Principles of Fund Governance

KEMPEN CAPITAL MANAGEMENT N.V.
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Introduction

Kempen Capital Management N.V. (‘KCM’) is management company of several investment funds and provides asset management services and fiduciary management services for (institutional) investors. Kempen Capital Management is licensed as a management company pursuant to Sections 2:65 and 2:96b of the Dutch Financial supervision act (Wet op het Financieel Toezicht ‘Wft’) and is under supervision of the Netherlands Authority for the Financial Markets (‘AFM’). In its capacity of management company KCM safeguards a sound conduct of business and careful provision of services for the participants in its investment funds.

Sound operations and the duty to care include that a management company acts in the best interest of the participants in its investment funds and manages conflicts of interest in the organisational setup of the fund management activities. In order to offer the participants such safeguards, the branch organisation for asset managers operating on the Dutch market, Dutch Fund and Asset Management Association (‘DUFAS’), has formulated a number of good practices and guidelines that a code of conduct (‘Code’) should entail.

This document describes the Principles that KCM has formulated regarding Fund Governance of its investment funds situated in the Netherlands (‘Principles’). In Part I the general measures taken within the organisation to safeguard fund governance and fair treatment of investors are described, while part II lists rules and principles of Fund Governance regarding day-to-day operations.
1. General Fund Governance Principles of KCM

1) Review, reporting and oversight

Kempen Capital Management N.V. is a wholly owned subsidiary of Kempen & Co N.V. (KCO) which in turn is a subsidiary of F. van Lanschot Bankiers N.V. F. van Lanschot Bankiers N.V. is a subsidiary of Van Lanschot Kempen N.V. All entities, companies and branches belonging to Van Lanschot Kempen N.V. are hereafter referred to as Van Lanschot Kempen Group (or “VLK”). KCM is management company of investment funds and as such responsible for – inter alia – fund administration, risk management, reporting, portfolio management and transactions and settlements. The management company for the funds is structured in such a way that the interests of participants in the investment funds are protected and that conflicts of interest are mitigated.

In fulfilling the obligations towards investors in the funds, KCM is supported by the support services of Kempen & Co and F. van Lanschot Bankiers N.V., including services of Legal, Group Compliance, the Internal Audit Department, HR, Group Risk Management and Group ICT. KCM has its own Risk Management Department, which is responsible for the risk management of the investment risks of the investment funds and the operational risks of the investment manager KCM.

Review and reporting

Aspects of Fund Governance are monitored by the Risk Management department of KCM and the Compliance department.

The Group Compliance department monitors compliance with relevant laws and regulations and the rules and standards KCO has established itself. The employees of the Compliance department act independently from operational functions, are adequately resourced and have access to all relevant information. The head of the Compliance department reports to the CEO of the Van Lanschot Kempen Group.

The KCM Risk department is responsible for developing, maintaining and monitoring risk policies within KCM. Its activities include, amongst others, monitoring investment restrictions, monitoring counterparty risk limits. KCM Reporting is responsible for the independent analysis of the performance of funds. The KCM Risk and Reporting department are organisationally separated from the portfolio managers. The head of KCM Reporting reports directly to the Chief Operating Officer of KCM whereas the department head of KCM risk management reports directly to the statutory directors of KCM.

Oversight entity

Depository

For all investment funds a depository has been appointed. The depository is entrusted with, inter alia, the custody of all the assets of the investment funds, which will be held either directly or through correspondents, nominees, agents or delegates of the depository. The depository will at all times maintain all of the assets of the investment funds in its custody in fiduciary accounts separate from its own assets and liabilities.

The depository shall be entrusted with the following duties;
- safe-keeping of the assets that can be held in custody;
- record-keeping of assets that cannot be held in custody, in which case the depository must verify their ownership;
ensure that the investment funds’ cash flows are properly monitored, and in particular ensure that all payments made by or on behalf of investors upon the subscription of shares/participations have been received and that all cash of the investment funds has been booked in cash accounts that the depositary can monitor and reconcile;
- ensure that the Net Asset Value per Share is calculated in accordance with applicable laws and the Articles of Association or fund’s terms and conditions;
- carry out the instructions of the management company of the investment funds, unless they conflict with applicable laws or the Articles of Association or fund’s terms and conditions;
- ensure that the sale, issue, repurchase, redemption and cancellation of shares/participations effected on behalf of the investment funds are carried out in accordance with applicable law and the Articles of Association or fund’s terms and conditions;
- ensure that in transactions involving the assets of investment funds, the consideration is remitted to it within the usual time limits;
- ensure that the income of the investment funds is applied in accordance with the Articles of Association or fund’s terms and conditions;
- other services, such as tax documentation management services.

