Annual Responsible Investment Report 2018

Kempen

ASSET MANAGEMENT MAY 2019

About Kempen

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

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

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

We manage a total of €59 billion in assets[1], of which €15.4 billion is in Investment strategies and €43.6 billion in Solutions.

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

[1] As of end December 2018.

"Sustainability is no longer about doing less harm. It's about doing more good"

Narina Mnatsakanian
Director Impact and Responsible Investment

Foreword

It has been over twelve months since I joined Kempen, and it's been a pleasure to work in an organisation focused on delivering stellar services to our clients. Our mission is to be long-term stewards, enabling our clients to preserve and create sustainable wealth with real economic returns and with positive environmental and social impacts.

It has been a year of progress on responsible investment, both for Kempen and our clients, and for many of the companies and funds where we seek to catalyse positive change.

ESG BEGINS AT HOME

Inside our own organisation, we further embedded environmental, social and governance factors into all our investment processes, launched a new policy framework to govern sector exclusions, and implemented an ESG scoring and monitoring framework for investment funds. We also linked ESG integration and active ownership to the key performance indicators of our portfolio managers.

Further afield, we conducted 91 direct engagements and 208 collaborative engagements with leading global companies. Our engagement efforts were focused on material issues such as climate change, corporate lobbying, human rights, elimination of controversial working conditions in supply chains and the payment of living wages.

ENGAGED CLIENTS, ENGAGED COMPANIES

We also saw positive change via the solutions we provided to clients. From local pension funds to global asset managers, many of our clients and external managers improved their responsible investment approaches through new policies or new mandates. We help clients shift capital by creating sustainable investment solutions. For example, we worked with Legal & General to provide seed capital for funds that track the JPMorgan emerging market debt ESG indices for our clients.

Many of our responsible investment activities are geared to aligning capital markets with the transition to a low carbon economy.

Throughout the year, we engaged with several high-emitting firms in sectors such as oil and gas, mining and utilities to encourage them to align their business strategy with the goals of the Paris Agreement. This included taking an active role in the investor coalition that resulted in Shell's December 2018 commitment to set rolling 3-5 year targets towards halving its net carbon footprint by 2050 and Glencore's commitment in 2019 to limit coal production and align the business with Paris climate targets.

To an increasing extent, our clients want to make a commitment to objectives that go beyond purely financial objectives. Our Global Impact Pool is helping to change lives on the ground, supporting businesses which, for example, offer access to good quality healthcare and financial products for underserved consumers. Our Sustainable Value Creation funds invest in companies that aim to benefit diverse stakeholders and create shared value.
Taking a step back, we have continued to influence the wider progress of responsible investment and offered thought leadership through initiatives such as the Dutch corporate

governance body Eumedion, where our CIO Lars Dijkstra has joined the board, and I have joined the board of FCLTGlobal (Focusing Capital on the Long Term), which thinks broadly about how to encourage more long-term behaviour in business and investment decision-making.

WE KEEP ON INNOVATING

There is still a lot of work to be done and sustainability was chosen as one of the four top priorities for Kempen in 2019 in order to keep on innovating and maintaining momentum on this topic. We will continue to embed ESG criteria into all facets of our business such as integrating climate scenario analysis and sustainable development goals (SDGs) into our investment processes, and fine-tuning our external manager scoring.

I look forward to the next steps, to continue to help our clients and their beneficiaries to create sustainable wealth with real world returns.

Leni Boeren
CEO

> **"Our mission is to be long-term stewards, enabling our clients to preserve and create sustainable wealth with real economic returns and with positive environmental and social impact"**

Leni Boeren
CEO Kempen

ABOUT THIS REPORT

This report summarises Kempen's responsible investment activities for 2018. We consider ESG issues in our investment processes because we believe that well-run companies which care about the environment, their employees and other stakeholders are likely to be profitable and generate returns in the long run.
In this report we put a spotlight on our engagement activities especially this year highlighting our approach, results and engagement case studies. Furthermore, you will find an overview of our approach to ESG integration, including our portfolio carbon footprint, a summary of our voting activities and an overview of excluded companies.

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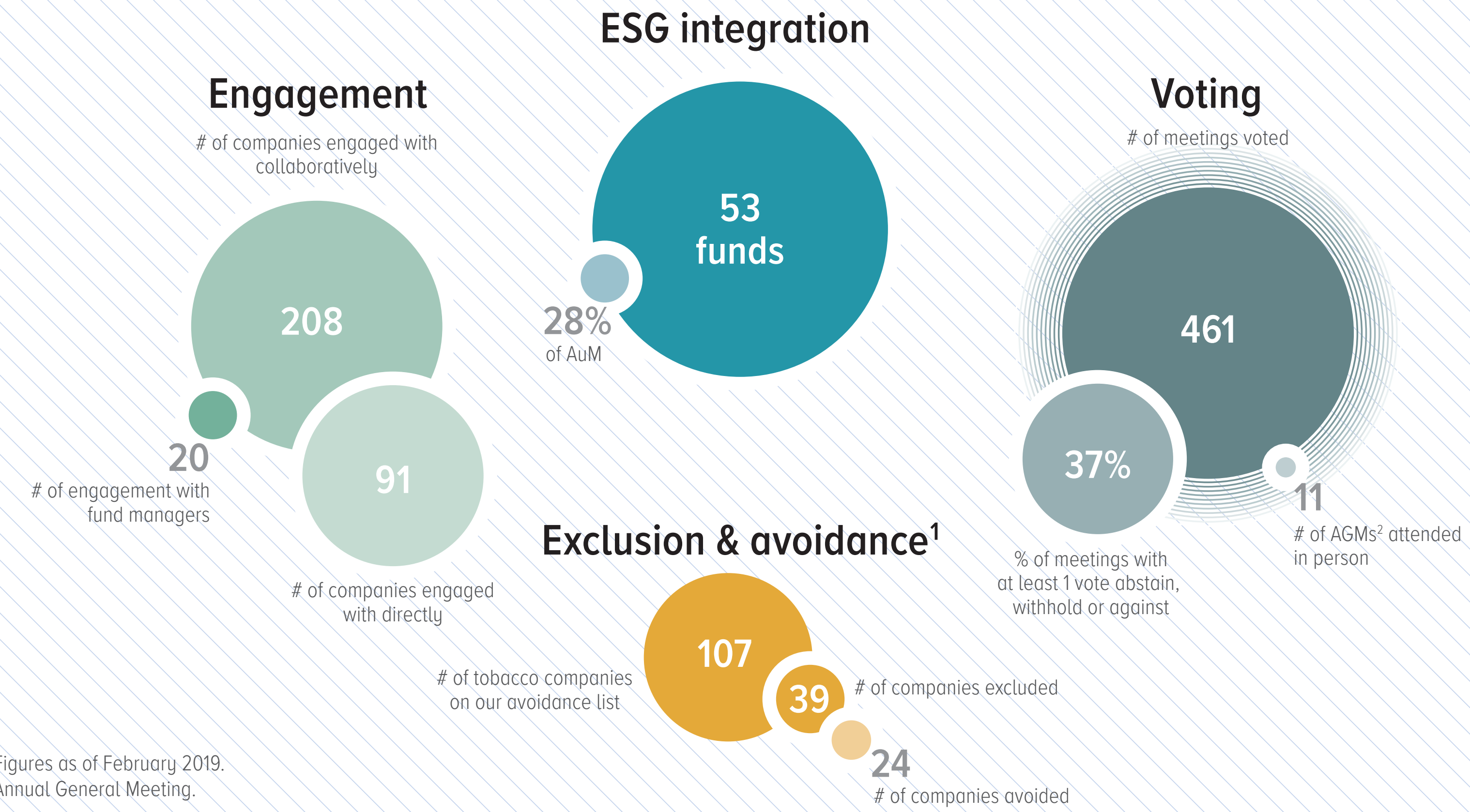
Appendices

Responsible investment dashboard

The figure below highlights Kempen's ESG integration, exclusion & avoidance, engagement and voting activities over the last year.
In 2018, we further improved our ESG scoring methodology for fund managers. On the basis of this new methodology, every fund is now assigned an ESG score, ranging from 1 (inadequate) to 5 (leading). At the end of 2018, we scored 53 funds, covering 28% of Kempen's assets under management (AuM) and 19% on Van Lanschot Kempen group level. Their ESG scores range between 2 and 4.5. The distribution of the 53 funds' ESG scores are: 11% embryonic; 53% sufficient; 34% maturing and 2% leading. In 2019, we will extend this scoring methodology to more funds. We engage with fund managers who do not meet our minimum requirements to seek improvement.

