KEMPEN CAPITAL MANAGEMENT N.V.

AMSTERDAM

2016 ANNUAL REPORT

Kempen Capital Management N.V.
Beethovenstraat 300
PO Box 75666
1070 AR Amsterdam
The Netherlands
Institutional asset management
Telephone + 31 20 348 8700
Fax + 31 20 348 8750
www.kempen.nl
Chamber of Commerce: 33181992

Report of the Management Board

Profile of Kempen Capital Management

Kempen Capital Management NV (KCM) is a full subsidiary of Kempen & Co (KCO), which in turn is a full subsidiary of Van Lanschot Bankiers (VLB). KCM provides asset management services, focusing on niche strategies and managing portfolios of global and European equities, bonds (government bonds and credits), real estate equities and alternative investment products for institutional investors via mandates and investment funds. KCM also provides client solutions, i.e. total investment solutions for both private individuals (via VLB) and institutional investors (directly), with priority given to clients' objectives and liabilities. We offer institutional investors client solutions such as fiduciary management, a comprehensive investment solution for Dutch pension funds and insurers, as well as for associations and foundations. We aim to be a world-class, specialist asset management company that exceeds our clients' expectations and creates long-term partnerships with our clients and providers based on transparency and trust. We have offices in Amsterdam, Edinburgh and London.

Results

In the reporting period from 1 January through 31 December 2016 we turned a net profit of €9.7 million. Our assets under management (AuM) grew from €41.8 billion to €46.9 billion (+12.2%) on the back of net new inflows of 7.3% and positive price effects of 4.9%.

Macroeconomic trends and the financial markets in 2016

Macroeconomic concerns in the financial markets meant that 2016 got off to a turbulent start. Investors feared a steep renminbi devaluation by China's policy-makers and a subsequent hard landing for its economy. However, Beijing made it abundantly clear it had no such devaluation intentions and was pulling out all the stops to achieve its growth objectives for the 2016-20 period. In the event, China did hit its 2016 targets, but recorded its weakest economic growth in well over two decades.

A second investor concern at the beginning of 2016 was the sharp downturn in oil prices, related to oversupply. Some economies benefited, of course, but the drop severely hobbled companies and oil-exporting countries alike. This explains OPEC's agreement on production cuts by the end of 2016, which has since provided a fillip to oil prices. The first half's lower oil prices depressed inflation expectations.

For the European Central Bank (ECB) these lower inflation expectations were a cue to further cut deposit rates and expand quantitative easing programmes: it raised its monthly asset purchases from €60 billion to €80 billion and added corporate bonds to its investable universe. In December 2016, the ECB announced it would keep in place its asset purchase programmes until the end of 2017 at least, albeit at a slower pace of €60 billion a month. Although inflation had been creeping back up because of higher oil prices, core inflation remained low as growth continued to recover only modestly.

Japan couldn't get inflation to move either, despite repeated attempts by its central bank (BoJ) to kick-start the economy and stimulate overall price levels. The BoJ even launched a new type of monetary easing in September: a cap of around 0% on ten-year yields on Japanese government bonds.

The second half of the year saw apparently deep-running popular discontent come to the surface in a series of unexpected political votes. At the end of June, the British produced a slim majority in favour of leaving the European Union. Brexit was the reason for the Bank of England (BoE) to cut its policy rates to their lowest levels ever and to expand its quantitative easing programme. The predicted economic meltdown did not materialise, however, and economic growth continued apace in the second half of the year.

In November, Donald Trump beat expectations to hit a homerun in the US presidential elections, and his campaign's pro-business noises gave wings to SME and consumer confidence, and pushed up equity prices. The Federal Reserve taking only the one interest rate step in December primarily reflected external factors: 2016 was a solid economic year for the United States, but one foreign event after another stopped the Fed from ratcheting up policy rates in the year.

The first half of 2016 saw sharp falls in capital market rates, encouraged by central bank actions, while steeply lower oil prices and uncertainty over the global economy also came into play. Germany's yield curve flattened sharply in these first six months as negative capital market yields increasingly pushed the ECB into purchasing further down the curve. June's Brexit vote drove capital market yields down further and German ten-year yields recorded intra-year lows of -0.19% on 8 July, the culmination of a decline of over 80 basis points in ten-year Bund yields. Yields on 30-year German government bonds recorded falls of over 110 basis points in the same year.

The turning point for the bond markets came in the summer. The second half's uptick was driven by improved economic data, higher oil prices and, later in the year, the surprise election of Donald Trump. The tapering noises made by major central banks also contributed to the upward trend in capital market yields in the final months of 2016. The German yield curve steepened: whereas ten-year bonds locked in a rise of 40 basis points from their nadir, 30-year government bonds recorded an increase of 60 basis points. Increased political uncertainty caused a slight rise in risk premiums in Europe's southern countries by the end of 2016, but eurozone risk premiums stayed stable across the year, as the ECB continued its expansionary policies. Capital market yields in the key European countries ended the year below the close for 2015: Germany's ten-year yields at 0.21% compared with 0.63%, France at 0.68% vs 0.98% and the Netherlands at 0.36% vs 0.79%.

Worries about the Chinese economy and the persistent fall in oil prices ate into equity market prices in the first quarter of 2016, as investors displayed risk-off sentiment across the globe. When concern started to fade, risk appetite returned and global equity prices recovered.

After a volatile first quarter, prices in the developed countries' equity markets moved sideways for a long time. The United Kingdom was the one major exception and saw equity prices surge after the Brexit vote. The MSCI UK ended the year 16.8% higher, making it the best performing equity market in the developed world, mainly because of a weaker sterling. For foreign investors, by contrast, the sharply lower pound made for significantly lower returns on UK equities.

After the presidential election, investors in the United States were buoyed up by Trump's campaign promises of lower corporate taxes and higher infrastructure spending. The country's equity markets, in particular, closed the year higher, with the MSCI US coming in at +11.6%. Following in their American counterpart's footsteps, Europe's stock markets also climbed, but the response was more muted. Persistent worries over bank solvency and political uncertainty continued to overhang the markets. The MSCI Europe ended the year 7.9% higher.

