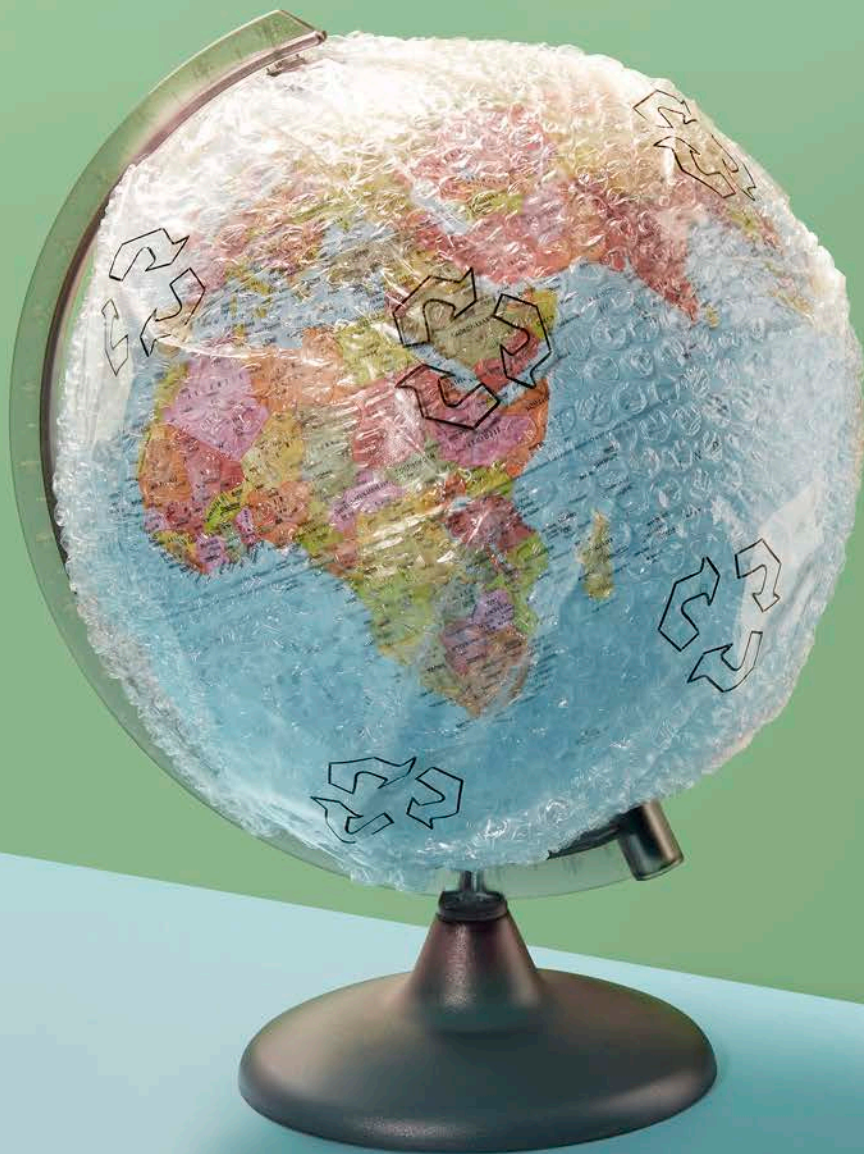


# UK Stewardship Code

JANUARY 2020



Kempson

Since 2010, Kempen Capital Management has been a signatory to the [UK's Stewardship Code](#), as introduced by the UK's Financial Reporting Council (FRC).

Changes to the Code made as part of its 2012 revision clarified the respective stewardship responsibilities of asset managers and owners, including those stewardship activities we have chosen to outsource or undertake in collaboration with others. Every year, we have updated our statement of compliance to reflect our commitment and compliance to the Stewardship Code.

The Stewardship Code was updated in 2019 as well and it aims to enhance the quality of engagement between institutional investors and companies, in order to help improve long-term returns to shareholders by setting out good practice on engagement with portfolio companies.

Kempen Capital Management (UK) Ltd and Kempen Capital Management N.V. are fully aligned in terms of compliance with the policies as drafted below. Both companies fully support the principles contained within the UK Stewardship Code and are committed to continuing to strengthen our stewardship capabilities in line with the Code.

This document sets out how our activities align with the principles of the latest UK Stewardship Code.