FIGURE 1 RESPONSIBLE INVESTMENT DASHBOARD FIGURES PER END 2018

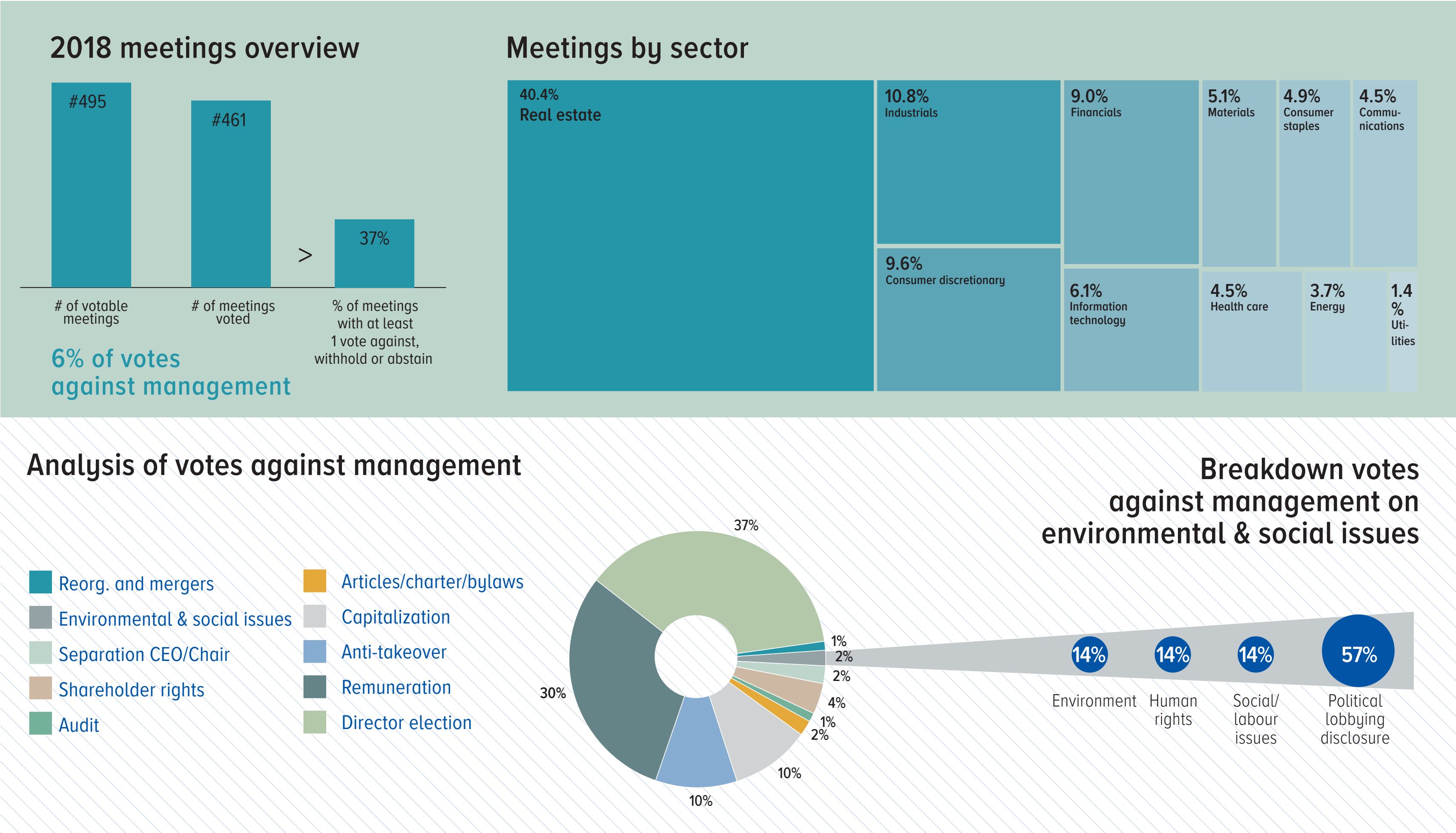


[1] Figures as of February 2019.
[2] Annual General Meeting.

Summary of our voting activities

Throughout 2018 we voted at 461 distinct company meetings, where 6% of votes cast were against management. We make use of ISS as voting platform and votes are based on our voting policy. See our website for the voting records.

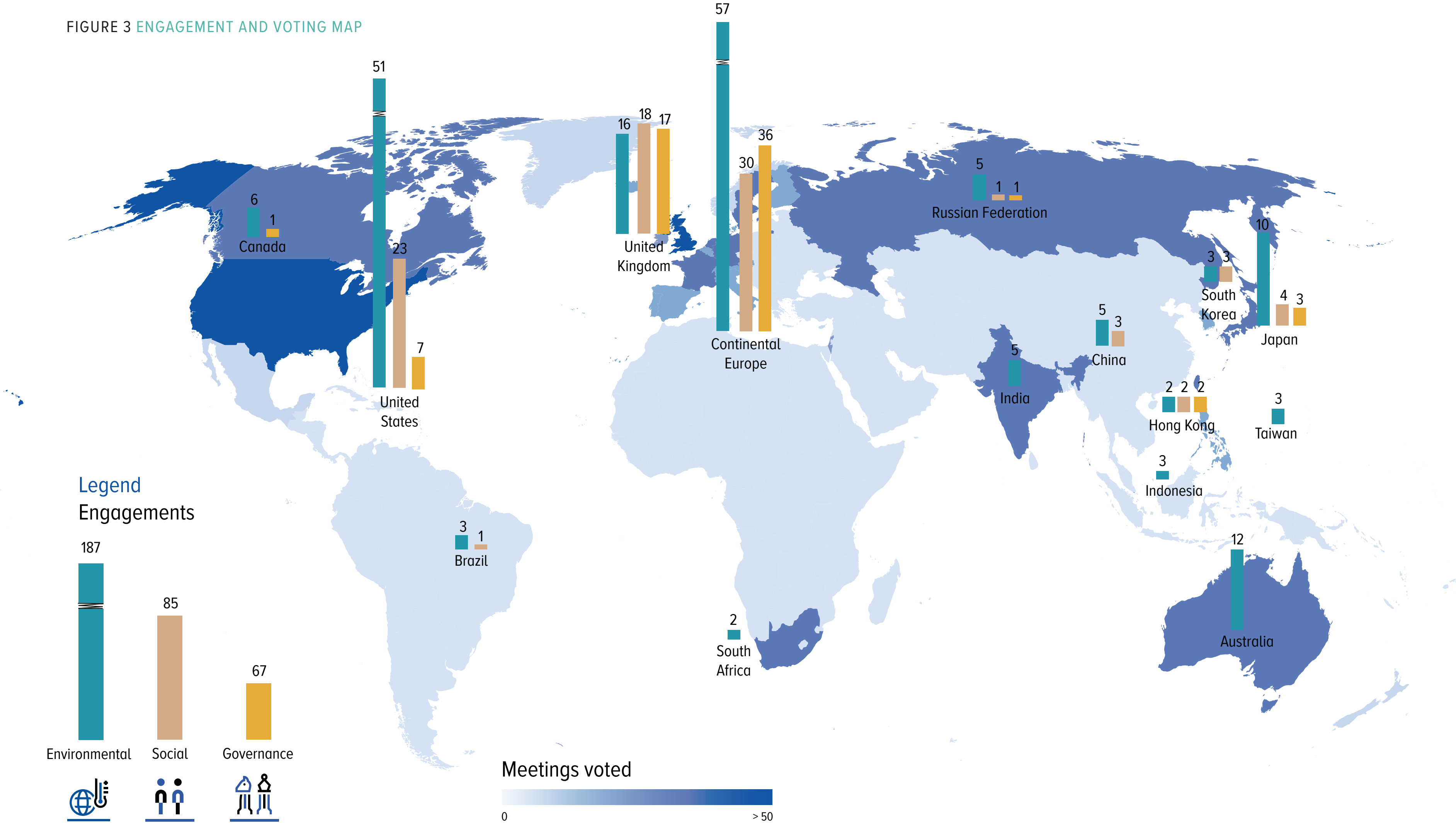
FIGURE 2 VOTING STATISTICS



Engagement and voting map

In 2018, we engaged with 299 companies on ESG themes. Of these engagements, 208 were collaborative engagements and 91 were direct engagements by our portfolio managers and responsible investment team. We engaged collaboratively and directly on several themes: environmental (55%); social (25%) and governance (20%) of the engagements. In some cases we engaged on multiple issues with one company.

FIGURE 3 ENGAGEMENT AND VOTING MAP



Our engagement approach and results

Engagement for awareness

These Kempen engagements aim to raise awareness about a certain issue among our investee companies or to get more information on a particular company.

Engagement for change

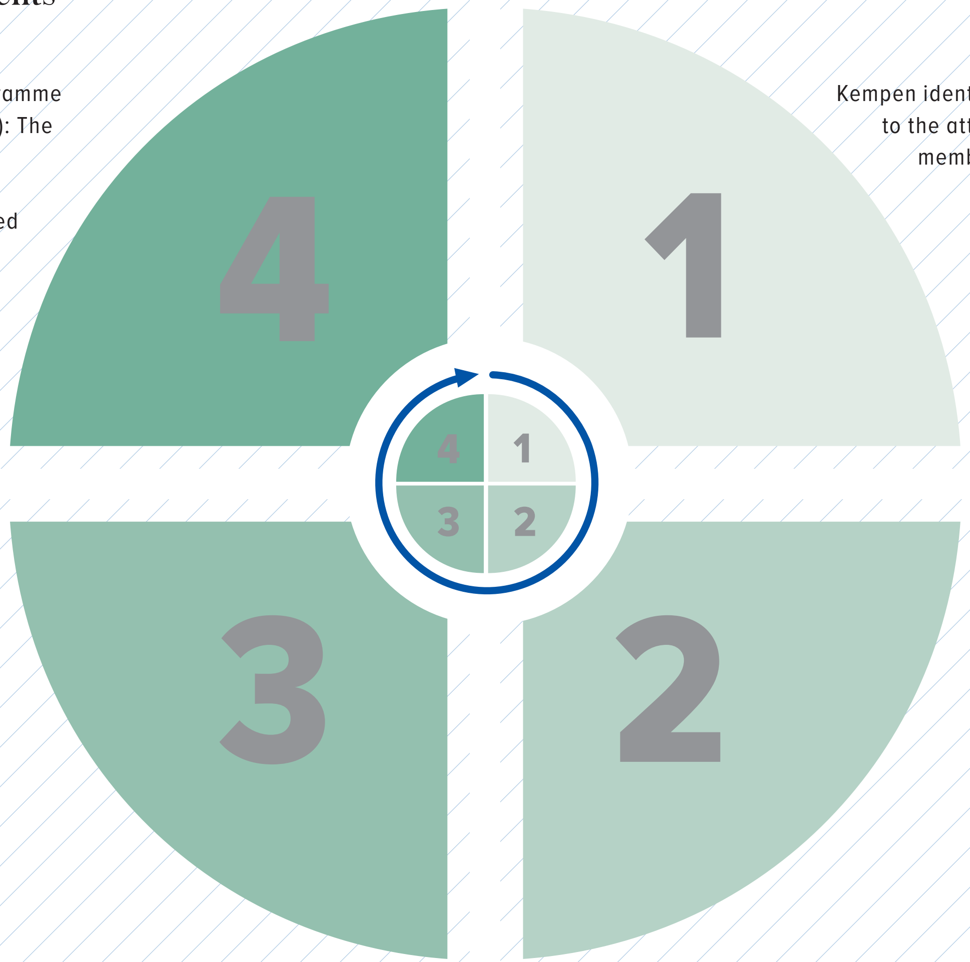
For these engagements concrete objectives with specific timelines are set in advance specifying what we would like to achieve. Progress of these engagements is measured via milestones achieved (see figure 4).