In 2016, equity prices in the emerging countries did well out of the recovery of the Chinese economy and rising commodity prices, and emerging equity markets were the best performers for most of the year. That said, the last couple of months of 2016 brought the flipside of US developments into stark relief: the dollar gained traction on the back of improved prospects for the US economy, while Trump's protectionist plans promise a less favourable climate for emerging countries. As a result, some of the excellent performance was lost towards the end of 2016 and the MSCI Emerging Markets index closed on +10.1%.

Niche strategies

In the reporting period, all KCM-managed investment funds recorded favourable performances in relative terms – that is, relative to their benchmarks – while most of our investment strategies also notched up positive absolute returns. The single exception was Kempen European Property Fund, which ended the year almost 3% lower.

At the beginning of March, we announced that our European Small-cap and Sustainable European Small-cap strategies were switching to a team-based investment management approach, jointly headed up by Tommy Bryson and Mark McCullough. They will replace Rory Hammerson, who had led the Edinburgh team until then.

Mid-April brought double-whammy accolades for our Kempen Orange Fund. The 25-year-old fund received a Morningstar Fund Award in the Dutch Equities category, with the jury commending it as a specialist in its category, led by a high-quality team. The same fund also won a Thomson Reuters Lipper Award for Dutch equities.

Also in 2016, we launched our Kempen Global Property Fundamental Index® Fund NV to benefit our clients' property and fundamental strategies.

At year-end 2015, we announced a soft close for our Luxembourg funds investing in credits. This essentially means that we only accept new inflows from our existing clients, and that we are not accepting inflows from new clients. Early in January 2016, we learned that France's Fonds de Reserves pour les Retraites (FRR) had selected us as one of a total six managers to manage a credit mandate. Meanwhile, reduced interest caused us to discontinue the Kempen (Lux) Euro Non-Financial Credit Fund. By the end of 2016, our credit strategies accounted for €5.4 billion in assets under management.

By the end of 2016 we had a total of €15.2 billion in AuM in niche strategies, up 17.8% on the figure for year-end 2015 (€12.9 billion).

Client solutions, fiduciary management

At the beginning of January 2016, insurer Univé Groep selected KCM for the fiduciary management of its investments. The contract for this mandate of over €1 billion became effective on 18 January 2016. At the beginning of January 2017, pension fund Banden & Wielen announced it had picked KCM to be its new fiduciary manager.

We have improved our service offering to our clients by adding to our investment range external asset managers that target investments in new illiquid asset categories, and by expanding our selection of passive instruments to serve as building blocks for our institutional clients' investment portfolios. We offer our clients active allocations, a large proportion of which comprise passive building blocks in addition to a few active liquid and less liquid instruments. A concrete example is the way we handle fiduciary real estate management for institutional investors: strategically, we identify the most attractive real estate markets to invest in and then drill down to the type of real estate that fits the strategy best, either listed or unlisted investment funds. This fiduciary service has been available with effect from 2016 and we have already welcomed our first clients.

In the first six months of the financial year, the newly named Kempen Capital Management London – i.e. the MN UK operations acquired in 2015 – mostly focused on converting its clients' portfolios to structures and solutions offered to clients in Amsterdam. At the start of the reporting period we announced that Johan Cras would be put in charge of day-to-day management following the departure of MN UK's Managing Director Remco van Eeuwijk, who left us to accept a senior management position at a Canadian institutional investor. Johan joined us from Achmea Investment Management, where he was a member of the management team with responsibility for fiduciary management. Previously, he had held a range of positions at Russell Investments, the last of which was as Chief Executive for EMEA in London.

Our focus in the second half of the period was on increasing brand awareness of the London operations and on the search for new business premises. The first led to a new management mandate, whose activities will start in the first quarter of 2017, while the second involved a move to a new location at the beginning of February 2017.
Early in 2017, we announced the departure at his own request of Jan Bertus Molenkamp from the KCM organisation. He will be succeeded by Gerard Roelofs, who has held positions as a member of the NN Investment Partners management team, Head of Investment Europe at Towers Watson, and previously also as Managing Partner in the Netherlands at Watson Wyatt as well as Country Head of Benelux at Deutsche Asset Management.

By the end of 2016 Client Solutions held €31.6 billion in AuM, a 9.7% increase on year-end 2015 (€28.8 billion).

Organisation
In the first half of the financial year we worked on further leveraging our enterprise data management (EDM) solution, picked a data architecture and started its implementation.

The year also saw us select a new custodian and depositary for our Dutch investment funds, both UCITS and AIFs. BNP Paribas has been custodian and depositary for our Dutch investment funds (UCITS) since 18 March, while the transition of the Dutch AIFs to BNP Paribas took place in the second half. BNP Paribas will also gradually step in and take over the fund administration for the investment funds incorporated in the Netherlands.

At the beginning of the 2016 financial year we announced that Mark Geneste would join us as Executive Director of Global Institutional Clients & Marketing from 15 January 2016. His focus is on expanding KCM, both in the Netherlands and abroad. Mark has over 20 years of international experience under his belt and his wealth of experience and expertise should help Kempen further its international growth ambitions. Before joining the KCM management team, Mark's career included positions as Chief Sales Officer at Dun & Bradstreet, Executive Vice President of Institutional Sales at Instinet Ltd, and Managing Director EMEA at Thomson Reuters. These roles saw him work and live in countries including Switzerland, the United Kingdom and the United States.

The KCM Management Board has comprised two members for a number of years now, i.e. Paul Gerla and Erik Luttenberg. We aspire to a sufficient degree of diversity in the composition of the board. Diversity includes a broad range of aspects such as gender, knowledge, experience, skills and personality. In the event of a vacancy we will factor in diversity when seeking the right person for the job, on the principle that the most suitable candidate should be appointed. On careful consideration of all relevant selection criteria, a woman has not yet been appointed as member of the board.