Supervisory committee
KCM has established a supervisory committee, an independent ‘oversight’ function for a number of investment funds established in the Netherlands. This type of oversight is especially meant for investment funds that are i) also accessible to investors besides direct clients of the Van Lanschot Kempen Group and ii) for which KCM executes the investment policy. The supervisory committee operates critically and at arm’s length from KCM and affiliated parties. In order to fulfil their duties, the members of the supervisory committee will have access to all relevant information and to any additional information required. The supervisory committee advises KCM in accordance with the agreed rules of procedure. That means for example that the management company will submit important proposals, such as investment policy and management fee changes, to the supervisory committee prior to implementation.

2) Compliance function

The Compliance function is a department of the Van Lanschot Kempen Group, independent from KCM. The Compliance department periodically analyses the compliance risks applicable to Van Lanschot Kempen Group (including KCM), given the nature of its activities. Based on these analyses as well as the developments in laws and regulations, the Compliance department develops compliance policies and advises the Board of VLK and the Management Teams of the business units in the drafting or modifying of procedures so that KCM meets relevant rules and regulations. KCM has been assigned dedicated employees in the Compliance department in order to be advised adequately; the Compliance Officers dedicated to KCM are physically located in the business unit.

3) Managing conflicts of interest

In managing investment funds, KCM may encounter conflicts of interest. E.g. the investment funds and KCM may use the services of related parties. KCM has policies and procedures in place to prevent the occurrence of Conflicts of Interest and to manage actual and potential issues in this respect. Information on the policy, the “Statement on Kempen Capital Management’s Conflict of Interest Policy” is published on KCM’s website. This Statement provides an overview of potential conflicts that may arise, and addresses the identification and management of actual and potential Conflicts of Interest allow for proper handling of such situations.
4) Segregation of duties

Since KCM is a subsidiary of KCO, which in turn is a subsidiary of VLK, there is an organisational, physical and personnel segregation up to the highest possible level between KCM and the other parts of the Van Lanschot Kempen Group. The Van Lanschot Kempen Group has a Chinese Walls policy in place, dividing business units and IT-systems, in order to prevent the flow of price sensitive or confidential information from one business unit to the other, enabling KCM and its employees to carry out business for clients without being influenced by information that is held in other parts of the Van Lanschot Kempen Group.

Furthermore there is a segregation of duties between the front office and the back office functions of KCM.

5) Fair & reasonable application of principles

In specific conflict situations where the above principles would not provide clear guidance KCM endeavours to apply best practices to the extent available. This means that KCM may apply those standards that are commonly applied by peers in comparable situations and comparable markets or those standards which are endorsed by organisations of market practitioners and which are widely accepted and applied in the market. In all circumstances, KCM will act in the best interest of the investors in KCM’s investment funds.

6) The principle of ‘conscientious consideration’

However well defined and refined, a system of specific principles, even while supplemented with a set of best practices, cannot always guarantee sufficient external guidance to deal with each specific conflict situations. The management company therefore pledges that it shall, in all cases, endeavour to resolve any governance issue having due regard for the interests of the investor and its legal duty to act in the interest of the investor and after reasonable and fair consideration of relevant facts and circumstances. This process, called conscientious consideration shall be conducted within the board of the management company or of the group (holding company) as the highest authority within the organisation.

7) Publication of principles

KCM publishes its principles of fund governance on its website. The report of the Supervisory Committee of the investment fund – if applicable - shall contain a paragraph specifically devoted to this subject. The annual reports of the investment funds shall contain, in addition to the legal requirements of the relevant regulator, a statement on compliance with the principles of fund governance.
2. Fund Governance in day-to-day operations

8. Relationship to third parties regarding trade execution
Kempen

Transactions for client portfolios are done in different types of asset classes and can be transmitted for execution or can be directly executed, with a counterparty, broker-dealer, OTC counterparty, futures merchant counterparty, counterparty or intermediary, collectively referred to as “Counterparty” or “Counterparties”), depending on the type of asset. When executing orders, KCM takes all reasonable steps to obtain the best possible result for the client.

KCM employs a set list of Counterparties, all qualified and accepted professional counterparties to execute transactions with or who execute transactions for KCM. These are selected and reviewed periodically based on quantitative and qualitative analysis (including a review of the trading venues ‘trading knowledge’ and algorithms.

KCM does not receive any remuneration, discount or non-monetary benefit for routing client orders to a particular counterparty which would infringe the requirements on conflicts of interest or inducements. Moreover, from 3 January 2018, Services received from venues, such as the provision of investment research are paid by KCM and not using transaction commissions or fees.

More information can be found in the Order execution policy of KCM, which is available on https://www.kempen.com/nl/asset-management/about-kcm.

9. Asset valuation

The valuation of assets and calculation of Net Asset Values (NAVs) are performed by an external administrator. In general securities are valued at their fair value, the fair value principles for the different classes of securities are described in the prospectus or information memorandum of each investment fund. KCM ensures that valuation of assets and calculation of Net Asset Values (NAV’s) are performed independently from the portfolio management function. To ensure that the correct prices are administrated, a pricing policy has been defined by the external administrator for the different asset classes.