Public policy and collaborative engagements

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

Milestone methodology

FIGURE 4 OVERVIEW OF KEMPEN'S MILESTONE METHODOLOGY



1 Raise concern

Kempen identifies the issues and brings it to the attention of the relevant board members or management team of a company.

2 Company acknowledgment

The company acknowledges the importance of the issue raised to the company or its stakeholders and commits to resolving the issue.

3 Company has a policy to deal with the issue

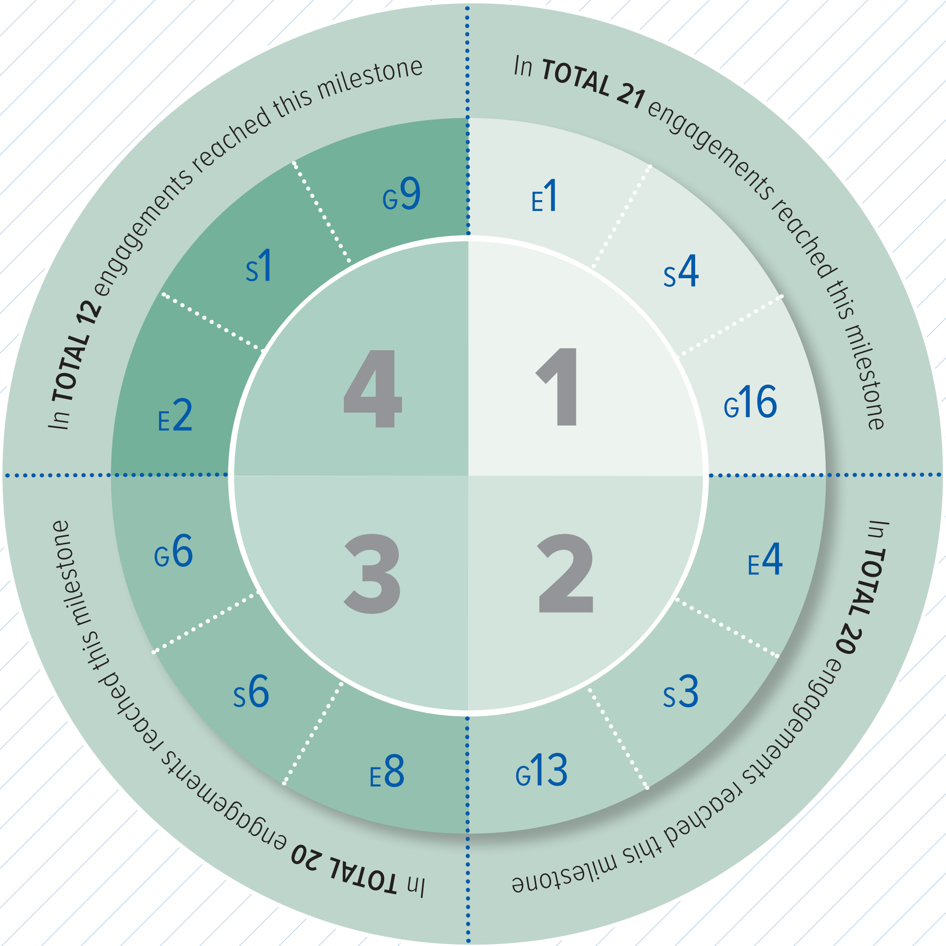
Company policy: Company has developed or improved its policy to deal with the specific issue.

4 Company implements programme

Company implements programme (closing of the engagement): The company can provide clear evidence that the policy or strategy is fully implemented and that there is clear accountability from the top.

Engagement milestones overview

FIGURE 5 SUMMARY OF ALL ENGAGEMENTS FOR CHANGE PER MILESTONE PER END 2018



The figure shows milestones overview and highlights the state of our engagements for change with companies at the end of 2018. The number of engagements with milestones 1 to 3 are almost evenly distributed, while somewhat less engagements (12) reached the final milestone at the end of 2018. Most engagements 'that reached final milestone' were related to governance topics, as can be seen in the milestones. More than half of all engagement milestones (c. 60%) were related to governance themes.

E Environmental
S Social
G Governance

Our engagement progress

Kempen has been focused on stewardship and engaged with the companies it invests in ever since the launch of our Dutch small-cap fund, over 25 years ago. We have been intensifying our engagement efforts ever since and built on the knowledge and experiences gained. Through our engagements, we seek to encourage positive change at companies. We engage on a broad range of strategic, financial, corporate governance, environmental and social aspects in order to:

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

We divide the dialogues with companies into 'engagements for change' and 'engagements for awareness'. In 2018, we engaged with 70 companies on engagements for change and with 21 companies on engagement for awareness on ESG issues. In the figure on page 15 the results of our engagements for change with companies can be found.

FIGURE 6

% OF MILESTONE CHANGES ACHIEVED FOR ENGAGEMENTS FOR CHANGE DURING THE FULL YEAR 2018

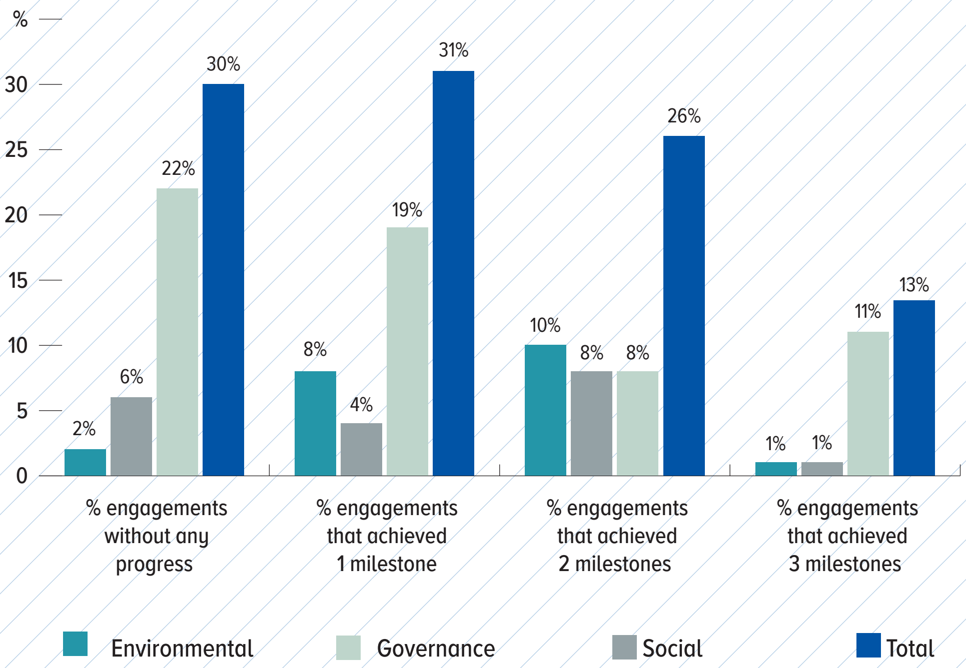


Figure 6 on this page shows the progress booked in terms of the percentage milestones achieved via our engagements for change with companies during the full year 2018.
Four out of ten engagements progressed with 3 or 4 milestones at the end of the year, indicating progress made.

With the help of our engagement some companies have strengthened their policies and oversight of ESG issues.

For more information please see the engagement cases on the following pages.

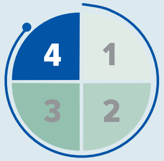
Engagement cases

ENGAGEMENT FACTSHEET

Shell

DEVELOPMENT

MILESTONE



SDG

ENGAGEMENT RATIONALE

As a global energy and petrochemical company, Shell is one of the largest global greenhouse gas (GHG) emitters in the capital markets, and thus its carbon emissions reduction plans are important for Kempen.

BACKGROUND

We started our engagement with Shell in 2016, focusing specifically on GHG emissions and asking for an emissions reduction plan which is aligned with the Paris 2° scenario. In 2017, Kempen was one of the few shareholders who voted FOR the resolution proposed by organisation Follow This, to include indirect (scope 3) emissions. i.e. those caused by the usage of its products (such as the petrol in cars), in its calculation of quantitative GHG reduction targets. These indirect emissions are very material as they account for over 80% of Shell’s total emissions.

THEME FOR ENGAGEMENT

- Climate change strategy

E	S	G

ENGAGEMENT OBJECTIVES

- To engage, both individually and collectively through Eumedion and Climate Action 100+, to encourage the company to align its business model with the 2 °C scenario, including setting clear emission targets linked to remuneration.
- We have also engaged with the company to improve its net carbon footprint calculation methodology, and to encourage it to report in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

ENGAGEMENT RESULTS

- During 2017 Shell published a new ambition to cut the net carbon footprint (NCF) of its energy products by around half by 2050, with an interim step of a 20% reduction by 2035.
- Shell also committed to developing its New Energies business by investing up to €2 billion annually.
- The company will undertake a review and report every five years to ensure it is aligned with the Paris Agreement’s processes. Shell was the first international oil and gas company to set an NCF ambition for its Scope 3 emissions too, i.e. for the energy products it sells. We felt that this was a very positive development, however we still pushed for clearer targets to be set for these reductions.
- In December 2018, Shell responded to this by announcing a plan to set rolling short-term targets as part of its long-term reduction targets, and to link these to executive remuneration.
- All the progress will be published in the Sustainability Report and the intention is to integrate this disclosure in the Annual Report in accordance with TCFD recommendations. The announcement was released jointly with the Climate Action 100+ initiative, that Kempen is an active member of.
- We think all these developments are clear progress towards our objectives, and have moved the engagement up further to milestone 4.

