

## Summary Stakeholder Event 6 November 2020

On 6 November 2020, Van Lanschot Kempen organised its 10th stakeholder dialogue. The central theme of this year was climate change. At Van Lanschot Kempen, we are committed to carbon neutrality with respect to our footprint as a firm, but through our investment policies and our product offering. Our biggest contribution to climate neutrality is via our client investments, more specifically our asset management business, Kempen Capital Management.

### The importance of climate change

Climate change is an important topic for the financial services sector as well as for Van Lanschot Kempen and its stakeholders. This includes measuring, reporting and executing plans to meet the goals of the Paris Agreement, including carbon reduction targets for our investments and loans. We changed the format of our stakeholder dialogue for this year reflecting the pandemic situation. The set-up was an on-line format with two interview sessions by two external experts, blended with a discussion of the survey outcomes amongst our stakeholders as well as a live discussion with our stakeholders. Because of the significance of the topic of climate change to a growing group of stakeholders, we decided to broaden our scope to include investors as well as equity and debt analysts. This meant that we had a diverse group of stakeholders altogether comprising some of our peers and advisors (auditing firms, sustainability advisors), clients, employees, ESG rating agencies and the above mentioned financial stakeholders.

### Looking back

Our CFRO, Constant Korthout, in his introduction provided a follow-up to our previous stakeholder event on positive impact. Important takeaways were the need to enhance the sustainability knowledge of our staff and our progress on measuring our value creation along a multi-capital perspective. In 2020 we introduced a module in private banking focusing on sustainability knowledge, and all our bankers have access to this. On the measurement of our value creation, we updated our value creation model and are making continued progress measuring our added value along the different capital streams.

### Highlights of 2020

Constant Korthout also took the opportunity to mention some highlights of this year in terms of

Van Lanschot Kempen's sustainability agenda. We introduced a sustainable version of our high-dividend equity fund. We have a full workstream preparing for regulations following from the EU Sustainable Finance Action Plan. This includes the regulatory demands around transparency towards our clients and the application of a EU taxonomy. Lastly, we introduced an update to our climate policy in September.

### How climate change is impactful for Van Lanschot Kempen

In his contribution, Johan Vanderlugt from our Group Sustainability Department, explained that climate change is a multi-faceted theme. It has a meaning in terms of our role as a company (as financier, investor, corporate citizen), the expectations of our stakeholders, the agenda of public authorities (such as the EU with the Sustainable Finance Action Plan) as well as how we as Van Lanschot Kempen measure, manage and report on climate change.

Our ambition is carbon neutrality and we are striving for this by 2050. We are also committed to shorter term objectives by 2025 and 2030 relating to alignment of listed and non-listed investments with the Paris Climate Agreement and the 1.5°C scenarios from the IPCC (the Intergovernmental Panel on Climate Change of the UN). This is reflected in the update of the climate policy of our asset manager, Kempen.

Next, the two angles of materiality and climate change were mentioned. There is financial materiality, looking at the impact of climate change on the financial capital position and earnings generation (outside-in). The other concept is that of environmental and social materiality – also known as stakeholder materiality – where we look at the impact of a company on the outside world, in this case climate (inside-out). Both viewpoints are relevant for Van Lanschot

Kempen in addressing the role we have with respect to climate change.

Lastly, it became clear from the carbon footprint analysis, that Van Lanschot Kempen's most significant CO2 exposure is linked to the client investments – particularly the asset management business. This accounted for about 99% of the overall CO2 footprint in 2019. The remaining 1% is linked to the balance sheet exposure (predominantly our residential mortgage book) as well as Van Lanschot Kempen's own operations (think of our energy consumption as a firm, our travel and the like).

### The impact of climate change on our balance sheet, earnings and capital

Wouter Scheepens, founding partner of sustainability consultant Steward Redqueen, interviewed Constant Korthort on how climate change has an impact on the financial position of Van Lanschot Kempen.

*Climate change is an important issue the private sector, the public sector and private individuals. How do you manage and steer on this?*

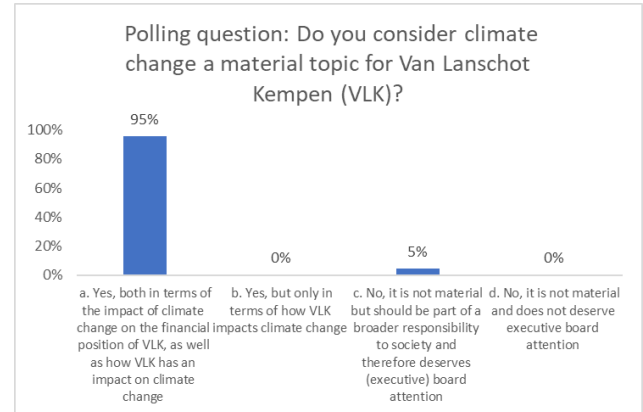
As a company we have to manage our own climate impact, and the risk that we have on our balance sheet in terms of climate exposure. On the client side, how can we steer it in the right direction? In terms of our on-balance involvement, we are in control of what we get on our book. Then for the off-balance exposure, it is the portfolio of our clients where we are providing advice. This is where the largest climate impact for us can be made. We see more alignment; what is good for the company is also good for the client.