## Principle 1

**Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.**

Kempen's 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. We entrust the responsibility for the management of the companies we invest in to the companies' boards and senior executives and expect these to be fully accountable for their behaviour and decision-making to benefit all stakeholders.

Kempen's policies on Stewardship, Voting and Engagement, exclusion and avoidance all serve as guidelines for the integration of our stewardship beliefs throughout our business and the work we do for clients.

[Our Stewardship Policy](#) is available online, as are all our Responsible Investment policies. Stewardship at Kempen is implemented through exclusion and avoidance process, proactive assessments of investee companies' policies and performance, voting at investee companies' AGMs / EGMs and engagement. Further details on our approach and policies in this area are set out in this document, [and available online](#).

Kempen reports on implementation of these policies in our [annual Responsible Investment Report](#).

## Principle 2

**Signatories' governance, resources and incentives support stewardship.**

Kempen is a signatory to the [Dutch Stewardship Code](#) (2018) and the [UK Stewardship Code](#) (2012, 2020) and complies with all relevant regulations, including the revised [EU Shareholder Rights Directive](#) (2017).

In addition, Kempen adheres to the [Dutch Corporate Governance Code](#) (2016), and the [UK Corporate Governance Code](#) (2018). We are a signatory to the [UN-supported Principles for Responsible Investment \(PRI\)](#) and adhere to the Principles, including 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 fulfils its fiduciary role under the OECD Corporate Governance Principle III. We actively encourage all investee companies to adhere to the principles of [the United Nations Global Compact](#) (UNGC), the [OECD Principles of Corporate Governance](#), the [OECD Guidelines for Multinational Enterprises](#), the [International Corporate Governance Network](#) (ICGN) Governance Principles, and the [United Nations Guiding Principles on](#)

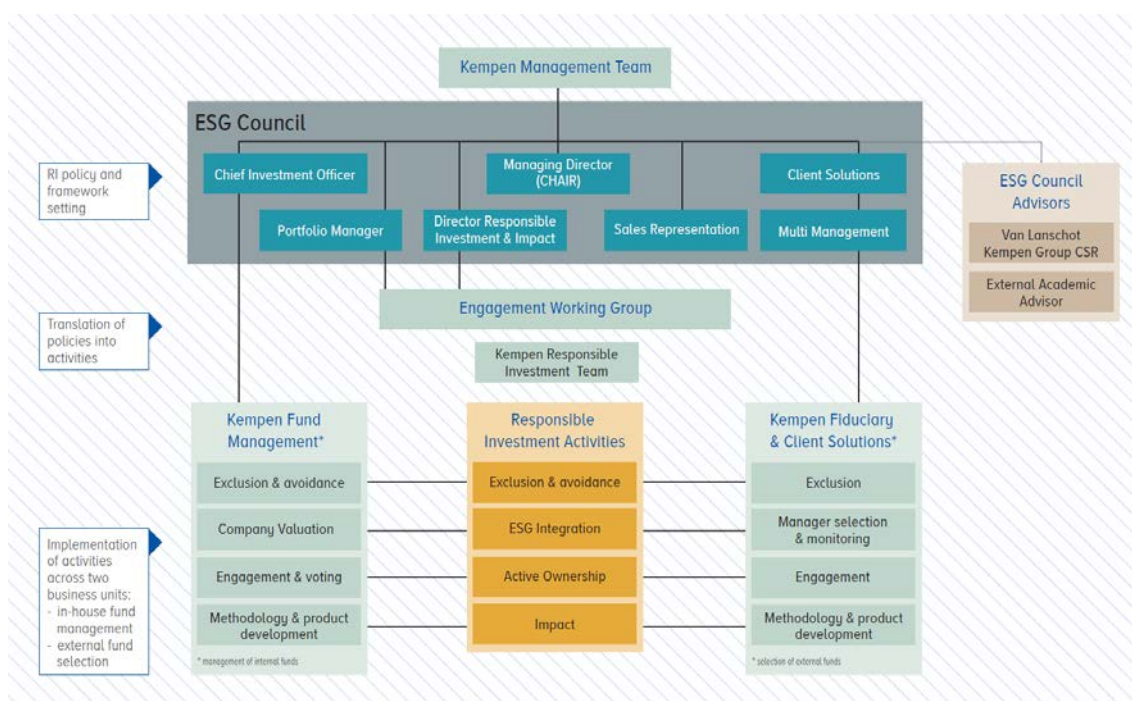
Business and Human Rights (UNGP). We proactively participate in the development and updating of the various codes and international guidance documents.