NEXT STEPS

Although our engagement with Shell has reached its final stage (milestone 4), we will keep monitoring to check whether the intermediate targets to reduce the NCF will be achieved.

- In the short term, considering that the link to remuneration and new targets are subject to shareholder approval at the Annual General Meeting, we will continue to monitor the developments.

COMPANY

Royal Dutch Shell plc (Shell) is a public limited company, registered in the UK and headquartered in the Netherlands. It operates as a vertically integrated player in the oil and gas industry.

COUNTRY

United Kingdom/Netherlands

SECTOR

Oil and gas

MARKET CAP

Large cap

ISSUE

Shell is a major energy company, with a leading position in the oil and gas sector (it is one of the six world 'supermajors'). As such, Shell is one of the largest global greenhouse gas emitters and contributes significantly to man-made global warming.

MATERIALITY

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

RISK

- Physical risk of stranded assets;
- Transitional risk for example from new regulatory frameworks.

MSCI ESG RESEARCH

UN Global Compact: Fail

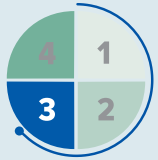
ESG Rating: BBB

ENGAGEMENT FACTSHEET

Severstal

DEVELOPMENT

MILESTONE



SDG

ENGAGEMENT RATIONALE

Severstal is an integrated player in steel, a sector with one of the highest contributions to man-made greenhouse gas emissions. According to the International Energy Agency (IEA) the iron and steel industry accounts for approximately 6.7% of global CO_2 emissions.

BACKGROUND

The steel sector is highly carbon intensive, and the goal of this engagement is to:

a raise awareness within the company of climate change challenges;
b improve the company's reporting of climate-related risks;
c encourage the company to set long-term carbon reduction targets; and
d encourage the company to mitigate climate risks in line with the guidelines set by the Taskforce on Climate-related Financial Disclosures.

THEME FOR ENGAGEMENT

- Climate change strategy

E | S | G

ENGAGEMENT OBJECTIVES

- An important goal for this engagement is that of climate transparency. The company needs to report on its direct emissions (scope 1 and 2), and potentially those it is indirectly responsible for (scope 3).
- It should also report to Carbon Disclosure Project (CDP), and disclose its overall climate change risks and mitigation plans in the annual report.

ENGAGEMENT RESULTS

Kempen started the engagement process with Severstal in the winter of 2016. In 2018 we had five contacts with the company. Severstal increased communication with investors on ESG, following recommendations of the investor community, including Kempen, and made efforts on the following topics.

- Severstal now reports on ESG factors in every half-year presentation and the management spends time during investment calls explaining ESG metrics (health and safety and environmental).
- Severstal hired an ESG-dedicated specialist for the team, following calls with Kempen.
- The company as in 2018, for the first time, reported to CDP on its carbon footprint.
- Severstal commenced implementation of scope 1 and 2 reporting in its annual sustainability report.
- In December 2018 Severstal launched a new section on their website, which contains information about the company's efforts on ESG, including long-term objectives, relevant policies, highlights and achievements.

We engaged with the company both directly, via the Kempen High Dividend Fund, and also as a lead investor for the company for both the Institutional Investors Group on Climate Change (IIGCC) and the Climate Action 100+ initiative.

NEXT STEPS

The next steps in regard to the engagement with Severstal are:

- Assess the new sustainability report and its carbon footprint reporting.
- Share feedback with the company.
- Discuss potential targets and KPIs for the management in regard to environmental performance.
- Encourage the company to report in line with TCFD guidelines.

COMPANY
Headquartered in Cherepovets, Severstal is a Russian integrated steel and steel-related mining company

COUNTRY
Russia

SECTOR
Steel Industry

MARKET CAP
Large Cap

ISSUE
The company is active in a very carbon-intensive sector and had no policies nor disclosure on the subject. It also had no oversight within the board or management of climate risks.

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

COMPANY INVOLVEMENT
The company operates in one of the most carbon-intensive sectors in the world.

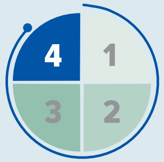
MSCI ESG RESEARCH
UN Global Compact: Pass
ESG Rating: CCC

ENGAGEMENT FACTSHEET

Glencore

DEVELOPMENT

MILESTONE



SDG

ENGAGEMENT RATIONALE

As one of the world’s largest diversified resource companies, and one of the major coal producers Glencore has a key role to play in bringing its business in line with the Paris Agreement and enabling the transition to a low carbon economy.

BACKGROUND

In 2018 Kempen became co-lead investor on Glencore on behalf of the Carbon Action 100+ engagement. We spoke with the company on its approach to climate change.

THEME FOR ENGAGEMENT

- Climate change strategy

E	S	G

ENGAGEMENT OBJECTIVES

- Business model and future investment alignment with Paris Agreement.
- For the company to set ambitious emissions reduction targets for scope 1, 2 and 3, and to link these targets to senior management remuneration.
- For the company to review its climate change lobbying activities, as well as those of the trade associations it belongs to.

ENGAGEMENT RESULTS

- In a first for the mining industry, in February 2019, Glencore agreed to align its business and investments with the goals of the Paris Agreement, which are to limit warming to well below 2 °C and to achieve net zero emissions in the second half of the century. Importantly, Glencore has undertaken not to grow its coal production capacity, made commitments to set long-term targets to reduce Scope 1 and 2 emissions from 2020 and ensure its membership in relevant trade associations is consistent with its commitment to the Paris goals.
- Glencore has announced its plans in a statement developed after engagement by institutional investors participating in Climate Action 100+, an initiative led by investors with more than US$32 trillion in assets under management. Kempen was co-lead in this engagement together with the Church of England.
- This is an important step and we will continue our dialogue to encourage the company to include indirect emissions (scope 3) in their emissions reduction target.

NEXT STEPS

- Continue our engagement through the Climate Action 100+ initiative to work with the company on the implementation of the agreed commitment, specific target setting and ensure the methodology for determining the company's alignment with Paris is robust.

COMPANY

Glencore plc is an Anglo-Swiss multinational commodity trading and mining company. It has operations in metals and minerals, energy products, and agricultural products.

COUNTRY

United Kingdom & Switzerland

SECTOR

Materials

MARKET CAP

Large cap

ISSUE

Glencore's business lines include coal, oil, copper, zinc, and grains. Through its operations in over 50 countries, including the Democratic Republic of Congo, Zambia, Russia, and Peru, it is exposed to issues including bribery and corruption, environmental issues, and allegations of human rights violations.

MATERIALITY

The issues addressed in this engagement are material. The severity of the controversies is reflected in the very low UN Global Compact assessment (Watch List).

MSCI ESG RESEARCH

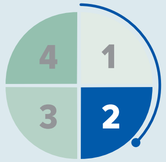
UN Global Compact: Watch List
ESG Rating: BB

ENGAGEMENT FACTSHEET

Abercrombie & Fitch

DEVELOPMENT

MILESTONE



SDG

ENGAGEMENT RATIONALE

Abercrombie & Fitch (A&F) is an American apparel retailer and operates approximately 900 stores across three brands. A&F in our view lags behind its peers when it comes to transparency related to its supply chain management policies. This potentially exposes the company to reputational risks.

BACKGROUND

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

THEME FOR ENGAGEMENT

- Human & labour rights and disclosure
- More recently cotton sourcing

E S G

ENGAGEMENT OBJECTIVES

- For A&F to disclose information about its sustainability activities on the company website, including its ESG policies and targets, as well as performance against these targets.
- For A&F to move from an 'embryonic approach' to a 'developing approach' when we next come to score the company using the Platform Living Wage Financials (PLWF) methodology in 2019. We asked the company to develop and publish a policy on the topic of living wage.
- We would like to see a more comprehensive policy on cotton sourcing, for example if A&F plans to use organic cotton in the future and to what extent.

ENGAGEMENT RESULTS

- A&F launched a new sustainability website, and significantly increased levels of transparency and disclosure around its approach to sustainability. This is encouraging, but there remains limited information on suppliers. Additionally the data are only updated until 2015 (audit findings data). Therefore, the disclosure is not sufficient to progress to the next milestone. We have asked the company to provide additional information about its supply chain management and to add the most recent data.
- We also require more disclosure about how many issues have been identified and remediated and the governance in place to deal with particular issues. We requested A&F to provide more transparency about what happens if there are specific cases found and how they are remediated.
- In Q3, Kempen's analysis revealed that A&F does not have a formal living wage policy. We started a discussion on this topic.
- We have been able to build a constructive dialogue with A&F's C-Level management. We are encouraged to see that sustainability topics are getting significant attention from A&F's top management. We are confident more results will be booked in the coming quarters.
- In addition to sustainability issues, we would like A&F to focus more on the strength of its balance sheet and cash flows. A topic that management have been receptive to discussing further.

NEXT STEPS

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

COMPANY

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

COUNTRY

USA

SECTOR

Consumer discretionary

MARKET CAP

Small cap

ISSUE

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

MATERIALITY

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

MSCI ESG RESEARCH

UN Global Compact: Pass

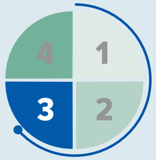
ESG Rating: CCC

ENGAGEMENT FACTSHEET

CEZ

DEVELOPMENT

MILESTONE



SDG

ENGAGEMENT RATIONALE

CEZ is an electric utility company that also carries out some mining activities. It uses coal for a significant proportion of its energy. As long-term investors, we are interested in the sustainable value and performance of CEZ, and we would like to have a better understanding of how CEZ manages the risks and opportunities of climate change.

