

Exclusion and Avoidance Policies

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1. Weapons exclusion policy

Introduction

As a responsible investor Kempen aims to be transparent about its investments, this includes our position on weapon related investments. Therefore, Kempen has formulated a weapon policy.

Kempen's weapon exclusion policy

Kempen only selects weapon related companies for investment if:

1. these companies comply with the international weapon related conventions / treaties as mentioned in the Convention Library and
2. these companies operate in compliance with local laws and regulations with regard to the production, storage, trading and use of weapons and
3. the weapons involved are not *controversial weapons* and
4. the weapons are not being provided to countries or people on the EU and/or UN sanction list, fragile or failing states¹, countries in civil war, suspicious and/or corrupt buyers, terrorist organisations and (organised) crime.

1. International weapon related conventions and treaties

Kempen has incorporated specific international weapon related conventions and treaties (see the Convention Library). As a policy Kempen will only consider investments in companies that comply with these conventions and treaties. For further guidance Kempen can also use other relevant (international) regulations e.g. the Charter of the United Nations, the Common Military List of the European Union and the European sanction list regarding weapons.

2. Local laws and regulations

Kempen only invests in companies that operate in compliance with local laws and regulations with regard to the production, storage, trading and use of weapons. *Production* of weapons is defined as the production and assemblage of final products, semi-manufactured products or weapon systems, ammunition, weapon guidance systems and ammunition carriers. *Trading* of weapons means direct trading between producer and final user of (parts of) weapons, as well as any form of intermediate trade in these (parts of) weapons.

Furthermore Kempen complies with the Dutch *Besluit marktmisbruik Wft* article 21a¹ (since January 1, 2013). This local law forbids Dutch financial institutions of any direct or indirect support of (foreign) companies (or their majority shareholder) if these companies are producing, selling or distributing cluster ammunition.

3. Controversial weapons

In line with international human right law, Kempen cannot condone *controversial weapons*. Controversial weapons are weapons of which the effects are disproportional and do not (cannot) distinguish between military and civil targets. Kempen considers anti-personnel mines, cluster bombs, nuclear, biological and chemical weapons as controversial weapons. Kempen does not invest in companies that are involved in developing, producing, testing, storing, trading and/or maintaining such weapons and ammunition. Please see Kempen website for the most recent exclusion list².

Dual use criterion

In relation to controversial weapons Kempen applies a *dual use criterion*. This criterion is developed to prevent that companies that only develop, produce, test, store, maintain or trade *generic* parts that can be used in controversial weapons (e.g. steel, electronics, engines, fuel), are considered as being involved in controversial weapons. At the same time the *dual use* criterion guarantees that companies active in developing, producing, testing, storing, maintain and/or trading *essential*³ parts, are flagged as being involved in controversial weapons.

¹ Source in Dutch only: <https://wetten.overheid.nl/BWBR0020417/2017-07-12>

On cluster munitions and ammunition carriers, we follow a tertiary involvement approach. This means that we do not invest in ammunition carriers which are involved in cluster munitions, where we do not make a distinction between carriers specifically versus not specifically built as delivery platform for cluster munitions. However, the ammunition carrier needs to fulfil the following criteria: (1) our data provider has evidence ('documented examples') that the aircraft can be used as a delivery platform for these weapons; and/or (2) the carrier has been tested and certified for the use of these weapons.

Screening criteria controversial weapons

- *Anti-personnel landmines*: companies involved in the production of anti-personnel landmines are excluded.
- *Chemical and biological weapons*: companies involved in the production of chemical and biological weapons are excluded.
- *Nuclear weapons*: companies with direct involvement in nuclear weapon production are excluded. Direct involvement is established if the company is involved in the production and/or storage of fissile materials used in/for nuclear weapons. It includes companies with contracts to operate/manage facilities involved in the manufacture of fissile materials for nuclear weapons. This 'nuclear fissile material production' demonstrates that the company involved has a direct link with the actual nuclear weapon.
- *Cluster Munitions*: companies involved in the production of cluster munitions are excluded. The screening criteria for cluster munitions also exclude companies that are screened on the "ownership by/ownership of" criteria. Exceptions for exclusion:
 - Financial institutions that screen on involvement are not excluded.

4. Removal of companies from the exclusion list

Companies that are no longer involved in the production of controversial weapons based on the evidence provided to MSCI will be reviewed by Sustainability Centre in the quarter they appear as not involved in the screen. Decision to remove these companies from the exclusion rests with VLK Sustainability Investment Council.

5. Exclusion list of buyers and countries

As a policy Kempen will prevent investments in weapons and ammunition (both *conventional* and *controversial*) if there is a substantial risk that the weapons will be used for severe violations of international human rights. Also, weapon suppliers to fragile or failing states, countries that are in civil war, suspicious and/or corrupt buyers, terrorist organizations and (organized) crime are not accepted. To determine which countries and people this applies to, Kempen follows the European sanctions list (among others)⁴. As a policy Kempen will not invest in companies that deliver conventional and/or controversial weapons to countries and people on the EU and/or UN sanction list. Kempen is currently reviewing criteria for implementation this part of the policy.

The most recent exclusion list is available on Kempen's website:

<https://www.kempen.com/en/asset-management/esg/policies-and-publications>

2. Avoidance Policy

2.1 Sector Level Avoidance Policy

As part of our commitment as a long-term investor, our focus is on ESG integration and long-term stewardship. We aim to use our influence to encourage positive change. There are some companies we will not invest in either due to their conduct or due to their products / services. For the latter, we have developed a principles-based decision framework. By using this framework, activities can be assessed, and decisions can be made to determine which products / services are not eligible for investment. The framework can further be used to communicate with our stakeholders (such as our clients) to explain the rationale behind our choices.

