Climate change policy

Kempen

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Background

Climate change is a material risk making an increasing impact on global markets, with far-reaching consequences for the planet and human wellbeing. It affects public and private sectors alike, at both global and local levels. Investors therefore need to take climate change risks and opportunities into account and act to manage them.

Meeting the challenge of climate change requires international cooperation and the much-welcomed Paris Agreement, signed in 2015, commits almost all countries to keeping global warming below 2°C this century (compared to pre-industrial levels), and to strive to limit the increase to 1.5°C. Since then several countries have locked-in climate targets and laws[1], with the European Union setting an ambition to become a net-zero economy by 2050 and implementing its EU Sustainable Finance Action Plan to align European regulation with a climate neutral economy. Central banks are investigating the risks climate change poses to financial institutions and the stability of the financial system. And more and more companies are taking steps to integrate climate risks - and opportunities - in their business models.

Investors are exposed to climate change risks and opportunities too and have an important role to play in both facilitating the transition to a low-carbon economy and managing the climate risks of their investee companies.

[1] We see that the Paris Agreement is translated into commitments and policy, laws and regulations by country policy-makers. Several countries have made a commitment to pursue full or partial climate neutrality within decades: the United Kingdom as the first of the G7 countries (climate-neutral by 2050), France (climate-neutral by 2050), Denmark (70% emissions reduction by 2030), Finland (climate-neutral by 2035), Sweden (zero emissions by 2045), and the Netherlands (95% emissions reduction by 2050; via a "Klimaatakkoord" by 2030).

Our position

As a long-term investor, we believe climate change represents a systemic risk facing the economy, society and environment, and we want to consider the risks and opportunities this presents to our investments in the coming decades. Climate change is an ESG focus area for us, and we are convinced that we can contribute to progress in this area. We have therefore set a long-term commitment (2050), a mid-term ambition (2030) and short-term objectives (2025) on climate change. These fit well with our belief in sustainable value creation through long-term stewardship.

2050	Long-term commitment	Become a net zero investor
2030	Mid-term ambition	All listed and non-listed investment aligned with Paris pathway
2025	Short-term objectives	All listed investment aligned with Paris pathway

Our commitment, ambition and objectives fit well with the long-term nature of climate change and are aligned with the Paris Agreement goals, Dutch "Klimaatakkoord", Europe's ambition to become a net-zero economy by 2050 and the 1.5°C scenarios from the IPCC[2]. We also want to send a clear signal to stakeholders in our value chain, and our investee companies in particular.

- **Commitment 2050:** As a long-term investor, we are committed to aligning with the Paris Agreement goals and contributing to the transition to a low carbon economy by 2050. We commit to have net-zero emission investments by 2050.
- **Ambition 2030:** By 2030 we aim to be aligned with a path to achieving the Paris Agreement and Dutch Klimaatakkoord goals for all listed and non-listed investments.
- **Objective 2025:** By 2025, we aim to be aligned with a path to achieving the Paris Agreement and Dutch Klimaatakkoord goals for all listed investments. . For the more sustainable and impact investments we expect climate aligned pathways in line with the EU Benchmarks[3] or alike.

  Objectives for 2025 for internal and external fund managers are:

  - **Kempen listed funds:** We will, on an aggregate level, aim to be aligned with a path to achieving the Paris Agreement and Dutch Klimaatakkoord goals, including on carbon intensity metrics[4].
  - **Kempen clients**: We will advise and encourage clients to align listed equity investments with a path to achieving the Paris Agreement and Dutch Klimaatakkoord goals.
  - **Van Lanschot clients**: We will strive to align the listed portfolios of private clients discretionary management with the Paris Agreement and Dutch Klimaatakkoord goals. The same applies for the listed funds where we advise clients.

[2] IPCC (2018) "Global warming of 1.5°C". The EU regulation also consists of climate benchmarks which are based on the 1.5°C scenarios from the IPCC.
[3] The EU Benchmarks consists of two climate benchmarks, Climate Transition Benchmark and Paris Aligned Benchmark, which have the aim to reach net-zero emissions by 2050 - in line with the 1.5°C scenarios from the IPCC.
[4] As we care about the direction of travel and reduction of carbon emissions in the economy, it might be that the actual reducing trend may deviate from the suggested average trend line.

Our approach

To achieve this policy, we use four ESG pillars and have set 2025 objectives[5] for each one.

Pillar 1: Exclusions

We have assessed several activities (coal, nuclear energy and unconventional oil & gas) which are likely to be detrimental to the transition towards a low carbon economy. We believe that coal mining and tar sands have an adverse impact on climate change and companies should over time not be involved in such activities anymore. We have therefore formulated 2022 objectives for all fund managers where we have influence[6]. We will monitor the progress made and will annually review these objectives – as part of the climate change policy review – to assess if these objectives will need to be updated.

Furthermore, we have also assessed nuclear energy and due to the balance of advantages (low carbon emissions) and risks (e.g. waste problem) we await the outcome of the current discussion on nuclear energy in relation to the EU Taxonomy[7].