BACKGROUND

Coal is one of the most carbon-inefficient sources of energy (almost twice as inefficient as natural gas), and is increasingly unattractive to investors. According to our data, 50% of CEZ'sinstalled capacity relies on coal, and 43% of its revenue is generated from coal-fuelled power. CEZ also runs some coal-related mining activities in the Czech Republic, where the particular type of mined coal is lignite – the lowest rank of coal and one of the most environmentally unfriendly ways to generate energy.

THEME FOR ENGAGEMENT

- Climate change strategy

E	S	G

ENGAGEMENT OBJECTIVE

- For CEZ to establish policies and targets to reduce the percentage of coal/lignite coal in its energy mix, and/or reduce the overall carbon intensity of energy produced by June 2020.

ENGAGEMENT RESULTS

- In 2018 we engaged CEZ to discuss its governance of climate change and the actions the company has taken so far to address it. The company stated that the board and CEO are responsible for the climate change strategy, while the Head of Generation is responsible for planning the shut down of plants. CEZ is committed to no further coal-related capital expenditure, and is willing to make this public.
- The refurbished plants will be completely phased out in 30-40 years' time (by around 2050), with emission reductions mostly coming from these shutdowns.
- The company has not yet set any mid-term goals. We have stressed that these are important to us, and CEZ has said it will publish these targets in its next reporting cycle.
- CEZ says it will publish its scope 2 emissions in the current year. scope 1 emissions cover all countries where CEZ operates, whilescope 2 covers the Czech Republic, Bulgaria, and Romania, where CEZ has distribution businesses. CEZ did not disclose data to CDP in 2017, but has promised to submit its disclosure in the coming year.

NEXT STEPS

- Follow up on the mid- and long-term targets and commitments of CEZ.
- Follow up with investors taking part in the Climate Action 100+ initiative.
- Follow up on CEZ's commitment to respond to the CDP.

COMPANY

CEZ is an international utility company with a strong position in Central and Eastern Europe, and a growing presence in Western Europe. The Czech Republic is the most important market for CEZ, where the company is vertically integrated.

COUNTRY

Czech Republic

SECTOR

Utilities

MARKET CAP

Large cap

ISSUE

Coal is recognised as the most inefficient and polluting source of energy. As such, regulations around coal are expected to become tougher in the coming years, with coal losing value and potentially becoming a 'stranded' - or unviable - asset in future. Asset managers are therefore taking action to lower their exposure to coal, or to engage with companies on their long-term plans to reduce their exposure to this fossil fuel.

MATERIALITY

Carbon emissions are considered one of main causes of climate change. In order to meet the Paris Agreement and keep global warming below 2 ˚C, efforts must be made to reduce CO_2 emissions by switching to more eco-friendly solutions – particularly in carbon intensive sectors such as utilities, materials, and energy.

MSCI ESG RESEARCH

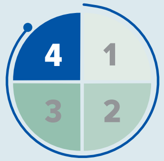
UN Global Compact: Pass
ESG Rating: A

ENGAGEMENT FACTSHEET

Kojamo Oyj

DEVELOPMENT

MILESTONE



ENGAGEMENT RATIONALE

In the event of an IPO, only two out of seven Kojamo board members would be independent. As a result, the company would not be sufficiently attractive to our investment framework. We will only be able to participate in the company's IPO if it has an independent majority on its board.

BACKGROUND

In June 2018, we communicated to Kojamo, and the lead banks involved in the IPO, that the company would need to move to a majority independent board within a set timeframe before we could agree to participate in the IPO.

THEME FOR ENGAGEMENT

- Board independence

E	S	G

ENGAGEMENT OBJECTIVES

- For Kojamo to make a public statement providing a roadmap towards a majority independent board, before Kempen can agree to participate in the IPO.
- For Kojamo to move to a majority independent board by its 2021 AGM (we acknowledge this will take time as stability of the board is also important).

ENGAGEMENT RESULTS

- The Kojamo board and the banks involved in the IPO made a public statement on 11 June 2018, indicating a wish to move to a majority independent board.
- On 12 June 2018, we spoke to the Kojamo chairman who confirmed the company's commitment to move to a majority independent board within the next two years. Consequently, we participated in the IPO and became shareholders.
- At 30 January 2019 we wrote a letter to the chairman to re-emphasize our views.
- At the 15 March 2019 AGM, two new board members were voted for moving the board independence from 29% to 57% in line with our request.

NEXT STEPS

- We will continue to monitor the situation even now that the board is majority independent. If we receive signals that Kojamo is departing from its roadmap towards greater board independence, we will step up our engagement efforts again.

COMPANY

Kojamo owns a portfolio of approximately 36,000 rental apartments in Finland, of which 66% are in the Helsinki area.

COUNTRY

Finland

SECTOR

Real estate

MARKET CAP

Mid cap

ISSUE

Independence of the board is a key factor when evaluating the Board of Directors.

MATERIALITY

A proper evaluation of the Board of Directors is an integral part of assessing the corporate governance of a company, which, in turn, has a demonstrable impact on the economic performance and long-term sustainability of a business.

MSCI ESG RESEARCH

UN Global Compact: Pass
ESG Rating: Not rated

Year in review

In 2018 we continued to extend the scope and depth of our responsible investment activities. Areas of progress included a new policy framework to govern our avoidance of certain sectors, implementation of ESG scoring of external managers and a further deepening of ESG integration across all investment teams. The latter marked perhaps the most significant development in our internal operations, ensuring that ESG factors are now visibly considered in all investment decisions.

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

Internally, we organise our responsible investment efforts across four pillars

1 ESG integration
Ensuring sustainability risks and opportunities are adequately considered in our investment analysis and processes.

2. Exclusion & avoidance
Not investing in companies involved in controversial activities or conduct.

3. Active ownership
Being responsible stewards of our clients' capital and using our influence to improve corporate behaviour on specific ESG issues.

4. Positive impact
Investing with an objective to achieve positive real world outcomes and impact, such as contributing to sustainable development goals.

ESG integration

Kempen Capital Management is an asset manager with a long-term investment approach, and with a worldview that combines thorough ESG analysis alongside an active approach to shareholder engagement. So it was an important milestone in 2018, that Kempen completed its work to fully roll out ESG integration by all investment teams. This guarantees that any company or other entity assessed by Kempen will account for ESG factors in their valuation models. For example, Kempen's High Dividend team – which selects the most attractive companies for maintaining strong capital discipline and distributing high dividends each year – integrated ESG factors into their valuation models in 2018. As a result some companies in its portfolio saw an increase in their cost of capital because of material ESG issues.

Similarly, the Credit team has made the ESG profile of a company an integral part of their fundamental analysis. Companies with a weaker ESG profile are required to offer a higher spread compared to peers with a comparable business and financial profile. In severe ESG cases, companies can be excluded from investment.

Other teams such as the Global Small-Cap team, the Sustainable Value Creation team and the Real Estate team continue to integrate ESG parameters and growth outlooks into their company scores. They require companies with lower ESG scores to command higher returns in order for them to consider an investment.

Last year was also the second year in which Kempen assessed the carbon footprint of its assets under management (see results on page 34). Our annual carbon footprint and scenario analysis is proving a useful tool across the business, especially for directing our engagement efforts towards the most carbon intensive companies and sectors of our portfolios.

Fiduciary Management and Client Solutions

Our fiduciary management and client solutions team consider ESG issues through all parts of the manager selection and monitoring process, from initial shortlisting to due diligence and post-contract monitoring. We raised the bar in this area in 2018 with the implementation of a more structural assessment of external managers' responsible investment capabilities. We judged managers on six core criteria which also provide a template for monitoring and engagement. These are:

1 manager's commitment to responsible investment,
2 ESG integration,
3 active ownership,
4 transparency and evidence,
5 tailoring and
6 positive impact.

This is the first year in which we are publishing the results of this assessment (page 8), awarding a 1-5 rating to the funds to which we allocate most significantly. The results show very clear differences between those managers who have thoroughly embedded ESG into their investment strategy and those which have not. We have already divested from one manager with a poor ESG score who showed little signs of improvement. At present, we are formalising a policy to standardise any action we take as a result of this assessment and ensure it is fully integrated into all our manager engagement activities.

Another development on the client solutions side was our work with managers Legal & General and Northern Trust. For example, we worked with Legal & General to set up new funds that track the JPMorgan emerging markets ESG indexes for our clients. Additionally we developed NT Value funds together with Northern Trust to better embed ESG requirements of our clients in a most cost effective way. These new funds enable our clients to better implement their principles and ESG policies in their investment portfolio.

“Our new framework for assessing the ESG performance of external managers has already led to divestment from one manager who scored poorly and showed little signs of improvement”

Ulrike Beyrich
Senior Portfolio Manager

Exclusion & avoidance

Kempen has historically avoided companies unwilling to improve their behaviour on key ESG issues and excluded companies involved in the production, trade and maintenance of controversial weapons.

In 2018 we took this work further and launched a new policy framework to formalise our decision-making around investing in products and services we consider having severe negative impacts on society (see the box 'sector avoidance framework').

A key outcome of this work was our decision to exclude tobacco from our internal equity and bonds portfolios. By the end of 2018, all Kempen internal funds have become 'tobacco-free'.[1] The multi-management team has engaged with external managers informing them of our decision to divest from tobacco.

Ultimately tobacco products are by definition harmful to people and there is no safe level of use. It is also harmful to people via second-hand smoke. Tobacco kills an estimated seven million people annually. It is also one of the main risk factors for a number of chronic diseases, including cancer, lung diseases, and cardiovascular diseases. This has seen not only exclusions applied to our internally managed funds, but also seen us explain our rationale to our fiduciary clients, leading to several funds, such as Pensioenfonds voor het Slagersbedrijf (the Butchers company pension fund), adding similar screening to their policies.

SECTOR AVOIDANCE FRAMEWORK

A company is excluded if its products and services receive high scores on the five criteria stated below (in consecutive order).