Process

How are sectors included on the Avoidance list?

In order to be added to the Avoidance list, the criteria for a product / service need to be answered positively (1a-5) - in consecutive order - and the product/service has a high negative impact (criteria 1b).

1. The product / service has (a) to be by definition harmful to people and/or nature / environment; and (b) have a high negative impact on people and/or nature/environment when used as intended.

If the product / service is by definition harmful for people and/or nature / environment and has a high or very high negative impact when used as intended (1), then the following additional criteria (2-5) need to be also answered with 'yes' to be considered for exclusion.

2. The product or service is not essential (there is no harmful effect if the product would no longer be there).

3. There are international treaties / conventions that prohibit the use of the product / service, or aim to significantly reduce the use of it.

4. Engagement with the company cannot change the situation towards the equivalent of non-harmful product/service (also considering innovation towards non-harmful products) - if used as intended.

5. The company is directly involved in the product or service via production / manufacturing (>0% revenues) or is significantly (>20% revenues) indirectly involved in the product or service from or via the distribution and/or sale (retailers, suppliers).

What happens once a sector is included on the Avoidance List?

There are some differences in the implementation between internal and external funds.

With regards to internal funds, it is the aim to exclude the sector altogether and funds will be given a transition period to implement the changes. Some internal funds who invest in underlying external funds can receive a waiver depending on the feasibility of the implementation.

For external funds, we need to distinguish between where we have discretionary and non-discretionary management. In cases where we have discretionary management and it is feasible, the aim will be to eliminate the sector exposure. If it is not feasible, or if we have non-discretionary management, the aim is to advise our clients and engage with our active external managers to discuss excluding the particular sector within a certain time period (e.g. 2 year).

2.2 Company Level Avoidance Policy

Aim

There are a number of companies that pose a significant reputational and financial risk for our investments. This risk can be either from a reputational perspective or from an investment perspective. These are companies that structurally violate international conventions and standards and have demonstrated no improvement over the last years. The reason to include them on an Avoidance list is that investment in these companies pose a serious concern and we would like to raise awareness and to inform our fund managers, both internally and externally, about these possible material financial and reputational risks of investing in these companies. Next to raising awareness, the aim of the Avoidance list is to avoid investment in these companies where possible.

Process and governance

Our starting point is to perform due diligence and identify companies which have the most severe impact on society or environment and which can be eligible for the Avoidance list. To do that we assess companies with the most severe and widespread controversies. The assessment is done in the following way:

All companies which have controversies with the highest negative impact (called 'Red Flags') are identified. We perform the assessment using MSCI ESG data, as MSCI ESG is our main ESG research provider. We use data from Sustainalytics (another ESG research Provider) to support the assessment process and evaluation.

Overall, we assess if the company is willing and able to solve the issue(s) and to prevent future issue(s). The criteria are set up in such a way that they cover both the ability and willingness of the company to change its negative impact. Furthermore, the criteria cover different aspect of the willingness of a company: its commitment, policies, implementation and reporting on the issue. The criteria are summarised below.

Criteria

1. **Leverage:** are we invested in a company and can we use our leverage via engagement?
2. **Company involvement in controversy (ability):** how is the company involved (causing, contributing or linked to); and can the company resolve/remediate the controversy? Finally, is the company able to take measures to prevent similar controversies from happening in the future?
3. **Company willingness**
 - 3.1 **Governance:** is there Board commitment to resolve the controversy? Has there been Board or management changes or other leadership changes since the incident?
 - 3.2 **Mitigation efforts: policy setting:** did the company create / update policies, targets, etc regarding the issue, and what is the quality of these policies?
 - 3.3 **Mitigation efforts:** what is the implementation of policies mentioned in 3.2? Furthermore, we consider other indicators such as controversy outlook (positive, negative, neutral) and company ESG rating in this step.
 - 3.4 **Disclosure / transparency:** does the company provide disclosures about the issue(s) and the progress on resolving it, and what is the quality of these disclosures?
4. **Controversy development:** history and remediation of the issue(s).
5. **Remediation:** status of the remediation of the controversy.

Depending on the overall scoring and evaluation, the company can be added to the Avoidance list, Monitoring list or Engagement for change list.

To reach a conclusion, for each (sub)-criteria in criteria 2-5, we assess if the direction is positive, negative or neutral. Based on the analysis and scoring, there are then three possible outcomes:

1. **Avoidance list** by default – when assessment is mostly negative and or neutral.

2. Monitoring list - includes companies that are potentially breaching global norms or have breached them in the past and Kempen monitors them for changing their conduct. In case we are directly invested in these companies we proactively engage with them for remediating controversies, where applicable.

3. Engagement for Change (Kempen is invested in the company) – if the assessment is mostly positive / neutral.

Companies are reassessed annually and depending on the progress made, companies can be added or removed from the Avoidance list. Decision to remove or add companies' rests with the VLK Sustainability Investment Council.

The most recent avoidance list is available on Kempen's website:

<https://www.kempen.com/en/asset-management/esg/policies-and-publications>



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Kempen
Asset Management

Beethovenstraat 300
1077 WZ Amsterdam
The Netherlands

P.O. Box 75666
1070 AR Amsterdam
The Netherlands

T + 31(0)20 348 8700
F +31 (0)20 348 8750

www.Kempen.com