Climate change is important for a broader range of stakeholders. It is an increasing a topic of discussion in our interactions with our shareholders and investors. The same goes for our asset management business that raises these very same questions to their investee companies.

*Recognising the importance of climate change as a risk factor globally, how material is it for Van Lanschot Kempen?*

Sustainability and climate change is on the minds of all our employees. We have been putting sustainability high on the agenda over the past few

months. Our strategic ambitions explicitly incorporate sustainability and we are raising the bar beyond what we have done so far. We need to make a shift internally in terms of our role as a company in society, what we do actively and make the move from 'do no harm' to 'do good', for



sustainability in general and also applied to climate.

*Do you believe the climate impact on your balance sheet and capital position will remain limited?*

Yes, it will remain limited by the nature of the things we do and do not do. We have a residential mortgage portfolio, our investment portfolio is in financial companies and our residual lending portfolio that is directed more to services-type of organisations.

*How do your personal views of what is happening around us in terms of climate change impact your role as a CFRO?*

We have to make the turn this decade. We are increasing the efforts and making sure that we do our part of the deal. I hope to have more intense conversations with our clients about this topic in the coming years. It makes the difference in our role as a wealth manager, make it part of the conversation with our clients on their future wealth planning. We make more and more sustainable solutions available to our clients, such as our sustainable high-dividend equity fund. We see high appetite among the younger part of our client base, they are very engaged with this topic.

I hope we can use the trust we have with our clients to have an impact on how they think about climate change and the future and our role. We engage with our clients and the companies in which we are invested to make sure they act upon this theme and take the right actions.

*What about your company's culture and employees?*

We need to make sure that with the 1,600 people that work for us we have a dialogue internally about our role and that we have everyone onboard to make an impact. This is a top priority and part of our purpose, to preserve and create wealth in a sustainable manner. I personally believe we are now living in the decade where we have to make the turn. We at Van Lanschot Kempen are stepping up; we know what to do and are doing more. We, and the financial sector, need to move from do no harm to do good.

*From a product perspective, how do you meet client demand? Are you a frontrunner or a follower?*

Sometimes a frontrunner, sometimes doing what are peers do. We were one of the first to launch an impact pool, aiming to have impact along the sustainable development goals (SDGs). Also, the Dutch players are in general more frontrunners in sustainability investing and we would like to be part of this.

All in all, we take sustainability very seriously, we are making the next steps. Of course, it is a journey and we are pleased with where we are, but we need to continue. I would very much appreciate it if stakeholders would let us know what they expect from us.

### **Climate change and our asset management business**

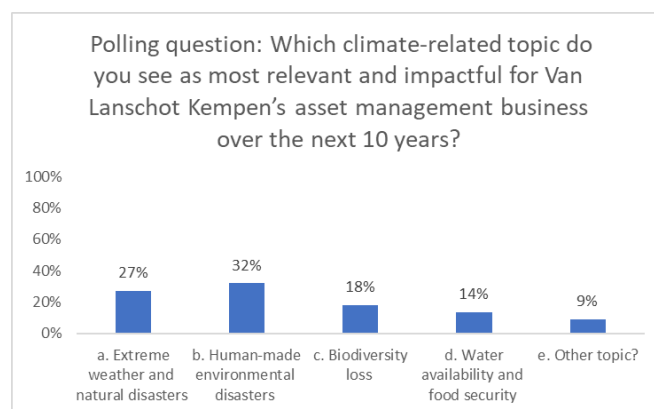
In this 2<sup>nd</sup> part of the event, Antoinette van Lier, an independent sustainability consultant and former partner of Ownership Capital, interviewed Lars Dijkstra, the CIO of Kempen Capital Management on climate change and our asset management business.

*Looking back over the years, what have you achieved and what are you most proud of?*

It is a journey for all of us. Kempen launched its first sustainable fund in 2002, the European Sustainable Small Cap fund. I joined the firm in 2005. In those days sustainability investing was more of a box-ticking exercise in terms of

governance and policies. When we became a signatory of the UN Principles for Responsible Investment in 2008 it accelerated. We see regulations also coming in quickly, both on a national and EU level. Many international clients are at different stages in their sustainability journey and it is challenging to manage this. Another important topic is big data and how that will shape sustainability investing.

We are one of the founding partners of [Focusing Capital on the Long Term](#) (FCLT), a coalition of the key parts in the value chain: asset owners, asset managers and corporates. This is about the long term value creation for all stakeholders. We act as an asset manager act as the steward of the asset owners be it the private banking clients of Van Lanschot or the institutional clients of Kempen helping them realise their goals, both financial and sustainable. Adopting this long-term orientation also links well with climate change, the physical and transition risks.



