

**We have been signatories to the Stewardship Code since 2010, which was introduced by UK's Financial Reporting Council (FRC). Changes to the code made as part of its 2012 revision clarified the respective stewardship responsibilities of asset managers and owners, including those stewardship activities we have chosen to outsource or undertake in collaboration with others. We have updated this annually to reflect our commitment and compliance to the Stewardship Code.**

**The Stewardship code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders by setting out good practice on engagement with portfolio companies. Kempen Capital Management (UK) Ltd fully cooperates with Kempen Capital Management N.V. regarding the policies as drafted below. Both companies fully support the seven principles contained within the FRC UK Stewardship Code and shall continue to take steps to strengthen our stewardship capabilities in line with the Code.**

► The principles of the UK Stewardship Code are:

**Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

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Kempen Capital Management (KCM) has voting policies and procedures that serve as a guideline for our voting decisions. The voting policy can be found on the website<sup>i</sup>.

The execution of voting rights is an important part of a well-functioning corporate-governance system. KCM carries out its fiduciary responsibility by voting at shareholder meetings for its own funds and for discretionary mandates at the client's request. The overriding principle behind KCM's governance activity, including voting and engagement has the ultimate objective of protecting shareholder value through enhancing our clients' returns. KCM aims to have progressive, open and transparent voting practices for clients fully integrated within the investment process.

Besides incorporating the UK Stewardship Code in KCM activities, KCM also adheres to the Dutch Corporate Governance Code, the EU Shareholder Rights Directive and strives to align with initiatives such as Eumedion best practices. Moreover, KCM is a signatory to the UN Principles for Responsible Investment (PRI). KCM adheres to Principle 2, which states that "we will be active owners and incorporate Environmental, Social and Governance ("ESG") issues in our ownership policies and practices". KCM aims not to invest in companies and/or entities which fundamentally and systematically violate international social, environmental and/or governance criteria. KCM's Responsible Investment (RI) policy is based on international treaties and conventions. The content of KCM's RI policy adheres to the generally-recognised principles of the United Nations Global Compact (UNGC)<sup>ii</sup> and other internationally accepted conventions. The UNGC comprises of ten universal principles summarised from several UN conventions and treaties. This creates a globally-recognised framework for ESG principles, criteria and treaties. KCM signed up to the Principles for Responsible Investment (PRI)<sup>iii</sup> in 2008. In doing so, KCM demonstrates its commitment to a more responsible and sustainable global financial system. KCM has incorporated these principles into its ESG criteria. The UNGC, the PRI, and the Guiding Principles on Business and Human Rights are the foundation of KCM's 'Convention Library'<sup>iv</sup>. In addition to these main initiatives, KCM has identified over 100 conventions, treaties and initiatives and believes that compliance with these should also serve as a principle for its RI policy.

The investment portfolios that we manage or invest in are periodically screened on compliance with our ESG criteria. ESG stands for Environmental, Social, and Governance. This screening applies to both in-house funds and

funds managed by external fund managers. The screening identifies companies whose activities run contrary to KCM's ESG criteria. KCM conducts the screening in-house employing MSCI ESG Research as the primary data provider. MSCI ESG Research gives access to in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies and countries worldwide. KCM UK fully integrates ESG and all companies that we invest in must be able to demonstrate that ESG is embedded. We undertake our own ESG research via an in-depth process which focuses on engagement and assessment of Environmental, Social performance and Business Ethics. We start by analysing all available ESG information on the companies in which we are interested. As smaller companies often have limited resources dedicated to ESG issues, we fill out our bespoke questionnaire on behalf of the companies and then send it to them to initiate the engagement process and discuss any gaps. During the process we focus on each company on a case by case basis looking at the material risks in that industry and their exposure and practices. We build knowledge of that company and the resources that they have available and may suggest practical ways to improve transparency and implement and audit ESG to match their values.

KCM is committed to long-term responsible investment. Part of this commitment is our focus on ESG integration and acting as a long-term engaged shareholder. Through a constructive dialogue with our stakeholders, we try to use our influence to encourage positive change. Within KCM we have several levels of engagement: we engage with fund managers, with companies we invest in and with other stakeholders, such as clients, credit rating agencies, benchmark providers and peers.

**Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

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KCM has policies and procedures in place to manage the conflicts in a way that safeguards the interests of all clients. Where conflicts, or potential conflicts, are identified we are committed to ensuring that they are effectively and fairly managed so as to prevent these conflicts from constituting or giving rise to a material risk of damage to the interests of our clients.

We have systems and controls in place to assist KCM with conflicts of interest:

- Responsible Investment Policies are approved by the ESG Council, supported and advised by the Engagement Working Group (EWG). These provide a basis for dealing with potential conflicts.
- Reporting lines of the EWG are independent from the front office reporting line.
- Rationale for voting in a particular direction is recorded.
- All front office of the Kempen disclose/ notify the compliance department of outside appointments.
- Regarding staff personal investments KCM has a strict policy in place to monitor all employees personal transaction and outside business interests in compliance with the Code of Conduct. Gift and Presents The acceptance (as well as providing to relations) of gifts and presents is subject to specific regulations set out in our Code of Conduct and Compliance Manual; including where applicable a maximum allowed monetary value, informing Management of KCM upon receipt and recording in a gifts register
- Additional positions , as set out in the Code of Conduct, the employee who assumes, or intends to assume, a secondary job, or responsibility in another organisation is required to report this to Compliance.

