees, including members of the Management Board, whose activities have a material influence on our risk profile or that of the funds we manage, including employees performing senior management, risk-taking or audit functions, as well as employees whose remuneration amounts to at least the same as that of the categories of employees who hold a senior management or risk-taking position. We do not attribute any staff costs to individual investment institutions.

	Senior management*	Management roles	Other employees	All employees
Number of employees (in FTEs, average for financial year)	5	29	175	208
Remuneration				
Total fixed remuneration	€2,167,900	€6,382,014	€17,999,195	€26,549,109
Total variable remuneration**	€527,726	€1,844,968	€3,294,797	€5,667,491

* Leni Boeren is chair of the Management Board of Kempen & Co NV and was consequently a member of the identified staff of Kempen & Co pursuant to the regulation on Prudential Supervision of Credit Institutions and Investment Firms (CRD IV). She is also a director of KCM and is therefore included in the table in the 'Senior management' category. Ms Boeren is not a member of KCM's identified staff.

** In keeping with Dutch laws and regulations, variable remuneration relates to the variable remuneration as recognised in profit or loss.

Pursuant to Section 1:120, subsection 2(a) of the Dutch Financial Supervision Act (Wft), we report that no individual received remuneration exceeding €1 million in 2018.

Outlook

Although our results are largely determined by developments in the financial markets, our relatively strong performance, highly motivated employees, proper (IT) systems, personal connection with clients and mandates already granted offer good prospects for further growth in 2019, including growth in the number of clients. Given the volatility of the financial markets, however, the Management Board is cautious about making any forecasts regarding the result for the current financial year. At the time of publication, the Management Board does not foresee any material capital-intensive investments and neither does it expect any changes to current funding. The KCM workforce will increase in 2019, as a number of activities will move to KCM from the VLK organisation. These shifts should not lead to higher cost levels.

Amsterdam, 8 March 2019

The Management Board,

L.M.T. Boeren

H.Th. Luttenberg

Consolidated 2018 financial statements

Consolidated balance sheet at 31 December 2018 (before result appropriation)

		31-12-2018	***31-12-2017***
		x €1,000	*x €1,000*
Assets			
Fixed assets			
Intangible assets	I	**7.443**	**8.290**
Tangible assets	II	**280**	**347**
Current assets			
Receivables from related parties	III	**29.360**	**28.397**
Current receivables, prepayments and accrued income	IV		
Management fees receivable		14.628	19.416
Other receivables, prepayments and accrued income		1.912	555
		16.540	**19.972**
Cash and cash equivalents	V	**3.473**	**3.657**
		57.096	**60.663**
Liabilities			
Equity	VI		
Paid-up and called-up share capital		92	92
Premium reserve		6.700	6.700
Other reserves		19.557	18.425
Undistributed profit		11.739	13.132
		38.087	**38.349**
Provisions	VII		
Deferred tax liabilities		1.281	1.675
Other provisions		-	200
		1.281	**1.875**
Current liabilities, accruals and deferred income	VIII		
Management fees payable		2.993	2.633
Amounts owed to related parties		11.582	14.122
Amounts owed in respect of tax and social insurance premiums		843	651
Other liabilities, accruals and deferred income		2.310	3.033
		17.728	**20.439**
		57.096	**60.663**

Consolidated profit and loss account for 2018

Profit and loss account for 2018

		2018	2017
		x €1,000	*x €1,000*
Income			
Management fees	IX	93.943	87.120
Consultancy fees	X	991	220
Other income	XI	14	-67
Total income		**94.948**	**87.273**
Expenses			
Staff costs	XII	43.438	37.833
Amortisation of intangible assets	I	846	463
Depreciation of property and equipment	II	98	98
Other operating expenses	XIII	34.846	31.281
Total expenses		**79.228**	**69.676**
Operating result		***15.720***	***17.597***
Interest income		1	0
Interest expenses		11	-
Interest result		**-10**	**0**
Result before tax		***15.710***	***17.597***
Tax	XIV	3.971	4.465
Result from participating interests	III	-	-
Result after tax		***11.739***	***13.132***

Summary of key accounting policies for the preparation of the financial statements

General

The object of the company is to manage and administer the assets of third parties, to provide advice and to invest in, manage and finance other enterprises and companies.

The financial statements have been drawn up in accordance with the statutory provisions as set out in Part 9, Book 2 of the Dutch Civil Code and the principles contained in the Dutch Accounting Standards as published by the Dutch Accounting Standards Board.