Responsible investment

KCM is an asset manager with a long-term investment horizon that believes in engaged ownership and continuously strives to improve its results and service. This is laid down in our investment principles. In line with these, we have incorporated environmental, social and governance (ESG) criteria into our investment process. We aim to avoid investing in the financial instruments of companies and/or entities that fundamentally violate these criteria. We engage with companies and fund managers in order to achieve positive change, and actively exercise our voting rights at shareholder meetings. Our ESG policy is based on international treaties and conventions. The United Nations Global Compact (UNGC) and the Principles for Responsible Investment (PRI), both of which we have signed, together with the Guiding Principles on Business and Human Rights, form the basis of our Convention Library. In 2016, KCM created a promotional video about its responsible investment strategy and ESG integration. This may be viewed on our website.

We continued with our thematic and collaborative engagement approach in the year. Climate was again one of our key themes: we published our climate policy and have further developed our methodology for measuring the climate impact of our investment portfolios. In addition, we continued our collective engagement activities with the Institutional Investor Group on Climate Change (IIGCC) and the PRI. Early in 2016 we also joined a new collective engagement initiative aiming to end child labour in the Congo cobalt industry.

In 2016 we discussed responsible investment with the majority of our external fund managers and encouraged them to integrate ESG into their investment processes. We also discussed a few controversial investee companies in these managers' portfolios. On the whole, we are pleased with the progress our managers have made in the area of responsible investment.

At the beginning of 2016, we reviewed our voting process at KCM and drew up a roadmap to further develop our voting guidelines, to expand our voting engagement activities and improve our reporting on our voting record, hiring a new dedicated staff member to help the ESG team further promote this particular theme.

In addition to our exclusion list, we have now also put in place an avoidance list. This latter list features companies that have long been fundamentally in breach of ESG criteria and have not shown any improvement over time. KCM aims to avoid investing in such companies. Potential internal investment in 'avoidance companies' is ruled out, and we talk to external investment funds that are looking to invest in these companies.

We believe in investing for the long term. And to put our money where our mouth is, we have joined forces with academics, asset owners and other asset managers to launch SHIFT TO Long-term investing. The SHIFT TO newsroom provides information about long-term investing and offers inspiration to a broad range of stakeholders to implement a more long-term focus.

DUFAS Asset Manager Code of Conduct

On 1 October 2014, the Dutch Fund and Asset Management Association (DUFAS) published a code of conduct (the Code) that explains what clients can expect of their asset managers. This Code applies to all DUFAS members. As a DUFAS member and co-author of the Code, KCM applies this Code and reports on how it has applied its principles. This annual report contains KCM's report on application of the Code in 2016.

General principles

1. *Asset managers should act in the interests of their clients*

At KCM, our clients' objectives are always the starting point for the type of asset management to be provided. If we cannot provide a particular service, there are anyway no incentives for KCM employees to offer one. We even encourage our employees to be slightly stubborn and not provide a service if we genuinely believe it is not in our client's interest.

2. *Asset managers should know their clients*

It is KCM practice to be in regular touch with clients, their advisers and ALM consultants with respect to our clients' financial positions. This includes assessing or reconfirming objectives and risk appetite.

3. *Asset managers should conduct business fairly*

The agreements we make with clients and the guidelines we agree with them are laid down in contracts. Our clients receive very frequent, unambiguous reports on these. Our investment fund clients can of course access the prospectuses, key investor information and recent annual reports on our website. Monthly reports on portfolio activity and investment results are also compiled for most investment funds.

4. *Asset managers should act ethically*

Acting ethically must be in the DNA of all KCM employees. Pre-employment screening is conducted before employees start working at KCM. All Kempen & Co employees must attend an in-house ethics course and subsequently take an exam. Moreover, we believe it is important to have an open office culture – one in which people can challenge each other on their conduct, and in which people can make mistakes and be encouraged to talk about them. Lastly, regular awareness sessions are held on compliance-related issues.

5. *Asset managers should manage conflicts of interest*

With a view to managing potential conflicts of interest, we first make unambiguous agreements with our clients. KCM and its employees also invest in KCM's own investment funds, and this is the ultimate expression of interests coinciding. Equal mandates receive equal treatment at KCM. To this end, a central trading unit has been set up to execute buy and sell transactions and this unit executes transactions (where possible combined) for and on behalf of all our clients. This has been laid down in an order-processing policy document that is available to clients.

6. *Asset managers should act professionally and prudently*

Our investment funds and services are generally not complicated; we ensure that those that are complicated are only sold to professional parties that possess the requisite knowledge. Moreover, our employees attend training courses that deal with specialist aspects – e.g. via CFA/VBA – as well as with more conduct-related aspects.

7. *Asset managers should communicate clearly and unambiguously*

We provide our clients with reports on an individual basis. The content and frequency of these reports is laid down in the contract between the two parties. Our investment fund clients have access to the detailed, clear and often monthly reports published on our website.

8. *Asset managers should be open about their remuneration policies*

We are transparent about our remuneration policy. A summary of our policies can be found on our website and in this annual report. For further information on remuneration, go to www.kempen.nl.

9. Asset managers should be transparent about fees
We provide clear information about costs and are always open about the fees our clients pay.

10. Asset managers should comply with the DUFAS codes of conduct
We comply with the DUFAS Fund Governance Code and the DUFAS Principles of Fiduciary Management. KCM complies with the Fund Governance Code via a Supervisory Committee for all KCM investment funds under supervision. This Supervisory Committee's regulations are published on our website. KCM is co-author of the Principles of Fiduciary Management and complies with these principles.

Risk management
Internal control, risk management and compliance are key to our organisation and have our unwavering attention.

The Risk Management department supports and advises the KCM Management Board on identifying and managing the risks to which KCM is exposed. The department oversees compliance with the risk policy as adopted by the risk management committees, and reports on this directly to the KCM management team and the relevant risk management committees. It also helps in the implementation of guidelines, regulations and internal control measures in relation to risk control. The Director of Risk Management at KCM reports to the Management Board of KCM, VLB Risk Management and the KCO Risk Committee

The Compliance department oversees compliance by KCM staff with internal regulations and external legislation, and seeks among other things to ensure that a high level of compliance awareness is maintained within KCM. The Compliance department operates autonomously and reports directly to the CEO of VLB.