*Which climate-related topic most relevant to Van Lanschot Kempen's asset management business?*

We believe we should focus on transition risk first, also from a financial point of view. This is where we can integrate the financial and sustainability risks and opportunities really well. It is important to start measuring the carbon footprint of your portfolios and the companies you invest in even though the quality of the data continues to develop. We are better able to measure the indirect effects - Scope 3 - as well, which enables us to set targets, along the EU Pathway. Measuring the progress against the UN Sustainable Development Goals (SDGs) will be the next data challenge, now that we have better data on carbon. Back to climate change and transition risk,

this is one of our most important themes as an investor. Using high-quality data, we set targets and commitments to measure our progress and report this to our clients.

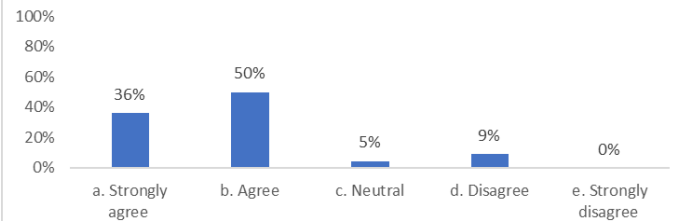
*Is the data quality on climate change sufficient and what can you do to improve this?*

Of the about 20,000 companies listed worldwide only 4,000 really report on their carbon footprint. They tend to be the larger market cap companies. The small cap companies, in which we traditionally have been invested, are less developed in their climate reporting. We play a role here and have a strategic dialogue on this. Also through collaborative engagement – working together with some of the largest asset owners in the world, we can engage with the energy and utilities companies to improve their reporting and target-setting. It is about the collective approach and about asking the right questions in a thorough way. From our experience, it is the portfolio managers that should be involved in these discussions with company management. That way it is not the size of the investment, but the quality of the debate that really matters. Our approach has been to find the ESG leader in the industry, and then move to the other companies to encourage change. We focus on the 20% of the companies in a sector that are open to change, than the rest will eventually follow.

*How can you broaden the range of investment solutions that you offer to make a real positive impact?*

In terms of our positioning, Kempen has its own investment funds, we have the private banking clients and our fiduciary management clients (such as pension funds in the Netherlands and the UK). We advise the latter group on their sustainability policy (and exclusion policy). In terms of the funds we have three flavours of investments: responsible (do no harm, minimum standards), sustainable (do good) and impact (make real-world impact). We see our clients move from responsible to sustainable and from sustainable to impact over time. Our Global Impact Pool invests through private equity funds in are linked to the SDGs.

Polling question: Asset managers should invest the bulk of their clients' money in companies that are leading in climate change mitigation through their climate policies, products and services, climate results and climate reporting



*Should asset managers invest in companies that lead on climate change mitigation?*

This may depend on the clients. We have clients all around Europe – the Germans are behind, UK is catching up and increasingly interested in sustainability investing. Scandinavia has been ahead of the curve and so is France. We advise/challenge those who are lagging behind.

We at Kempen have committed to net zero by 2050 with two intermediate targets. The more sustainable our funds are the lower their carbon intensity curve is in comparison to the general market and moving more along the Climate Transition Benchmark and the Paris Aligned Benchmark. Not a lot of asset managers have come out with these kinds of commitments and we hope it helps in terms of lifting the game.

*The Paris Climate Agreement was five years ago, you came with your climate pathway commitments this year. Aren't you late to the game?*

We have been on this pathway already over the past couple of years with our portfolios having a lower carbon footprint. If you set commitments like we have done, you need good quality data. It is a learning curve for all of us with ESG data being rather subjective. As active investors, we have a role to play as we see a need to integrate investment alpha and sustainable alpha. The market is hugely inefficient and there is an opportunity for us to create alpha.

Looking at the climate crisis, the financial sector has a big role to play in terms of allocating capital. We need to step up collectively and act much faster.

*Is engagement the most effective way to move the needle? Is management of your investee companies adequately managing climate change?*

Yes, engagement is a powerful way to do this. Engagement may sound a bit soft – a better term is active ownership. The new active or real active is having a real-world impact for all stakeholders. That can be done through exclusions or by being an active owner and trying to encourage change together with other investors. We prefer to have a dialogue with companies, set milestones, report on these, have an impact and create value.

### **Closing and key takeaways**

Constant Korthout closed off the stakeholder dialogue with some key takeaways.

We are in control as a company but it is a journey and we are by no means finished. It is important to have a dialogue with our stakeholders and we thank you for your involvement.

We should not underestimate our power as a company – our employees and relationships with our clients. We can use that power to make the difference.

The importance of measuring things was discussed. We need to measure our efforts more/better and be more transparent.

Climate change is an exponential problem. It will have an impact on equity and debt markets. The financial sector collectively has a role to play. We at Van Lanschot Kempen are more prepared than ever to play our role.