The accounting principles have remained unchanged from prior year, with the exception of changes in accounting policies and estimates, if applicable, as presented in the relevant sections.

Currency

Items in the financial statements pertaining to each group company are stated in the currency of the economic environment in which the entity chiefly operates (i.e. the functional currency). Amounts in the financial statements are stated in euros, i.e. both the functional and reporting currency.

Transactions in foreign currencies in the reporting period are recognised in the financial statements at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the reporting date. Translation differences arising on the settlement of such transactions are recognised in profit or loss.

Estimates

In the process of applying the accounting policies, the Board of Kempen Capital Management NV uses estimates and assumptions which can have a significant impact on the amounts recognised in the financial statements. If necessary for the insight as required under Article 362, clause 1, Book 2 of the Dutch Civil Code, we will include the nature of these judgements and estimates as well as their underlying assumptions in the Notes to the relevant financial statements items.

Intra-group relationships

Kempen & Co NV has been owned (indirectly) by Van Lanschot NV since January 2007. Kempen Capital Management NV is a wholly owned subsidiary of Kempen & Co NV. VermogensParaplu Beheer BV is a wholly owned subsidiary of Kempen Capital Management NV.

The company's financial data are fully consolidated in the financial statements of Van Lanschot NV. Operationally, the company is closely associated with Kempen & Co NV. Consequently, virtually all expenses disclosed in the profit and loss account represent amounts charged on by Kempen & Co NV.

On 27 September 2018, an extraordinary general meeting of shareholders of VermogensParaplu Beheer BV agreed to dissolve this company with effect from 27 September 2018.

Consolidation

The financial data of Kempen Capital Management NV and its group companies are consolidated. A group company is a legal entity in which Kempen Capital Management NV is able to exercise decisive control, directly or indirectly, because it holds the majority of the voting rights or is able to control the financial and operational activities in some other way.

Intercompany transactions and the ensuing results and intercompany receivables and payables are eliminated in the consolidation. The accounting policies of group companies and other legal entities included in the consolidation are adjusted where necessary to bring them into line with group accounting policies.

Application of Article 2:402 of the Dutch Civil Code

As Kempen Capital Management NV's profit and loss account for 2018 is included in the consolidated statements, the separate company statements include a profit and loss account in abbreviated format in keeping with Article 2:402 of the Dutch Civil Code.

Related parties

Group head Kempen & Co NV qualifies as a related party of Kempen Capital Management NV, as do Van Lanschot NV, Van Lanschot Bankiers België, Kempen Capital Management UK Ltd and VermogensParaplu Beheer BV. All related-party transactions take place on market terms.

Acquisitions and disposals of group companies

The results and identifiable assets and liabilities of the acquired company are recognised in the consolidated statements from the acquisition date. The acquisition date is the date from which decisive control can be exercised in the relevant company.

The acquisition cost comprises the amount or the equivalent thereof that is agreed for the acquisition of the relevant company, plus any directly attributable costs. If the acquisition price exceeds the net fair value of the identifiable assets and liabilities, the surplus is capitalised as goodwill under intangible assets. If the acquisition price is below the net fair value of the identifiable assets and liabilities, the difference (negative goodwill) is recognised as an accrued liability.

Cash flow statement

The whole of Kempen Capital Management NV's capital is provided indirectly by Van Lanschot NV at 's-Hertogenbosch, which draws up a cash flow statement that is included in financial statements filed with the trade register in the Netherlands. The annual report is downloadable from www.vanlanschotkempen.nl. In accordance with Article 360.104 of the Dutch Accounting Standards, a cash flow statement has not been prepared for Kempen Capital Management NV.

Operating lease

The company may have lease contracts where it does not enjoy substantially most of the benefits or shoulder the costs related to ownership. Such lease contracts are classified as operating leases, with lease payments recognised in profit or loss on a straight-line basis over the lease term.

Accounting policies

General

Assets and liabilities are generally stated at cost of acquisition or manufacture. If no specific accounting policy is stated, assets and liabilities are stated at acquisition cost. The balance sheet and profit and loss account contain references to the Notes.

Intangible assets

Intangible assets with a limited useful life (such as application software, client files, contractual rights and the value of client assets and loans) are capitalised at cost of acquisition or manufacture (cost price model). Straight-line amortisation is applied to these assets over their estimated economic life. This is the case if the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount.