Group Audit fulfils an independent supervisory role on behalf of the KCM Management Board and management team, systematically evaluating the structure and operation of the internal control system, drawing on existing process risk analyses. The department reports on this to the KCM Management Board and management team. Compliance and Group Audit also report to the VLB and KCO Audit & Compliance Committee. Risk Management reports to the KCO Risk Committee.

We carry out an annual strategic risk self-assessment, referred to as our enterprise risk management dashboard. Briefly, this assessment incorporates the following elements:

- A risk self-assessment.
- A description of the control measures in place to mitigate the risks identified in the risk assessment. We have a low risk appetite, which means we seek to avoid the impact of these risks as far as possible.
- A determination of any additional capital that needs to be held as a buffer for the remaining risks.
- Aside from assessing the impact of a scenario actually materialising, we also factor in the likelihood that it will do so, which might lead to differences between expected losses and losses actually recorded.

The ultimate purpose of the ERM dashboard is to assess both our present and future capital adequacy. It is important that we maintain our capital adequacy, even in difficult market conditions.

We have used the ERM dashboard to identify material present and future risks and to estimate future capital adequacy using scenario analyses.

The following risks identified in the ERM dashboard are of particular relevance:

1. There is a risk that a substantial fall in the price of securities over a shorter or longer period could cause a reduction in assets under management. This would lead to a fall in income due to reduced management fees. The nature of our business is such that having a mix of assets in the portfolio is a logical choice; this gives rise to effective diversification, which in turn generally tends to mitigate any overall price losses. Additionally, if this scenario should occur, we will take measures to limit costs. The projected loss for KCM under this stress scenario is estimated at €1.8 million. This scenario did not arise in 2016.

2. There is a risk that transactions are not carried out in keeping with client agreements and that claims for damages will need to be settled. This risk is mitigated by a range of measures, including clear parameters in investment management agreements with clients. The pre- and post-compliance controls stemming from this are almost entirely automated. Only the KCM Business Risk Officer and Compliance Officer are authorised to approve blocked orders. In addition, the KCM Risk Committee supervises the other risks for funds and clients. The projected loss for KCM under this stress scenario is estimated at €400,000. In 2016, a few minor incidents of this type occurred, and payments fitted within the expected losses.

3. There is a risk that errors will be made in the execution of transactions. This risk is mitigated by using straight-through processing (STP) where possible and configuring adequate internal controls. The four-eyes principle is applied at key points in these processes. Errors which do occur are recorded and analysed in depth, enabling new control measures to be implemented to prevent repetition. The projected loss for KCM under this stress scenario is estimated at €100,000. In 2016, a single incident of this type occurred.

In addition to our ERM Dashboard, we also contribute to the development and analysis of stress scenarios in the framework of the bank-wide internal capital adequacy assessment process (ICAAP).

We also have in place a description of our administrative organisation and internal control system. In 2016 we made additional improvements to this ISAE 3402 framework to strengthen our internal control mechanisms. These improvements are described in detail in the relevant report. During the 2016 reporting year, the Management Board established that the administrative organisation and internal control system functioned effectively and in accordance with the description. This is confirmed in an ISAE 3402 report on the 2016 financial year, on which an unqualified auditors' report was issued by the external auditors.

Risks and risk management

Market risk

KCM's core activity is to manage the assets of clients (and not for any proprietary business) and we are not therefore directly exposed to market risks. That said, market risks do affect the wealth creation of our clients and thus have an indirect impact on our own financial results. Our varied offering of products and services significantly cushions these effects and this risk is considered low to medium high.

Credit risk

KCM does not face significant credit or counterparty risks. We do not issue loans and are not a counterparty to over-the-counter financial transactions, thereby sidestepping settlement risk. Our service offering does of course imply credit risk in terms of management or performance fees to be received from clients. With a varied client base of generally wealthy clients, this risk is considered low. KCM balances are entrusted to reliable parties.

Liquidity risk
KCM's core activity is to manage the assets of clients (and not for any proprietary business) and we are not therefore directly exposed to liquidity risk, although liquidity risks may indirectly affect our liquidity profile. Our varied offering of products and services significantly cushions these effects and this risk is considered low. Fees charged to clients are collected periodically and benefit KCM's liquidity profile.

KCM has sufficient qualifying capital to meet the prudential capital adequacy requirements set by De Nederlandsche Bank (DNB) on an ongoing basis. If the calculation of the capital requirement shows that the capital held will not be adequate without additional measures, measures will be taken in consultation with KCO and VLB to increase the amount of capital held. In principle, any capital shortfalls can be made up through capital contributions to KCM by KCO.

KCM falls under the supervision of De Nederlandsche Bank (DNB) and the Dutch Authority for the Financial Markets (AFM).

Remuneration policy
Employees working for KCM have an employment contract with Kempen & Co NV, the parent company of KCM. Kempen & Co NV is a subsidiary of F. van Lanschot Bankiers NV, which is in turn a subsidiary of Van Lanschot NV. All legal entities, companies and branches forming part of Van Lanschot NV are collectively referred to in the remainder of this report as 'Van Lanschot Group'. Pursuant to new regulations, Van Lanschot Group adopted a new variable remuneration policy for its employees in 2015. This policy applies for employees (including identified staff) of F. van Lanschot Bankiers and Kempen & Co and their subsidiaries, including KCM.

This means that the Van Lanschot Group remuneration policy applies for KCM, with the proviso that a number of specific additional provisions apply for KCM; these are described in the remuneration policy and are specifically linked to the activities of KCM and the remuneration rules that apply in respect to those activities. Our remuneration policy applies to all employees working for KCM. Remuneration paid is not attributed to individual investment entities.