For additional information please refer to our conflict of interest policy which available on the website: [http://www.kempen.nl/asset\\_management.aspx?id=25188&langtype=1033](http://www.kempen.nl/asset_management.aspx?id=25188&langtype=1033)

### **Principle 3: Institutional investors should monitor their investee companies.**

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KCM has contracted MSCI ESG Research, a research and service provider for responsible investors. MSCI ESG Research enables KCM to conduct the quarterly ESG screening on the holdings of investment companies.

The ESG screening process is an important tool for KCM to identify engagement and exclusion cases. Since 2015, KCM has been conducting the quarterly ESG screening in-house, with the help of the database of MSCI ESG Research. This database is directly linked to Factset, the investment analytics tool, which KCM uses. Within Factset, we make use of the *LookThrough* database, which provides us insight in the underlying holdings of the investment funds. KCM UK since 2002 has integrated ESG into the investment process, using engagement and external auditing as tool to establish the ESG strategies of companies we invest in.

KCM bases its criteria for responsible investment on international conventions. The United Nations Global Compact, the Principles for Responsible Investment (PRI) which KCM both signed, and the Guiding Principles on Business and Human Rights are the foundation of KCM's 'Convention Library'. KCM actively engages holdings on the transparency of their reporting process.

We have in place an Exclusion policy and Avoidance list, processes are in place to safeguard that in first instance our responsible investment policy is maintained. KCM avoids cooperation with controversial entities. Therefore, the Exclusion List and the Avoidance List are applied in the screening and monitoring of clients and prospects.

#### **Exclusion policy**

KCM excludes:

- Companies involved in the production of controversial weapons. Controversial weapons are defined as anti-personnel mines, cluster munitions, chemical and biological weapons, and nuclear weapons.
- Active fund managers who are unwilling to comply with KCM's Exclusion Policy.

Process:

Every quarter, the RI team monitors the entire universe of firms covered by MSCI ESG Research. This is done in order to ensure that new additions to the MSCI ESG Research universe are vetted against our exclusion policy. Based on the screening results, we decide whether any alterations to the exclusion list are necessary.

This exclusion list applies to all actively managed funds, both internally and externally managed. Internal investments in excluded companies are blocked in the systems and all externally actively managed funds are assessed on compliance on a quarterly basis.

- The quarterly ESG screening identifies potential exclusion cases;
- Following verification of the violation and a discussion based on the information provided by the ESG research provider, the EWG draws up a proposal to place the company on the exclusion list;
- The ESG Council decides whether to place the company on the exclusion list. This decision may be taken during the ESG Council meeting or, if time is short, by E-mail;
- If an excluded company is held in a KCM or externally active management investment portfolio at that time, this holding must be sold as quickly as possible.

- Multi Management Team (MMT) integrates ESG criteria in the selection and monitoring process of external managers. . The MMT is responsible for compliance with KCM's exclusion policy for the (active) external fund managers. Currently all active equity, investment grade credits and listed real estate fund are covered by KCM's exclusion policy. Screening of the portfolios for exclusion list companies is part of the regular monitoring cycle.

#### **Avoidance List**

The Avoidance List includes companies that structurally violate our ESG criteria and demonstrate no willingness to improve their policies and practices. KCM would like to avoid investment in these companies. Internal systems block potential investment in these companies.

#### **Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.**

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We take an active approach to communicating our views to companies when we view it to be in the best interests of our clients. KCM will engage with senior executives within the company on a range of issues from performance issues to those of a social and environmental nature. We will engage with the company, by direct engagement and meetings with the company or joint intervention with other shareholders, and where appropriate, voting against management proposals. We apply a collaborative and thematic engagement approach, which allows us to increase our leverage. Through dialogue with our stakeholders we try to use our influence to encourage positive change.

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

#### **Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.**

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We recognise that joint action by shareholders has the potential to be more effective than acting alone. Our policy is to pursue opportunities for collaborative engagement in such circumstances.

KCM is an active participant in a number of organisations that facilitate collaborative engagement. To increase focus and efficiency in the engagement process, KCM joins collaborative engagement initiatives. The pressure towards companies increases when investors approach a company collectively. Moreover, the engagement process requires less time for individual investors if one is taking the lead in the engagement process with the company or with sector initiatives. KCM can join engagement through the PRI Clearinghouse, a global platform for collaborative engagement initiatives, or Eumedion, a Dutch platform for collaborative engagement, or via the engagement platform of the Institutional Investor Group on Climate Change (IIGCC). KCM can initiate an engagement, or can join existing engagement initiatives. In addition, KCM will collaborate with other asset managers and asset owners with similar engagement objectives. The collaborative engagement initiatives need to be aligned with KCM's engagement approach. In considering participation in collaborative engagement initiatives, we take into account potential conflicts of interest, concert party rules and our policy on insider information. KCM formulated guidelines to assess on a case by case basis which collaboration fits best with our company values and the engagement targets. For example, climate change has been selected as a focus theme for engagement and, as a result, we currently join the PRI Investor Working Group on corporate climate lobbying.

**Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.**

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 through following the relevant applicable regulatory and legislative requirements.

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 relevant portfolio manager at KCM will be consulted to discuss the vote. KCM ultimately decides how to vote at a meeting. We aim to identify the instances where KCM faces a conflict of interest and seek to manage these in an objective manner, consistent with protecting our clients' interests. Please see examples in the Proxy Voting Summary of 2015.

**Share blocking and securities lending**

If and when share blocking for a specific holding is applicable when using proxy voting, KCM may opt to refrain from voting or choose to vote for only a percentage of the holding when KCM deems that the benefits do not outweigh the constraints, e.g. when share blocking interferes with liquidity needs.

Securities lending programs can reduce the level of voting activity as the exercise of voting rights may be hampered when securities are on loan at the time of a shareholders meeting. As an engaged shareholder, KCM believes it is in the best interest of investors to execute voting rights where possible and therefore, KCM does not apply securities lending programs if this will hamper voting rights. In case the two can be combined, KCM will execute voting rights and apply securities lending programmes.

Voting data are retained on all votes that are cast. KCM's website contains detailed information on voting activities conducted in the reporting year (<http://www.kempen.nl/asset-management/responsible-investment/>).

In addition to that we publish quarterly updates. KCM uses external voting advice and reviews voting items on a case-by-case basis. Furthermore, KCM increasingly notifies management of its decisions as we believe that constructive engagement contributes to better governance.

As engagement is central to our responsible investment policy, we believe that highlighting areas where we intend to vote against proposals, assists the company gain insights and offers KCM an additional tool for engagement. The portfolio managers enter into dialogue with the holdings in the portfolio to discuss AGM issues.

When evaluating corporate governance and voting issues, the overriding principle is the fiduciary duty to our clients. For mandates, KCM exercises voting rights according to the proxy voting agreement in place with the client.

**Principle 7: Institutional investors should report periodically on their stewardship and voting activities.**

As agents acting on behalf of our clients we report regularly to them with details of how we have voted on their shareholdings. We have records on all voting taken place. KCM has put in place a delay on the release of reports due to the concentrated nature of the portfolios in which KCM manage.

KCM applies the following communication instruments for responsible investment:

Document	Content	Target Group	Frequency
RI Brochure	Summary ESG policy	Public	Annual update
RI movie	Summary KCM's approach to RI	Public	N/A
RI - Annual Overview	Summary annual RI activities	Public	Annually
Engagement Report	Detailed report on engagement activities	Clients	Annually
Quarterly RI report	Quarterly update	Client	Quarterly
ESG Charter	ESG policies and processes	Internal*	Annual update
Exclusion List	List of controversial weapon companies	Public	Quarterly update
Avoidance List	List of companies violating KCM's ESG criteria	Public	Quarterly update
ESG screening results	Overview ESG performance of all funds	Internal	Quarterly
ESG Council documents	Minutes, action list, memo's	Internal	Quarterly
PPTs	General RI story / quarterly updates	Clients	Quarterly update
PRI Assessment Report	Mandatory Reporting Framework	Public	Annually
Voting records	Summary of voting records	Public	Quarterly / Annually

\*All internal documents are available on the Sharepoint site Responsible Investment, which all employees can access.

> All external documents are available on the corporate website:  
[http://www.kempen.nl/asset\\_management.aspx?id=25005&langtype=1033](http://www.kempen.nl/asset_management.aspx?id=25005&langtype=1033)

We are externally auditing on our ESG processes and practices through our annual submission to the Principles of Responsible Investing and annual COP to the UN Global Compact . Forum, ETHIBEL was appointed to independently audit Van Lanschot Bankiers (VLB) and Kempen Capital Management (KCM) on conformity with its principles and guidelines on Responsible Investment (RI).

For further information on Kempen Capital Management's responsible investment work, please contact:

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Kempen Capital Management (UK) Limited is registered in England (2833264) at The Broadgate Tower, Primrose Street, London EC2A 2EW and authorised and regulated by the Financial Conduct Authority.

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<sup>i</sup> [http://www.kempen.nl/asset\\_management.aspx?id=27962](http://www.kempen.nl/asset_management.aspx?id=27962)

<sup>ii</sup> <http://unglobalcompact.org/> UNGC signed by Van Lanschot in 2008

<sup>iii</sup> <http://www.unpri.org/> PRI signed by KCM in 2008.

<sup>iv</sup> The Convention Library used by KCM ;

[http://www.kempen.nl/uploadedFiles/Kempen/01\\_Asset\\_Management/Producten\\_en\\_diensten/VerantwoordBeleggen/Convention%20Library%20eng.pdf](http://www.kempen.nl/uploadedFiles/Kempen/01_Asset_Management/Producten_en_diensten/VerantwoordBeleggen/Convention%20Library%20eng.pdf)

#### Disclaimer

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