Property and equipment

Property and equipment used within the company is stated at acquisition cost less depreciation, calculated on the basis of the estimated economic life of the asset and taking into account any residual value. Account is taken of impairments expected to be recognised at the reporting date. If the depreciation method, estimated useful life and/or residual value changes over time, these are disclosed as changes in estimates. Decommissioned property and equipment is stated at the lower of cost price or realisable value.

Impairments

KCM considers at every reporting date whether there are indications that a fixed asset may be subject to impairment. If such indications are found, the recoverable amount of the asset is determined. If it is impossible to determine a recoverable amount for the individual asset, the recoverable amount of its cash-generating unit is determined.

Asset impairment exists if the carrying value of the asset is greater than its recoverable amount; the recoverable value is the greater of the net selling value and the value in use. An impairment loss is recognised in profit or loss and the carrying value of the asset reduced simultaneously.

If an impairment recognised in the past is found to no longer to exist or to have decreased, the higher carrying value of the asset will never be higher than if no impairment had been recognised.

For financial assets recognised at amortised cost, the impairment is measured as the difference between the asset's carrying amount and the best available estimate of future cash flows, discounted at the financial asset's original effective interest rate upon initial recognition.

The impairment loss recognised must be reversed if the reduction of the impairment is related to an objective event after amortisation, up to a maximum of the amount needed to value the asset at amortised cost at the time of the reversal if there would not have been an impairment. The reversed loss is recognised in the profit and loss account.

Receivables

On initial recognition, receivables are valued at the fair value of the consideration. After initial recognition, receivables are carried at amortised cost. If the receipt of a receivable is deferred for reason of an agreed extension of a payment term, its fair value is determined on the basis of the present value of the expected receipts and interest income is taken to the profit or loss based on the effective rate of interest. Provisions for uncollectable amounts are deducted from the carrying value of the receivable.

Cash and cash equivalents

This item comprises bank balances with a term of less than 12 months. Bank overdrafts are disclosed under amounts owed to credit institutions. Cash and cash equivalents are stated at face value.

Provisions

A provision is a commitment where there is uncertainty regarding its size or moment of liquidation. A provision is formed on the balance sheet if there is a commitment which arose in the past, if it is likely that liquidation of the provision would require an outflow of funds and if a reliable estimate can be made. Other provisions are stated at the face value of expenditure necessary to settle obligations, unless stated otherwise. Provisions are discounted only if the time value of the cash or the commitment has a material influence.

Deferred tax is recognised using the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts recognised in these statements. Deferred tax is calculated at the tax rate in force at the end of the financial year, or at rates to be applied in future years, in so far as legally imposed. Deferred tax is recognised at nominal values.

Current liabilities, accruals and deferred income

On initial recognition, current liabilities are stated at fair value. After initial recognition, they are carried at amortised cost, being the amount received plus premiums or discounts and less transaction costs. This is typically the face value.

Income and expenses

Income and expenses are attributed to the financial year to which they relate, regardless of whether they led to receipts and expenditure in that financial year. Losses and risks originating in a financial year are attributed to that financial year.

Management and consultancy fees

Fees comprise the revenues from services less discounts, if applicable, and tax levied on these revenues. These are disclosed in proportion to performance, based on the services provided until the reporting date relative to the total of services to be provided.

Other income

Other income comprises results not directly related to the provision of goods or services as part of normal – not one-off – business activities.

Staff costs

Wages, salaries and social security contributions are taken to profit or loss in keeping with employment conditions in so far as they are payable to staff or the tax authorities. Pension costs and variable remuneration for the period are charged on to the company by the group head.

Interest result

Interest income and interest expenses are recognised as they accrue using the effective interest rates of the relevant assets and liabilities. Interest expenses are stated while taking account of recognised transaction costs of loans received.

Exchange differences

Exchange differences arising upon the settlement or conversion of monetary items are recognised in the profit and loss account in the period that they arise.

Other costs

These are costs charged to the year and that are not directly attributable to the cost of goods or services.

Taxation

Tax is calculated on the result before tax in profit and loss, factoring in any available, unrecognised tax losses from previous financial years (in as much as not included in deferred tax) and tax-exempt profits plus non-deductible costs. For VAT purposes, the company forms a tax entity with Kempen & Co NV. For the purpose of corporation tax, the company forms a tax entity with Van Lanschot Kempen NV. Settlement takes place between Van Lanschot Kempen NV and the company, based on the commercial result. This worked out as a nearly full corporate tax charge in 2018.