10. Investment fund unit trading

KCM has procedures in place to prevent late trading in units of its investment funds. In order to protect the investment fund and existing shareholders from any potential negative impact of market timing transactions, KCM has taken several measures, such as calculating NAV’s after the cut-off time (forward pricing).
11. Shareholder rights

Our policy is to vote where possible and where we have been given discretion by our clients. In exercising voting authority we endeavour to implement best practice and follow the relevant applicable regulatory and legislative requirements, both in the Netherlands and other jurisdictions in which we are regulated.

KCM uses independent governance research and voting advice from a specialist international proxy advisor. KCM exercises votes and where applicable intervenes in an objective and informed way. In case of controversial or important agenda items, the involved portfolio manager at KCM can be consulted to discuss the vote. KCM ultimately decides how to vote at a meeting.

Quarterly reports are published on how voting rights have been exercised at the AGMs of companies in which the investment funds invest.

KCM may decide to personal attendance and voting at shareholder meetings, in particular the ones that are held in The Netherlands. KCM will consider attending meetings and actively exercising its voting rights, in particular when a significant holding in the outstanding share capital of a company is held. In these instances, voting rights will be exercised following individual assessment of the items on the agenda. In cases where a meeting was personally attended a summary of the points of interest can be found on the website.

12. Transparency in public communications

KCM strives for an open relationship with the investors in KCM’s investment funds. It is KCM’s conviction that all public communications in respect of its investment funds should be easily accessible and must give relevant, accurate and complete information on various aspects, examples are:

- the investment policy, investments and characteristics of an investment fund are clear, the risks are explained and there are no ambiguous conditions;
- all management fees and other costs charged to the investment fund by KCM, affiliated and non-affiliated parties are clear;
- the maximum subscription and minimum redemption prices in relation to the net asset value (NAV) are clear.

KCM is transparent in its commercial information. Advertisements for KCM products maintain a healthy balance between sound commercial information as well as the technical facts necessary for potential investors on which they can base their judgment. Naturally, application of and compliance with applicable legal and regulatory standards as well as the investment fund’s conditions shall serve as a minimum requirement. All documents are available on the website: www.kempen.com/en/asset-management.

13. Change in the conditions of an investment fund

During the lifetime of an investor’s investment it is possible that an investment fund’s conditions may change. In that case KCM will inform the investors in good time in accordance with the applicable laws, regulations and the investment fund’s terms and conditions. Any amendment of terms of an investment fund (including the Articles of Association), are generally published and explained on the website: www.kempen.com/en/asset-management. Any amendment of the terms of an investment fund that is registered for retail clients through which either the rights or guarantees of investors will be reduced or extra charges will be imposed upon the investor as well as changes in the investment policy, will not be invoked unless a 1-month period has expired after the publication of the amendment. During this period investors in open-ended investment funds have the opportunity to sell their investments within this period under the current unchanged terms.
14. Best execution

The order execution policy of KCM describes how KCM seeks to provide best execution to her clients on a consistent basis. Best execution can be assessed in different ways, and in executing transactions KCM considers the following criteria of particular importance: price, costs, speed and likelihood of execution / settlement and size and nature of the order.

The importance of the above-mentioned criteria can differ per class or type of financial instrument (i.e. shares, bonds, derivates, etc.) and in determining the factors and criteria that are important in achieving this, KCM gives consideration to the characteristics of the portfolio guidelines, the order, the type of financial instrument and available ways of execution and execution venues.

In particular, transactions with affiliated parties are executed at arm’s length terms customary in the market. More information on KCM’s order execution policy is available on the website www.kempen.com/en/asset-management. For trade execution of several instruments such as equities, counterparties are used; see also item 8.

15. Fair allocation

KCM may generally execute transactions on an aggregated basis to obtain more favourable commission rates or other transaction costs than if such orders are placed individually. When aggregating orders, all portfolios shall be treated fairly and systematically.

16. Transaction fees and broker services

KCM uses professional Counterparties, including KCO, to execute transactions. It is KCM’s policy that all transactions by the investment funds should be executed at market rates. Transaction costs will generally be included in the buying or selling price of the financial instruments.

KCM does not receive any remuneration, discount or non-monetary benefit for routing client orders to a particular trading or execution venue which would infringe the requirements on conflicts of interest or inducements. Moreover, from 3 January 2018, Services received from venues, such as the provision of investment research are paid by KCM and not using transaction commissions or fees.

17. Securities lending

If allowed by the prospectus it can be permitted to lend securities in the portfolio to one or more respected parties at market conditions in order to increase the total return of the portfolio investment funds. If securities forming part of the portfolio are to be lent, the investment fund shall ensure that sufficient security shall be provided. In practise KCM currently does not lend securities to other parties.

