

# Kempen Outlook 2021

## A turbulent 2020 shows the importance of stakeholder capitalism

*The ongoing pandemic has put our concept of 'the Real Active' to the test. It has seen Kempen ask firms to cancel dividends and collaborate on important issues such as access to medicine and safeguarding labour standards in the clothing industry.*

As part of our investment activities, Kempen has spent many years actively encouraging the companies we invest in to focus on creating long-term value for *all* of their stakeholders – not just shareholders.

We refer to these stewardship efforts as '**the Real active**' [see figure below] as we believe that companies that consider the needs of all their stakeholders, including their customers, workers, suppliers and communities, alongside those of their shareholders are those that will deliver the best value for their investors over the long term.



It is a concept of corporate leadership that has been severely tested during the challenging conditions we've seen in 2020. Encouragingly, we are seeing signs that this stakeholder-centric approach is proving to be a resilient business model in the difficult environment that companies currently find themselves in.



## PUT TO THE TEST

The pharmaceutical sector is a good example of this. As Covid-19 spread across the globe, we encouraged pharmaceutical firms to take a collaborative approach to help solve the crisis and resist the temptation to enforce patents, set excessive prices or fail to disclose relevant findings. We have also urged them to continue to develop and provide affordable access to health products and medicines for people around the world despite the focus on coronavirus.

A case in point has been our recent engagement with **Novo Nordisk** to ensure that patients who rely on insulin and other medicines the firm provides can be assured that there would be no interruptions to their supplies. The company's response has been very positive, including launching a new 'Defeat Diabetes' strategy that has reduced the price of insulin from USD 4 to USD 3 per vial to help ensure uninsured people around the world can access this vital hormone.

The company has also collaborated with other partners on the development and widescale deployment of Covid-19 antibody testing. What's more, it has donated close to 500 tonnes of ethanol, an essential ingredient in hand sanitisers, to help curb the spread of the virus.

We have also been actively engaging in the garment & apparel sector. At the start of the pandemic we saw a number of companies doing whatever it took to protect their cash flows and profits. Some cancelled orders they had agreed, negotiated discounts with suppliers, or grossly extended their payment terms. Such actions, combined with factory closures as a result of the pandemic, had an enormously damaging impact on many of the 40–60 million garment workers active in global fashion supply chains, with job losses and in some cases unpaid or underpaid wages. Factories in producing countries faced major challenges in keeping their business running at a time when orders had slumped.

As part of our efforts in this area Kempen worked with other members of the Platform Living Wage Financials, an alliance of 15 financial institutions, to write to 32 companies including **Abercrombie & Fitch, Coats, American Eagle, H&M** and **Nike**, asking them to manage the Covid-19 crisis responsibly across their own operations and supply chain. We urged them to combine financial prudence with a commitment to protect workers' rights across their supply chains as well as the health and safety of their workers and customers. For example, we welcomed the commitments of many companies that they would not cancel existing orders and would make timely, and in some cases advance, payments to their suppliers.

What became very clear during the pandemic was that no firm can solve all the problems on its own, and that collaborative effort and engagement with all key stakeholders was needed to align recovery efforts and ensure operations continue safely.



## SETTING THE TONE AT THE TOP

The pandemic has sharpened the attention being paid to how executive remuneration is linked to the health and safety of employees, suppliers and customers and that the rights of investors, including end-beneficiaries are safeguarded. We believe this is a great opportunity for boards to show how they're balancing the needs of their investors, employees, suppliers and other stakeholders.

For example one of our investees, **Unibail Rodamco Westfield**, as well as partnering with local NGOs to help local communities in the fight against Covid-19, saw its senior executives agree to take pay cuts of 20–25%. The unpaid salaries were donated to support efforts to fight Covid-19 in all of the countries in which the company operates.

## WALKING THE WALK OURSELVES

We recognise that in our position as an investor we too at Kempen must take into account the needs of all stakeholders, if our 'Real Active' approach to stewardship is to succeed in the current crisis.

With this in mind, in recent months we have asked some firms we invest in, including Dutch technology company **TKH Group** and financial services provider **Intertrust**, to cancel their 2019 dividend payments to shareholders such as us. We believe this is important to secure the financial flexibility these companies need in the hugely uncertain environment they are currently in. We have voted against this agenda item at both of these firms' AGMs. Not paying a dividend now could also help some companies capitalise on opportunities to strengthen their market positions.

As long-term shareholders, we believe that a cautious approach in the short term can lead to the creation of even more shareholder value in the long term.

## LOOKING AHEAD TO 2021

In return for the patient capital and deep understanding we extend to the companies we invest in, we expect them to consider what value they can create through their business activities for all their stakeholders. And there's more than just Covid-19 to think about at present. The world is faced with other critical sustainability challenges, including climate change or the empowerment of underrepresented groups, and we want to make further progress on these issues with the companies we invest in through our 'Real Active', outcomes-focused engagements.

A key way we intend to do this in 2021 is to advance the way we measure the alignment that companies have with regards to sustainable development, and in particular how they help achieve the United Nations Sustainable Development Goals (SDGs). We will continue our proactive engagements with companies on how they contribute to meeting the SDGs through their products and services. Some do this already, while



others are advancing their contribution through their capex and R&D expenditures, the results of which will become clearer in the coming years.

We are also keen to drive further progress in areas such as the provision of accessible healthcare or affordable finance to otherwise underserved markets. We already do this through our [Global Impact Pool](#), which focuses primarily on non-listed asset classes.

Many challenges lie ahead. But among all the tragic personal and economic consequences of the Covid-19 pandemic, we have also seen the concept of stakeholder capitalism put to the test and emerge stronger and more resilient. This is a positive outcome we will pursue into 2021 and beyond.

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