Moreover, for Kempen funds we may apply some more ambitious objectives. See the Kempen funds section on our website for more details.

- Coal exclusion objectives
  By 2022, we will not invest in pure coal players which obtain the majority of revenues from coal mining. Furthermore, we see it as a positive approach if funds have policies to reduce their exposure to coal power generation. For more sustainable funds, we go a step further and exclude companies which obtain some revenues from coal mining. For impact funds, there should be no companies which invest in coal activities. For Kempen funds we follow the same assumptions for coal mining but start in 2020 and also exclude pure coal players from power generation (i.e. utilities).

- Tar sands exclusion objectives
  By 2022, we will not invest in companies which obtain the majority of revenues from tar sands. Furthermore, we see it as a positive approach if funds have policies to reduce their Arctic oil/gas and/or shale oil/gas extraction. For more sustainable funds, we go a step further and exclude companies which obtain some revenues from tar sands. For impact funds, there are no companies which invest in tar sands activities. For Kempen funds we follow the same assumptions for tar sands, but starting in 2020 and in the more sustainable / impact funds we also include Arctic oil/gas and shale oil/gas extraction.

- Nuclear energy
  We have assessed nuclear energy and due to the advantages (low carbon emissions) and risks (e.g. waste problem) we await the outcome of the current discussion on nuclear energy in relation to the EU Taxonomy. Therefore we do not exclude nuclear energy activities although we see it as a positive approach if funds have policies and for more sustainable funds we expect such as policy or statement.

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[5] Except objectives for the ESG pillar Exclusions, which relate to 2022 for external managers.
[6] By 'influence' we refer to a broader term than active funds, we refer to: (1) we generally have influence where allocation amounts are high (for active and passive fund managers); (2) we have influence for mandates via BestSelect; (3) we have influence where the selected fund is a co-creation between Van Lanschot Kempen and the asset manager in question.
[7] See the final TEG Taxonomy report (March 2020) on the position on nuclear and recommendations for further discussion: https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf

For our Kempen funds, we deviate on the more sustainable funds as we take a more precautionary approach and use an exclusion threshold (>30% of revenues coming from nuclear power production).

Pillar 2: ESG Integration

Objective: To ensure that climate risks and opportunities are adequately considered in the funds' investment process. We prefer to invest in companies (via our internal and external fund managers) which integrate their climate risks and opportunities into their organisation, and are able to move towards a low carbon economy.

Pillar 3: Active ownership

Objective: To engage with companies, and other stakeholders, to encourage them to integrate climate risks and opportunities in their long-term business models and enable them to thrive in the transition to a low carbon economy. We also use our voting rights in line with our engagement activities.

- **Engagements:** Funds should have a clear climate engagement approach (aligned with their overall climate objective(s)) and show annual progress. For funds that go a step further on sustainability, we expect fund managers to engage with their companies on how their activities relate to climate-related EU regulation and the UN Sustainable Development Goals.

  We continue to be an active participant of the Climate Action 100+ collaboration, to use our leverage to encourage the transition of +150 large carbon emitting companies towards a low carbon economy. We strive to encourage the external funds we invest in, or their organisations, to also be active participants in such collaborative climate initiatives.

- **Voting:** Funds should align their voting with their engagements and climate objective(s).

Pillar 4: Impact

We recognise that climate solutions will also be needed. We provide solutions to our clients for different asset classes where possible. In this policy we currently limit this pillar however to fixed income, with the intention of including other asset classes in the near term (when impact data will be available). Our updated green bond policy forms the content of the Impact pillar of this policy.

Green bonds, Sustainability(-Linked), Transition and SDG-Linked bonds
The content of the green bond policy has been extended to include Sustainability(-Linked) bonds, Transition bonds and SDG-Linked bonds as these bonds also contribute to the transition towards a net-zero economy by 2050.

Objectives 2025
We will increase our green bond investments by selecting funds with objectives on green bonds, and objectives to increase their green bonds allocation and/or advance the financing of climate activities that contribute to the Paris Agreement goals and transition towards a low carbon economy. Funds prefer:

– Green bonds over non-green bonds if the risk-returns are similar. The funds have green bond targets on a comply or explain basis (e.g. it must fit with the investment strategy). Targets need to be relevant,

although the investment strategy characteristics need to be taken into account (e.g. Government bonds versus Credit funds).
- Sustainable(-Linked) / SDG-Linked bonds over Non-sustainable / SDG-Linked bonds if the risks-returns are similar. Note that as with green bonds there are criteria for these bonds and these should be assessed on a case-by-case basis.

For impact funds green bonds are being considered as impact investments, so fixed income funds need to be green bond funds (or in combination with eligible climate Sustainability / SDG-linked bonds) with a focus on climate change solutions.

See our Appendix for the criteria and definitions we use.

Governance, Reporting and Implementation

Governance

The ESG Council sets the climate change policy and the policy will be reviewed annually.

