



Kempen Engagement Policy

July 2019

Kempen

Introduction

Kempen is committed to long-term responsible investment and sustainable value creation. Part of this commitment is our focus on ESG (Environmental, Social and Governance issues) integration and acting as a long-term steward. Through a constructive dialogue with our stakeholders, we try to use our influence to encourage positive change. Within Kempen we have several levels of engagement: we engage with fund managers, with companies we invest in, and with other stakeholders, such as: clients, credit rating agencies, benchmark providers, peers and other stakeholders.

Integrated Approach

Kempen applies an integrated approach for responsible investment. This means that the engagement activities are embedded in the work of the investment professionals. We believe we increase our impact and stewardship when we directly engage with the companies and fund managers we invest in. Furthermore, Kempen believes in the strength of collaborative engagement. Through cooperation with other investors and fund managers, we can increase the leverage of our engagement activities.

Commitments

Kempen is a signatory to the UN-supported [Principles for Responsible Investment \(PRI\)](#) and adhere to Principle 2, which states that “we will be active owners and incorporate environmental, social and governance issues in our ownership policies and practices”. Kempen also adheres to the [Dutch Corporate Governance Code \(2016\)](#), the [UK Corporate Governance Code \(2018\)](#), the [Dutch Stewardship Code \(2018\)](#) and the [UK Stewardship Code \(2012\)](#) and has implemented key provisions of the [Shareholder Rights Directive \(SRD II\)](#). Further information about Kempen’s approach to Stewardship can be found in our Stewardship policy.

Furthermore, we actively encourage all investee companies to adhere to the principles of the [United Nations Global Compact \(UNGC\)](#), [OECD Guidelines for Multinational Corporations](#), [the OECD Principles of Corporate Governance](#) and the [United Nations Guiding Principles on Business and Human Rights\(UNGP\)](#).

The UNGC, the PRI, OECD and the UNGP are the foundation of Kempen’s ‘Convention Library’. Besides ensuring compliance with aforementioned commitments, we also encourage a culture of continuous improvement and annually review our engagement policy and processes.

Engagement Methodology

In order to improve the impact and success rate of our engagement efforts we aim to measure and monitor the progress of our engagements by setting clear goals and timeframes, and by monitoring milestones for in-depth engagements.

The engagements are divided into three pillars: engagement for awareness, engagement for change, and public policy and collaboration work.

- **Engagement for awareness:** Aims to improve understanding of a certain issue among companies or gather information on a particular company case.
- **Engagement for change:** Aims to set out a specific goal with a specific timeline, while fostering change within a company.
- **Engagement for public policy and collaboration:** Aims to improve the overall landscape of (financial) markets and general level of ESG performance in particular sectors, markets and geographies.

To track the progress of engagements for change we use milestones. Every milestone represents an accomplishment and a step towards reaching a defined SMART (Specific, Measurable, Attainable, Realistic, Timely) goal. The targets are focused on the following topics: establishment of policy commitment, increasing transparency, assessment and mitigation of the violation, and involvement with sector initiatives. The topics cover: long-term strategy & risk management; transparency & communication; Governance; Environmental Management; and Social & Ethical issues.

The aim of the engagement is to create value for the company, our shareholders and society. Furthermore, Kempen applies a thematic approach in order to create focus in its engagement strategy. We look, for example, into the risks of climate change, controversial labour conditions, and the social and environmental challenges in the extractives sector.

An engagement can start at every milestone, depending on the issue and the goal of the engagement. Kempen aims to move every engagement at least one milestone further every six months. Should a company not be willing to move forwards on the engagement (if, for example, it moves from milestone 1 to 2 for a specific period of time), divestment can be considered.

Milestones

1. **Raise concern with the company:** Kempen identifies the issues and brings it to the attention of the relevant board members or management team of a company;
2. **Company acknowledges the issue:** The relevant board member or executive acknowledges the importance of the issue raised to the company or its stakeholders and commits him or herself to resolving the issue;
3. **Company has a policy to deal with the issue:** The company has developed or improved its policy to deal with the specific issue; and
4. **Company implements a 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 for ensuring continued implementation.

It will not always be possible to see a direct causality between our engagement and the improved ESG profile of a company; even if change occurs, it might not be directly as a result of our engagement effort. However, the focus is on achieving the change and not on the attribution of the change.

Scope of Engagement Activities

Engagement with companies

Kempen engages both on our listed equity and corporate bond holding. Therefore, the scope of this policy is applicable to both asset classes and all Kempen internal funds invested in these asset categories.