The **ESG Council** has ultimate responsibility for the drafting and implementation of the responsible investment policies, and is Kempen’s most senior advisory body on ESG-related matters.

The ESG Council has seven 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 Kempen’s Senior Management Team, and all its voting members are proposed or appointed by the Kempen Management Team. Its current members include the following:

- Chief Investment Officer,
- Director of Responsible Investment and Impact,
- a senior representative of the Multi-Management team,
- a Portfolio Manager
- a senior representative of Client Solutions, and
- a senior representative from the Institutional Relations & Sales team.

## OVERSIGHT AND GOVERNANCE



Source: Kempen

The ESG Council and the Responsible Investment team together ensure that responsible investment-related policies are implemented in a consistent manner across all business units, investment strategies and client mandates.

Responsible Investment advisors and ESG-specialists work closely with portfolio managers on the implementation and development of the firm’s Voting Policy. Should views differ on a particular vote internally, the case is brought to the ESG Council, whose members take a final decision.

We use Institutional Shareholder Services, Inc. (ISS), the electronic voting platform, for customised research and voting recommendations according to our Voting Policy. Although we use the services of ISS we thoroughly review company meetings individually.

All our voting records are available online on [Kempen's Voting Dashboard](#), which is updated daily and provides a detailed overview of how Kempen voted on agenda items at each meeting.

## Principle 3

### Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Kempen's policies and procedures aim to allow staff 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 and remediated.

Our [Conflicts of Interest Policy](#) is available online.

## Principle 4

### Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Investee companies go through a thorough initial analysis in which the investment case is based on material issues including, but not limited to, the company's business model for creating long-term value, the company's strategy, performance and risks and opportunities, the capital structure, social and environmental impact, corporate governance and corporate actions such as mergers and acquisitions.

As an active manager, we monitor investee companies on an ongoing basis, daily through newsflow and various watchlists, as part of our investment processes.

#### Active Ownership - Engaging with companies, fund manager & stakeholders

Our focus is on the long-term investment horizon, and we seek to align our engagement with the investee's objective of promoting long-term value creation and long-term success of the companies. Kempen believes that effective shareholder engagement with investee companies contributes to positive change.

Hence, portfolio managers, the Multi-Management Team and the Responsible Investment team collectively engage on a wide array of strategic, financial, environmental, social and governance topics to mitigate risks and unlock opportunities. In addition, portfolio managers also engage with companies on topics around company's business model for creating long-term value, performance and strategy.

We engage with investee companies, fund managers, industry initiatives, NGOs, authorities and other stakeholders. The engagement process is integrated in the work of the investment professionals.

To increase focus and efficiency in the engagement process and to leverage its stewardship activities Kempen joins collaborative engagement initiatives. The pressure towards companies and the likelihood of success increases when investors approach a company collectively.

Our [Engagement Policy](#) is available online, as are [recent examples of engagement cases](#) and involvement in industry initiatives.

#### Approach to risk management

Kempen applies a three lines of defence principle in its approach to risk management, fully aligned with the Van Lanschot Kempen parent group's operations:

- business functions act as the first line of defence, e.g. portfolio managers;
- Kempen's independent Risk Management department, as well as group Compliance, Legal, Finance, Reporting & Control, act as the second line of defence;
- Finally, group Audit forms the third line of defence.



Kempen's Risk Committee reviews all relevant risk categories (including but not limited to market, counterparty, liquidity, operational risk and outsourcing risk) at least monthly, for all client portfolios. The Risk Committee is part of the group's overall risk management framework under the oversight of the Managing Board and Executive Board.

## Principle 5

### **Signatories review their policies, assure their processes and assess the effectiveness of their activities.**

Kempen's policies on Stewardship, Voting and Engagement, exclusion and avoidance serve as guidelines for the integration of our stewardship beliefs.

These policies are reviewed periodically and at least once a year to ensure they are fully aligned with the latest regulations and market best practice. Our internal risk management and incident policy ensures our processes are well established and smoothly implemented.