Notes to the balance sheet and profit and loss account

BALANCE SHEET

I Intangible assets

Movements in intangible assets can be broken down as follows:

	31-12-2018	*31-12-2017*
	x €1,000	*x €1,000*
At start of year	9,200	2,500
Accumulated amortisation	910	446
Carrying amount	**8,290**	**2,054**
Movements during year		
Investments	-	6,700
Amortisation	846	463
At end of year	**7,444**	**8,290**

Intangible assets represent the fair value of the client portfolios in respect of the acquisition of fiduciary management activities in the United Kingdom and VermogensParaplu Beheer BV. In both cases, this value is determined on the basis of the present value of expected future cash flows. The client base is amortised on a straight-line basis at a rate of 14.2% and 6.7% per annum respectively.

II Tangible assets

Movements in property and equipment can be broken down as follows:

	31-12-2018	*31-12-2017*
	x €1,000	*x €1,000*
At start of year	2,517	2,322
Accumulated amortisation	2,170	2,072
Carrying amount	**347**	**250**
Movements during year		
Investments	31	195
Disposals	-	-
Amortisation	98	98
At end of year	**280**	**347**

2018 financial year						*x €1,000*
	Hardware	**Software**	**Alterations**	**Communications equipment**	**Inventory**	**Total**
At 1 January 2018	61	243	0	7	37	347
Investments	-		-	14	17	31
Disposals		-	-			-
Depreciation	22	60	-	5	12	98
At 31 December 2018	**39**	**183**	**0**	**16**	**42**	**280**

Cumulative						*x €1,000*
	Hardware	**Software**	**Alterations**	**Communications equipment**	**Inventory**	**Total**
Acquisition costs	364	2,021	75	26	62	2,548
Cumulative depreciation	326	1,838	75	10	20	2,268
At 31 December 2018	**39**	**183**	**-**	**16**	**42**	**280**

Depreciation is applied at the following rates:

- Hardware and software, 20% per annum;
- Inventory, 20% per annum;
- Alterations, 20% per annum;
- Communications equipment, 20% per annum.

III Receivables from related parties

This item concerns a receivable from related parties Van Lanschot NV and Kempen & Co NV with a term of less than one year. There are no relevant contract terms that could have a material effect on the amounts or the risks of future cash flows.

IV Current receivables, prepayments and accrued income

There are no relevant contract terms that could have a material effect on the amounts or the risks of future cash flows. For information about credit risk, see risk management section.

Management fees receivable

This relates to the balance of management fees receivable and discounts payable involving the same counterparties, which are settled simultaneously but had not yet been settled at 31 December 2018. Management fees receivable have a term of less than one year.

Other receivables, prepayments and accrued income

This item relates mainly to prepaid costs. All other receivables, prepayments and accrued income have a term of less than one year.

V Cash and cash equivalents

This item comprises bank balances with a term of less than 12 months, which are readily available to the organisation.

VI Equity

Equity is described in the notes to the company financial statements.

VII Provisions

Movements in other provisions can be broken down as follows:

	31-12-2018	*31-12-2017*
	x €1,000	*x €1,000*
At start of year	200	500
Additions	-	-
Withdrawals	-	-
Release	-200	-300
At end of year	**0**	**200**

Movement in the deferred tax liabilities can be broken down as follows:

	31-12-2018	*31-12-2017*
	x €1,000	*x €1,000*
At start of year	1,675	-
Additions	-	1,675
Change	-149	-
Rate change	-245	-
At end of year	**1,281**	**1,675**

Upon the acquisition of VermogensParaplu Beheer BV, a deferred tax liability of €1,675 was incurred in 2017, which is being amortised on a straight-line basis over a period of 15 years.

VIII Current liabilities, accruals and deferred income

All current liabilities, accruals and deferred income have a term of less than one year. There are no relevant contract terms that could have a material effect on the amounts or the risks of future cash flows.

Management fees payable

This item concerns management fees that had not yet been settled at 31 December 2018 and that cannot be set off against outstanding receivables.

Amounts owed to related parties

This item concerns a relationship with related parties Van Lanschot NV and Kempen & Co NV with maturities of less than one year. No interest is charged or credited on the current account balance.

Amounts owed to credit institutions

Amounts owed to credit institutions comprise negative bank balances.

Amounts owed in respect of tax and social insurance premiums

This relates to value added tax payable in respect of the fourth quarter of 2018.