18. Personal interest and remuneration

All legal entities belonging to Van Lanschot Kempen Group, including KCM, are covered by the remuneration policy of Van Lanschot Kempen Group, provided that some specific additional conditions apply to KCM. These conditions are described in the remuneration policy and focus on the activities of KCM and the remuneration rules that apply to those activities.
Van Lanschot Kempen Group pursues a prudent, restrained and sustainable remuneration policy that is in line with the strategy, risk appetite, objectives and values of Van Lanschot Kempen Group. The remuneration policy is consistent with and contributes to a sound and effective risk management and does not encourage to take more risks than is acceptable.

The remuneration policy has the following general principles that apply to all employees who are working for KCM:
- outperformance is rewarded;
- employees are differentiated rewarded;
- variable remuneration of an employee is based on the performance of Van Lanschot Kempen Group, KCM and individual performance of the employee;
- individual performance assessment is based on both quantitative (financial) and qualitative (non-financial) performance criteria (for certain departments only qualitative criteria apply);
- variable remuneration is at least 50% based on non-financial criteria;
- the performance criteria include no incentive to take unreasonable risks;
- the ratio between fixed and variable components of remuneration shall take due account of the interests of clients and the performance criteria are determined in such a way that conflicts of interest that may arise between employees and clients are avoided;
- awarding variable remuneration shall be related to the long-term targets of Van Lanschot Kempen Group. The awarding of variable remuneration to employees is also related to the long-term objectives of Kempen & Co N.V. and KCM;
- when evaluating performance based on the established performance criteria, financial performance are corrected for (estimated) risk and cost of capital;
- variable remuneration is only granted or paid (including the unvested portion) if (i) it is justified with the financial situation of Van Lanschot Kempen Group and the performance of Van Lanschot Kempen Group, KCM and relevant staff (ii) Van Lanschot Kempen Group meets the capital buffer that applies pursuant to the Wft and implementing regulations;
- Van Lanschot Kempen Group has no financial services or other activities, remuneration components or structures that could lead to the risk of careless handling of consumers, clients or participants;
- If Van Lanschot Kempen Group made no profit in any financial year, the discretionary bonus pools may be determined by the board of directors with the approval of the supervisory board;
- variable remuneration is granted to employees if KCM will earn a profit; and
- the re-evaluation prior to the acquisition and payment of the variable remuneration of the total variable remuneration is considerably reduced through malus or clawback arrangements if Van Lanschot Kempen Group provides low or negative performance or in case of incompetent or incorrect behavior of an employee.

The details of the remuneration policy, including a description of how remuneration and benefits are calculated, the persons responsible for awarding the remuneration and benefits, including the composition of any remuneration committee are available on the website or on paper copy on request of the shareholder/participants, free of cost.

19. Costs and damages as a result of operational errors

In a human environment operational errors can never be entirely excluded. It is the ambition of KCM to deliver the best possible services to its clients including faultless processing of transactions.

However, in the event that an error, resulting in a financial loss for KCM and/or the client, occurs, this is identified and directly reported by the KCM Risk Management department to the KCM Management Board who will jointly decide what action should be taken. All errors have to be reported on the error account, in order to
keep track of the proper handling/correction of the error. All errors are documented and filed in KCM’s loss database, and discussed in KCM’s monthly Risk Committee.

In the event of damages caused by errors in the calculation of the net asset value of an investment fund (NAV errors) and exceeding a certain tolerance threshold, investors in the investment fund shall in general be compensated by KCM, taking into account a minimum amount as mentioned in the prospectuses of the investment funds. KCM carries adequate insurance coverage for substantial damages and costs incurred by the investment fund due to operational errors.

20. General meetings of the investment funds

KCM endeavours that investors in its investment funds can participate and vote in general meetings of the investment funds. KCM will inform the investors of the time and location as well as the agenda of such meetings in accordance with the applicable laws, regulations and/or the fund’s terms and conditions.

21. Product quality

KCM is firmly committed to the development of quality products designed to provide added value for investors. The timely consultation of all relevant parties involved in the investment fund-structuring process improves such quality and reduces reputation risk. Before launch, all new products are therefore assessed by the Product Approval & Review Committee, which focuses on product quality and the identification and proper addressing of administration and risk. There are procedures in place to review existing investment funds. Such reviews are assessed by the Product Approval & Review Committee.

In conclusion

KCM is organised to service its clients in the best possible way, as circumstances reasonably permit, putting the interests of the client first. KCM assesses, on a regular basis, situations in its products and services that may give rise to actual or potential Conflicts of Interest and whether its policies and procedures for the management of such Conflicts of Interest are effective and adequate. If deemed necessary in the interest of our clients, we implement changes to our policies and procedures in this respect.