Decision criteria

- The product or service has to be by definition harmful to people and the environment and have a high negative impact on people and/or environment when used as intended. If the product/service is by definition harmful for people and/or environment when used as intended and has a high or very high negative impact, then the following additional criteria need to be also true to be considered for exclusion.
- The product or service is not essential and there is no harmful effect if the product was no longer there.
- There are international treaties or conventions that prohibit the use of the product or service, or aim to significantly reduce the use of it.
- Engagement with the company cannot change the situation towards the equivalent of non-harmful product/service if used as intended.
- The company is directly involved in the product or service via production/manufacturing or is significantly indirectly involved in the product or service from or via the distribution and/or sales.

1 The exclusion does not apply to mandates, bespoke investment portfolios and multi-management funds.

Active ownership

Kempen is committed to long-term responsible investment. Part of this commitment is our focus on long-term stewardship and active engagement with the companies that we own. In order to improve the impact and success rate of our engagement efforts in 2018 we published an updated voting policy and our new engagement framework. This discloses how we track the progress of each engagement towards specific milestones.

We engage with companies on a broad range of strategic, governance, financial and sustainability topics and work both directly and in a collaborative way with other like-minded investors as appropriate.

Several of Kempen's shareholder engagements are detailed in case studies throughout this report. Just a few highlights include our work to encourage more corporate reporting of carbon emissions among both companies, such as Czech utility company CEZ Group, and large multinationals such as Russian steel producer Severstal. In the case of Severstal the company for the first time disclosed its direct emissions last year. We encouraged the firm to reset emission reduction targets and link them to executive remuneration, a strategy that also proved successful in our collaborative engagement with Shell.

The oil and gas sector was a particular focus for engagement activity. We are working with several companies to encourage them to report not only on their direct emissions (scope 1 and 2), but also their scope 3 emissions, i.e. the emissions caused by their products, such as the cars that burn their petrol. These emissions are estimated to account for more than 80% of a company's carbon emissions footprint.[2]

See results of the engagement with Shell on page 18. We also collaborated with other investors to ask 55 high-emitting European companies to ensure they do not join trade associations or lobby groups working to undermine the Paris Agreement goals.

Harmful emissions are not only limited to carbon dioxide, methane was also high on our agenda in 2018. Methane is a potent greenhouse gas responsible for an estimated 25% of current global warming.[3] Methane is especially important in the Netherlands, owing to the country's large natural gas fields. In 2018, we were pleased to see a number of companies in which we invest commit to small methane reduction targets, something we feel is a good first step in the right direction towards bolder ambitions.

In addition to the environmental arena, we partnered with other investors in the Netherlands to launch the Platform Living Wage Financial. This initiative covers sectors such as the garment, food and the retail sector to ensure that all supply chain workers are paid a 'living wage', sufficient to cover workers' basic expenses, such as food, clothing, housing, health care and education.

Kempen also worked with the UN-supported Principles for Responsible Investment and others to help raise corporate standards on cyber security, taking a lead in the Dutch market. The engagement asks companies to ensure they understand and manage cyber security risks including those related to privacy.

2 http://www.lse.ac.uk/GranthamInstitute/tpi/new-research-shows-only-two-large-oil-gas-companies-have-long-term-low-carbon-ambitions/

3 https://www.edf.org/media/dutch-study-stresses-critical-opportunity-europe-cut-methane-emissions-oil-and-gas-operations

Positive impact

At Kempen our first priority is always to meet our clients' present and future needs and we are seeing an increasing number of asset owners keen to create tangible positive impact through their capital allocation.

A significant amount of our responsible investment activity in our client solutions business in 2018 focused on scaling up our Global Impact Pool, a fund co-created with clients and designed to generate positive sustainable development outcomes alongside financial returns.

This approach to investment is fast gaining traction and the fund grew from €25 million to €68 million over the course of 2018.

Our Global Impact Pool invests in companies that positively contribute to a selection of UN Sustainable Development Goals (SDGs) including:

SDG 3
Good health and wellbeing

SDG 6
Clean water and sanitation

SDG 7
Renewable energy

SDG 8
Decent work

SDG 12
Sustainable production and consumption

In 2018, we made our first five investments. These included a renewable energy manager, an emerging markets investor focused on purpose-driven businesses in Africa and Asia, and a European private equity manager that finances biological foods.

As a basis for impact measurement for the Global Impact Pool, we are using the framework we co-developed with other Dutch institutions as part of the Dutch Central Bank SDG working group. We are also in the process of developing a framework for impact measurement and reporting across our listed equity business, although a lack of impact data makes this a challenging undertaking.

Meeting the challenges ahead

One of the big challenges continues to be the provision of adequate data on ESG factors and on wider impact and contribution to SDGs. We will continue to reach out to ESG research providers and use our in-house expertise to gain consistent data on environmental and social performance for all our global equities, credits, alternatives and other investments. In the area of impact in particular we have found there is not yet any provider with the data quality we require for our clients.

Another exciting project for 2019 is our work to integrate climate scenario planning into our fund management process. This involves analysing the likely impact of a range of different possible future climatic conditions on our portfolio. At present, we are working to pilot this approach on a small selection of funds. As the data available to do this improves we expect to be able to expand this across the business.

Investing in the Goodlife

During the first quarter of 2018, our Global Impact Pool made an investment in the Emerging Consumer Fund III from LeapFrog. It has the explicit aim of investing in companies that serve large numbers of underserved and financially excluded people, in addition to achieving market rate financial return. One of the holdings in the fund is Goodlife Pharmacy, a chain of chemists in Kenya which offers access to good quality medicines and healthcare.

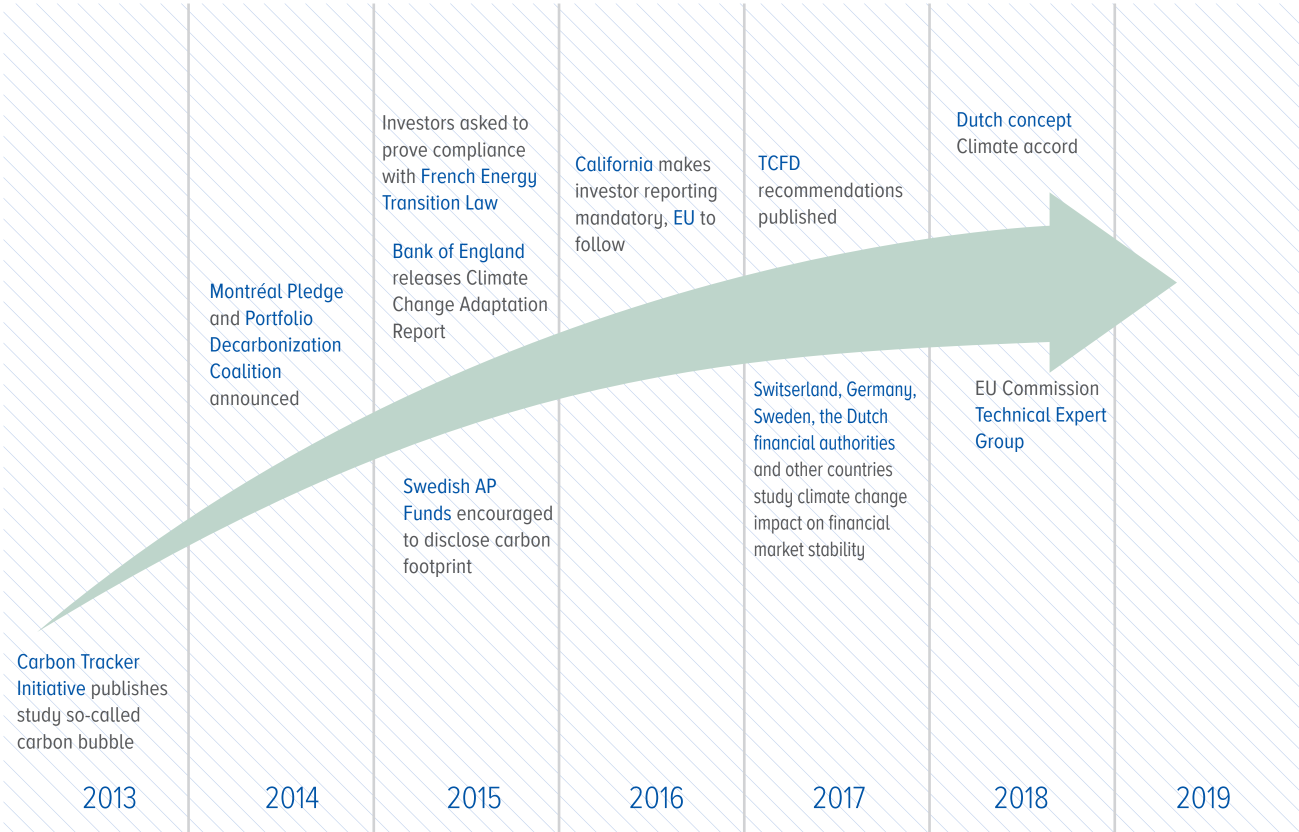
Due to a scarcity of essential medicines in Kenya, high prices can be applied to pharmaceutical products, leading to 1 in 3 drugs being counterfeit and 60% of Kenyans self-medicating. Goodlife addresses this massive impact opportunity by providing high-quality, affordable drugs, backed by a well-known and trusted brand.

Fifty pharmacies can be found in shopping malls and gas stations placing health services at the heart of communities. It is tapping a high-growth market, with Kenya's pharmacy sector set to rise from US$725m to US$1.3bn by 2020. In 2018, Goodlife provided affordable healthcare to more than 470,000 customers and supported 280 jobs which represents more than 10% increase from the year before.

Kempen's carbon footprint

We have measured the carbon intensity of our own funds for four years. In 2017 and again in 2018, we went a step further, and we have assessed the carbon footprint of our assets under management. As illustrated in figure 7, there have been increasing calls for investors to measure the climate impact of their investments. It helps clients and wider stakeholders to compare the carbon footprints of different investment options, and gives investors themselves a baseline from which reductions in carbon impact can be measured.