KCM remuneration policy: general principles
Van Lanschot Group pursues a prudent, sound and sustainable remuneration policy that is in line with the group's strategy, risk appetite, objectives and values. The remuneration policy is in line with and contributes to sound and effective risk control and does not encourage the taking of more risks than Van Lanschot Group considers acceptable. Van Lanschot Group ensures that the remuneration policy is applied within Van Lanschot Group.

The following general remuneration policy principles apply for all employees working for KCM:
- Outperformance is rewarded.
- A system of differentiated remuneration applies.
- An employee's variable remuneration is based on the performance of Van Lanschot Group, KCM and the individual employee.

- The assessment of an employee's personal performance is based on both quantitative (financial) and qualitative (non-financial) performance criteria; certain departments apply only qualitative criteria.
- At least 50% of the variable remuneration is based on non-financial criteria.
- The performance criteria contain no incentives to take unjustified risks.
- Appropriate account is taken of the interests of clients when striking a balance between the fixed and variable remuneration components, and the performance criteria are determined in such a way as to avoid any conflicts of interest that could occur between employees and clients.
- The awarding of variable remuneration is partly related to the long-term objectives of Van Lanschot Group; the awarding of variable remuneration to KCM employees is partly related to the long-term objectives of Kempen & Co NV and KCM.
- When assessing performance on the basis of the set performance criteria, financial performance is adjusted for (estimated) risks and costs of capital.
- Variable remuneration (including the conditional portion) is only awarded or paid if (i) this is reconcilable with the financial position of Van Lanschot Group and if it is justified by the performance of Van Lanschot Group, KCM and the employee concerned; and (ii) Van Lanschot Group holds the capital buffers as required by the Dutch Financial Supervision Act (Wft) and implementing regulation.
- None of Van Lanschot Group's financial services or other activities, remuneration components or structures could lead to a risk of consumers, clients or members being treated without all due care, and Van Lanschot Group has no intention of introducing such activities, components or structures.
- In the event that Van Lanschot Group does not make a profit in any financial year, discretionary bonus pools may be established by the Statutory Board with the approval of the Supervisory Board.
- Variable remuneration is only awarded to employees working for KCM if KCM makes a profit.
- During the reassessment preceding the payment and receipt of variable remuneration, the total variable remuneration is lowered substantially by applying a reduction or clawback scheme in the event of a weak or negative performance by Van Lanschot Group or in the event of incompetent or incorrect conduct on the part of an employee.

A more detailed description of our remuneration policy may be found at www.kempen.nl, including a further description of the make-up of the fixed and variable remuneration components. The policy also describes the criteria which form the basis for determining the amount of variable remuneration, which non-standard rules apply for employees in audit functions, for example, and which parts of the variable remuneration are conditional. The policy also describes the governance in relation to the annual fixing of the variable remuneration.

KCM remuneration in 2016
At 31 December 2016 KCM was acting as the manager of 16 alternative investment funds (AIFs) and 22 undertakings for collective investment in transferable securities (UCITS). Total assets under management for AIFs amounted to €1,801.2 million on 31 December, and €6,258.0 million for UCITS.

The following table contains information on the remuneration of identified staff. Identified staff of KCM are KCM employees, including members of the Management Board, whose activities have a material influence on our risk profile or of the funds we manage, including employees performing senior management, risk-taking or audit functions, as well as employees whose remuneration amounts to at least the same as that of the categories of employees who fulfil a senior management or risk-taking function. We do not attribute any staff costs to individual investment institutions.

	Senior management*	Management roles	Other employees	All employees
Number of employees (in FTEs, average over financial year)	5	32	153	190
Remuneration				
Total fixed remuneration	€2,161,097	€5,975,381	€12,587,199	€20,723,677
Total variable remuneration**	€671,231	€1,453,528	€3,395,694	€5,520,453

* Paul Gerla is Chairman of the Management Board of Kempen & Co NV and is consequently a member of the identified staff of Kempen & Co pursuant to the regulation on Prudential Supervision of Credit Institutions and Investment Firms (CRD IV). He is also a director of KCM and is therefore included in the table in the 'Senior management' category. Mr Gerla is not a member of the identified staff of KCM.

** Variable remuneration relates to the variable remuneration paid in cash. Any conditionally awarded variable remuneration is disclosed in the annual reports for the financial years in which actual payment of this conditional remuneration took place.

Pursuant to Section 1:120, subsection 2(a) of the Dutch Financial Supervision Act (Wft), we report that no individual received remuneration exceeding €1 million in 2016.

Outlook

Although our results are largely determined by developments on the financial markets, our relatively strong performance, highly motivated employees, sound systems, personal connection with clients and mandates already granted offer good prospects for further growth in 2017, including in the number of clients. Given the volatility of the financial markets, however, the Management Board is cautious about making any forecasts regarding the result for the current financial year.

Amsterdam, 8 March 2017

The Management Board,

P.A.M. Gerla H.Th. Luttenberg

2016 financial statements

Balance sheet at 31 December 2016
(before profit appropriation)

		31/12/2016 x €1,000	31/12/2015 x €1,000
Assets			
Intangible assets			
Other intangible assets	I	**2,054**	**2,411**
Property and equipment	II	**250**	**160**
Current assets			
Receivables from related parties	III	**42,732**	**30,855**
Current receivables, prepayments and accrued income	IV		
Management fees receivable		11,900	10,476
Other receivables, prepayments and accrued income		443	664
		12,343	**11,140**
Cash and cash equivalents	V	**2,035**	**-**
		59,414	**44,565**
Liabilities			
Equity	VI		
Paid-up and called-up share capital		92	92
Undistributed profit		9,747	17,666
Other reserves		16,178	13,512
		26,017	**31,270**
Provisions			
Other provisions	VII	500	500
		500	**500**
Current liabilities, accruals and deferred income	VIII		
Management fees payable		2,201	1,840
Amounts owed to related parties		8,245	8,829
Amounts owed to credit institutions		-	439
Amounts owed in respect of tax and social insurance premiums		577	399
Other liabilities, accruals and deferred income		21,874	1,288
		32,897	**12,796**
		59,414	**44,565**