Kempen engages companies in its investable universe, and thus companies in tobacco and controversial weapons industry are excluded *en bloc*, these will not be selected for engagement.

Kempen engages with companies on corporate strategy and material ESG issues. The Portfolio manager and the Responsible Investment (RI) team proactively engage with investees with the aim to improve the ESG performance companies held through time. Furthermore, Kempen investment portfolios are screened on compliance with ESG criteria. Kempen performs this ESG due diligence using MSCI ESG Research which can be complemented by other third party and in house assessments. The screening highlights which companies fail to comply with the UN Global Compact as well as with other key treaties, conventions and guidelines such UNGP. We further look at which companies are lagging behind their peers in managing ESG risks in their sector. Furthermore, the screening highlights companies that are negatively impacting stakeholders or environment through their conduct. The ESG laggards in the portfolio are discussed in challenging sessions between the portfolio managers and the RI department. During these sessions Kempen can select and prioritize companies for engagement. We focus our engagement on the most material or most salient cases with highest impact on society and environment. This means that we will start dialogue if there is a clear and structural violation of the UN Global Compact principles and if the company has no clear strategy to mitigate a future breach, which indicates there is a substantial business risk for the company. Furthermore, we prioritise cases where a company is directly causing or contributing to adverse impacts (e.g. human rights violations) and is in the position to influence the situation and remedy negative impacts of its activities on stakeholders.

We also ask companies to use their influence (as much as possible) to prevent or mitigate adverse impacts in cases where they are directly linked to other laggard companies' operations, products or services by their business relationships, even if they have not contributed to those impacts.

We assess if there is a realistic chance that the engagement can positively influence the company's operations.

Based on the input from MSCI ESG Research complemented by other assessment, the portfolio managers and the responsible investment department define engagement targets.

Small & Large Caps: We engage both with large-cap and small-cap companies in which we invest in either as a shareholder or as bondholder. Kempen has a long history with investing in- and engaging with small-cap companies. As long-term investors, we work with concentrated portfolios and discuss strategy, finance and ESG related matters with the management and boards of these companies. In general, we believe that engagement with small-cap companies can be very effective and can have a concrete and direct impact on their policies and practices. To increase our impact with large-cap engagements, we often work together with other stakeholders in collaborative engagements.

In case the engagement with our investees is not successful we will consider escalation actions which may include

- Writing a letter to the executive and/or supervisory directors in which we explain the issues of our concern;
- Holding additional meetings with the executive and/or supervisory directors, specifically to discuss the issues of our concern;
- Holding meetings with other stakeholders of listed companies
- Attending the annual general meeting of the company to express our concerns
- Collaborating with other institutional investors on specific of issues of concern
- Selling the shares

Engagement with Fund Managers

The engagement with external fund managers (including managers of passive fund solutions) is executed by the Multi-Management Team (who selects external managers) in cooperation with the RI department. The focus of this engagement approach is on the fund managers' responsible investment policy, implementation and disclosure. The aim of the engagement is to encourage best practices. Kempen screens the holdings in the external portfolio and discusses possible controversial investments with the fund manager. We encourage the external fund manager (as a direct shareholder) to enter into dialogue with these companies.

Engagement with other stakeholders

Kempen would like to inspire all their stakeholders to apply best practices on responsible investment. We try to encourage our clients and peers to implement a responsible investment policy and to integrate ESG into the investment process. We also have thematic discussions with NGOs and network organisations, such as the PRI. Furthermore, we approach credit rating agencies and promote the embedment of ESG criteria in their rating process of companies and countries. If and when appropriate, we also communicate with the stakeholders of the companies we invest in.