Reporting on progress

We aim to report to our clients, and other stakeholders, on how we progress with regards to the commitment, ambition and objectives of our (client) portfolios. The reporting frequency will be at least annually. We use carbon data from our ESG research provider ISS ESG. The carbon emission measures can be found in the Appendix.

Implementation

We aim to implement this policy largely between Q4 2020 – Q1 2021. Some elements of the policy (e.g. our ESG manager framework), will require continuous annual progress.

Appendix

Green bonds, Sustainability(-Linked), Transition and SDG-Linked bonds

Definitions

- *Green bonds*: Although there is still no universal agreed definition, we use the ICMA definition as best practice. Green bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance projects with clear environmental benefits and which follow best practices, e.g. alignment with the Green Bond Principles (GBP) and when applicable the EU Green Bond Standard (part of the EU Action Plan on Sustainable Finance). Note that the upcoming EU Green Bond Standard defines green bonds for Europe, which relates to green projects from the EU Taxonomy.[8]
- *Sustainability(-Linked) bonds / SDG-Linked bonds*: There is no universal agreed definition for these bonds, although the basis is that the financing relates to environmental and social activities. We follow the ICMA definitions where possible.
    - **Sustainability bonds:** Bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both green and social projects. Sustainability bonds are aligned with the four core components of both the GBP and Social Bond Principles (SBP) with the former being especially relevant to underlying green projects and the latter to underlying social projects.
    - **Sustainability-Linked bonds**: Any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ ESG objectives.
    - **SDG-Linked bonds**: Bonds where the proceeds will be exclusively applied to finance or re-finance activities to achieve the SDGs set by the company.
    - ***Transition bonds***: There is no agreed definition for these bonds. In general, these relatively new bonds have the aim of helping the transition towards a low carbon economy.

Criteria for green bonds

- Issuers need to be screened on ESG. Issuers on our Avoidance / Exclusion lists are not eligible for a green bond allocation.
- 'Brown issuers' that issue green bonds, which are in accordance with the GBP, may be considered. Such companies are considered on a case-by-case basis.
- Overall company policy regarding improvements to its sustainability profile to be clear and credible, broad and ambitious enough to foster the relevant sector's transition at the appropriate pace.
- Issuance has to be in full compliance with the GBP. Issuances follow best practices, which is currently GBP but the expectation is that it will be the EU Green Bond Standard (EU GBS).
- Issue has to provide a high degree of transparency (e.g. second opinion, third party verification).
- Issue is in line with investment guidelines.

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[8] Definition from the EU Green Bond Standard: an EU Green Bond is any type of listed or unlisted bond or capital market debt instrument issued by a European or international issuer that is aligned with the EU-GBS, and is therefore meeting the following requirements: (1) The issuer's Green Bond Framework shall confirm the alignment of the green bond with the EU-GBS; (2) The proceeds, or an amount equal to such proceeds, shall be exclusively used to finance or re-finance in part or in full new and/or existing Green Projects as defined in section 4.1, as it shall be described in the bond documentation; and (3) The alignment of the bond with the EU-GBS shall have been verified by an accredited Verifier in accordance with section 4.4. An issuer may only use the term 'EU Green Bond' if the above criteria are met.

- Fund managers need to take the criteria mentioned above into account in a structured manner to assess the eligibility of green bonds.

Criteria for Sustainability(-Linked), Transition and SDG-linked bonds

- Fund managers need to take the criteria into account in a structured manner to assess the eligibility of Sustainability(-Linked) / SDG-Linked bonds.
- Same criteria as green bonds except GBP: preferable Sustainable(-Linked) / SDG-Linked bonds comply with GBP / SBP (Social Bond Principles) as set forward by ICMA. If not, the Sustainability / SDG-Linked bonds will be assessed on a case-by-case basis to assess the credibility of the 'sustainability' of the bond. Guidelines are:
    - Use of proceeds are used for sustainable / SDG activities (climate change related) in line with best practices (EU Taxonomy when useable).
    - Monitoring and transparency on (climate related) objectives and results.
    - Third party verification / audits where possible.
    - Other measures taken by company to prevent 'greenwashing'.
- The same criteria apply to Transition bonds. Furthermore, note that these bonds focus on carbon intensive industries (e.g. oil production and coal mining) to finance their shift to cleaner ways of doing business. There is more risk involved as the activities could not comply with sustainable activities as mentioned in the EU Taxonomy. ICMA has set up a working group Climate Transition Finance that considers providing guidance for potential future issuances. When available this guidance can be used as best-practice.

Carbon emissions measures

Carbon emission intensity will be used as the carbon metric. It is:

- based on Revenues (weighted average carbon intensity (waci)). Used for our commitment, ambition and objectives.
- based on Enterprise Value (EV), which is also used by the EU Benchmarks. Used for our current carbon footprint.

We disclose both metrics in our annual reports (on Van Lanschot Kempen and Kempen Capital Management entity). See more information in the Appendix of our KCM Stewardship & Responsible Investment report.

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