FIGURE 7 AN INDUSTRY IN TRANSITION
GROWING MOMENTUM FOR INVESTORS TO MEASURE THEIR CARBON FOOTPRINT



Source: Kempen

"The carbon footprint gives investors a baseline from which reductions in carbon impact can be measured"

Danny Dekker
Senior Responsible Investment Advisor

CARBON EMISSIONS SUMMARY

The total financed emissions of Kempen's internal asset management portfolio as of mid-2018 amounted to approximately 114.5 tonnes of carbon dioxide equivalent (tCO_2e) for each one million euro invested. This constitutes a total footprint of around 2.3 million tCO_2e (scope 1 and 2). The carbon intensity (tCO2e / EUR million revenues) was 185.6.

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

TABLE 1 OVERALL RESULTS CARBON EMISSIONS

	KEMPEN INTERNAL + EXTERNAL	*KEMPEN INTERNAL*	*KEMPEN EXTERNAL*
× AuM analysed (EUR billion)	20.1	12.3	7.8
× ISS-Ethix coverage – included AuM in analysis	93.7%	97.5%	88.2%
× Coverage AuM analysed of total AuM	44.3%		
× Financed carbon emissions (tCO_2e in million)	2.3	1.4	0.9
× Carbon emissions (tCO_2e) per EUR million invested	114.5	115.1	113.6
× Weighted Average Carbon Intensity (tCO_2e / EUR million revenues)	185.6	174.2	204.0

* Carbon emissions include scope 1 and 2

Source: ISS-Ethix, Kempen

The results are based on our portfolio as of mid-2018, and carbon data from 2016. The figures only represent the portion of our assets under management where carbon data was available across listed equites, corporate bonds and government bonds (coverage of our total AuM was 44.3%). In the coming years, we aim to increase the amount of our assets under management included in the footprint.

Table 1 shows the overall carbon footprint and the AuM it covers. Kempen's finances carbon emissions of 2.3 million tonnes and its carbon emissions per one million euro invested is 114.5 tCO_2e, whereas its carbon intensity is 185.6 tCO_2e. See p. 36 for more details about the three carbon metrics. Table 2 on the next page shows for the internally-managed Kempen funds the carbon intensity figure compared to their benchmark.

THREE CARBON EMISSIONS METRICS ARE STATED BELOW. FOR MORE INFORMATION SEE APPENDIX I.

- Financed carbon emissions: measures a portfolio's absolute carbon footprint (in tonnes of CO_2) based on its share-holdings in the underlying companies. The shareholding in each company is taken as part of the enterprise value and multiplied by the carbon footprint of that company.
- Carbon emissions per one euro million invested: relative footprint shows how many tonnes of CO_2 an investor is financing in relation to its ownership in a certain company or portfolio. This metric captures the carbon exposure of an investment amount and is measured by dividing the absolute footprint of the portfolio by the total amount invested in the portfolio.
- Weighted Average Carbon Intensity: intensity footprint calculates a port-folio's exposure to the carbon intensity of companies (expressed in tonnes of CO_2/€ million revenues) multiplied by the percentage of the company in the portfolio.

TABLE 2 CARBON FOOTPRINT BREAKDOWN FOR EACH INTERNALLY-MANAGED KEMPEN FUND

	EMISSIONS PER MILLION INVESTED tCO_2e / MILLION EUR EV	WEIGHTED AVERAGE CARBON INTENSITY tCO_2e / MILLION EUR REVENUE	INTENSITY COMPARED TO BENCHMARK
Kempen (Lux) Euro Credit Fund	99.4	140.0	LOWER
Kempen (Lux) Euro Credit Fund Plus	111.5	145.5	LOWER
Kempen (Lux) Euro Sustainable Credit Fund	113.2	186.3	LOWER
Kempen European High Dividend Fund	326.8	422.8	HIGHER
Kempen Global High Dividend Fund	268.7	406.8	HIGHER
Kempen (Lux) European Small-cap Fund	46.8	72.6	LOWER
Kempen (Lux) Sustainable Small-cap Fund	49.7	77.0	LOWER
Kempen (Lux) Euro Government Fund	38.6	36.2	LOWER
Kempen Orange Fund	115.5	267.9	HIGHER
Kempen Oranje Participaties[1]	53.8	64.9	
Kempen Global Sustainable Equity Fund	23.7	48.7	LOWER
Kempen Sustainable Value Creation	32.7	62.5	LOWER
Kempen Global Property Fund	8.4	99.8	LOWER
Kempen European Property Fund	3.4	68.4	LOWER
Kempen (Lux) Global Small-cap Fund	87.9	131.3	LOWER

[1] Kempen Oranje Participaties does not have a benchmark

Source: ISS-Ethnix, Kempen

Table 2 shows the aggregated emissions broken down for all internally-managed Kempen funds. Overall, the figures show that most of our Kempen funds are less carbon intensive than their benchmark, indicating that the companies in the portfolios have a relatively lower carbon intensity compared to their industry peers. In line with the Paris agreement, a lower carbon intensity – besides an absolute carbon level – is needed. We encourage companies in their journey towards a lower carbon economy via our active ownership approach.

International sustainability trends

Despite a continuingly challenging geopolitical landscape in 2018, including the ongoing US-China trade conflict, the election of populist leaders in several countries and increasingly turbulent markets, we are seeing steady progress when it comes to the growth of responsible investment.

Throughout last year and into 2019 we see five external trends set to have the most significant impact on Kempen's approach to responsible investment. These are: regulation, the rising societal awareness of sustainability, climate change, wider environmental challenges, and the changing nature of the responsible investment sector itself.

Trend 1 Rapidly shifting regulation and standards

Historically, Dutch regulators paid rather limited attention to sustainability in the financial sector. Since 2016 we are witnessing a substantial shift, with a number of agreements that have come into force, including the translation of the OECD Guidelines for Multinational Companies and UN Guiding Principles on Business and Human Rights (UNGP) into Dutch sector covenants (IMVOs) for banks (2016), insurers (2017) and pension funds (2018). Helping clients to anticipate and comply with the new voluntary rules has been an increasing part of our work in the past year and in the coming year. Furthermore, in 2017 a new Dutch regulation came into force that made reporting on a number of non-financial themes, such as environmental and human rights, compulsory for Dutch companies with more than 500 employees.

This upswing in sustainable investment-related legislation and standards in the Netherlands is reflective of a wider trend that we are seeing across Europe:

- At the European level, the IORP II directive, as of 1 January 2019, requires pension funds to explicitly disclose where ESG factors are considered in investment decisions, how they form part of their risk management system, and to undertake stranded asset depreciation tests for their assets.

- Looking forward, the Shareholder Rights Directive II (SRD II), will need to be implemented into national law by the member tates by June 2019. It is designed to improve shareholder engagement through making the voting process more transparent in EU listed companies.

- There is also the Action Plan on Sustainable Finance adopted by the European Commission in March 2018, including the Commission's Technical Expert Group on sustainable finance (TEG). This group has been advising on the development of a taxonomy to determine whether an economic activity is environmentally sustainable. Also TEG is advising on an EU Green Bond Standard, benchmarks for low-carbon investment strategies and guidance to improve corporate disclosure of climate-related information. Kempen is engaged with the work of TEG as the group moves towards making recommendations in later 2019.

Kempen supports the European Commission's ambition to create a more robust framework for sustainable investment in Europe. We expect to need to adjust our ESG policies and help our clients to do the same to comply with upcoming regulation. Our view is that these are encouraging developments though challenges remain. For example the need to avoid creating overly burdensome criteria or unnecessary reporting. It is also important that in the future the EU Commission makes sure that the framework does not overlook the social aspects of responsible investment.

Trend 2 Wider societal shifts towards sustainability

One of the macro trends driving the regulatory changes mentioned above is a visible shift in society's approach to sustainability.
Perhaps most significantly we are seeing millennials action differently than older generations. They are more aware of social and environmental issues and likely to factor them into their investment, purchasing and career decisions.

For Kempen, we see an opportunity to remain ahead of the curve and help our clients invest in line with their own and society's attitudes to, and behaviour on, sustainability. We already try to use our influence as investors and partners wherever possible to improve the management of environmental, social and governance risks and opportunities.

Trend 3 Greater movement on climate, but still not fast enough

Last October, the UN's climate advisors of the Intergovernmental Panel on Climate Change, published their Special Report on Global Warming of 1.5 °C. Its main finding was that to meet the goals of the Paris Agreement and limit global warming to well below 2 °C, the world requires global emissions of carbon dioxide (CO_2) to fall by about 45% over the next 12 years (from 2010 levels). Such a reduction would require 'rapid, far-reaching and unprecedented changes in all aspects of society'.[1]
This urgency is putting an ever-greater onus on financial institutions to factor in the damaging impacts of climate change and to invest in the transition to a carbon-neutral economy. This is one of the reasons Kempen is increasingly active on climate issues and closely supports the work of Climate Action 100+, a five-year initiative led by investors to engage major greenhouse gas emitters to align with a Paris Agreement pathway. One of the encouraging results of this work in 2018 was the engagement with the oil and gas sector and with Shell in particular (see case study earlier in document). At Kempen we have been focusing on other high-emitting sectors too, including utilities and the steel industry. The steel sector currently accounts for up to 7% of total greenhouse gas emissions and, in 2018, we worked with the Institutional Investors Group on Climate Change (IIGCC) to co-author an investor expectations guide for steel companies on aligning with global climate commitments.[2]

The year was closed with the agreement of the Paris Rulebook at the UN climate summit COP24 in Katowice, Poland[3]. The Rulebook gives countries a common framework for reporting and reviewing progress towards their climate targets – and a roadmap to achieving the Paris Agreement goals. Whether it will be enough to compel countries and markets to up their game to the level required, remains to be seen.