Collaborative engagement

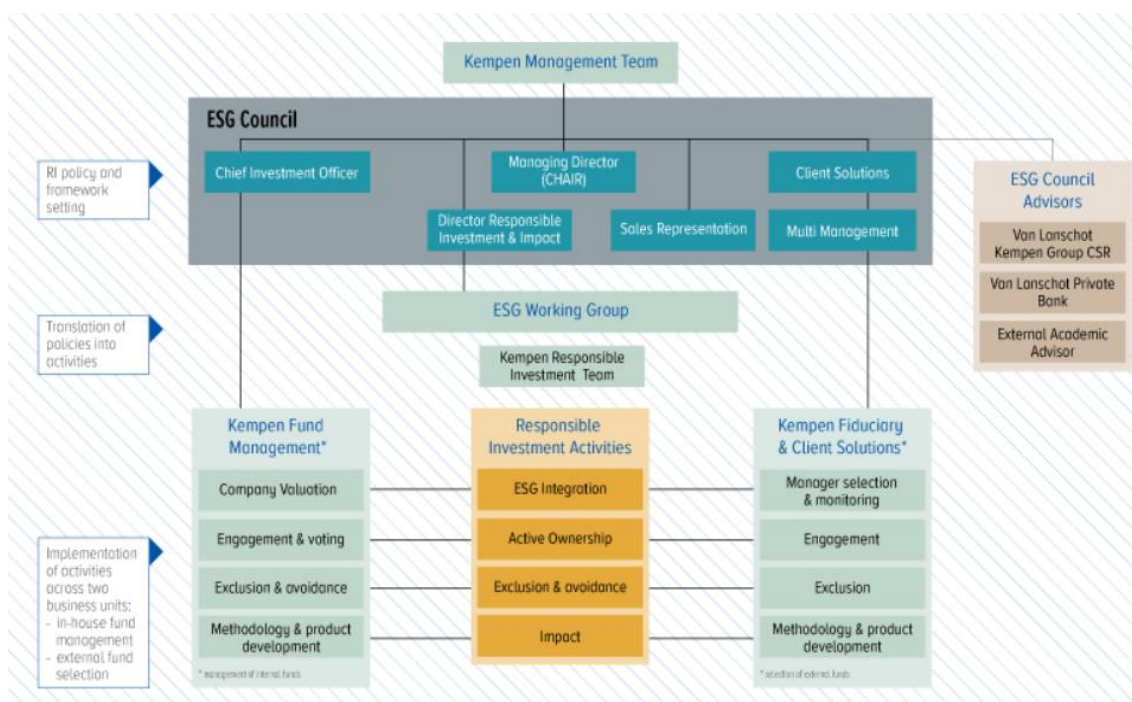
To increase focus and efficiency in the engagement process, Kempen joins collaborative engagement initiatives. Kempen can join engagement through the PRI, Eumedion, the Dutch Corporate Governance Forum or other networks. Kempen can initiate an engagement, or can join existing engagement initiatives. In addition, we will collaborate with other asset managers and asset owners with similar engagement objectives. The collaborative engagement initiatives need to be aligned with Kempen's engagement approach. Moreover, we need to carefully assess the consequences and accompanying responsibilities of joining an initiative. Kempen formulated guidelines to assess on a case by case basis which collaboration fits best with our company values and the engagement targets. For example, climate change has been selected as a focus theme for engagement and, as a result, we joined the Climate Action 100+.

Governance & Oversight

The engagement process is integrated in the work of the investment professionals. The engagement activities are a joined effort of the portfolio managers, the Multi-Management Team and the responsible investment department. The RI department meets on a quarterly basis with portfolio managers to discuss the progress of the engagement cases and the ESG screening results. Clients are informed about the main engagement developments on a quarterly basis. On an annual basis, a more detailed engagement report is published.

The ESG Council has ultimate responsibility for the drafting and implementation of the responsible investment policies, including the engagement policy, and is Kempen's most senior advisory body on ESG-related matters. The ESG Council has six members, all of whom have the right to vote, and aims to represent the interests of internal and external stakeholder groups. The ESG Council is chaired by a member of the Kempen Management Team, and all its voting members are proposed or appointed by the Kempen Management Team. Its current members include the Chief Investment Officer, the Director of Responsible

Investment and Impact, a senior representative of the Multi-Management Team, a senior representative of Client Solutions and a senior representative from the Sales Team.



The ESG Council, in conjunction with the Engagement Working Group (EWG) and the Responsible Investment Team, ensures that responsible investment-related policies are implemented in a consistent manner across all business units, investment strategies and client mandates.

Conflicts of interest

Engagement can potentially lead to conflicts of interest. Kempen has policies and procedures in place to manage potential conflicts in a way that safeguards the interests of all clients. Where potential conflicts are identified, we are committed to ensuring that they are effectively and fairly managed to prevent these conflicts from damaging the interests of our clients. For additional information please refer to our [conflict of interest policy](#).

Transparency of engagement

Kempen would like to be transparent about our engagement and voting activities. We report key outcomes of our engagement in our annual responsible investment report which is available [here](#). Furthermore, our [Voting Policy and Guiding principles on Corporate Governance](#) as well as our [voting records](#) are also available online.

Conclusion

The core of Kempen's responsible investment approach is ESG integration and Active Ownership. An important aspect of the ESG integration is engagement. We apply a collaborative and thematic engagement approach, which allows us to increase our leverage. Through dialogue with our stakeholders we try to use our influence to encourage positive change.

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