Other liabilities, accruals and deferred income

The fall in Other liabilities, accruals and deferred income between 31 December 2018 and 31 December 2017 relates to settlement of items payable related to VermogensParaplu Beheer BV.

IX Management fees

Management fees increased by 7% in 2018 compared with 2017 and can be broken down as follows:

	2018	2017
	x €1,000	x €1,000
Management fees	84,535	78,272
Service fee income	14,495	12,973
Service fee expenses	-5,545	-4,637
Performance fees	458	512
Total management fees	**93,943**	**87,120**

X Consultancy fees

Consultancy fees relate mainly to services provided by clients of Van Lanschot NV.

XI Other income

Other income mainly comprises positive market performance differences to the tune of €4,401 and positive currency provisions of €2,047.

XII Staff costs

	2018	2017
	x €1,000	x €1,000
Salaries	32,217	27,637
Pension costs	3,905	3,310
Social security contributions	2,831	2,153
Other staff costs	4,485	4,733
Total staff costs	**43,438**	**37,833**

Staff costs comprise salaries, market value allowances, expenses, travel allowances, social security costs, employer's pension costs and variable remuneration charged on by Kempen & Co NV. Variable remuneration accounted for 18% of salary costs (2017: 18%).

Pension costs allocated to the reporting period are charged on to the company by the group head based on the number of staff employed. Kempen & Co NV is responsible for the commitments ensuing from the pension scheme agreed with employees.

Average number of staff

Staff working at the company are employed by Kempen & Co NV. The average number of staff between 1 January and 31 December 2018 was 208.5 (2017: 210.1). The average number of staff working outside the Netherlands was 19.5 (2017: 19.4).

Management Board remuneration

The Management Board of Kempen Capital Management NV comprised two members in the 2018 financial year. No changes took place in the composition of the Management Board in the year under review compared with the previous financial year.

The Management Board remuneration comprises salary, market value allowances, expenses, travel allowances, social security costs, employer's pension costs and variable remuneration in so far as this relates to activities performed for KCM.

The Management Board remuneration for the 2018 financial year amounted to €1,489,672, compared with €774,041 in 2017.

XIII Other operating expenses

	2018	*2017*
	x €1,000	*x €1,000*
ICT costs	11,450	9,487
Charged-on overheads	7,704	6,488
News services	5,204	4,846
Accommodation costs	2,891	3,064
Commercial costs	2,206	2,622
Consultancy fees	3,320	2,559
Fund costs	2,611	2,541
Office costs	448	420
Administration costs	38	153
Other	-1,027	-899
Total other operating expenses	**34,845**	**31,281**

The disclosure of auditors' fees can be found at www.vanlanschotkempen.nl, in the annual report of Van Lanschot NV in 's-Hertogenbosch, the Netherlands.

XIV Taxation

Tax is calculated at a nominal rate of 25%; the effective tax rate worked out at 25% (2017: 25%).

Off-balance-sheet assets and liabilities

Off-balance-sheet assets comprise rents:

	31-12-2018	*31-12-2017*
	x €1,000	*x €1,000*
Office rental obligations		
< 1 year	465	507
≥ 1 year < 5 years	558	30
≥ 5 years	-	-
Total	**1,023**	**537**

The remaining term of the rental agreement is two years and two months (2017: one year and five months). In 2018, €627,034 in rent was recognised in the profit and loss. There is no material liability to restore the property at the end of the lease.

Events after the reporting period

No events occurred after the reporting period.

Company financial statements for 2018

Company balance sheet at 31 December 2018 (before result appropriation)

		31-12-2018	31-12-2017
		x €1,000	x €1,000
Assets			
Fixed assets			
Intangible assets		**7.444**	**8.290**
Tangible assets		**280**	**347**
Financial assets	I	**-**	**1.487**
Current assets			
Receivables from related parties		**29.047**	**28.397**
Current receivables, prepayments and accrued income			
Management fees receivable		14.383	19.086
Other receivables, prepayments and accrued income		1.912	555
		16.295	**19.641**
Cash and cash equivalents		**3.473**	**1.170**
		56.538	**59.332**
Liabilities			
Equity	VI		
Paid-up and called-up share capital		92	92
Premium reserve		6.700	6.700
Other reserves		19.557	18.425
Undistributed profit		11.743	13.132
		38.092	**38.349**
Provisions			
Deferred tax liabilities		1.281	1.675
Other provisions		-	200
		1.281	**1.875**
Current liabilities, accruals and deferred income			
Management fees payable		2.993	2.633
Amounts owed to related parties		11.019	13.172
Amounts owed in respect of tax and social insurance premiums		843	651
Other liabilities, accruals and deferred income		2.310	2.652
		17.165	**19.108**
		56.538	**59.332**