Profit and loss account for the year ended 2016

		2016	***2015***
		x €1,000	*x €1,000*
Income			
Management fees	IX	73,611	69,202
Consultancy fees	X	8,106	8,238
Other income	XI	103	45
Total income		**81,820**	**77,485**
Expenses			
Staff costs	XII	35,065	28,677
Amortisation of intangible assets	I	357	89
Depreciation of property and equipment	II	47	44
Other operating expenses	XIII	33,228	25,008
Total expenses		**68,697**	**53,818**
Operating result		***13,123***	***23,667***
Interest income		0	0
Interest expenses		2	1
Interest result		**-2**	**-1**
Result before tax		***13,121***	***23,666***
Tax	XIV	3,374	6,000
Result after tax		***9,747***	***17,666***

Summary of key accounting policies for the preparation of the financial statements

General
The object of the company is to manage and administer the assets of third parties, to provide advice and to invest in, manage and finance other enterprises and companies.

The financial statements have been drawn up in accordance with the statutory provisions as set out in Part 9, Book 2 of the Dutch Civil Code and the principles contained in the Dutch Accounting Standards as published by the Dutch Accounting Standards Board.

The accounting principles have remained unchanged from 2015, with the exception of changes in accounting policies and estimates, if applicable, as presented in the relevant sections.

Currency
Items in the financial statements pertaining to each group company are stated in the currency of the economic environment in which the entity operates (i.e. the functional currency). Amounts in the financial statements are stated in euros, i.e. both the functional and reporting currency.

Transactions in foreign currencies in the reporting period are recognised in the financial statements at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the reporting date. Translation differences arising on the settlement of such transactions are recognised in profit or loss.

Judgements and estimates
In the process of applying the accounting policies, the Board of Kempen Capital Management NV uses estimates and assumptions which can have a significant impact on the amounts recognised in the financial statements. If necessary for the insight as required under Article 362 (1), Book 2 of the Dutch Civil Code, we will include the nature of these judgements and estimates as well as their underlying assumptions in the notes to the relevant financial statements items.

Intra-group relationships
Kempen & Co NV has been owned (indirectly) by Van Lanschot Bankiers NV since January 2007. Kempen Capital Management NV is a wholly-owned subsidiary of Kempen & Co NV.

The company's financial data are fully consolidated in the financial statements of Van Lanschot Bankiers NV. Operationally, the company is closely associated with Kempen & Co NV. Consequently, virtually all expenses disclosed in the profit and loss account represent amounts charged on by Kempen & Co NV.

Consolidation
The financial data of Kempen Capital Management NV and its group companies are consolidated. A group company is a legal entity in which Kempen Capital Management NV is able to exercise decisive control, directly or indirectly, because it holds the majority of the voting rights or is able to control the financial and operational activities in some other way.

Intercompany transactions and the ensuing results and intercompany receivables and payables are eliminated in the consolidation. The accounting policies of group companies and other legal entities included in the consolidation are adjusted where necessary to bring them into line with group accounting policies.

At 31 December 2016 and during the financial year there were no group companies aside from Kempen Capital Management NV that needed to be recognised in this annual report. Consequently, a consolidated balance sheet and profit and loss account as at 31 December 2016 have not been prepared.

Related parties

Group head Kempen & Co NV qualifies as a related party of Kempen Capital Management NV, as do Van Lanschot Bankiers NV, Van Lanschot Bankiers België and Kempen Capital Management UK Ltd. All related-party transactions take place on market terms.

Cash flow statement

The whole of Kempen Capital Management NV's capital is provided indirectly by Van Lanschot Bankiers NV at 's-Hertogenbosch, which draws up a cash flow statement that is included in financial statements filed with the trade register in the Netherlands. The annual report is downloadable from corporate.vanlanschot.nl. In accordance with Article 360.104 of the Dutch Accounting Standards, a cash flow statement has not been prepared for Kempen Capital Management NV.

Accounting policies

General
Assets and liabilities are generally stated at cost of acquisition or manufacture. If no specific accounting policy is stated, assets and liabilities are stated at acquisition cost. The balance sheet and profit and loss account contain references to the Notes.

Intangible assets
Intangible assets with a limited useful life (such as application software, client files, contractual rights and the value of client assets and loans) are capitalised at cost of acquisition or manufacture (cost price model). Straight-line amortisation is applied to these assets over their estimated economic life. This is the case if the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount.

Property and equipment
Property and equipment used within the company is stated at acquisition cost less depreciation, calculated on the basis of the estimated economic life of the asset and taking into account any residual value. Account is taken of impairments expected to be recognised at the reporting date. If the depreciation method, estimated useful life and/or residual value changes over time, these are disclosed as changes in estimates. Decommissioned property and equipment is stated at the lower of cost price or realisable value.

Impairments
KCM considers at every reporting date whether there are indications that a fixed asset may be subject to impairment. If such indications are found, the recoverable amount of the asset is determined. If it is impossible to determine a recoverable amount for the individual asset, the recoverable amount of its cash-generating unit is determined.

Asset impairment exists if the carrying value of the asset is greater than its recoverable amount; the recoverable value is the greater of the net selling value and the value in use. An impairment loss is recognised in profit or loss and the carrying value of the asset reduced simultaneously.

Receivables
On initial recognition, receivables are valued at the fair value of the consideration. After initial recognition, receivables are carried at amortised cost. If the receipt of a receivable is deferred for reason of an agreed extension of a payment term, its fair value is determined on the basis of the present value of the expected receipts and interest income is taken to the profit or loss based on the effective rate of interest. Provisions for uncollectable amounts are deducted from the carrying value of the receivable.

Cash and cash equivalents
This item comprises bank balances with a term of less than 12 months. Bank overdrafts are disclosed under amounts owed to credit institutions. Cash and cash equivalents are stated at face value.