Kempen's **ESG Council**, as Kempen's most senior advisory body on ESG-related matters, has ultimate responsibility for drafting and implementing the firm's Stewardship Policy, and is responsible for its internal review. The ESG Council, in conjunction with the internal ESG 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.

In addition, the ESG Council is advised on developments and trends in responsible investment by external advisers, including academic specialists. These advisers bring their expertise on potential policy developments and on specific engagement and exclusion cases.

In our periodic (monthly, quarterly, and annual) reporting to clients we always provide factual and accurate data. The financial performance data is complemented where applicable by ESG information, that would most typically recap an engagement case the respective fund was involved in. We recognize that not all engagements lead to the change we seek and are ready to put a company on our avoidance list if they have a poor business conduct and show no willingness to improve. Our voting record is publicly available in real time and we provide a comprehensive analysis of both our voting and engagement results annually in our Responsible Investment Report.

## Principle 6

### **Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.**

Transparency is an acknowledged and important feature of effective stewardship. Kempen published our full voting records online, and maintain a clear record of our stewardship activities.

Our full voting records can be reviewed via the [Kempen Voting Dashboard](#).

[Our Stewardship Policy is available online](#), as are all our Responsible Investment policies. Stewardship at Kempen is implemented through exclusion and avoidance process, proactive assessments of investee companies' policies and performance, voting at investee companies' AGMs / EGMs and engagement. Further details on our approach and policies in this area are set out in this document, [and available online](#).

Kempen reports on implementation of these policies in our [annual Responsible Investment Report](#).

## Principle 7

### Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Kempen's Responsible Investment team holds meetings at least every quarter with all investment teams to discuss progress on engagements with investee companies and to determine a course of action in case a company's ESG score has been lowered or if an investee company is involved in a significant controversy.

As a standard practice, Kempen's portfolio managers and the dedicated Responsible Investment team express the way companies manage material sustainability risks and opportunities in a forward-looking environmental, social and governance (ESG) score that we apply throughout our portfolios. The screening identifies companies whose activities run contrary to Kempen's ESG criteria. Kempen conducts the screening in-house employing MSCI ESG Research as the primary data provider. MSCI ESG Research gives access to in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies and countries worldwide.

All Investment Teams have a proprietary valuation model weighing the financial and ESG factors, including the investee company's business model for creating long-term value, the company's strategy, performance, risks and opportunities, the capital structure, corporate governance and corporate actions (e.g. mergers and acquisitions).

The screening process allows us to monitor the ESG performance of all the companies in our internal and external funds, and to encourage structural engagement on issues which are identified. The output of the screen feeds into quarterly challenging sessions with portfolio managers. During the challenging sessions we assess whether the ESG risks and opportunities are sufficiently reflected in the investment decision making process. Furthermore, the output of the screen feeds into Kempen's:

- Engagement List
- Exclusion List
- Avoidance List

Not all parties are willing to change, and at Kempen we avoid companies that display insufficient willingness to adapt on ESG issues, as well as structurally excluding from our investment universe companies that are involved in the production, trade and maintenance of controversial weapons

#### Avoidance

Kempen avoids investments in companies that structurally violate our ESG criteria and demonstrate no willingness to improve their policies and practices. Internal systems block potential investment in these companies for Kempen's internally managed investment funds. External active fund managers will be engaged on investments in companies on the avoidance list. Our [Avoidance list](#) is publicly available online and is adjusted at least quarterly.

#### Exclusion

The exclusion list applies to all actively-managed funds, whether managed internally or externally. Internal investments in excluded companies are blocked in the systems and all external actively-managed funds are assessed for compliance on a quarterly basis. Advanced exclusion criteria apply to all sustainable funds.

Our [Exclusion Policy](#) & [Exclusion List](#) are available online.

## Principle 8

### Signatories monitor and hold to account managers and/or service providers.

#### Engagement with fund managers

Kempen's Multi-Management team research, select and monitor external managers for inclusion in fiduciary management client portfolios. Engagement with fund managers on ESG matters is undertaken in close cooperation with the Responsible Investment team. The focus of this engagement approach is on the fund managers' responsible investment policy, implementation and disclosure, with the aim of encouraging 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.

Our main instrument to facilitate appropriate ESG integration in the manager selection process is our in-house developed ESG scorecard. With the help of the ESG scorecard each fund that is considered for investing or is already on an approved list is assessed and monitored based on six criteria:

- Commitment to responsible investing,
- ESG integration,
- Active ownership,
- Evidence & Transparency,
- Tailoring and Impact.