Company profit and loss account for 2018

		2018	2017
		x €1,000	*x €1,000*
Result from participating interests	I	-81	256
Company result after tax		11,824	12,876
Result after tax		***11,743***	***13,132***

Notes to the company balance sheet and profit and loss account

Basis of preparation

General

The company financial statements have been prepared in accordance with the legal requirements as set out in Part 9, Book 2 of the Dutch Civil Code and the authoritative statements in the financial reporting guidelines issued by the Dutch Accounting Standards Board.

The accounting principles are the same for both the company financial statements and the consolidated financial statements. Investments in group companies are recognised at net asset value. For the accounting principles, please refer to the Notes to the consolidated balance sheet.

Participating interests

Participating interests in which the company is able to exercise a material influence are stated using the net asset value method. If able to exercise 20% or more of the voting rights, the company is assumed to have material influence.

The net asset value is calculated in keeping with the accounting principles governing these financial statements; for participating interests unable to provide sufficient information to align with these principles, use will be made of the accounting principles for this participating interest.

Initial measurement of purchased participating interests is based on the fair value of the identifiable assets and liabilities at the time of purchase. Subsequent measurement will apply the accounting principles informing these statements, drawing on the values at initial recognition.

Notes to individual items in the company financial statements

I Financial assets

Participating interests include the following company:

- VermogensParaplu Beheer BV, Amsterdam, in which 100% of paid-up capital is held.

Movements in financial assets break down as follows:

	31-12-2018	***31-12-2017***
	x €1,000	*x €1,000*
At start of year	*1,487*	-
Purchased participating interests	-	1,232
Dividend payment	-256	-
Liquidation of participating interest	-1,151	-
Result from participating interests	-81	256
At end of year	**-**	**1,487**

On 27 September 2018, an extraordinary general meeting of shareholders of VermogensParaplu Beheer BV agreed to dissolve this company with effect from 27 September 2018.

VI Equity

Paid-up and called-up share capital

The authorised share capital amounts to €454,000 and is divided into 1,000 shares each having a nominal value of €454. Of this total, 202 shares have been issued and fully paid up.

Premium reserve

The premium reserve did not change in 2018. The premium reserve is freely distributable.

Other reserves

Movements in reserves can be broken down as follows:

	31-12-2018	***31-12-2017***
	x €1,000	*x €1,000*
At start of year	18,425	16,178
Profit distribution (undistributed profit previous year)	13,132	9,747
Dividend payments	-12,000	-7,500
At end of year	**19,557**	**18,425**

Undistributed profit

	31-12-2018	***31-12-2017***
	x €1,000	*x €1,000*
At start of year	13,132	9,747
Dividend payment	-12,000	-7,500
Addition to Other reserves	-1,132	-2,247
Result for the financial year	11,739	13,132
At end of year	**11,739**	**13,132**

The undistributed profit for the current financial year amounts to €11,738,680. The Management Board is proposing to distribute a dividend to an amount of €10,000,000, equivalent to €49,504.95 per share. The difference between the result after tax of €11,738,680 and the dividend to be distributed, amounting to €1,738,680, will be added to Other reserves. The annual report does not yet reflect this proposal.

Differences in equity and result between company and consolidated annual accounts

The difference between the reported equity in the company balance sheet and that in the consolidated balance sheet is due to the fact that a participating interest was included in the consolidation at a negative net asset value, while in the company balance sheet it was valued at nil. No liability or other guarantee was issued by Kempen Capital Management NV on behalf of this company.

Equity in the company balance sheet exceeds the amount in the consolidated figures by €5,000. This reflects the fact that the company accounts recognised a result on participating interests of €-/- 81,000, equal to the equity recognised for the participating interest at 31 December 2018, while the result on the participating interest was €-/- 86,000, which figure is recognised in the consolidated annual accounts.

Amsterdam, 8 March 2019

The Management Board,

L.M.T. Boeren H.Th. Luttenberg

Other information

Profit appropriation

Pursuant to Article 31, paragraph 1 of the company's Articles of Association, the profit is at the free disposal of the General Meeting of Shareholders in so far as the reserves are adequate for this purpose.

Independent Auditors' report

The auditors' report may be found on page 34.

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