Provisions
A provision is a commitment where there is uncertainty regarding its size or moment of liquidation. A provision is formed on the balance sheet if there is a commitment which arose in the past, if it is likely that liquidation of the provision would require an outflow of funds and if a reliable estimate can be made. Other provisions are stated at the face value of expenditure necessary to settle obligations, unless stated otherwise. Provisions are discounted only if the time value of the cash or the commitment has a material influence.

Current liabilities, accruals and deferred income
On initial recognition, current liabilities are stated at fair value. After initial recognition, they are carried at amortised cost, being the amount received plus premiums or discounts and less transaction costs. This is typically the face value.

Income and expenses
Income and expenses are attributed to the financial year to which they relate, regardless of whether they led to receipts and expenditure in that financial year. Losses and risks originating in a financial year are attributed to that financial year.

Management and consultancy fees
Fees comprise the revenues from services less discounts, if applicable, and tax levied on these revenues. These are disclosed in proportion to performance, based on the services provided until the reporting date relative to the total of services to be provided.

Other income
Other income comprises results not directly related to the provision of goods or services as part of normal, not one-off business activities.

Interest result
Interest income and interest expenses are recognised as they accrue using the effective interest rates of the relevant assets and liabilities. Interest expenses are stated while taking account of recognised transaction costs of loans received.

Staff costs
Wages, salaries and social security contributions are taken to profit or loss in keeping with employment conditions in so far as they are payable to staff or the tax authorities. Pension costs and variable remuneration for the period are charged on to the company by the group head.

Taxation
Tax is calculated on the result before tax. For VAT purposes, the company forms a tax entity with Kempen & Co. For the purpose of corporation tax, the company forms a tax entity with Van Lanschot NV. Settlement takes place between Van Lanschot NV and the company based on the commercial result.

Notes to the balance sheet and profit and loss account

BALANCE SHEET

I Intangible assets

Movements in intangible assets can be broken down as follows:

	31/12/2016	*31/12/2015*
	x €1,000	*x €1,000*
At start of year	2,500	0
Accumulated amortisation	89	-
Carrying amount	**2,411**	**-**
Movements during year		
Investments	-	-
Disposals	-	-
Acquisitions	-	2,500
Amortisation	357	89
At end of year	**2,054**	**2,411**

Intangible assets represent the fair value of the client portfolio in respect of the acquisition of fiduciary management activities in the United Kingdom. This value is determined on the basis of the present value of the expected future cash flows. The client base is amortised on a straight-line basis at a rate of 14.2% per annum.

II Property and equipment

Movements in property and equipment can be broken down as follows:

	31/12/2016	*31/12/2015*
	x €1,000	*x €1,000*
At start of year	2,185	2,059
Accumulated amortisation	2,025	1,981
Carrying amount	**160**	**78**
Movements during year		
Investments	137	126
Disposals	-	-
Amortisation	47	44
At end of year	**250**	**160**

2016 financial year					*x €1,000*
	Hardware	**Software**	**Alterations**	**Communications equipment**	**Total**
At 1 January 2016	106	40	3	11	160
Investments	-	137	-	-	137
Depreciation	23	19	3	2	47
At 31 December 2016	**83**	**158**	**0**	**9**	**250**

Cumulative					*x €1,000*
	Hardware	**Software**	**Alterations**	**Communications equipment**	**Total**
Acquisition costs	364	1,871	75	12	2,322
Cumulative depreciation	281	1,713	75	3	2,072
At 31 December 2016	**83**	**158**	**-**	**9**	**250**

Depreciation is applied at the following rates:

- Hardware and software, 20% per annum
- Inventory, 20% per annum
- Alterations, 20% per annum
- Communications equipment, 20% per annum

III Receivables from related parties

This item concerns a receivable from related parties F. van Lanschot Bankiers NV and Kempen & Co NV with a term of less than one year. There are no relevant contract terms that could have a material effect on the amounts or the risks of future cash flows. The increase in receivables from related parties between 31 December 2016 and 31 December 2015 relates to a receivable due from a third party via F. van Lanschot Bankiers NV, i.e. fees payable to a number of client portfolios as stated under Other liabilities, accruals and deferred income. The amounts were settled in early 2017.

IV Current receivables, prepayments and accrued income

There are no relevant contract terms that could have a material effect on the amounts or the risks of future cash flows. For information about credit risk, see risk management section.

Management fees receivable

This relates to the balance of management fees receivable and discounts payable involving the same counterparties, which are settled simultaneously but had not yet been settled at 31 December 2016. Management fees receivable have a term of less than one year.

Other receivables, prepayments and accrued income

This item relates mainly to prepaid costs. All other receivables, prepayments and accrued income have a term of less than one year.

V Cash and cash equivalents

This item comprises bank balances with a term of less than 12 months, which are readily available to the organisation. At 31 December 2015, bank balances were negative, and these are therefore disclosed under Amounts owed to credit institutions.

VI Equity

Paid-up and called-up share capital
The authorised share capital amounts to €454,000 and is divided into 1,000 shares each having a nominal value of €454. Of this total, 202 shares have been issued and fully paid up.

Other reserves
Movements in other reserves can be broken down as follows:

	31/12/2016	***31/12/2015***
	x €1,000	*x €1,000*
At start of year	13,512	9,942
Profit distribution (undistributed profit previous year)	17,666	21,089
2014 income tax adjustment	-	-19
Dividend payments	-15,000	-17,500
At end of year	**16,178**	**13,512**

The undistributed profit for the current financial year amounts to €9,747,000.

VII Provisions

Movements in other provisions can be broken down as follows:

	31/12/2016	***31/12/2015***
	x €1,000	*x €1,000*
At start of year	500	-
Additions	-	500
Withdrawals	-	-
Release	-	-
At end of year	**500**	**500**

Other provisions comprise the net present value of anticipated payments on the basis of an earn-out arrangement in relation to the acquisition of fiduciary management activities in the United Kingdom. The amount of the earn-out payment to be made will depend on the performance of the client portfolio, with a maximum pay-out period of three years. The probability-weighted pay-out approach has been used to determine the fair value.