On the Dutch domestic scene, the Dutch Central Bank also catalysed action on climate when it published new guidance in October 2018, requiring the financial sector to identify climate-related risks and take relevant mitigating measures where necessary. This includes incorporating data on climate-related risks into their risk management systems.[4]

At Kempen, we encourage the ongoing focus on climate change and help our clients to contribute to the transition towards a low-carbon economy.

1 https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/
2 https://globalinvestorcoalition.org/wp-content/uploads/2019/02/Investor-Expectations-Steel-Companies.pdf
3 https://unfccc.int/documents/187593
4 https://www.dnb.nl/en/news/news-and-archive/dnbulletin-2017/dnb363837.jsp#
5 https://www.dnb.nl/en/binaries/Values%20at%20Risk%20-%20Sustainability%20Risks%20and%20Goals%20in%20the%20Dutch_tcm47-381617.pdf
6 https://www.ft.com/content/54749bae-fe9f-11e8-aebf-99e208d3e521
7 https://www.forbes.com/sites/susanmcpherson/2019/01/14/corporate-responsibility-what-to-expect-in-2019/#8236207690f4

Trend 4 Beyond climate

DIGITAL DISRUPTION IN THE AUTOMOTIVE SECTOR

A trend that responsible investors cannot ignore is the continued disruption to markets from digitalisation. Digitalisation and environmental issues can often come hand in hand. The disruptive influence of electric and autonomous cars is one such example. Electric and autonomous cars offer not only the potential for superior driving experiences but also more efficient use of energy, a reduction in greenhouse gas emission and increased safety. However, the world will not switch to electric and autonomous driving overnight. It's a trend we continue to follow closely, looking especially at the improvements needed in battery capacity, the infrastructure required for electric cars, as well as the pending legal and ethical questions around autonomous vehicles.

Climate change continues to dominate much of the responsible investment discourse. Investors, however, must also look beyond climate to consider other social and environmental risks in more detail, including water stress, raw material scarcity, human rights controversies and biodiversity loss. The Dutch regulator emphasized the broader scope of sustainable development, which includes social, environmental and governance aspects.

A recent report by The Dutch Bank estimated the Dutch financial sector's exposure to the most water-scarce regions totalled €97 billion.[5] China's decision to ban waste imports last year put a spotlight on companies to improve their waste and recycling policies in the face of plastics regulation.[6] While diversity and inclusion, for example, has been cited as an important indicator of a company's ability to attract the best talent and be more competitive in the long term.[7]

> "The automotive sector is going through a major transition. Managing this transition requires a pro-active approach from companies"

Luc Plouvier
Senior Portfolio Manager

Trend 5
The ESG industry is changing

It was just over a decade ago that the UN-supported Principles for Responsible Investment (PRI) were formed and the mainstream adoption of ESG integration in the global investment community began in earnest. But with investors representing more than US$70 trillion of assets under management now signed up to the PRI the ESG industry is rapidly evolving.

One element in this evolution is the growth in sustainable passive management – where investments track a market-weighted index, but over or underweight to companies based on their ESG scores, putting even more importance on ESG data collection. Another element is the continued rise of impact investing, i.e. investing to generate measurable environmental or social returns alongside financial ones. The Global Impact Investing Network has estimated that the market for impact investing doubled to at least US$228 billion in 2018, up from US$114 billion in the previous year.[8] It is a trend that Kempen has been watching closely for many years, even more since launching our Global Impact Pool. The evolution also means increasing scrutiny. Investment in ESG funds is predicted to rise to more than US$400 billion over the next ten years.[9] And agencies like Morningstar are now rating the sustainability performance of individual funds and allowing investors to determine whether funds marketed as socially responsible investments deliver as promised. A trend that the EU's 'taxonomy' work may influence further.

In general, Kempen welcomes this evolution but we are conscious that it also comes with a risk of inadequate or misleading methodologies being applied that may shape public perception.

Getting how we rate a fund's ESG performance right is one of the challenges facing the wider responsible investment community in the coming years.

8 https://thegiin.org/research/publication/annualsurvey2018
9 https://www.fnlondon.com/articles/blackrock-predicts-sustainable-etf-assets-will-top-400bn-20181023

Appendices

APPENDIX I

Carbon footprint methodology

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

OWNERSHIP PRINCIPLE AND ALLOCATION RULES

In line with the greenhouse gas protocol's 'ownership principle', the greenhouse gas accounting approach allocates the emissions to those investors who 'own' and can change them. This is the equity investor, as it owns part of a company and therefore, in theory, part of the company's greenhouse gas emissions. In accordance, the greenhouse gas emissions are proportionally allocated 'per share' to the investor. If an investor owns 0.1% of a company, 0.1% of the company's greenhouse gas emissions have been apportioned. On a fund level, these greenhouse emissions are aggregated based on the respective ownership of each holding. We used the enterprise value instead of the market cap for normalisation, in order to be able to combine corporate bonds and equity holders and their carbon responsibility, and avoid double counting.

INTENSITY METRICS

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

Emissions per euro invested:
This metric (figure 7) displays how many tonnes of CO_2e an investor would finance in relation to the respective ownership in a certain company or portfolio. The metric describes the carbon intensity of an investment amount. A company's share of emissions is determined by the value of shares held divided by the company's enterprise value. For this to be accurate, it is important to control for the date of measurement and financial information used.

Weighted Average Carbon Intensity:
This is a metric (figure 8) derived directly from the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, which cite it as a key metric for companies to use in their disclosure. The metric calculates a portfolio's exposure to carbon-intensive companies, expressed in tCO_2e/€m revenue. As stated by the TCFD, 'this metric measures exposure to carbon-intensive companies and addresses many of the concerns raised. For example, the metric can be applied across asset classes, is fairly simple to calculate, and does not use investors' proportional share of total equity and, therefore, is not sensitive to share price movements.' It does however also mean that this cannot be considered a carbon footprint, as it does not take absolute impact into account.

SCOPES AND GREENHOUSE GASES

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

FIGURE 8 EMISSIONS PER EURO INVESTED

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

FIGURE 9 WEIGHTED AVERAGE CARBON INTENSITY

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

APPENDIX II

Exclusion list per Q1 2019

COMPANY NAME	COUNTRY	INVOLVED IN
× AECOM	US	Nuclear weapons
× Anhui Great Wall Military Industry Co	CN	Cluster munitions
× Aryt Industries	IL	Cluster munitions
× Ashot Ashkelon Industries	IL	Cluster munitions
× Avibras Indústria Aeroespacial	BR	Cluster munitions
× Bharat Dynamics	IN	Cluster munitions
× BWX Technologies	US	Nuclear weapons
× China Aerospace Science and Technology Corporation	CN	Cluster munitions
× China North Industries Group Corporation	CN	Cluster munitions
× China Spacesat	CN	Cluster munitions
× Elbit Systems	IL	Cluster munitions
× Fluor Corporation	US	Nuclear weapons
× General Dynamics Corporation	US	Nuclear weapons
× Hanwha Aerospace Co.	KR	Cluster munitions
× Hanwha Corp	KR	Cluster munitions
× Hanwha Engineering & Construction	KR	Cluster munitions
× Honeywell International	US	Nuclear weapons
× Huntington Ingalls Industries	US	Nuclear weapons
× Inner Mongolia North Heavy Industries Group	CN	Cluster munitions
× IMI Systems	IL	Cluster munitions
× Jacobs Engineering Group	US	Nuclear weapons
× Korea Aerospace Industries	KR	Cluster munitions
× Larsen & Toubro Limited	IN	Cluster munitions

COMPANY NAME	COUNTRY	INVOLVED IN
× Larsen & Toubro Infotech	IN	Cluster munitions
× L&T Finance	IN	Cluster munitions
× L&T Infrastructure	IN	Cluster munitions
× L&T Shipbuilding	IN	Cluster munitions
× Leidos Holdings	US	Nuclear weapons
× Lockheed Martin	US	Cluster munitions
× Motovilikha Plants JSC	RU	Cluster munitions
× Nabha Power	IN	Cluster munitions
× National Presto Industries	US	Anti-personnel landmines
× Northrop Grumman	US	Nuclear weapons
× Northrop Grumman Innovation Systems	US	Nuclear weapons
× Poongsan	KR	Cluster munitions
× Poongsan holdings	KR	Cluster munitions
× Roketsan Roket Sanayi Ve Ticaret Anonim Sirketi	TR	Cluster munitions
× Serco Group	UK	Nuclear weapons
× The Boeing Company	US	Cluster munitions

APPENDIX III

Avoidance list per Q1 2019[1]

COMPANY NAME	COUNTRY	INVOLVED IN
× Acacia Mining	GB	Human rights violations
× Barrick Gold	CA	Human rights violations
× Charoen Pokphand Foods Public Company	TH	Labour and human rights violations
× Chevron	US	Environmental violations
× CoreCivic	US	Human rights violations
× Freeport-McMoRan	US	Environmental and human rights violations
× GAIL (India) Limited	IN	Human rights violations
× GMK Noril'skiy Nikel' PAO	RU	Environmental violations
× Grupo México	MX	Labour and human rights violations
× JBS	BR	Corruption
× Jiangxi Copper Co.	CN	Environmental violations
× MMC Finance Ltd.	IE	Environmental violations
× OCP	MA	Human rights violations
× Odebrecht Finance	BR	Corruption
× PetroChina Company	CN	Human rights, labour rights and environmental violations, and corruption
× Southern Copper Corporation	US	Labour rights and environmental violations
× The GEO Group	US	Human rights violations
× Tokyo Electric Power Company	JP	Environmental violations
× Vale	BR	Human rights, labour rights and environmental violations
× Vedanta Limited	IN	Human rights, labour rights and environmental violations
× Vedanta Resources PLC	GB	Human rights, labour rights and environmental violations
× Walmart de México y Centroamérica	MX	Corruption
× Walmart	US	Labour and human rights violations
× Zijin Mining Group Co.	CN	Environmental violations

1 Avoidance list also includes companies involved in tobacco production, distribution or supply.

Colophon

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