The ESG scorecard is the basis for assessing whether a fund complies with our minimum ESG criteria, to identify areas of improvement and to make these transparent internally, towards clients and the asset manager by way of engagement.

In addition, external fund portfolios are screened quarterly to monitor compliance with Kempen's exclusion and avoidance policy (this same screening is also applied to our in-house managed funds). Active funds cannot invest in exclusion companies and we take an engagement-focused approach to encourage the fund manager to reduce exposure to companies on our avoidance list.

Kempen reports the outcome of the engagement process with external fund managers towards its clients. A summary of the engagement is included in the quarterly reports to clients and in Kempen's annual responsible investment overview. Kempen provides a summary of the manager scoring of all scored managers to clients. This scoring includes manager score and short overview of the manager's ESG policies and practices, the ESG performance of the portfolio and potential points for improvement.

#### Engagement with service providers

We have an ongoing dialogue with service providers such as MSCI, Sustainalytics or ISS. We make use of the data provided by them and we proactively give feedback when we disagree with the assessment provided by them or if the service they provide does not meet our expectations. We maintain an open dialogue with a number of other service providers as well, also in order to keep ourselves informed on the latest developments and keep our options open for future solutions.

## Principle 9

### Signatories engage with issuers to maintain or enhance the value of assets.

Kempen is committed to long-term responsible investing. Part of this commitment is our focus on ESG integration and acting as a long-term engaged shareholder. 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.

We apply 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. Our latest [Engagement Policy](#) is [available online](#).

All our policies are regularly reviewed and updated as part of our fully integrated approach.

We differentiate between engagement for awareness and for change. Our engagements for change are structured around four milestones that we strive to progress on in a given time frame.

### 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.

### 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.

### Overview of Kempen's milestone methodology

- Raise concern: Kempen identifies the issues and brings it to the attention of the relevant board members or management team of a company;
- Company acknowledgement: The company acknowledges the importance of the issue raised to the company or its stakeholders and commits to resolving the issue;
- Company policy: Company has developed or improved its policy to deal with the specific issue; and
- 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.

## Principle 10

### Signatories, where necessary, participate in collaborative engagement to influence issuers.

We believe in the strength of collaborative engagement and apply this principle in engagements with companies worldwide. Through cooperation with other investors and fund managers, we can increase the leverage of our engagement activities.

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 [Climate Action 100+](#).

## Principle 11

### Signatories, where necessary, escalate stewardship activities to influence issuers.

Being a long-term responsible investor, Kempen believes that effective shareholder engagement with investee companies contributes to positive change. Hence, portfolio managers and the Responsible Investment team collectively engage on a wide array of strategic, financial, environmental, social and governance topics to mitigate risks and unlock opportunities. We engage with investee companies, fund managers, industry initiatives,



NGOs, authorities and other stakeholders. The engagement process is integrated in the work of the investment professionals.

Kempen will engage with senior executives within the company on a range of issues from performance issues to those of a social and environmental nature. We will engage with the company, by direct engagement and meetings with the company or joint intervention with other shareholders, and where appropriate, vote against management proposals. We apply a collaborative and thematic engagement approach, which allows us to increase our leverage. Through dialogue with our stakeholders we use our influence to encourage positive change.

Kempen prefers to meet and engage intensively in an encouraging manner with the company, on a confidential basis, before escalating the engagement, as this can build lasting relationships with portfolio holdings. However, should a company or fund manager be unresponsive to engagement we will sell the holding within a set timeframe.

## **Principle 12**

### **Signatories actively exercise their rights and responsibilities.**

Kempen votes at annual and extraordinary meetings at investee companies globally for all investment funds and discretionary mandates (if instructed by the client to vote) worldwide, unless voting is not feasible or not in the best interest of our clients. Owing a fiduciary duty to our clients, we ensure that the exercise of voting rights is in accordance with the investment objectives and policy of the relevant investment fund or – where applicable – in accordance with the requirements pursuant to the respective discretionary client mandates.



#### **Disclaimer**

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Kempen  
Asset Management

Octagon Point  
5 Cheapside  
London  
EC2V 6AA  
United Kingdom

T + 44 (0)203 636 9400

[www.kempen.com](http://www.kempen.com)