VIII Current liabilities, accruals and deferred income

All current liabilities, accruals and deferred income have a term of less than one year. There are no relevant contract terms that could have a material effect on the amounts or the risks of future cash flows.

Management fees payable
This item concerns management fees that had not yet been settled at 31 December 2016 and that cannot be set off against outstanding receivables.

Amounts owed to related parties
This item concerns a relationship with related parties F. van Lanschot Bankiers NV and Kempen & Co NV.

Amounts owed to credit institutions
Amounts owed to credit institutions comprise negative bank balances.

Amounts owed in respect of tax and social insurance premiums
This relates to value added tax payable in respect of the fourth quarter of 2016.

Other liabilities, accruals and deferred income
The increase in Other liabilities, accruals and deferred income between 31 December 2016 and 31 December 2015 relates to fees payable to a number of client portfolios, which are virtually completely covered by an outstanding receivable. The amounts were settled in early 2017.

PROFIT AND LOSS ACCOUNT

IX Management fees

Management fees increased by 6% in 2016 compared with 2015 and can be broken down as follows:

	2016	***2015***
	x €1,000	*x €1,000*
Management fees	65,549	60,332
Service fee income	11,225	12,607
Service fee expenses	-3,682	-3,737
Performance fees	519	-
Total management fees	**73,611**	**69,202**

X Consultancy fees

Consultancy fees relate mainly to services provided to clients of F. van Lanschot Bankiers NV.

XI Other income

Other income mainly comprises settlement differences.

XII Staff costs

	2016	***2015***
	x €1,000	*x €1,000*
Salaries	26,220	22,331
Pension costs	2,935	2,441
Social security contributions	1,972	1,653
Other staff costs	3,938	2,252
Total staff costs	**35,065**	**28,677**

Staff costs comprise salaries, market value allowances, expenses, travel allowances, social security costs, employer’s pension costs and variable remuneration charged on by Kempen & Co NV. Variable remuneration accounts for 21% of salary costs (2015: 25%).

Pension costs allocated to the reporting period are charged on to the company by the group head based on the number of staff employed. Kempen & Co NV is responsible for the commitments ensuing from the pension scheme agreed with employees.

Average number of staff

All staff working at the company are employed by Kempen & Co NV. The average number of staff between 1 January and 31 December 2016 was 189.7 (2015: 166.8). The average number of staff working outside the Netherlands is 22.5 (2015: 21.0).

Management Board remuneration

The Management Board of Kempen Capital Management NV comprised two members in the 2016 financial year. No changes took place in the composition of the Management Board in the year under review compared with the previous financial year.

The Management Board remuneration comprises salary, market value allowances, expenses, travel allowances, social security costs, employer's pension costs and variable remuneration in so far as this relates to activities performed for KCM.

The Management Board remuneration for the 2016 financial year amounted to €821,666, compared with €909,302 in 2015.

XIII Other operating expenses

	2016	***2015***
	x €1,000	*x €1,000*
Charged-on overheads	7,095	6,568
ICT costs	6,782	6,249
Other expenses	4,213	111
News services	4,077	3,545
Accommodation costs	2,671	2,226
Fund costs	2,374	2,304
Administration costs	2,346	569
Commercial costs	1,695	1,613
Consultancy fees	1,625	1,571
Office costs	351	253
Total other operating expenses	**33,228**	**25,008**

The increase in administration costs and other expenses relates to one-off transition costs for the integration of KCM London as well as the expense of currency hedges that were set too high on a number of client portfolios.

For the disclosure of auditors' fees, see the Van Lanschot Bankiers NV annual report at corporate.vanlanschot.nl.

XIV Taxation

Tax is calculated at a nominal rate of 25%; the effective tax rate worked out at 26% (2015: 25%).

Off-balance-sheet assets and liabilities

Off-balance sheet assets comprise rents:

	31/12/2016	*31/12/2015*
	x € 1,000	*x € 1,000*
Office rental obligations		
< 1 year	595	106
≥ 1 year < 5 years	526	-
≥ 5 years	-	-
Total	**1,121**	**106**

The remaining term of the rental agreement is two years (2015: four months).

Profit appropriation

Pursuant to Article 31, paragraph 1 of the company's Articles of Association, the profit is at the free disposal of the General Meeting of Shareholders in so far as the reserves are adequate for this purpose.

The Management Board is proposing to distribute a dividend to an amount of €7,500,000, equivalent to €37,128.71 per share. The difference between the result after tax of €9,747,166 and the dividend to be distributed, amounting to €2,247,166, will be added to Other reserves.

Events after the reporting period

No events occurred after the reporting period.

Amsterdam, 8 March 2017

The Management Board,

P.A.M. Gerla H.Th. Luttenberg

Other information

Auditors’ report

The auditors’ report may be found on page 29.

pwc

Independent auditor's report

To: the general meeting of Kempen Capital Management N.V.

Report on the financial statements 2016

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Kempen Capital Management N.V. as at 31 December 2016, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2016 of Kempen Capital Management N.V., Amsterdam ('the company').

The financial statements comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account for the year then ended;
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

Independence

We are independent of Kempen Capital Management N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Ref.: e0399524

PricewaterhouseCoopers Accountants N.V., Fascinatio Boulevard 350, 3065 WB Rotterdam, P.O. Box 8800, 3009 AV Rotterdam, the Netherlands
T: +31 (0) 88 792 00 10, F: +31 (0) 88 792 95 33, www.pwc.nl

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- report of the management board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the report of the management board and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Kempen Capital Management N.V. following the passing of a resolution by the shareholders at the annual meeting held on 13 May 2015, and the appointment has been renewed annually by the shareholders. We have been the auditor of the company for one year.

Responsibilities for the financial statements and the audit

Responsibilities of the management board

The management board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the management board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the management board should prepare the financial statements using the going-concern basis of accounting unless the management board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The management board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 8 March 2017
PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by M.D. Jansen RA pwc

Appendix to our auditor's report on the financial statements 2016 of Kempen Capital Management N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things, of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Concluding on the appropriateness of the management board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.